BROADSTREET

DECARBONIZING THE NMTC INDUSTRY

Four practical steps CDEs can take to incorporate green elements into their NMTC portfolios

August 2024

Daniel Brett, Sophia Checa, Grace Earle

About Broadstreet

Broadstreet Impact Services is a leading community impact investor and fund services provider. We were founded by the Local Initiatives Support Corporation (LISC) in 2004 to manage its New Markets Tax Credit (NMTC) allocation at the outset of the federal program. Our services encompass fund management, including NMTC investing, managing LISC's CDE, and numerous loan funds, as well as fund administration and impact advisory. We manage or administer 36 multi-asset funds, 92 single-asset entities, and $2.0 billion of capital—all driving equity and opportunity alongside financial performance. We do this both within the NMTC industry and in the broader community investment sector. Over 20 years, we have developed a client base that values our customizable services platform, fund development experience, impact focus, collaborative partnership approach, and deep engagement with the community investing ecosystem.

This report was developed by Broadstreet's Impact team, which works cross-functionally across Broadstreet to help empower the organization deliver on its mission. The team's extensive experience in impact management and desire to further incorporate climate considerations into Broadstreet's own investment strategies and processes inspired and informed this initiative.

EXECUTIVE SUMMARY

Human activities have increased global temperatures by 2.0°F since the industrial revolution, threatening lives and livelihoods, especially among low-income and vulnerable populations. The NMTC Program, created by the U.S. federal government, attracts private investments in underserved communities, primarily financing real estate projects. With 40% of greenhouse gas emissions linked to real estate, the NMTC industry holds significant potential for impact. Yet, few NMTC players have integrated decarbonization into their strategies. CDEs, as allocators of tax credits, can lead the transition towards a greener economy, significantly reducing energy costs and improving health for low-income communities.

The $27 billion Greenhouse Gas Reduction Fund (GGRF) offers CDEs an unprecedented opportunity to secure investments for projects that enhance sustainability. The capital from this initiative can help lower energy costs, improve community health, and strengthen climate resilience, positioning CDEs at the forefront of climate change solutions.

Four Practical Recommendations for CDEs

1 Explore Climate-Focused Sourcing Strategies

CDEs should diversify sourcing strategies to find projects aligned with decarbonization goals:

- Attend sustainability-focused conferences to network with climate-focused consultants and projects.
- Invest in areas with climate-friendly policies and incentives, such as tax credits and rebates.
- Build relationships with stakeholders dedicated to climate goals, streamlining the process over time.

2 Integrate Decarbonization Questions into Project Screening and Due Diligence

Incorporate climate impact questions into screening and due diligence to assess projects:

- Ask about sustainable materials, energy efficiency elements, renewable energy sources, and water conservation efforts.
- Evaluate the project's potential for environmental impact and alignment with decarbonization goals.
- Ensure regular reporting and monitoring of project components like energy use and waste management.

3 Incorporate Environmental Considerations into Community Benefit Agreements (CBAs)

Work with project sponsors to set and track environmental targets through CBAs:

- Set SMART (Specific, Measurable, Achievable, Relevant, Time-bound) goals for renewable energy usage, GHG emissions reductions, and low-emission materials.
- Engage in ongoing discussions with projects to ensure they meet their environmental commitments.
- Align CBAs with GGRF funding criteria to maximize investment opportunities and project sustainability.

4 Encourage the Integration of Green Elements through Climate-Focused Funding and Financial Incentives

CDEs can enhance the environmental impact of NMTC projects by combining them with climate-focused funding sources and tailored financial incentives:

- Ensure project sponsors and QALICB consultants are aware of additional funding opportunities, such as GGRF, ITC, and C-PACE, to support the integration of green elements.
- Identify viable funding sources for incentives for projects to meet or exceed decarbonization goals, such as reducing reservation fees for projects meeting these targets.
- Develop a tailored incentive structure, like financial rebates for achieving specific environmental milestones.

Conclusion

Decarbonization requires systems change within the NMTC sector, involving collaboration across various economic sectors. By integrating climate-focused strategies, CDEs can more effectively serve the communities they finance, and expand their reach by partnering with GGRF awardees. This report aims to serve as a call to action in empowering CDEs to adopt practices that contribute to decarbonization, drawing from comprehensive research and interviews with key NMTC players. By taking these steps, CDEs can align with broader sector trends, mitigate risks, and support the transition towards a more sustainable and equitable future.

INTRODUCTION

Human activities are causing greenhouse gases (GHG) to become trapped in our atmosphere, warming the world faster than at any time in the last two thousand years. The average temperature of the Earth's surface is now roughly 2.0°F warmer than it was before the start of the industrial revolution and warmer than at any time in the last 100,000 years.[i] The consequences of climate change include warmer temperatures, water scarcity, and stronger and more destructive natural disasters, which threaten the lives and livelihoods of people across the world.[ii] Climate change exacerbates inequality, as it disproportionally harms low-income and other socially vulnerable people who have contributed the least to the problem.[iii]

Encouragingly, most global leaders recognize that this is an urgent existential threat that can be effectively addressed in ways that make us richer and more financially secure. Countries have come together to create a multinational agreement called the Paris Agreement to keep the planet from warming more than 2.7°F above pre-industrial levels to help us avoid the worst climate impacts and maintain a livable planet. Most countries have established goals for achieving net zero carbon emissions by 2050 to achieve this goal. Net zero means that all greenhouse gas emissions are offset by an equal number of emissions that are eliminated. Achieving this goal will require rapid decarbonization, particularly in the five fields that produce a large percentage of greenhouse gas emissions: steel; metals and mining; cement; chemicals; and freight and logistics. These are products heavily utilized in new construction and rehabilitation projects, in which New Market Tax Credits (NMTC) can be invested.

