MnCIFA Investment Strategy (Draft)

Please refer to the MN Climate Action Framework Glossary for definitions.

Most sections of the investment strategy are based on statutory requirements. For reference, these sections have the **statutory language** below the heading, in *[brackets and italics]*. To see the complete language, please see Sec. 216C.441 MN Statutes. Most of the language relevant to the investment strategy is in Subdivision 8.

Introduction

The purpose of this investment strategy is to ensure that the Minnesota Climate Innovation Finance Authority's (MnCIFA's) paramount goal to reduce greenhouse gas emissions is reflected in all of its operations. MnCIFA shall maintain flexibility in the deployment of resources that will deliver benefits to Minnesota.

The investment strategy was developed in consultation with similar organizations in other states, lending authorities, state agencies, utilities, environmental and energy policy nonprofits, labor organizations, and other organizations with relevant advice on MnCIFA's activities.

MnCIFA's investment strategy reflects its vision and mission.

Vision

MnCIFA ensures all Minnesotans share the individual and economic benefits of clean and renewable energy, particularly in low-income communities, environmental justice communities, and communities in which fossil fuel electric generating plants are retiring. MnCIFA's investments:

- Reduce the economic burden of energy costs.
- Maintain energy reliability.
- Accelerate deployment of clean energy projects.
- Create more local clean energy jobs.
- Increase Minnesotans' ownership of and contribution to the clean energy system.
- Support the achievement of statewide greenhouse gas reduction targets.

Mission

MnCIFA works to remove financial barriers to, and creates financial tools for, the adoption of qualified clean energy and greenhouse gas emissions reduction projects. MnCIFA creates and fosters communication between potential investing entities and qualified projects while being sensitive to issues of equity.

Qualified projects

*[**Statutory language**: The types of qualified projects the authority should focus on]*

To comply with the statute, MnCIFA's targets and strategies will be designed to ensure no less than 40 percent of the dollars invested flow to environmental justice communities (EJC) as defined under subdivision 2 and reprinted in the Terminology section in this plan, by the United States Department of Energy, or as modified by the department.

According to statute, a qualified project means a project, technology, product, service, or measure promoting energy efficiency, clean energy, electrification, or water conservation and quality that does one or more of the following:

- Substantially reduces greenhouse gas emissions.
- Reduces energy use without diminishing the level of service.
- Increases the deployment of renewable energy projects, energy storage systems, district heating, smart grid technologies, or microgrid systems.
- Replaces existing fossil-fuel-based technology with an end-use electric technology.
- Supports the development and deployment of electric vehicle charging stations and associated infrastructure, electric buses, and electric fleet vehicles.
- Reduces water use or protects, restores, or preserves the quality of surface waters.
- Incentivizes customers to shift demand in response to changes in the price of electricity or when system reliability is not jeopardized.

Also according to statute, the authority must give preference to projects that:

- Maximize the creation of high-quality employment and apprenticeship opportunities for local workers, consistent with the public interest, especially workers from environmental justice communities, labor organizations, and Minnesota communities hosting retired or retiring electric generation facilities, including workers previously employed at retiring facilities.
- Utilize energy technologies produced domestically that received an advanced manufacturing tax credit under section 45X of the Internal Revenue Code, as allowed under the federal Inflation Reduction Act of 2022, Public Law 117-169.
- Certify, for all contractors and subcontractors, that the rights of workers to organize and unionize are recognized.
- Agree to implement a project labor agreement.

Statute also requires that loans to a single entity must be $250,000 or more. Funding for projects of less than $250,000 would be supported through intermediaries.

Priority consideration will be given to projects that will have demonstrable impact for the communities served by the project, particularly environmental justice communities. Examples of impact may include, but are not limited to:

- Addressing energy burden
- Keeping project benefits in the community
- Providing a community education component or resource
- Not raising residents' energy bills

- Improving community members’ comfort, health, and safety
- Ensuring action (e.g., material abatement) is implemented within individuals’ residences
- Causing job retention
- Encouraging economic growth for the locality

Priority consideration will also be given to projects or programs with unique circumstances or important characteristics, for example (but not limited to):

- Lack of access to or difficulty qualifying for traditional sources of funding
- Urgency
- Cost-effectiveness
- Alignment with the State of Minnesota’s climate goals
- A plan to measure environmentally beneficial outcomes
- Agency or entity that will fund smaller projects from the minimum MnCIFA loan of $250,000
- Agency or entity that will provide technical assistance to potential project developers
- Advancing the industry (e.g., geothermal, biomass, agriculture innovations, ground source water protection such as water treatment or methane digesters) or deploying innovative clean technologies.

The items in both lists above do not represent an exhaustive list, nor are they required for priority consideration. They are not intended as a checklist of requirements. Characteristics leading to priority consideration are expected to evolve.

