Clean Energy and Clean Technology Finance Resources

This document is a preliminary draft summary of finance options in Minnesota and a few selected non-state programs.

Angel Tax Credit program

Minnesota's Angel Tax Credit provides a 25-percent credit to investors or investment funds that put money into startup companies focused on high technology or new proprietary technology. The maximum credit is $125,000 per person, per year ($250,000 if filing jointly). The credit is refundable and non-Minnesota residents (including residents of foreign countries) are eligible.

Commercial Property Assessed Clean Energy (C-PACE) – Minn. Stat. 216C.435 & 216C.436

Two PACE programs exist in Minnesota. Descriptions are below:

1. PACE for Minnesota

The St. Paul Port Authority ("SPPA"), acting through authority delegated by the City of St. Paul, has established the "PACE for Minnesota" Program. This program has provides commercial and industrial businesses, or non-profit organizations access to low-cost capital to invest in energy efficient equipment, building systems, or renewable energy systems.

Unique to the PACE financing model, is that it enables Minnesota businesses and non-profit access to capital through a special assessment against the property for up to 20 years, not the business owner. The business owner uses the energy savings/production gained from the energy efficiency and/or renewable energy systems to fund the special assessment repayments. The benefits to the owners are that the project can be 100% financed, and allows assessments to be transferred to the new owner in the event a business is sold.

The PACE for Minnesota Program requires that local units of government access the program via a Joint Powers Agreement with the SPPA. In turn, the SPPA is responsible for all program administration, application intake/approval, and bond issuance. Once a project has been approved by the SPPA, the local unit of government will record the special assessment against a property, accept and process semi-annual assessment repayments, followed by transferring the fund to the SPPA. Currently, the SPPA has the authority to issue up to $10,000,000 in bond taxable special assessment revenue bonds.

2. Southwest Regional Development Commission – Property Assessed Clean Energy (PACE) Program

The Southwest Regional Development Commission ("SWRDC") deployed the State's first regional Property Assessed Clean Energy ("PACE") Program in April 2014. The SWRDC will serve as the program administrator within the Minnesota Rural Energy Board ("MREB") eighteen county service area in the southwest Minnesota. The goal of the rural PACE Program is to offer commercial and industrial businesses access to capital for investments in energy efficiency building improvements that are assessed against the property, rather than the business owner.

The SWRDC will be responsible for all aspects of program administration, including application intake/approval, bond issuance and repayment administration. Through the program, commercial and industrial business owners will be able to assess the cost of the energy efficiency projects against the property via a special assessment. In turn, the SWRDC will collect semi-annual repayments from the property owner using their property tax statements, on a term up to 20 years.

Energy Efficiency for Existing 501 (c)(3)s

The Center for the Energy and Environment administers the CEE Energy Efficiency for Existing 501 (c)(3) Program. This program offers low-interest loans (up to 4 %) at up to a 7 year term to existing non-profit entities seeking to invest in cost-effective energy efficient building improvements.

Energy Savings Partnership

The St. Paul Port Authority leveraged $20,000,000 in private capital to offer low-interest lease purchase agreement financing to local units of government and/or school districts seeking to install cost-effective energy efficient building improvements with a $2,000,000 loan loss reserve fund established with the Minnesota Department of Commerce.

Iron Range Resources and Rehabilitation Board Business Energy Retrofit Program

The Business Energy Retrofit Program (BER) is designed to educate and help assist businesses with energy efficient decisions and aid in financing the energy retrofit project. The BER Program will support and provide the business up to $20,000 in eligible retrofit expenses or 1/3 of the total project up to $60,000. A non-refundable $500.00 application deposit will be required to participate in this program.

Green Loans for Business

The Green Loans for Business Program is administered by the Community Reinvestment Fund and offers low-interest (4 %) loans ranging from $50,000 up to $300,000 to commercial, industrial or non-profit entities within the State of Minnesota seeking to invest in cost-effective energy efficient building improvements.