The NMTC Program was created by the US federal government to attract private investment into projects within underserved communities and promotes economic improvements through the development of successful business in these communities.[iv] NMTCs finance a wide range of activities with a majority of the $5 billion of tax credit allocation deployed annually financing large real estate construction and rehabilitation projects across a variety of industries, e.g., health care, community facilities, and affordable residential housing.[v] This represents an enormous opportunity for the NMTC industry as evidence shows that 40 percent of all greenhouse gas emissions are related to real estate.[vi]

While the NMTC industry has an impressive track record of contributing to inclusive economic development, very few industry players have integrated decarbonization and climate resiliency within their strategies.[vii] As the allocators of tax credits in the NMTC market, Community Development Entities (CDEs) can direct investments towards projects that meet the immediate economic needs of underserved communities and prioritize sustainable practices, leading by example in the transition towards a greener economy and reducing energy costs and improving health for low-income people. By investing in sustainability, CDEs can also mitigate risks facing their past and future investments, which are often in areas more prone to climate-related hazards such as extreme heat, flooding, fire, and air pollution, yet are less resilient to climate impacts due to economic disparities and systemic racism, such as redlining.[viii] [ix]

Fortunately, CDEs now have access to new financial opportunities and incentives to embrace decarbonization. The recently awarded $27 billion Greenhouse Gas Reduction Fund (GGRF) presents an unprecedented opportunity for CDEs to partner with or raise capital from GGRF awardees to invest in projects that simultaneously serve vital community needs, lower energy costs, improve community health, and strengthen climate resilience. More than ever before, CDEs are uniquely positioned to contribute to climate change solutions while also catalyzing economic and social benefits to under-resourced communities.

Decarbonization Requires Systems Change in the NMTC Market

Greenhouse gas emissions result from fossil fuel combustion. Decarbonization requires using low and zero-carbon-emitting renewable energy sources and capturing atmospheric carbon. This process necessitates changes in energy generation, production and delivery of goods, and land management. Industry, transportation, and buildings are significant sources of carbon dioxide and methane emissions. Decarbonizing national building stock will require extensive zero-carbon retrofits and new construction.

Decarbonization demands broad-scale change and collaboration across various economic sectors, including the NMTC sector. With many tax credits financing real estate projects, it's promising that CDEs and other key NMTC players show interest in incorporating sustainability.[x] This interest, coupled with capital from GGRF, offers an opportunity for the sector to engage in systems change to decarbonize portfolios.[xi]

Applying a systems lens to complex problems helps map system dynamics, explore how component relationships affect functioning, and identify effective interventions. Systems change begins with analyzing the existing system to understand its workings and leverage points. Our research deepened our understanding of the NMTC market, its patterns, and interconnectedness, enabling us to identify the most effective shifts for systemwide change.

Key Challenges to Decarbonizing the NMTC Sector

Motivation

For change to occur, there must be a desire for it, driven by internal and external pressures. The NMTC program was created to attract private investment into underserved communities, focusing on quality, accessible jobs. However, external pressures like GGRF funding and worsening natural disasters due to climate change are increasing the need for CDEs to pursue green lending. Leaders in the NMTC sector must champion this change and motivate their organizations to embrace a sustainable future.

Capacity

Systems change requires adequate capacity both for the CDE and the NMTC projects it finances. CDEs must have the ability to implement and sustain changes, which involves hiring knowledgeable staff or consultants on climate finance. Change also requires additional information and reporting by project sponsors without overburdening them, ensuring momentum is maintained.

Knowledge

CDEs need to build their knowledge about climate equity and resiliency. Staying informed about the evolving climate sector is crucial for supporting deals that attract GGRF funding. This paper aims to provide CDEs with critical information and examples of successful green lending practices.

Cost

Change requires an investment of time and money. This may involve developing new tools for reporting green efforts or hiring consultants. While green elements can reduce building operation costs, they add initial expenses.[xii] However, the past decade has seen significant advancements in cleantech, making it more cost-effective. Cleantech costs have fallen by almost 80 percent, investment is up nearly 10 times, and solar generation has risen 12 times.[xiii] The Inflation Reduction Act further supports investment in clean technologies, enhancing their affordability.

Capital

Although there are concerns about adequate capital, the Inflation Reduction Act, particularly the $27 billion GGRF, provides substantial funding. The challenge is now ensuring sufficient investible projects. GGRF-eligible projects include NMTC projects with green components, highlighting the need for sustainable investments.

A Call to Action

Global greenhouse gas emissions must fall by nearly half by 2030 and reach net zero by midcentury to avoid severe climate impacts. Hundreds of organizations and countries are implementing net zero strategies, and the NMTC industry must do the same. CDEs can significantly influence the climate priorities of the NMTC industry. Since its inception through 2021, the NMTC Program has supported the construction of millions of square feet of manufacturing, office, and retail space. Promoting decarbonization in NMTC projects can transform the market and align with broader sector trends.

Communities of color and low-income populations, the primary beneficiaries of the NMTC market and GGRF funding, are disproportionately affected by the impacts of climate change for many reasons. They are often located in areas more prone to climate-related hazards, have access to fewer resources to prepare for and recover from climate-related disasters, experience higher rates of existing medical conditions that can be exacerbated by climate change, and suffer from systemic inequities such as redlining which historically kept communities of color in areas with fewer resources.[xiv] [xv] With at least 40 percent of funds invested in underserved areas, emphasizing climate change mitigation, adaptation and resilience not only protects NMTC investments, but also safeguards these vulnerable communities. By driving decarbonization, the NMTC industry can support both environmental sustainability and social equity.

This report aims to empower CDEs to adopt practices that contribute to decarbonization. Based on comprehensive research, including literature reviews and over 20 interviews with key NMTC players, the report provides four recommendations for advancing decarbonization efforts. These insights highlight practical steps that can generate cost savings and health benefits for low-income communities.

HOW DOES DECARBONIZATION BENEFIT LOW INCOME AND UNDERSERVED COMMUNITIES?

