National Council *of*
State Housing Agencies

December 5, 2022

Environmental Protection Agency
1200 Pennsylvania Avenue, N.W.
Washington, DC 20460

Re: Request for Information – Greenhouse Gas Reduction Fund (Docket ID No. EPA-HQ-OA-2022-0859)

Dear Greenhouse Gas Reduction Fund Team:

On behalf of its members, the National Council of State Housing Agencies (NCSHA)[1] appreciates this opportunity to provide input on the EPA's implementation of the Greenhouse Gas Reduction Fund (GHGRF). We urge EPA to prioritize the use of the GHGRF for affordable housing, where such assistance could significantly reduce greenhouse gas emissions and significantly improve the lives of the residents of affordable housing properties and the communities in which they are located.

NCSHA is a nonprofit, nonpartisan organization representing the nation's state housing finance agencies (HFAs). HFAs administer a wide range of affordable housing and community development programs, including the Low Income Housing Tax Credit (Housing Credit), the HOME Investment Partnerships program, the Weatherization Assistance Program (WAP), the Housing Trust Fund, and Section 8 rental assistance. HFAs also administer homeowner rehabilitation programs, issue tax-exempt private activity Housing Bonds to finance affordable housing for renters and home buyers, and finance multifamily housing production and rehabilitation.

Before addressing the Request for Information's specific questions, we recommend you allow state HFAs to apply directly for GHGRF assistance and use HFAs to distribute GHGRF funds as intermediaries to other GHGRF recipients. State HFAs offer sophisticated financial acumen, program administration expertise, and partnership-building capacity to advance the GHGRF's goals rapidly and effectively in affordable housing. They could help the GHGRF achieve its greatest possible impact in the shortest amount of time for significant amounts of housing throughout the country, including properties with low-income households and in low-

[1] NCSHA is a nonprofit, nonpartisan organization. None of NCSHA's activities related to federal legislation or regulation are funded by organizations that are prohibited by law from engaging in lobbying or related activities.

income and disadvantaged communities that have been traditionally underserved by private capital.

We also recommend that EPA prioritize using the GHGRF for affordable housing to reduce energy-related cost burdens on low-income tenants, achieve reductions in the significant share of emissions attributable to housing, and facilitate the adoption of new and responsive strategies and technologies in this important sector. This would increase the health and wealth of residents and advance racial equity by focusing on properties and communities where large numbers of minority populations live.

Affordable multifamily housing offers substantial potential for reducing the nation's carbon emissions. Residential housing accounted for about 21 percent of total U.S. energy consumption in 2021. Multifamily housing alone is responsible for 13.9 percent of nationwide greenhouse gas emissions (CO2 equivalent). HUD-assisted properties have the potential to generate over 11,548 GWh of solar electricity annually and reduce carbon emissions by more than eight million metric tons.

Investments in carbon emissions reductions – including electrification, building shell efficiency, and renewable energy – in affordable multifamily housing benefit both property residents and their communities. These benefits include increasing resiliency (e.g., ensuring passive survivability during power outages), lowering property operating and resident energy costs, creating healthier living environments (e.g., reducing indoor air pollutants), and improving resident comfort.

Supporting energy efficiency and electrification will help ensure affordable housing residents do not bear the burden of escalating gas costs. As natural gas prices increase, utility customers who continue using natural gas are likely to experience rate increases when other customers electrify and exit the gas system. There is a significant risk that low-income customers remaining in the natural gas system could bear the brunt of gas rate increases, leading to higher monthly bills.

Affordable housing has traditionally not been prioritized in clean energy programs, leaving the potential for significant carbon emission reductions. Public and utility investments in energy efficiency and carbon reduction measures in affordable housing lag behind other market sectors. Although electric and gas utilities have increased energy efficiency investments for low-income customers in recent years, most programs still serve a small share of these households. About 27.5 percent of all U.S. households are low-income, but they receive only 13 percent of electric and gas utility energy efficiency spending.

Significant efforts with the buildings that house 12.5 million U.S. low-income households could reduce CO2 emissions by an estimated 38 million metric tons, a 41 percent reduction from current emission levels.

The existing affordable housing financing delivery infrastructure provides an opportunity to scale up decarbonization retrofits quickly and efficiently. HFAs have significant experience investing in low-income and disadvantaged communities while leveraging private sector capital for housing rehabilitation. HFAs have delivered hundreds of billions of dollars in financing to make possible the purchase, development, and rehabilitation of over 7.5 million affordable homes and rental apartments for low- and middle-income households with a minimal delinquencies and foreclosures. Leveraging existing financing channels that specialize in meeting the needs of low-income communities and are familiar to affordable housing providers is an efficient way to quickly deploy GHGRF resources.