Guaranteed Energy Savings Program (GESP)

This program promotes awareness and implementation of energy efficient and renewable energy measures in public facilities by state and local governments, school districts, and institutions of higher learning that result in millions of dollars in annual energy savings while creating jobs, reducing energy consumption, improving facility infrastructure and reducing carbon emissions. This program can: 1) Develop and administer Master Contract for Energy Savings Performance Contracting Services for use by public entities; 2)Pre-qualify Energy Service Companies (ESCO) for participation in GESP and 3) Provide technical, contractual and financial assistance to public entities seeking to leverage the State's GESP Master Contract to implement energy efficiency and renewable energy projects.

Minnesota Investment Fund

Provides financing to help add new workers and retain high-quality jobs on a statewide basis. The focus is on industrial, manufacturing, and technology-related industries to increase the local and state tax base and improve economic vitality statewide. Funds are awarded to local units of government who provide loans to assist expanding businesses. Cities, counties, townships and recognized Indian tribal governments are eligible for this fund.

Projects must meet minimum criteria for private investment, number of jobs created or retained, and wages paid. There is a maximum of $500,000 per project. Only one award per state fiscal year may be provided to a government unit. At least 50 percent of total project costs must be privately financed through owner equity and other lending sources. Terms are for a maximum of 20 years for real estate and a maximum of 10 years for machinery and equipment. Interest rates are negotiated.

Minnesota Housing Finance Agency – Expanded *Fix It Up* Program

MHFA partnered with Commerce to launch an expanded Fix It Up program May 1, 2014. The program encourages investment in energy efficiency within the residential home improvement market. Commerce provided a Loan Loss Reserve fund which allows MHFA to expand access to eligible borrowers and to increase the amount of the program to $10 million in new residential home energy loans.

Minnesota Job Creation Fund

The Job Creation Fund provides financial incentives to new and expanding businesses that meet certain job creation and capital investment targets. Companies deemed eligible to participate may receive up to $1 million for creating or retaining high-paying jobs and for constructing or renovating facilities or making other property improvements. In some cases, companies may receive awards of up to $2 million.

Minnesota Statewide Wood Energy Team

Funds available in 2015 to provide financial assistance to successful applicants on the cost of a final design or final engineering study for a high efficiency wood energy system. Eligible applicants include nonprofit, private, tribe, public entity, trade, business or rental property located in MN that does not have access to natural gas; and has a demonstrated thermal energy need of 1-5mmBTU; and has the potential to use a commercially proven biomass technology sourced in part from forest resources; and can provide a cash match of 25% of the total cost of the awarded study. Cost of the awarded feasibility/engineering study not to exceed $25,000.

NextGen Energy Board Bioenergy and Biochemical Grant Program

NextGen Board's role is to recommend how the state can invest its resources to most efficiently achieve energy independence, agricultural and natural resources sustainability, and rural economic vitality. The Minnesota Department of Agriculture releases an annual request for proposals subject to funding availability.

$2.37 million in funding has been allocated for the 2014 round of funding. Although the first round of project selection is complete for 2014, MDA cites that in addition to the $1.7 million already granted, an additional $577,000 has been set aside for a separate request for biomass thermal projects that will target overall project sizes of $200,000 to $300,000.

Qualified Energy Conservation Bonds (QECBS)

QECBs may only be issued for qualified conservation purposes as defined in section 54D of the U.S. Internal Revenue Code. "Qualified conservation purposes" include capital expenditures:

1. To reduce energy consumption in publicly owned buildings by at least 20%

2. To implement green community programs (including the use of grants, loans, or other repayment mechanisms to implement such programs)3
3. For rural development (including the production of renewable energy)
4. For certain renewable energy facilities (such as wind, solar, and biomass)4
5. For certain mass commuting projects

Issuers can choose to issue taxable bonds with a corresponding tax credit to the holders of the bonds or (as is more commonly done) elect to receive a direct cash payment from Treasury in lieu of the allowance of the tax credit to the holders. Tax credit bonds, unlike direct pay bonds, do not (as of April 2013) appear to be subject to sequestration cuts. In the more popular direct-pay QECB, the issuer pays a taxable coupon to the investor and repays principal at the end of the term. Treasury pays the issuer the lesser of the taxable coupon rate or 70% of the tax credit rate.