The risks of climate change may appear less immediate or pressing than other challenges facing low-income and underserved communities, such as access to gainful employment, quality healthcare, affordable housing, and education. Yet, incorporating climate considerations into NMTC portfolios can have numerous benefits for these communities over the short and long term.

Cost Savings

Improving buildings' energy efficiency can increase initial project costs but significantly reduce ongoing expenses. These cost savings can strengthen a project's financial resiliency, freeing up resources to better serve their communities.[xvi] For example, a health clinic installing heat pumps in its facility can reduce ongoing energy costs, and pass those savings along to their patients. Additionally, lower utility bills for residential and commercial tenants can make housing and operating businesses more affordable.

Economic Opportunities

Decarbonization projects can create green jobs and workforce development opportunities in clean energy, energy efficiency, and sustainable construction for local residents.[xvii] These jobs often require new skills and training, helping provide valuable career-building opportunities.

Health Benefits

Reducing emissions and improving indoor air quality through green building practices can lead to better health outcomes for residents in disadvantaged areas.[xviii] Improved air quality can reduce respiratory illnesses and other health issues, leading to lower healthcare costs and a high quality of life for community members.

Climate Resilience

Decarbonization efforts like urban greening and improved water management systems can help vulnerable communities better withstand climate-related events like heatwaves and heavy rainfall.[xix] Enhanced resilience not only protects infrastructure but also safeguards residents' wellbeing during extreme weather events.

Social Equity

Integrating green infrastructure can also promote social equity by ensuring that low-income and underserved communities are not left behind in the transition to a sustainable future. It can help address environmental justice issues by reducing the disproportionate exposure of these communities to environmental hazards and ensuring they benefit from cleaner air, safer water, and greener spaces.[xx]

Rather than a distraction from community needs, incorporating green elements into NMTC projects can enhance their capacity to benefit underserved people and communities while advancing the goals of the NMTC program.

Four practical steps CDEs can take to incorporate green elements into their NMTC portfolios

1 Explore Climate-Focused Sourcing Strategies

While most CDEs have well-established processes for sourcing deals, exploring additional avenues for finding projects can surface promising climate opportunities. This can support CDEs in executing their existing strategies with more focus on energy efficiency in real estate construction or rehabilitation, as well as expanding their strategies to focus on new types of projects such as green manufacturing. To do this, CDEs should attend sustainability-focused conferences to form relationships with climate focused consultants dedicated to climate goals and investing in geographies with climate friendly policies. Strategies like this can help CDEs identify projects aligned with decarbonization objectives. It's worth noting that incorporating new sourcing strategies may require upfront work such as getting internal buy in, allocating resources differently, and positioning activities within current strategies. However, once new processes are in place for decarbonization sourcing, managing them should become more efficient, reducing the time and resources needed to execute.

Attending Sustainability-Focused Conferences

One strategy for CDEs looking to broaden their sourcing approach is to attend sustainability-focused conferences. These events offer networking opportunities with representatives of projects that are both NMTC eligible and incorporate climate-related efforts. By going to sustainability conferences and connecting with people and organizations also pursuing climate related goals, CDEs can find additional connections for projects, consultants, developers, and other relevant organizations that fit their goals for both community development and environmental sustainability.

Based on the CDE's strategy and objectives, several types of conferences might be relevant, including:

Affordable Housing and Sustainable Communities Conferences: Events like the National Low Income Housing Coalition (NLIHC) Annual Housing Policy Forum offer opportunities to learn more about projects related to affordable, energy-efficient housing in underserved areas, emphasizing sustainability and resilience.

Local and regional conferences on urban development and sustainability: Many cities and regions host conferences that address local challenges and opportunities for sustainable development, including projects in low-income areas.

Sustainable manufacturing conferences: Industry associations or sustainability groups often host events focusing on reducing the manufacturing sector's environmental footprint through energy efficiency, waste reduction, and sustainable practices. Although these conferences might not exclusively cater to low-income areas, they address broader issues like job creation and community health. Examples of these conferences include Greener Manufacturing Conference and Expo and Greenbuild 2024, and events and opportunities listed on Enterprise Community Partners' Decarbonization Hub.

Source Projects in Policy-Incentivized Areas

In addition to building strategic, climate-focused relationships, CDEs may find it helpful to focus on geographic areas that have policies and incentives in place related to decarbonization. States and municipalities across the country are increasingly implementing programs to encourage sustainable development and reduce carbon emissions. These programs include incentives such as tax credits, expedited permitting, and rebates. By focusing on these areas, CDEs can take advantage of existing programs that make decarbonization related projects more likely as projects with strong environmental benefits might require additional upfront investment or capital sources. For example, tax incentives may be the piece of the capital stack that make the financing of a project, including green elements, possible. CDEs should consider referencing resources such as the C2ES "State Climate Policy Maps," which gives a summary of climate policies by state.[xxi]

2 Integrate Decarbonization Questions into Project Screening and Due Diligence

For CDEs looking to play a meaningful role in climate change solutions, the journey includes a simple yet significant step: asking new questions. By incorporating new questions into their screening and due diligence processes, CDEs can assess the potential climate impact of any project, regardless of project type, which can help advance their decarbonization goals within their NMTC portfolios.

As CDEs begin to weave sustainability questions into their evaluation processes, they send a message to project developers and consultants that climate action is a priority. The act of simply asking questions can encourage project teams to embed sustainable practices and technologies from the outset and motivate consultants to seek more projects with decarbonization goals. For new construction, questions could be asked regarding what the project will do to decarbonize. Appendix A includes a list of decarbonization-related questions CDEs can ask in diligence.

In addition to signaling to the market that climate change is a priority, having detailed information about a project's approach to sustainability and decarbonization enables CDEs to make more informed decisions. They can prioritize projects with greater potential for positive environmental impact, allocate resources more effectively, and potentially negotiate adding new green elements to enhance their sustainability.

Additionally, once a CDE decides to fund a project, having baseline information on project components such as energy use, waste management practices, and planned energy efficiency upgrades, enables CDEs to clearly assess a project's progress toward its decarbonization goals.