The following comments address the questions included in the EPA's Request for Information:

Section 1, Question 1: What should EPA consider when defining "low income" and "disadvantaged" communities for purposes of this program? What elements from existing definitions, criteria, screening tools, etc., - in federal programs or otherwise - should EPA consider when prioritizing low-income and disadvantaged communities for greenhouse gas and other air pollution-reducing projects?

In general, EPA should use existing definitions and commonly used, familiar methodologies to define "low-income" and "disadvantaged" communities based on established federal programs and readily available data. EPA should align GHGRF definitions with existing criteria, datasets, and tools to reduce administrative burdens and facilitate combining GHGRF funding with other programs. EPA should also define eligibility at multiple levels: low-income households, low-income communities, and disadvantaged communities.

EPA should also make multifamily developments occupied by a majority of low-income households eligible for funding reserved for low-income and disadvantaged communities. Defining a community at only a geographic level like a census tract will deny opportunities for low-income households to benefit from GHGRF investments. Many localities and states seek to build and preserve affordable housing in high opportunity communities where there is typically a significant under-supply of low-cost housing. EPA could set a standard for requiring a minimum number of units to be occupied by low-income households. For example, the Weatherization Assistance Program requires at least two-thirds of multifamily units to be occupied by qualifying households to be eligible for funding.

In addition, EPA should in some cases allow states, including their agencies or instrumentalities that may be administering or using GHGRF assistance, to define disadvantaged communities. Each state has unique and specific challenges related to historically disadvantaged groups and environmental impacts of climate change. Income alone does not always tell the story of what defines a disadvantaged community. Costs related to heating and transportation, combined with high housing costs, stress many areas and populations that would not otherwise be defined as disadvantaged. Allowing states to apply their own definitions of disadvantaged communities in addition to general national criteria would allow project funders to most effectively, inclusively, and justly target the appropriate people and communities; bring down otherwise insurmountable barriers to participation; and reduce greenhouse gas emissions while improving household and community well-being.

Collaborative approaches across sectors (including residential, commercial, and governmental) will be necessary to effectively reach as many disadvantaged households and communities as possible. This can be accomplished by allowing for joint applications that provide a roadmap for reducing greenhouse gas emissions, aiding disadvantaged communities, and reporting, while also allowing for separate awards to match the unique needs of applicants and communities. EPA should encourage coalitions of organizations with technical expertise in gas emissions-reduction projects, organizations experienced in financing and leveraging private capital, and organizations with experience in serving disadvantaged groups, as these key capacities may not currently be present in a single entity in all communities nationwide.

Section 2, Question 1: What should EPA consider in the design of the program to ensure Greenhouse Gas Reduction Fund grants facilitate high private-sector leverage (i.e., each dollar of federal funding mobilizes additional private funding)?

EPA should allow recipients to provide GHGRF assistance directly to affordable housing projects. Financing affordable housing decarbonization is challenging due to the perceived risks of such projects, which increases the cost of capital. The perception of risk is driven by a lack of familiarity with decarbonization technologies among lenders and building owners. There is also little information available about the financial impact of decarbonization due to a lack of performance data. Lenders and building owners also don't know how to factor in the value of decarbonization in mitigating the volatility of natural gas prices. More investment in decarbonizing affordable housing will increase awareness of new technologies and project outcomes and reduce the perceived risks. This will bring down the costs of capital in the long term.

EPA should also ensure that GGRF funding can be combined with other subsidies and sources of funds, particularly in affordable housing where it is common for multiple subsidies to be layered into project financing and for which clean energy, decarbonization, and resilience investments are difficult to finance. GGRF should be designed to be layered with other resources and serve as gap-filler to spur preservation and construction of climate-smart affordable housing. Resources can be layered and combined with others most easily when they bring as few additional requirements and stipulations as possible, and when they can be used as grants or different types of loans (amortizing, non-amortizing, deferred, etc.).

Section 2, Question 2: What should EPA consider in the design of the program to ensure Greenhouse Gas Reduction Fund grants facilitate additionality (i.e., federal funding invests in projects that would have otherwise lacked access to financing)?

