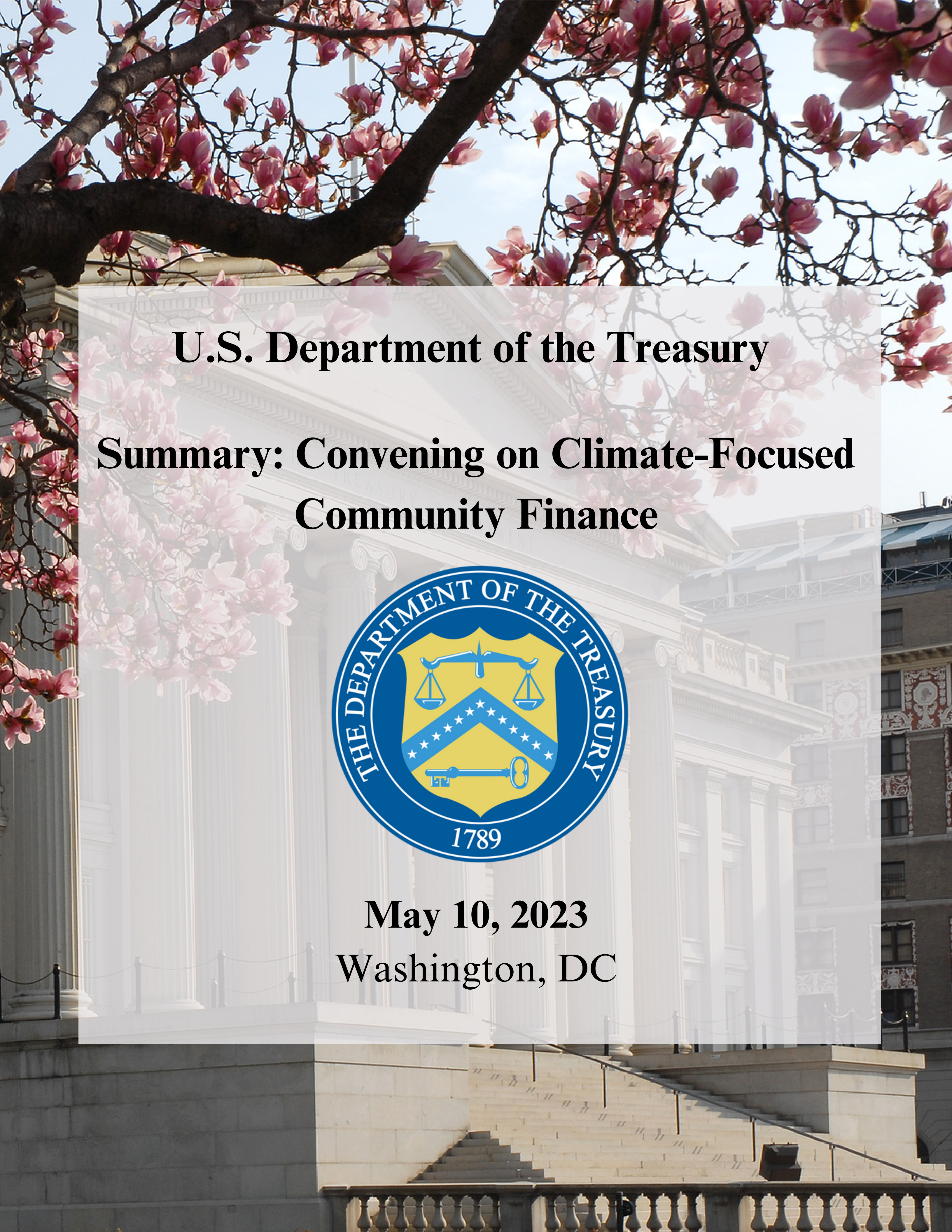

U.S. Department of the Treasury

Summary: Convening on Climate-Focused Community Finance

May 10, 2023

Washington, DC

Event Purpose and Themes

On May 10, 2023, the U.S. Department of the Treasury's Office of Community and Economic Development (OCED) and the Community Development Financial Institutions (CDFI) Fund hosted a convening on climate-focused community finance. Participants primarily included stakeholders from CDFIs, their partners and investors, and researchers.

Community finance, sometimes called impact investing or socially motivated finance, broadly refers to investment flows that are intentionally targeted to benefit geographic areas and demographic populations that are lower income and/or financially underserved. This convening cast a spotlight on an emerging segment of the broader field of community finance that focuses on achieving environmental benefits, potentially including reduced carbon emissions, environmental remediation, climate resilience, decreased energy burdens, and improved health outcomes, with a focus on lower income and/or financially underserved communities.

Federal resources have become available for climate-focused community finance at unprecedented levels, most notably through the Inflation Reduction Act (IRA). These resources are acting as a catalyst for both public and private sector efforts to better define climate-focused community finance, clarify how to measure impact in this space, and identify best practices. This convening provided an opportunity for federal policy makers to communicate about their progress in implementing new federal climate-focused community finance initiatives, and offered practitioners, especially leaders of CDFIs, an opportunity to provide input to federal policy makers and to engage one another.