These questions may influence and fit into the rest of the investment process as well. For example, before finalizing investments, CDEs can ensure the investment terms include clear decarbonization goals. Additionally, setting up a system for the project to regularly report on its environmental progress – including memorializing the reporting requirements in the loan terms - is core pillar of effective impact management.[xxii]

3 Incorporate Environmental Considerations into Community Benefit Agreements (CBAs)

For CDEs hoping to incorporate decarbonization goals into their portfolio, it is important to not only identify viable projects, but, once an investment decision is made, also regularly check to ensure it is meeting its environmental goals. CDEs can do this is by working with the project to implement a CBA that reflects shared climate-related priorities.

Embedding Decarbonization Goals in CBAs

CDEs need to work directly with projects to understand their current and potential decarbonization goals. Project sponsors and developers are the experts in where green elements can and should be added to their project, but CDEs can encourage them to look at additional options or, at a minimum, define their goals as clearly as possible such that they can be tracked using a CBA. These goals should be SMART (Specific, Measurable, Achievable, Relevant, and Time Bound) Goals, so both the project and CDE can track progress together. Some examples include a target of renewable energy usage, projected reductions in GHG emissions as compared to using non-climate friendly technologies or using all low emissions materials throughout the construction process.

Here are some additional considerations to consider when adding environmental goals to CBAs:

- When setting environmental targets, consider digging into how the project calculated their goals, including if a benchmark against similar projects was used.
- In addition to requesting that the annual questionnaire related to the CBA be filled out annually, consider having a call with the project to discuss progress towards their climate goals.
- Recognizing that environmental technology and best practices are rapidly evolving, consider periodic reviews of environmental targets with the projects, allowing them to tweak goals if needed based on new information or new adopted practices.

Working with projects to set clear, measurable environmental targets helps turn ideas into tangible outcomes. These targets create a common, agreed upon goal for both the CDE and the project, establishing a basis for ongoing discussions over the loan term.

4 Encourage the Addition of Green Elements through Funding Opportunities and Financial Incentives

The recent passage of the Inflation Reduction Act, the U.S. government's landmark climate policy, is transforming the community development finance industry with an infusion of hundreds of billions of dollars in tax credits, rebates, grants, and investments. CDEs, and especially the QALICB consultants they work with, should ensure that projects are aware of the numerous funding sources that can be paired with NMTCs to support green elements. These sources include three GGRF programs, federal renewable energy tax credits (RETCs), including the Clean Energy Investment Tax Credit, Commercial Property Assessed Clean Energy (C-PACE), and several others detailed in Appendix C. Notably, nonprofit CDEs are eligible to become sub-awardees through the GGRF's $7 billion Clean Communities Investment Accelerator (CCIA), which is designed to build the capacity of community lenders and others to invest in climate projects in low-income communities.

While significant opportunities exist to pair NMTCs with green capital sources, it is worth noting that very few CDEs interviewed have done this so far. Given that most do not offer advisory services directly to funded projects, it is especially important for QALICB consultants to inform projects about green capital sources as their projects take shape, and for CDEs to encourage this practice.

One of Broadstreet's borrowers, Amped Kitchens Chicago, utilized $4.6 million in C-PACE financing to develop a multi-tenant commercial kitchen in North Chicago. This capital infusion was essential to the project's development and supported the energy efficiency elements at Amped Kitchens. Investing in green elements allowed for lower operating costs for the building, which helped keep costs down for tenants leasing space at the facility.

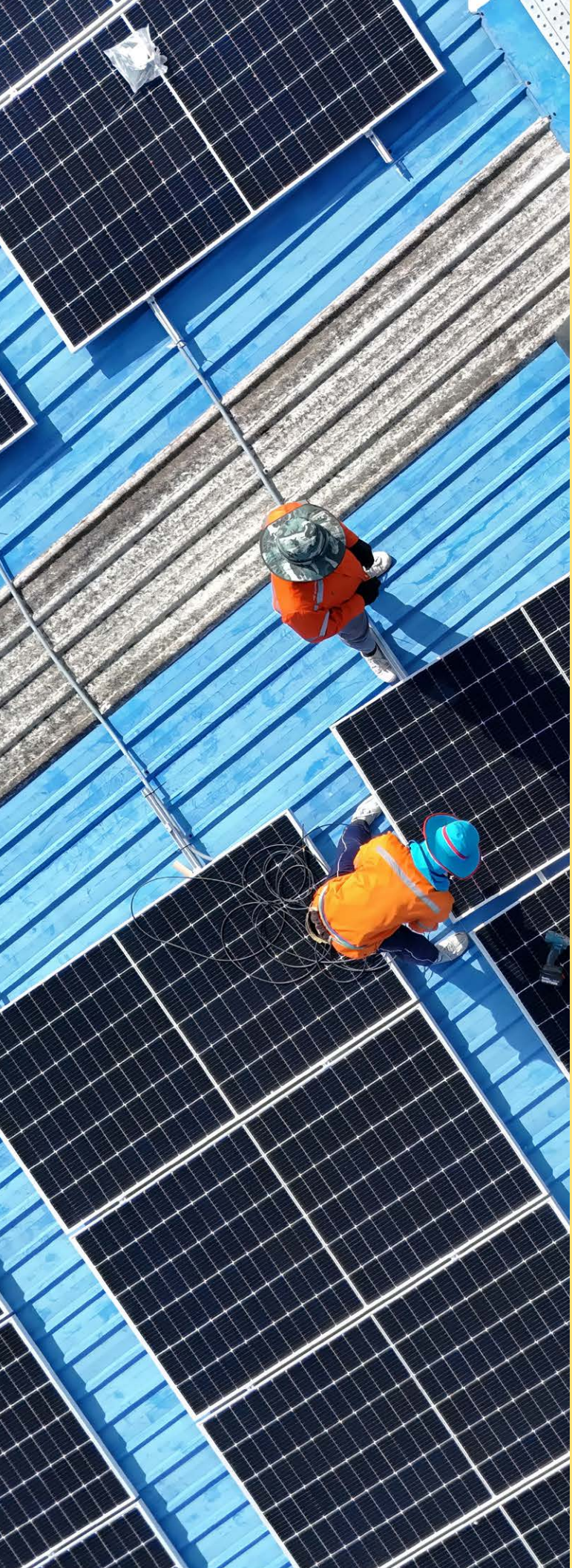
In addition to leveraging additional capital sources, CDEs can harness financial incentives to encourage borrowers to adopt or improve green elements in their NMTC projects. These incentives, often offered by investors, vary in form and are designed to motivate borrowers to achieve greater environmental impact than they might have otherwise.