EPA can ensure GHGRF assistance facilitates additionality by prioritizing underserved markets, specifically affordable multifamily housing. Low-income and disadvantaged communities lack access to public and private-sector financing. Owners and renters in affordable multifamily housing often cannot afford the upfront costs associated with decarbonization. As such, practically any deployment of GHGRF funds to facilitate decarbonization projects in affordable multifamily housing will exhibit additionality.

Cost concerns and limited funding often prevent decarbonization in affordable housing. Demand for affordable housing far outstrips the level of funding available to finance fully decarbonized buildings. The Housing Credit is the main source of equity for affordable housing but is insufficient to meet the demand. Developers requested nearly $2.8 billion in housing credits from states in 2020—2.5 times the available authority of $1.1 billion allocated. The cost of developing affordable housing has increased by 30 percent over the last few years, creating even more pressure to find cost-cutting opportunities to maximize the number of units created and preserved each year.

While clean energy funding opportunities exist to supplement housing funding, low-income housing, and particularly affordable multifamily housing, do not have equitable access to clean energy programs and incentives. About 27.5 percent of all U.S. households are low-income, but they receive only 13 percent of electric and gas utility energy efficiency spending. The federal Weatherization Assistance Program (WAP) aims to lower utility bills for the nation's low-income households but overwhelmingly serves only single-family households. In most states over 90 percent of the housing units weatherized through WAP are single-family homes, despite the substantial opportunities for efficiency upgrades presented by the many older multifamily buildings that have deferred maintenance issues.

While the goals and intent of the GHGRF should be additive, per-project guidance should be as flexible as possible so as to not create unnecessary barriers. EPA must be wary of imposing so many grant agreement criteria that it impairs program functioning. EPA should predefine project types, including affordable multifamily housing, that will deliver additionality rather than requiring proof of additionality project by project.

Section 2, Question 3: What should EPA consider in the design of the program to ensure that revenue from financial assistance provided using Greenhouse Gas Reduction Fund grants is recycled to ensure continued operability?

EPA should make clear that GHGRF assistance may be provided in the form of loans to individual recipients and projects. The guidance should also make clear that repayments on these loans can be recycled for additional program-eligible use. Also, the program could encourage recipients to award points or preferences in project selection to provide incentives for using savings or other program income for continuing emissions reduction and project operations.

Section 2, Question 5: Are there best practices in program design that EPA should consider to reduce burdens on applicants, grantees, and/or subrecipients (including borrowers)?

To reduce administrative burdens, EPA should borrow as many requirements and procedures from existing federal program as possible, particularly when those programs have implemented streamlining improvements. For example, EPA should streamline income certification and verification requirements. Verifying income eligibility of low-income multifamily households on a unit-by-unit basis is a time-intensive laborious process that creates barriers to multifamily housing program participation. EPA should allow recipients to create categorical eligibility within the GHGRF program, similar to WAP's expanded categorical eligibility, and use HUD's means-tested program lists to qualify household income

eligibility in multifamily properties. EPA should also minimize the need for recertifying resident incomes annually and require recertification less often. Similarly, any required physical inspections should be coordinated with the inspection procedures and schedules of other project funding sources and conducted on a risk-based system that allows well-performing projects more time between inspections.

Section 3, Question 1: What types of projects should EPA prioritize under sections 134(a)(1)-(3), consistent with the statutory definition of "qualified projects" and "zero emissions technology" as well as the statute's direct and indirect investment provisions? Please describe how prioritizing such projects would: a. maximize greenhouse gas emission and air pollution reductions; b. deliver benefits to low-income and disadvantaged communities; c. enable investment in projects that would otherwise lack access to capital or financing; d. recycle repayments and other revenue received from financial assistance provided using the grant funds to ensure continued operability; and e. facilitate increased private sector investment.

Affordable housing owners may find financing products more desirable if the eligible measures include non-energy efficiency improvements such as structural upgrades or health and safety improvements that must be addressed before implementing efficiency upgrades. The Montgomery County Green Bank's Commercial Loan for Energy Efficiencies and Renewables (CLEER) Program allows up to 30 percent of the loan to cover measures that do not directly result in energy savings. Capital for Change's LIME loan allows up to 25 percent of loan proceeds to be used for non-energy efficiency improvements, provided there are sufficient savings to carry the costs.

Section 3, Question 2: Please describe what forms of financial assistance (e.g. subgrants, loans, or other forms of financial assistance) are necessary to fill financing gaps, enable investment, and accelerate deployment of such projects.