"Through President Biden's Investing In America agenda, we are investing in the people, places, and projects to build a robust and resilient – clean energy economy. Organizations that invest in community-level finance, like Community Development Financial Institutions, play a critical role in making sure that the benefits of growing a clean energy economy reach every zip code in America."

Ali Zaidi
National Climate Advisor, White House

"Financially underserved communities are disproportionately impacted by climate change, including exposures to floods, fires, hurricanes, and rising sea levels. CDFIs are an important part of our financial services system, delivering financing for clean energy and climate resiliency projects that help to address these challenges."

Graham Steele
Assistant Secretary for Financial Institutions, Treasury Department

Event Agenda

Wednesday, May 10, 2023

Welcome Remarks

- Noel Poyo, Deputy Assistant Secretary for Community and Economic Development, Treasury Department
- Ali Zaidi, National Climate Advisor, White House
- Graham Steele, Assistant Secretary for Financial Institutions, Treasury Department

Panel: IRA Climate-Focused Resources for Community Finance

- Seth Hanlon, Deputy Assistant Secretary for Tax and Climate Policy, Treasury Department
- Laurel Blatchford, Chief Implementation Officer for IRA, Treasury Department
- Ethan Handelman, Deputy Assistant Secretary for Office of Multifamily Housing, Department of Housing and Urban Development (HUD)
- Dr. Taresa Lawrence , Director of State, Local, and Tribal Policy, Department of Energy (DOE)

Presentation, Fireside Chat, and Listening Session: Greenhouse Gas Reduction Fund

- Jahi Wise, Acting Director for the Greenhouse Gas Reduction Fund, Environmental Protection Agency (EPA)
- Ellen Lurie Hoffman, Acting Director of the Office of Community and Economic Development, Treasury Department

Remarks from Marcia Sigal, Acting Director, CDFI Fund

Breakout Sessions

- Building an Ecosystem for Climate-Focused Community Finance
- Best Practices in Deploying Renewable Energy in Underserved Communities
- Developing Data and Benchmarks for Climate-Focused Community Investments

The event took place from 8:30 a.m.-12:00 p.m. at Main Treasury in Washington, DC and was livestreamed until the breakout sessions at 11:00 a.m.

Presentation Highlights:

U.S. Department of the Treasury

- The IRA modified or created more than 20 different tax incentives to support the development of the American clean energy economy, while lowering costs for families.
  - The direct pay and transferability provisions expand the reach of many of these incentives to state, local, and tribal governments, tax-exempt organizations, and other entities that cannot ordinarily benefit from tax credits.
  - Other provisions enhance the credits for investments in low-income communities and historic energy communities.

U.S. Department of Housing and Urban Development

- The Green and Resilient Retrofit Program (GRRP) provides owners of HUD-assisted multifamily housing with capital resources to reduce carbon emissions, undertake utility efficiency improvements, incorporate renewable energy sources, and make properties more resilient against the effects of climate hazards.
  - **Elements awards** will fund property owners to include climate resilience and utility efficiency measures in projects already undergoing a recapitalization transaction.
  - **Leading Edge awards** will fund retrofit activities that will achieve an advanced green certification.
  - **Comprehensive awards** will fund properties with the highest need for climate resilience and utility efficiency upgrades, regardless of prior development or environmental retrofit experience.

U.S. Department of Energy

- The Energy Savings Hub is an online one-stop shop for American consumers to access information on how to save on energy costs.
- The Home Efficiency Rebates Program provides formula grants to state energy offices to assist in whole home upgrades that make it possible for more families to electrify home appliances and get energy efficient retrofits.
- The Home Electrification and Appliance Rebates Program provides formula grants to state energy offices and grants to Indian Tribes to install efficient electric technologies in low- and moderate-income single family and multi-family homes.
- Eligible households can benefit from rebate-funded energy upgrades that can reduce their energy bills, improve indoor air quality, and heat and cool their homes more efficiently.

U.S. Environmental Protection Agency

- The Greenhouse Gas Reduction Fund (GGRF) was authorized to reduce emissions, deliver benefits to low-income and disadvantaged communities, and mobilize financing and private capital to stimulate additional deployment.
- The GGRF competition structure will include:
  - A **National Clean Investment Fund** to catalyze clean technology projects;
  - A **Clean Communities Investment Accelerator** to rapidly build the clean financing capacity of networks of community lenders to finance pollution-reducing projects; and
  - A **Solar for All** program to expand access to solar for low-income and disadvantaged communities.

Insights from Community Finance Practitioners and Other Stakeholders

After the plenary presentations led by federal officials, participants broke out into three sessions designed to gather input from stakeholders on the following topics.

- Building an Ecosystem for Climate-Focused Community Finance
- Best Practices in Deploying Renewable Energy in Underserved Communities
- Developing Data and Benchmarks for Climate-Focused Community Investments

The breakout sessions produced meaningful insights related to climate-focused community finance. Stakeholder comments have been summarized below thematically.