The first step in setting up financial incentives for impact is identifying the funding source. For instance, lowering reservation fees for projects that achieve or exceed their decarbonization targets could be one option. It's important to ensure the funding source is viable, sustainable, and sufficient to encourage borrowers to meet or exceed their goals.

CDEs should develop an incentive structure that is likely to encourage participation and reward achievement. For example, offering a financial rebate—such as 1% of the loan amount for initial implementation of green elements, with an additional 1% rebate for reaching a milestone in decarbonization goals—can be an effective motivator. This strategy not only provides immediate financial rewards but also promotes long-term engagement with decarbonization efforts. It is important to note that the goals established by the CDE and the project will vary and not be "one size fits all," with incentives tailored to the specific scope and targets of each project.

Additionally, a monitoring system should be established to assess the environmental impact of projects, tracking progress against the set decarbonization targets. This step is key for evaluating the program's effectiveness, identifying areas for improvement, and determining if the project has met the goals needed to receive the incentive.

By identifying viable funding sources, creating tailored incentive structures, and establishing monitoring systems, CDEs can encourage the adoption of green elements in their NMTC projects. These types of incentives can set new industry standards for environmental responsibility, paving the way for more sustainable community development.



Emerging Ideas for Integrating Decarbonization into NMTC Portfolios

We have outlined what we believe to be the most practical and impactful strategies for integrating environmental considerations into CDEs' approach to investing. However, our interviews have revealed several additional ideas worthy of further exploration. Below is a list of these concepts, which might offer new ways for your organization to incorporate climate goals. While these ideas are presented with less detail, they may still inspire innovative approaches for your organization:

- **Advocate for a Greater Focus on Decarbonization in NMTC Application** – this may include providing feedback to the CDFI Fund during open comment periods and participating in related NMTC program working groups.

- **Hire a Sustainability Specialist** – consider hiring temporary or permanent sustainability specialist who can provide custom solutions for strategies for weaving decarbonization efforts into your NMTC portfolio.

- **Strengthen Due Diligence with External Validation** – engage external organizations to validate information given during the due diligence process. This can help identify opportunities for impact or areas of risk, in addition to ensuring information accuracy.

- **Help Projects Understand the Financial Impacts of Incorporating Green Elements** – support projects in understanding the long-term financial benefits of incorporating green elements, which, despite initial costs, can often lead to savings.

- **Create a Resource Repository for Green Financing Options** – building on Appendix C, develop a list of resources for projects to reference regarding different financing options available for adding green elements, such as from GGRF awardees and CPACE providers.[xxiii] This can help guide projects through the maze of available green financing options, highlighting opportunities for subsidies, grants, and loans specifically designed to support environmental initiatives.

CASE STUDY

ENTERPRISE COMMUNITY PARTNERS

Enterprise Community Partners (Enterprise) is a national nonprofit dedicated to making a good home possible for the millions of families without one. Enterprise is a family of companies, including a Community Development Entity (CDE), working together to build opportunity in communities nationwide. Enterprise's mission is to make home and community places of pride, power and belonging, and to serve as platforms for resilience and upward mobility for all.

For over two decades, Enterprise has led the affordable housing sector in promoting healthy, efficient, and environmentally responsible homes through the Enterprise Green Communities Certification, the most widely adopted green building criteria in the sector.[i] The Green Communities platform offers criteria to help affordable housing developers build zero-emission homes within the constraints and opportunities of affordable housing development. This framework allows developers to explore net-zero solutions tailored to their projects, whether they involve new construction, rehabilitation, or preservation of existing buildings.

Enterprise's commitment to environmental benefits is deeply embedded in all aspects of the organization. In 2023, Enterprise Community Development, the nonprofit affordable housing development arm of Enterprise, became a partner of the Better Climate Challenge, an initiative by the Department of Energy aimed at reducing portfolio-wide greenhouse gas emissions by at least 50% within 10 years. This partnership reflects Enterprise's dedication to impactful climate action.

Environmental benefits are a core consideration for every NMTC deal Enterprise undertakes through their CDE. The staff emphasized that green features are required for every project, though the specifics depend on the project sponsor. The requirements for a one-time nonprofit sponsor differ from those for a for-profit developer. This flexibility allows Enterprise to be responsive to the needs of communities and project sponsors. Projects must detail their green features, which are documented in Community Benefit Agreements (CBAs) outlining the expected impact of the project. Enterprise views green features as balancing short-term costs with long-term benefits. While green features might be value-engineered out to balance financing in the short term, the long-term efficiency gains often justify upfront investments. Buildings with higher efficiency avoid costly and lengthy retrofits down the line.

> "We do community and climate investing. We no longer bifurcate how we evaluate projects because the only way the entire community development finance industry will change is if we all adopt a comprehensive approach to financing."
>
> ***— Leah Rogan, Managing Director***
> *NMTC Structured Finance, Enterprise*

Sustainability is a core value at Enterprise, integrated into every NMTC deal at some level. The challenge lies in balancing green features with the organization's mission to effectively serve vulnerable communities. Enterprise's flexibility in green components reflects its belief that sustainability benefits everyone.

