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EPA's Greenhouse Gas Reduction Fund (GGRF)

On August 16, 2022, President Biden signed H.R. 5376 (P.L. 117-169), a budget reconciliation measure commonly referred to as the Inflation Reduction Act of 2022 (IRA). IRA contains eight titles, each with some provisions that directly or indirectly address issues related to climate change, including the reduction of U.S. greenhouse gas (GHG) emissions and the promotion of adaptation and resilience to climate change impacts.

IRA Section 60103: Greenhouse Gas Reduction Fund

Section 60103 of IRA (codified at 42 U.S.C. §7434) amends the Clean Air Act to provide for a Greenhouse Gas Reduction Fund (GGRF) to be administered by the U.S. Environmental Protection Agency (EPA). The provision appropriated \$27 billion to EPA for FY2022, out of any money in the Treasury not otherwise appropriated, to remain available until September 30, 2024, to make grants, on a competitive basis, as follows:

- \$7.0 billion to states, municipalities, tribal governments, and eligible recipients for the purposes of providing grants, loans, or other forms of financial assistance, as well as technical assistance, to enable low-income and disadvantaged communities to deploy or benefit from zero-emission technologies;
- \$11.97 billion to eligible recipients for the purpose of providing financial and technical assistance for qualified projects;
- \$8.0 billion to eligible recipients for the purpose of providing financial and technical assistance for qualified projects in low-income and disadvantaged communities; and
- \$30.0 million for agency administrative costs.

IRA defines “eligible recipient” as a nonprofit organization that

- is designed to provide capital, leverage private capital, and provide other forms of financial assistance for the rapid deployment of low- and zero-emission products, technologies, and services;
- does not take deposits other than deposits from repayments and other revenue received from financial assistance provided using grant funds under IRA;
- is funded by public or charitable contributions; and
- invests in or finances projects alone or in conjunction with other investors.

IRA defines “qualified projects” to include any project, activity, or technology that reduces or avoids GHG emissions and other forms of air pollution in partnership with, and by leveraging investment from, the private sector.

Eligible recipients that meet the above definition may use the grant funding for

- direct investments in the form of financial assistance for a qualified project or
- indirect investments in the form of funding and technical assistance to support new or existing public, quasi-public, or nonprofit entities that in turn provide financial assistance to qualified projects at the state, local, territorial, or tribal level, including community- and low-income-focused lenders and capital providers.

IRA directs EPA to begin this process not later than 180 calendar days after the date of enactment (i.e., not later than February 12, 2023). Section 60103 does not explicitly clarify which additional requirements apply to EPA or its grant recipients, such as general federal requirements for grants and agreements.

EPA Implementation

Upon enactment of IRA, EPA launched a stakeholder engagement strategy to help shape implementation of the GGRF. EPA conducted listening sessions for members of the public and stakeholder groups on November 1 and November 9, 2022. EPA published a Request for Information seeking public comment on core design aspects of the GGRF. Further, EPA delivered a set of formal charge questions for expert review and comment at the October 18-19, 2022, meeting of the agency's Environmental Financial Advisory Board (EFAB). On January 26, 2023, EFAB submitted guidance and considerations to EPA regarding the GGRF's potential objectives, program structure, execution, reporting, and accountability. In its review, EFAB assessed the strengths and weaknesses of various design elements of the fund including financial leverage, additionality (i.e., whether project proposals would proceed in the absence of the GGRF), capital recycling, capacity building, and long-term operability across various recipient types including states, municipalities, tribes, regional collectives, sectoral collectives, lender intermediaries, and a national entity.

On February 14, 2023, EPA reported initial guidance on the design of the GGRF program. At the time, EPA announced plans to hold two competitions to distribute the grant funding: a \$20 billion General and Low-Income Assistance Competition and a \$7 billion Zero-Emissions Technology Fund Competition.