Research and Development Tax Credit

Minnesota's new-and-improved research and development tax credit doubles the size of the credit and also expands the credit to include more business entities. The tax credit for R&D expenditures is 10 percent, up to the first $2 million in eligible expenses. The credit is 2.5 percent for eligible expenses above $2 million. Individuals involved in partnerships, S-corporations and limited liability companies are allowed to claim the credit against their individual income taxes. This opens up the tax credit to more small and medium-sized businesses.

Small Business Development Loan Program -- Minn. Stat. § 41A.02

Small business loans up to $5 million are made by the Minnesota Agricultural and Economic Development Board (MAEDB) through the issuance of industrial development bonds. Manufacturing and industrial companies located or intending to locate in Minnesota and meet the federal definition of a small business (generally those with 500 or fewer employees) are eligible. Loans up to a maximum of $5 million may be made for any one business. Generally, 20 percent of the project costs must be privately financed through equity or other sources.

Interest rate is the market rate of interest for similar securities at the time bonds are sold; rates are fixed for the term of the loan. Real estate loans are for a maximum of 20 years; equipment is 10 years. Collateral requirements include the first mortgage on real property or equipment financed by MAEDB and personal guarantees of owners.

Trillion BTU Program

The St. Paul Port Authority administers the Trillion Btu Program within the Xcel Energy Service Territory in Minnesota. This program offers low-interest (4 – 6%) loans up to $1,000,000 to commercial, industrial and non-profit entities seeking to invest in cost-effective energy efficient improvements. The term of the loans offered may range from 6 months to 5 years. Loans issued under the program can be matched with other funds, grants, and rebates issued through Xcel Energy.

USDA – Energy Efficiency and Conservation Loan Program

An emerging program is the Energy Efficiency and Conservation Loan Program through the Rural Utilities Service of the USDA. Through this program, USDA plans to provide rural electric cooperatives up to $250 million to lend to business and residential customers for energy efficiency improvements and renewable energy systems.

The benefit to providing funding to rural electric cooperatives and utilities is that a majority of them already have energy efficiency programs in place. This funding expansion will provide funding for addition energy audits, loans for upgrades to heating, lighting and insulation, and conversions to more efficient or renewable energy sources. This program is designed to meet the unique needs of consumers and businesses to encourage energy efficiency retrofitting projects across rural America.

USDA – Rural Energy for America Program (REAP)

This program provides financial assistance to agricultural producers and rural small businesses to purchase, install, and construct renewable energy systems; make energy efficiency improvements; use renewable technologies that reduce energy consumption; and participate in energy audits, renewable energy development assistance, and feasibility studies.

USDA - Rural Energy for America Program (REAP) - Energy Audit and Renewable Energy Development Assistance Grant Program

The REAP **Energy Audit and Renewable Energy Development Assistance Grant** provides grant assistance to entities that will assist agriculture producers and small rural businesses by conducting energy audits and providing information on renewable energy development assistance. Eligible entities include: State, tribal, local government or their instrumentalities, land grant colleges, universities and other institutions of higher learning, rural electric cooperatives and public power. The maximum amount for an energy audit-renewable energy development assistance grant is $100,000.

USDA – Rural Development - Community Facilities Direct and Guaranteed Loans

Community Programs can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 20,000 in population. Loans and guarantees are available to public entities such as municipalities, counties, and special-purpose districts, as well as to non-profit corporations and tribal governments.

Community Programs can guarantee loans made and serviced by lenders such as banks, savings and loans, mortgage companies which are part of bank holding companies, banks of the Farm Credit System, or insurance companies regulated by the National Association of Insurance Commissioners. Community Programs may guarantee up to 90% of any loss of interest or principal on the loan. Community Programs can also make direct loans to applicants who are unable to obtain commercial credit.

USDA – Rural Development – Rural Economic Development Loan and Grant Program (REDLG)

The REDLG program provides funding to rural projects through local utility organizations. Under the REDLoan program, USDA provides zero interest loans to local utilities which they, in turn, pass through to local businesses (ultimate recipients) for projects that will create and retain employment in rural areas. The ultimate recipients repay the lending utility directly. The utility is responsible for repayment to the Agency. Under the REDGrant program, USDA provides grant funds to local utility organizations which use the funding to establish revolving loan funds. Loans are made from the revolving loan fund to projects that will create or retain rural jobs. When the revolving loan fund is terminated, the grant is repaid to the Agency.