Meeting Minutes: Minnesota Climate Innovation Finance Authority Board of Directors

Date: 08/21/2024
Minutes prepared by: Parisa Rostamkhani
Location: Minnesota Pollution Control Agency – Conference Room 100 / Hybrid

Attendance:

- The meeting began at approximately 9:30am
- Present: Kumar, Haagenson, Kohlasch, Nelmark, Teiken, Warmuth, Wyckoff,
- McKinnon arrived at 9:40am, Mills arrived at 9:50am, Fowler arrived at 9:40am, Perushek arrived at 10:00am

Absent: Benjamin

Approval of Agenda:

- Motion: Haagenson, Second: Wyckoff
- Unanimous approval – roll call vote.

Approval of Minutes from the July 17th, 2024 Board Meeting:

- Nelmark made note of a change in minutes. Haagenson amended her motion to approve the minutes to include an additional comment at the end of page one, in the "values (3-5)" paragraph.
- Amended Motion: Haagenson, Second: Teiken
- Unanimous approval - roll call vote.

Management Analysis and Development (MAD):

- Stephanie Klein went over the Investment strategy timeline and high-level outline.
- Nicholas Kor walked through the MnCIFA Engagement Process. The engagement materials were discussed, and the engagement tracker was reviewed. Noted that any communication made about MnCIFA should be tracked on the engagement tracker.
- Engagement efforts that have been established so far:
    - Website
    - Newsletters
    - Public Quarterly meetings
    - Public board meetings
    - Public committee meetings
    - Staff engagement efforts
- Feedback was requested on Quarterly Public meeting in June, and discussion was made when the next Quarterly Public meeting will be.

Avenues for Youth Loan:

- Peter Klein went over the credit memo for the Avenues for Youth project.
- No action was requested at this board meeting.

Executive Director's Report

- Peter Klein went over the preliminary June 30th, 2024, financial statement.
- Executive Director position will be posted after the meeting.
- Discussion was made on the interview process, as well as the salary for the Executive Director job position.
- EPA announced that CGC was officially the direct award recipient of $5B. Since then, a due diligence document was received from CGC, with expectation to be sent off today for review.

Open Discussion/Other Items:

- Discussion was made on a board meeting retreat, and possible outcomes of one.
- Introduced the new Senior Project Consultant for MnCIFA; Timothy Nolan
- There is still no draft contract between CGC and MnCIFA, hoping to have it soon.

Motion to Adjourn:

- Motion: Teiken, Second: Haagenson
- Unanimous approval – roll call vote
- Meeting ended approximately 11:13am

CLIMATE INNOVATION FINANCE AUTHORITY

Credit Memo

Date: **September 13, 2024**

To: MnCIFA Board – Meeting Date September 18, 2024

From: Peter Klein

RE: Avenues For Youth - $4,500,000 Financing Request

Action Requested:

Approval of a $4,500,000 loan to Avenues For Youth, a not-for-profit entity, for the purchase and installation of a geothermal renewable energy system and associated HVAC components at its proposed facility located at 1400 N 8th Avenue, Minneapolis.

Background:

Avenues For Youth (Avenues) began in 1993 and currently assists youth, ages 16 – 24, that are experiencing homelessness. This can come in the form of a need for one night or for up to 18 months of transitional housing. Avenues provides additional services relating to skills, well-being, and connections. In 2023, Avenues assisted 284 youth experiencing homelessness. Avenues leases its current facility at 1708 Oak Park Avenue from the City of Minneapolis Public Housing.

Avenues is proposing to build a 31-unit shelter and transitional housing complex at 1400 N 8th Avenue in Minneapolis. 20 units will be for shorter term shelter, 3 units for emergency shelter and 8 units designated as “First Steps” transitional housing. The facility will also serve as the headquarters of the organization. The construction costs of the 37,000 square foot facility are expected to be around $22,500,000.