Financing and risk management

*[**Statutory language**: gaps in current qualified project financing that present the greatest opportunities for successful action by the authority.]*

*[**Statutory language**: How the authority can best position itself to maximize its impact without displacing, subsidizing, or assuming risk that should be shared with financing entities]*

*[**Statutory language**: Financing tools that will be most effective in achieving the authority’s goals]*

MnCIFA will work to position itself to maximize impact by filling gaps in current financing opportunities, without assuming undue risk. MnCIFA will assume appropriate risks as needed in order to mitigate risks for others and make new and innovative projects replicable.

MnCIFA should focus on where gaps exist in financing opportunities. It may expand its definition of gaps based on market changes or new information. MnCIFA should focus on financing projects that are less likely to happen without MnCIFA.

MnCIFA will work to remove barriers to investments by traditional financial institutions. One example is educating institutions to address their hesitation to invest, which may occur because of knowledge gaps such as:

- Evaluating risk for unfamiliar project types
- Handling a lack of strong credit history
- Handling loan start date and duration flexibility
- Documentation needs for regulatory scrutiny

MnCIFA will work to help coordinate and leverage different private and public financings, grants, tax incentives, and additional credit instruments to help build a project's capital stack and maximize impact. Allowable financing options will be considered based on target markets established in the strategic plan.

MnCIFA may expand its definition of gaps based on market changes or new information.

Lending policies will be developed, including loan risk rating processes, loan loss reserves guidelines, and relevant regulatory requirements. Policies will be approved by the board. MnCIFA staff will determine rates for individual projects, with guidance from these policies as well as the MnCIFA board. Each project will require board approval.

MnCIFA will fund projects using different types of financial tools with various levels of financial risk and repayment terms.

MnCIFA will take care not to unnecessarily duplicate federal guarantee programs.

As required by statute, private financing entities will not unilaterally control the terms of any investments to which MnCIFA is a part. In addition, MnCIFA investments will not be made solely to reduce private risk.

Partnerships

*[**Statutory language**: Partnerships the authority should establish with other organizations to increase the likelihood of success]*

MnCIFA has consulted with lending authorities, state agencies, utilities, environmental and energy policy nonprofits, labor organizations, philanthropic organizations, contractors, and other organizations that can provide valuable advice on its activities.

MnCIFA may establish partnerships as appropriate, for example, with mission-aligned lenders, community organizations, and others.

MnCIFA will work with local organizations to consider and act on community-specific needs, including working to ensure racially disaggregated data is available.

Partners may also include agencies such as non-profits, community banks, credit unions, and CDFIs who can lend in smaller amounts than MnCIFA's minimum loan to single entities.

Equity, environmental justice, and geographic balance

*[**Statutory language**: How values of equity, environmental justice, and geographic balance can be integrated into all investment operations of the authority]*

MnCIFA will consider equity, environmental justice, and geographic balance in deciding what projects to support. MnCIFA will determine if each proposed project benefits an environmental justice community. MnCIFA will consider the extent to which a proposed project serves the needs of the community it is designed to benefit.

When analyzing data, MnCIFA will work to disaggregate racial and other demographic data (e.g., beyond general "black, indigenous, people of color" communities), within the limitations of available data, to identify which specific communities are being served.

Some projects may be costly to implement or may not meet rigorous greenhouse gas reduction outcomes but benefit the community in other ways.

Examples include:

- Aiding areas with lack of industry or retail businesses, to enable those communities to attract these
- Aiding recovery from contamination caused by fossil fuels
- Ensuring geographic balance is viewed across urban and rural areas
- Reducing existing pollution from fossil fuel use in the community
- Expanding access to clean technologies

Measuring impact

MnCIFA will measure the impact of this investment strategy on the authority's actions. Based on this impact, the authority will consider whether the investment strategy is providing the guidance necessary for investment decisions, or if it should be revised.

At a minimum, the impact will be reviewed prior to the end of calendar year 2025. Investment strategy revisions will be considered based on the review. After the initial review, MnCIFA will consider reviewing impact and revising the investment strategy more frequently than the four-year cycle required by statute.

MnCIFA will also measure the impact of individual projects.

Commonly used methods will be used to measure impact in order to minimize additional tracking and reporting burden. These may include common metrics found in benchmarking programs or other federal and state financing programs, also allowing for outcomes based on community knowledge or experience. As noted in the preceding section, impact includes community benefits as well as traditional climate reduction outcomes.

MnCIFA will also determine whether to use metrics based on modeled/designed impact versus requiring actual post-financing performance tracking such as greenhouse gas emissions reduction.

MnCIFA will also consider what qualitative metrics can be used to demonstrate impact. Appropriate metrics are expected to vary widely depending on the project.

MnCIFA will look to the annual targets established in the strategic plan.

Conclusion

This investment strategy, in conjunction with the strategic plan, will help MnCIFA fulfill its vision and mission while allowing space to adapt to evolving market gaps and community needs.