EPA should provide flexibility in the type of financial products supported to ensure that a range of financing options are available depending on the needs of affordable housing owners. Financing products that should be available to affordable housing include:

- **Subsidies:** As mentioned above in Section 2, Question 1, subsidies are needed to reduce the cost of decarbonization to ensure financing of projects is feasible. EPA should clarify that not all of the GHGRF funding must be recycled and allow a portion of funds to be used as grants or zero percent interest deferred loans. A grant mechanism that allows project sponsors to receive grants and then loan the funds into the deal will help to speed up securing investor consent and avoid tax liabilities. Structuring the funds as a soft loan may be necessary to combine them with Low Income Housing Tax Credits. Loans should be provided in the form of zero percent interest, deferred payment soft loans since the retrofit project is unlikely to generate sufficient financial savings to allow owners to repay a loan.

- **Unsecured loans**: Publicly financed affordable housing owners are often restricted by existing lenders to take on new debt secured by the property. This limits owners from accessing financing from traditional lenders. CDFIs typically provide more flexibility in terms of securing the loan, including providing unsecured financing, so long as cash flow from savings is available for debt service.

- **Predevelopment:** Limited cash flow is a significant barrier to affordable housing owners undertaking energy upgrades. Building owners don't have access to capital to pay for predevelopment costs such as electrification feasibility studies, or to bridge costs throughout the retrofit process. Early-stage capital is needed to pay for predevelopment costs, but is not widely available in the context of decarbonization.

- **Soft loans:** Affordable housing is underwritten to limit project cash flow to keep rents low and may not generate sufficient net operating income to pay debt service. Soft loans that are contingent on cash flow (i.e., repayment is only required if the property generates sufficient cash flow after paying operating expenses and mandatory debt obligations) can ensure that highly-leveraged properties can access resources to make building improvements.

- **Interest rate buy-downs**: GHGRF funds should be allowed to buy down interest rates to create low-cost first mortgage capital to encourage building owners to improve building performance and reduce greenhouse gas emissions.

Section 4, Question 1: Who could be eligible entities and/or indirect recipients under the Greenhouse Gas Reduction Fund consistent with statutory requirements specified in section 134 of the Clean Air Act? Please provide a description of these types of entities and references regarding the total capital deployed by such entities into greenhouse gas and air pollution reducing projects.

EPA should prioritize providing financing through state HFAs and other public lending instrumentalities, for whom financing and compliance are core competencies. HFAs were created to access private capital and subsidy dollars to offer lower cost financing to make housing more affordable to low- and moderate-income homebuyers and renters. Nationwide, HFAs have decades of experience in leveraging billions of dollars of private capital through multiple channels in both the private and public debt markets. HFAs are often called upon to implement federal and state programs and routinely manage compliance with these programs, which are often complex.

Section 4, Question 2: What types of entities (as eligible recipients and/or indirect recipients) could enable Greenhouse Gas Reduction Fund grants to support investment and deployment of greenhouse gas and air pollution reducing projects in low-income and disadvantaged communities?

Entities with existing relationships in low-income and disadvantaged communities and experience lending to such communities are best-positioned to enable projects that reduce greenhouse gas emissions and air pollution. State HFAs play a central role in the nation's affordable housing system, delivering more than $500 billion in financing to make possible the purchase, development, and rehabilitation of over 7.5 million affordable homes and rental apartments for low- and middle-income households. Housing Credit and Housing Bond-financed affordable housing properties have an outstanding performance track record, with minimal delinquencies and foreclosures, due to strict state agency underwriting standards, stringent compliance requirements, robust loan servicing, and due diligence from the private sector.

Section 6, Question 1: Do you have any other comments on the implementation of the Greenhouse Gas Reduction Fund?

Flexibility will be critical in allowing each state, region, and/or locality to shape programs to fit their needs and their capacity for deploying funds. Block grant-type awards will provide the greatest flexibility to leverage outside funds or develop unique products. However, each of the above applications will have start-up costs that are fixed and largely divorced from the size of the community. As a result, a floor on competitive awards should be incorporated.

We hope these comments are helpful, and you design and implement the GHGRF to prioritize affordable housing, use the demonstrated expertise of state HFAs, and provide enough flexibility for program administrators and recipients to deliver tangible benefits for low-income residents and disadvantaged communities in terms of improved health, reduced energy burden and climate risk, better and more affordable housing, and greater job opportunities.

Sincerely,

Garth Rieman
Director of Housing Advocacy and Strategic Initiatives