MnCIFA has been requested to fund a geothermal system and the associated HVAC components. The estimated cost for this system is $4,500,000. This funding would come from current funds provided by the Legislature. Once we receive the $25,000,000 of expected funding from the Inflation Reduction Act (IRA) through the Coalition for Green Capital (CGC), $2,225,000 will reimburse MnCIFA for half of the financed amount. The intent of the remaining MnCIFA portion of this financing ($2,250,000) is for it to be a bridge loan, and for it to be repaid once the investment tax credit (ITC) has been received or other funding sources are secured.

Although MnCIFA has not established its Strategic Plan and Investment Strategy, I believe that this financing is what those documents will call on us to fund. Until those documents have been finalized, MnCIFA is limited to deploying $11,250,000 of the $45,000,000 provided by the Legislature. The Heights is the only other project that we have funded ($4,700,000), so this will bring the total deployed funding for loans to $9,200,000.

The Credit Committee approved this financing at its August 2024 meeting. Between the Credit Committee meeting and the August Board meeting, Minnesota Management and Budget (MMB) contacted me regarding the priority positions of their $6,000,000 DEED grant and our collateral position. MMB feels that the document that they will file will require their grant to be paid back first upon any sale of the property. If that is the case, our position could be subordinate to their position. We would still have a very secure position at just under 50% of the development cost ($10,500,000 / $22,500,000).

Proposed Project:

The loan funds will be used to purchase and install a geothermal renewable energy system and the related HVAC components. The overall construction project sources and uses is outlined below:

Sources of Funds:		Uses of Funds:	
• State of Minnesota - OEO	$ 5,000,000	General Construction	$17,000,000
• State of Minnesota - DEED	6,000,000	Geothermal / HVAC	4,500,000
• Hennepin County	300,000	Acquisition	1,000,000
• HUD Federal Earmark	3,000,000		
• Other Grants / Donations	3,700,000		
• MnCIFA - Legislation	4,500,000		
• Total	$22,500,000	Total	$22,500,000

Financial Analysis:

The preliminary financial statements, for the fiscal year end of June 30, 2024, show that Avenues was profitable and that it had no outstanding debt other than long-term leases. Its net equity is in excess of $6MM.

- Debt-to-Equity N/A (There is no debt with $6.4MM of equity)
- Debt Coverage Ratio N/A (There is no debt with $6.4MM of equity)

Avenues has provided a ten-year projected income statement pro forma which indicates sufficient cash flow to cover the debt service of this loan. For 2026, the year that full operations of the new facility will begin, the following ratios are projected:

- Debt-to-Equity .15
- Debt Coverage Ratio 2.51

Collateral:

MnCIFA will hold a lien on the property, either in the form of a first mortgage and/or as a Property Assessed Clean Energy (PACE) special assessment. The mortgage or PACE assessment position may be subordinate to the $6,000,000 provided by the Legislature through DEED.

Risk:

ITC Risk:

- The current ITC rules would indicate that the geothermal project is eligible for at least a 40% tax credit, and it could be as high as 70%. There is the political risk of a significant change in the makeup of the federal branches of government. It is hard to judge just how significant of a change would need to occur for the ITC rules to be altered, but I do not expect detrimental changes to the ITC rules through the 2026 timeframe that we should be repaid in.

Loan Terms:

The following are the proposed terms of the financing:

- Five-year term with a 10-year amortization, payments deferred for one year with interest accruing January 1, 2025.
    - The interest rate will be set at the 10-year Treasury Bill rate one week before to the closing date plus any associated PACE fees.
    - Interest will start to accrue on January 1, 2025. The accrued interest for 2025 will be added to the principal amount.
- Monthly interest and principal payments, with a 10-year amortization, will begin on 1/1/26 except for any portion of the financing covered with a PACE assessment. Those payments would begin on May 15, 2026.
    - The loan documents will require Avenues to remit all funding received through the direct payment of the ITC within 30 days of its receipt.

Workforce:

- Prevailing wages will need to be paid and reported.
- Approximately 100 FTEs construction jobs.
- 28 FTEs retained and 8 new FTEs created at the Avenues.

Energy Savings:

- 1,739,000,000 Btus annually

Recommendation:

- It is recommended that the Board of MnCIFA authorize the execution of loan documents for a loan not to exceed $4,500,000 and to authorize the transfer of funds if all covenants are met.