Through its Green Communities initiative, Enterprise Community Partners has prevented 26,000 tons of carbon dioxide emissions, equivalent to the annual emissions of nearly 3,500 households. Since 1982, Enterprise has invested $72 billion across all 50 states, Washington D.C., and Puerto Rico, creating 1 million affordable homes and 29.1 million square feet of community space.

LOOKING FORWARD

In this paper, we have suggested steps for CDEs to incorporate climate action into their NMTC investing strategies. Our goal is for these recommendations to be both actionable and realistic, providing a way forward for CDEs at any stage of their climate finance journey.

There are ample opportunities for additional research on this topic, including learning from other mission-driven lenders, such as GGRF awardees and sub-awardees, that intentionally incorporate climate considerations in their missions and practices. Additional research should include:

- A comprehensive analysis of the NMTC sector and how CDEs incorporate climate considerations into their processes. This includes examining how explicit CDEs are about climate on their websites, in their mission statements, and in their intake questions to establish a baseline for the current market. Although we know that climate is not a focus for most CDEs, a thorough analysis can reveal why this is the case and what support is needed to incorporate climate goals into NMTC portfolios.

- Research on what support CDEs need to make this shift. Adding additional requirements can be burdensome for both CDEs and potential projects. New processes should be carefully considered, and new internal support systems may be needed for implementation, such as staff training on decarbonization concepts and documentation of new processes for both internal and external stakeholders.

- A summary of available resources for including green elements in affordable housing projects and how those resources can be incorporated across various NMTC projects. Guidance for project sponsors interested in affordable housing, such as the Enterprise Community Partners' Green Communities criteria, should be evaluated to determine if it can be applied to other projects like community facilities or manufacturing.

- Practical research on how CDEs can support decarbonizing their existing portfolios. While our recommendations focus on new deals, there may be opportunities for CDEs to work with project sponsors to promote greening their existing portfolios, particularly in light of programs like the IRA's Green and Resilient Retrofit Program (GRRP) and GGRF.

- An analysis of NMTC-funded projects based on the stringency of building codes in their jurisdictions. Some areas, like California or Chicago, have stringent efficiency requirements in their building codes, effectively forcing new developments or rehabilitations to meet green requirements. Examining trends among NMTC projects in these areas can provide valuable insights.

Given the need for additional research and resources, we seek input from industry professionals and experts. Please email us to provide feedback on the paper and submit ideas to tackle challenges within the field.

Incorporating decarbonization strategies into NMTC portfolios is a concrete measure CDEs can take to contribute to a more sustainable future. However, the success of such a transition will largely hinge on the industry's willingness to work together and innovate. By demonstrating a commitment to climate action, CDEs can inspire a broader shift within the NMTC industry, driving positive change and creating lasting benefits for communities now and for generations to come.

At Broadstreet Impact Services, we acknowledge that it will take all of us in the NMTC ecosystem to make an impact, which is why we are committed to further incorporating climate considerations into our processes, drawing from the lessons learned in this report. With 40 percent of GHG emissions coming from real estate and the NMTC market focusing on real estate, we believe it is both an opportunity and a moral imperative to engage in meaningful climate action. We encourage you to do the same.

Appendix

Appendix A: Interviews

Organization	Name	Title
AMCREF Community Capital, LLC	Cliff Kenwood	Co-founder and Partner
Amped Kitchens	Mott Smith	CEO
Breckenridge Consulting Services	Paul Breckenridge	Founder
Capital Impact Partners	Mindy Christensen	Senior Vice President of Community Development Real Estate
Capital Impact Partners	Sarah Ransome	Senior Loan Officer
Capital Impact Partners	Will Robison	Director, Southern Region and NMTC
Capital Link	Becky Regan	CEO
CEI	Keith Bisson	President
Center for Impact Finance, University of New Hampshire	Michael Swack	Carsey Senior Fellow Research Professor
Classic Lake	Kyle Walton	President
Crow Island Community Capital	Dan Klaff	Founder
Dudley Ventures	James Howard	Founder
Enterprise Community Partners	Anna Smukowski	Senior Director, Enterprise Community Loan Funds
Enterprise Community Partners	Leah Rogan	Managing Director, NMTC
Enterprise Community Partners	Ray Demers	Senior Director, Building Resilient Futures
Impact Marketplace	Matt Drinen	Co-founder and Principal
Moss Adams	Benjamin Alderton	Senior Manager
National Community Investment Fund	Saurabh Narain	President and CEO
Novogradac	Peter Lawrence	Director of Public Policy and Government Relations
Reinvestment Fund	Steve Chung	Senior Director of Clean Energy and Sustainability
Self Help	Amanda Frazier Wong	President, Self Help Ventures Fund
Self Help	Tracy Ward	Executive Team Member
Travois	Adam Rose	Director of Growth and Partnerships

Appendix B: Questions CDEs Should Consider During Screening and Due Diligence

To assist CDEs considering asking new climate-related questions, we've compiled a suggested list of questions. This starting point is designed to help CDEs assess the environmental sustainability of potential projects. This might involve adding these questions to your standard due diligence checklist or conducting interviews and site visits to understand the project's environmental plans better.

How will environmental considerations be included in the construction process? Select all that apply:

- Sustainable materials (e.g. recycled materials)
- Sustainable construction processes (e.g. sustainable waste management)
- Other (provide details)

What types of green elements will be incorporated into the project? Select all that apply:

- Energy efficiency elements (e.g. energy efficient HVAC equipment and/or automated lighting)
- Renewable energy creation elements (e.g. on-site solar panels and/or wind turbines)
- Use of clean energy sources (e.g. community solar)
- Water conservation elements
- Energy-efficient green landscaping elements
- Encouragement of sustainable transportation (e.g. EV charging stations, bike parking, reduced parking, improved walkability)
- Brownfield remediation
- Third party certification (e.g. LEED, BREEAM, Enterprise)
- Other

For any that are selected, please provide details:

What outcome measures will be used to track progress/goals?