CDFIs Need Greater Access to Capital to Meet the Climate Challenge

Given the scale of the climate challenge, stakeholders identified a need for significant capital above and beyond what was made available through the IRA. Participants expressed that Treasury and financial regulators should encourage large financial institutions to increase access to capital for CDFIs and other mission-lenders. Treasury's Emergency Capital Improvement Program (ECIP) was identified as a good model. Stakeholders also emphasized the need for liquidity solutions including securitization. Participants indicated that regulated financial institutions and the Federal Home Loan Banks as well as hospitals and health systems all have a role to play.

Low- and Moderate-Income (LMI) Households Face Disproportionate Energy Cost Burdens and Experience Practical Challenges When Transitioning to Green Technologies

Participants noted that LMI households face disproportionate energy cost burdens and may not have the disposable income to cover the upfront costs of infrastructure or energy improvements. Stakeholders voiced concern that the financial cost of adopting "green" solutions for LMI households can be a significant barrier and some expressed alarm about predatory financing activity in this space. Participants recommended properly educating lenders, LMI communities, and households on potential costs and benefits.

Stakeholders noted that poor infrastructure may be a barrier to the adoption of green technologies. For example, the installation of solar panels requires that the home have a roof that is in good condition. Participants noted that decarbonization technologies can actually increase bills for property owners, especially in underserved areas, so it is important to monitor costs post-transaction. Further, the ongoing cost of maintenance, such as replacing a solar panel inverter, may be high and may trigger the need for an electrical inspection, potentially identifying additional costs. Stakeholders identified the need for capital reserve funds to help LMI households cover remedies to problems that emerge related to green technologies.

Insights from Community Finance Practitioners and Other Stakeholders (continued)

Inconsistent Regulations and Standards Can Complicate Investments

Participants noted that climate-focused investments are subject to widely divergent state regulations as well as local restrictions from homeowner associations. Stakeholders called for infrastructure system-wide standards or accreditation for contractors and vendors.

Need to Build Capacity and Information Technology Infrastructure to Support Climate Investments

Stakeholders noted that building capacity for climate-focused investments through hiring and cultivating expertise within a CDFI is necessary and often difficult. Participants identified the need for CDFI early adopters of climate investing to share their experiences and best practices and that Treasury and the CDFI Fund have a role in supporting capacity building and highlighting best practices. Stakeholders stressed the importance of standardized technical assistance resources across the CDFI industry, including for small businesses and contractors. Specifically, participants noted the critical need to address the scarcity of electricians in the workforce. Stakeholders also noted that banks and lenders utilize information technology systems that require significant investments of capital and time, and smaller financial institutions, including many Minority Depository Institutions (MDIs), face challenges implementing these systems at the same speed and scale as larger institutions. Some indicated that larger institutions working on net zero commitments and transition financing could extend capacity to smaller institutions, especially on climate-related finance issues.

Need to Standardize Data Collection and Reporting

Participants observed that data collection and benchmarking are important for measuring impact and that clarity and consistency in data collection and reporting will benefit CDFIs. Stakeholders identified the CDFI Fund's annual reporting process as an important opportunity for collecting and reporting data on climate investments. Participants also expressed the need for standardization of definitions across the field. Some suggested that there should be a focus on establishing suitable proxies, calculators or other tools for measuring climate impact where transaction level data collection may be burdensome or infeasible. Stakeholders also recommended leveraging technical resource manuals. It was observed that CDFIs may be more willing to collect and report data if they understand how it can ultimately support access to capital. Some highlighted the need to customize data collection requirements depending on the capacity of the entity or the community they serve, including Native CDFIs.

Resources

1. Inflation Reduction Act of 2022 | Internal Revenue Service (irs.gov)

2. Elective Pay and Transferability | Internal Revenue Service (irs.gov)

3. IRS, Treasury update Notice 2023-29 related to energy community bonus credit amounts under the Inflation Reduction Act | Internal Revenue Service (irs.gov)

4. Clean Energy Tax Provisions in the Inflation Reduction Act | Clean Energy | The White House

5. August 16, 2022: Treasury Releases Initial Information on Electric Vehicle Tax Credit Under Newly Enacted Inflation Reduction Act

6. February 13, 2023: Treasury, Energy Release Guidance on Inflation Reduction Act Programs to Incentivize Investments in Underserved Communities, Hard-Hit Coal Communities

7. March 31, 2023: Treasury Releases Proposed Guidance on New Clean Vehicle Credit to Lower Costs for Consumers, Build U.S. Industrial Base, Strengthen Supply Chains

8. April 4, 2023: Treasury Releases Guidance to Drive Investment to Coal Communities

9. EPA's Implementation Framework for the Greenhouse Gas Reduction Fund

10. EPA Greenhouse Gas Reduction Fund: Implementation Framework Supporting Presentation (May 2023)

11. HUD Green and Resilient Retrofit Program

12. HUD Green and Resilient Retrofit Program Overview

13. May 11, 2023: HUD Announces More than $837 Million from President Biden's Investing in America Agenda to Improve Housing Quality and Reduce Energy Costs for Underserved Communities