On April 19, 2023, EPA released additional guidance on the implementation framework for the GGRF. The guidance proposed splitting the majority of the \$27 billion between national and community groups across three competitions. Each competition would be administered separately.

1. A \$14 billion National Clean Investment Fund competition to fund two to three national nonprofits that would partner with private capital providers to deliver financing to businesses, communities, community lenders, and others.
2. A \$6 billion Clean Communities Investment Accelerator competition to fund two to seven nonprofits that have the capabilities to build financing capacity across specific networks of public, quasi-public, and nonprofit community lenders—including community development financial institutions (including tribal institutions), credit unions, green banks, housing finance agencies, and minority depository institutions.
3. A \$7 billion Solar for All competition to provide up to 60 grants to states, tribal governments, municipalities, and nonprofits to expand the number of low-income and disadvantaged communities for residential and community solar investment.

The guidance also identified three priority project categories for the competitions beyond the Solar for All investments: (1) zero-emissions distributed power generation and storage; (2) retrofits to decarbonize existing buildings; and (3) transportation pollution reduction that supports zero-emissions transportation modes, especially in communities experiencing diesel pollution and other poor air quality.

EPA stated that the implementation framework was “intended to provide continued transparency and respond to stakeholder requests for additional information on EPA’s anticipated program design and application requirements in advance of the Notices of Funding Opportunity that will formally kick off the application process as early as June 2023.” As proposed, the implementation framework steps away from a conceptualization of the GGRF as a single national entity—a design supported by some stakeholders and Members of Congress. EPA announced six public listening sessions and requested written technical feedback and comments on the implementation framework by May 12, 2023.

Green Banks

Statutory provisions for the GGRF reflect the characteristics of entities commonly referred to as “green banks.” Green banks are relatively new types of financial

institutions aimed at overcoming market barriers and scaling up investment in low-carbon technologies and climate-resilient infrastructure. In general, green banks may be public, quasi-public, or nonprofit institutions that are publicly capitalized to facilitate private investment and produce revenue to be used for further investments. Green banks typically do not exist to make a profit and as such may be able to help reduce the cost of capital, mitigate risk, and provide more favorable lending rates to incentivize investments. They can offer loans, leases, credit enhancements, and other financing services either directly to project management entities or through financial intermediaries.

Governments have created green banks in various national and local contexts to achieve a range of goals, including meeting GHG emissions targets, supporting local community development, lowering energy costs, developing low-carbon and climate-resilient technology markets, creating jobs, and lowering the cost of capital for specified investments. Governments have established green banks at the national level (e.g., Australia, New Zealand, Malaysia, Switzerland, and the United Kingdom), at the state or district level (e.g., California, Connecticut, Hawaii, New York, Rhode Island, and the District of Columbia), and at the county level (e.g., Montgomery County, MD). Some of the above-listed green banks—as well as some other financial institutions—may meet the definition of eligible recipient under Section 60103 of IRA, whereas others may qualify to receive indirect investments.

Past Congressional Proposals

Proposals for a national-level green bank in the United States reach back at least to the 110th Congress (e.g., H.R. 6078 and H.R. 6899). In the 117th Congress, at least four bills were introduced on green banks, including H.R. 806, “Clean Energy and Sustainability Accelerator Act”; S. 283, “National Climate Bank Act”; H.R. 2451/S. 685, “America’s Clean Future Fund Act”; H.R. 2656/S. 1208, “A bill to amend title 31, United States Code, to provide for the issuance of Green Bonds and to establish the United States Green Bank, and for other purposes.”

Past congressional proposals for a national green bank have differed among themselves and from existing entities in significant ways, including, but not limited to (1) whether the proposal is freestanding or amendatory of existing statute; (2) the legal status of the bank and its relationship to the U.S. government; (3) specific project or recipient eligibility; (4) project prioritization; (5) means of capitalization; and (6) governance, administrative, and audit structure. The establishment of a national green bank would likely require resolving policy specificities within these items.

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