- Energy savings ($)
- Energy conserved
- Clean energy produced
- Clean energy used
- Water conservation amount
- GHG reduction
- Acres/square footage/square miles conserved or restored
- Other (provide details)
- We will not be using metrics related to green elements

For any of the selected metrics, provide projected impacts:

Describe any other efforts related to climate, including key actions/processes to be implemented to mitigate environmental risk and improve environmental outcomes, especially when it relates to ensuring minimal GHG emissions.

Appendix C: Funding Sources Available to CDEs and NMTC Projects

Funding Source	Description	Eligibility Criteria	Potential Use for CDEs and NMTC Projects	Total Funding Amount	Learn More
Greenhouse Gas Reduction Fund (GGRF) – NCIF, CCIA, Solar For All	GGRF programs providing funding for projects that reduce greenhouse gas emissions, with specific focus on community investment and climate impact.	Nonprofit CDEs are eligible to become sub-awardees through the CCIA program or could partner with CDFIs who are GGRF awardees or sub-awardees.	Combine GGRF funding with NMTCs to finance projects with significant decarbonization impacts in low-income communities, leveraging community-based partners.	$27 billion total for GGRF, distributed across NCIF, CCIA, and other initiatives.	EPA GGRF Website
Federal Renewable Energy Tax Credits (RETCs)	Includes the Investment Tax Credit (ITC), which provides a 30% tax credit for the cost of installing renewable energy systems like solar, wind, and geothermal. The ITC now has transferability and direct pay options for nonprofits and government entities, with additional "adders" for projects in low-income communities.	Renewable energy projects, such as solar, wind, and geothermal.	Use alongside NMTCs to fund renewable energy components of community development projects, particularly benefiting nonprofits and government entities in low-income areas.	Approximately $10 billion allocated annually for RETCs.	Visit IRS Website
C-PACE (Commercial Property Assessed Clean Energy)	Financing for energy efficiency, renewable energy, and water conservation upgrades to commercial properties, repaid through property taxes. Examples include Texas Property Assessed Clean Energy (TX-PACE) program.	Commercial property owners, often including multifamily and mixed-use developments.	Pair C-PACE financing with NMTCs to finance energy-efficient retrofits and renewable energy installations in commercial properties, enhancing project sustainability and ROI.	Total capital available annually varies by state, with some states offering up to $1 billion in C-PACE financing. Typical NMTC projects can access $1 million to $10 million in C-PACE financing.	Learn More about C-PACE

Appendix C: *(continued)*

Funding Source	Description	Eligibility Criteria	Potential Use for CDEs and NMTC Projects	Total Funding Amount	Learn More
Other State and Local Green Incentives	Various state and local programs offering grants, rebates, and tax incentives for energy efficiency, renewable energy, and sustainable development. Examples include California's Self-Generation Incentive Program (SGIP) and New York's NY-Sun Initiative.	Varies by state and locality; often focused on projects that reduce greenhouse gas emissions or improve energy efficiency.	Partner with state and local governments to layer NMTCs with additional incentives for green building and sustainable infrastructure projects.	Incentives can range from $100,000 to $5 million for a typical NMTC deal. Total capital available annually varies widely, with some states offering $100 million or more in incentives.	Learn More about Incentives
USDA REAP Grants	Grants providing up to 50% financing for renewable energy systems and energy efficiency improvements in rural areas.	Rural small businesses and agricultural producers installing renewable energy systems, such as solar.	Utilize USDA REAP grants to fund up to 50% of solar installations in rural NMTC projects, enhancing overall project sustainability and financial feasibility.	Approximately $300 million to $500 million allocated annually.	USDA REAP Website
Small Business Administration (SBA) Loans	SBA loans, now expanded through the Green Lender Initiative, provide access to capital for small businesses to support clean energy investments.	Small businesses, particularly those in environmentally sustainable sectors or engaging in climate-related projects.	Leverage SBA loans to finance small businesses engaged in green initiatives or sustainable practices, pairing with NMTCs for additional support in low-income communities.	Loan amounts range from $500,000 to $5 million, with additional capital available through new green lenders and expanded loan programs.	SBA Green Lending Initiative
Department of Energy (DOE) – TIFIA Financing	Financing through the Transportation Infrastructure Finance and Innovation Act (TIFIA) for Transit-Oriented Developments (TODs) in rural markets.	TOD projects in rural areas that align with transportation and infrastructure goals.	Combine DOE TIFIA financing with NMTCs to support sustainable transit-oriented developments in rural areas, enhancing infrastructure and reducing carbon footprints.	Approximately $300 million to $500 million allocated annually. Typical NMTC projects can receive between $10 million and $50 million in TIFIA support.	DOE TIFIA Website

Appendix D: Resources Reviewed

Accenture, Powered for Change: Working as One to Achieve Growth and Decarbonization for All https://www.accenture.com/content/dam/accenture/final/accenture-com/document-2/Accenture-Powered-for-Change-Report-2024.pdf#zoom=40

Advanced Building Construction Collaborative, Accelerating Residential Building Decarbonization: Market Guidance to Scale Zero-Carbon-Aligned Buildings: https://advancedbuildingconstruction.org/wp-content/uploads/2024/03/ABC_Industry-Guidance-Report_2023_v6.pdf

American Council for an Energy-Efficient Economy, How High are Household Energy Burdens?: An Assessment of National and Metropolitan Energy Burden across the United States: https://www.aceee.org/sites/default/files/pdfs/u2006.pdf

BlueMark, Making the Mark V: https://www.flipsnack.com/8FD6DECC5A8/making-the-mark-v/full-view.html

Catalyst 2030, About Systems Change: https://catalyst2030.net/what-is-systems-change/

Deloitte, Systems Change for a Sustainable Future: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/about-deloitte/us-about-deloitte-systems-change-for-a-sustainable-future.pdf

Enterprise Community Partners, A Generational Opportunity https://www.enterprisecommunity.org/blog/generational-opportunity

Enterprise Community Partners, For Affordable Housing: What to Know: https://www.enterprisecommunity.org/blog/inflation-reduction-act-funding-affordable-housing-what-know-now?j=349921&sfmc_sub=49882971&l=30_HTML&u=16003089&mid=10965565&jb=1010&utm_source=mc&utm_medium=email&utm_campaign=national&utm_term=20240620-00Q3n00001g473XEAQ&utm_content=june2024&sfmckey=c29waGlhQGd1YWRhbHVwZW5kYy5vcmc=&j=349921&sfmc_sub=49882971&l=30_HTML&u=16003089&mid=10965565&jb=1010

Federal Reserve Bank of New York, Local Initiatives Support Corporation, and Enterprise Community Partners, What's Possible: Investing Now for Prosperous, Sustainable Neighborhoods: https://www.newyorkfed.org/medialibrary/media/outreach-and-education/climate/whats-possible-investing-now-for-prosperous-sustainable-neighborhoods

IEA, Net Zero by 2050: A Roadmap for the Global Energy Sector: https://www.iea.org/reports/net-zero-by-2050

Novogradac, Urgency Ambition Essential in NMTC Investment in Fight Against Climate Change: https://www.novoco.com/periodicals/articles/urgency-ambition-essential-nmtc-investments-fight-against-climate-change

RMI, Abundant, Affordable, Climate-Friendly Homes: What Part 1 of the National Definition of a Zero Emissions Building Means for Housing: https://rmi.org/abundant-affordable-climate-friendly-homes-what-part-1-of-the-national-definition-of-a-zero-emissions-building-means-for-housing/

RMI, Four Things Community Lenders Realized about the Clean Energy Transition (30 May 2024): https://rmi.org/four-things-community-lenders-realized-about-the-clean-energy-transition/

RMI, How New Federal Policy Raises the Bar for Energy-Efficient Housing (18 June 2024): https://rmi.org/how-new-federal-policy-raises-the-bar-for-energy-efficient-housing/

RMI, The Cleantech Revolution (2024): https://rmi.org/insight/the-cleantech-revolution/

RMI, The Inflation Reduction Act Could Transform the US Buildings Sector: https://rmi.org/the-inflation-reduction-act-could-transform-the-us-buildings-sector/

Stanford Social Innovation Review, Systems Change: Making the Aspirational Actionable: https://ssir.org/articles/entry/systems_change_making_the_aspirational_actionable

Stanford Social Innovation Review, Solving the World's Biggest Problems: Better Philanthrophy Through Systems Change: https://ssir.org/articles/entry/better_philanthropy_through_systems_change#

Standford Social Innovation Review, Collective Impact: https://ssir.org/articles/entry/collective_impact

United Nations, Decarbonization Cannot Wait: https://unfccc.int/news/decarbonization-cannot-wait

United States Department of Energy, National Definition of a Zero Emissions Building: https://www.energy.gov/eere/buildings/national-definition-zero-emissions-building#:~:text=The%20minimum%20criteria%20included%20to,Powered%20solely%20from%20clean%20energy.

Work Resources Institute, What is Systems Change? 6 Questions, Answered: https://www.wri.org/insights/systems-change-how-to-top-6-questions-answered#:~:text=Systems%20change%20can%20be%20defined,in%20a%20qualitatively%20different%20way.

---

[i] Evidence - NASA Science
[ii] What Is Climate Change? | United Nations
[iii] EPA Report Shows Disproportionate Impacts of Climate Change on Socially Vulnerable Populations in the United States | US EPA
[iv] New Markets Tax Credit Program Summary | Novogradac (novoco.com)
[v] Which Types of Projects Receive New Markets Tax Credit Funding? (urban.org)
[vi] Why The Built Environment – Architecture 2030
[vii] Evaluating the NMTC Program | Urban Institute
[viii] Environmental Justice | US EPA
[ix] EPA Report Shows Disproportionate Impacts of Climate Change on Socially Vulnerable Populations in the United States | US EPA
[x] The Critical Role of NMTC in Promoting Climate Justice through Green Building and Technology - Low Income Investment Fund (liifund.org)
[xi] Systems change refers to the shifting of parts of a system to form a new system that operates in a different way. It requires a series of transformations that work together to change the status quo and create lasting change. Systems change is a framework with tools for helping entities determine where to focus, identify solutions, and better understand the impacts of interventions. For more on systems change in response to climate change, see: Systems Change: 6 Things to Know | World Resources Institute (wri.org)
[xii] The Critical Role of NMTC in Promoting Climate Justice through Green Building and Technology - Low Income Investment Fund (liifund.org)
[xii] Market Guidance Report - ABC Collaborative (advancedbuildingconstruction.org)
[xiv] EPA Report Shows Disproportionate Impacts of Climate Change on Socially Vulnerable Populations in the United States | US EPA
[xv] Racial Disparities and Climate Change — PSCI (princeton.edu)
[xvi] Urgency, Ambition Essential in NMTC Investments in Fight Against Climate Change | Novogradac (novoco.com)
[xvii] The Critical Role of NMTC in Promoting Climate Justice through Green Building and Technology - Low Income Investment Fund (liifund.org)
[xviii] Effects of Green Buildings on Employee Health and Productivity - PMC (nih.gov)
[xix] The transformative power of cities: tackling climate change through green, resilient, and inclusive urban development (worldbank.org)
[xx] Equitable Development and Environmental Justice | US EPA
[xxi] State Climate Policy Maps - Center for Climate and Energy Solutions (c2es.org)
[xxii] SDG Impact | SDG Impact Standards, Assurance and Seal - United Nations Development Programme (UNDP)
[xxiii] Better Buildings Initiative (energy.gov)
[i] https://www.enterprisecommunity.org/impact-areas/resilience/green-communities

BROADSTREET

broadstreetimpact.com