

# ADVANCING SMALL BUSINESS SOLAR EQUITY

# APPENDIX E: FINANCING

# OPTIONS BRIEF

LAKE STREET–WEST BROADWAY–UNIVERSITY AVENUE  
MINNEAPOLIS AND SAINT PAUL, MINNESOTA



Photo by Brandon Stengel for BWBR Architects, Inc ([www.bwbr.com](http://www.bwbr.com))

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## **Appendix E: Financing Options Brief**

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#### **About this document**

This document is an appendix of “Advancing Small Business Solar Equity: Final Technical Insights Report” (Kazinka et al. 2024), a report published by Lake Street Council and its partners as an outcome of their participation in the Solar Energy Innovation Network. The full report and other appendices can be found at [www.visitlakestreet.com/business-blog/sein-report](http://www.visitlakestreet.com/business-blog/sein-report).

#### **About the Solar Energy Innovation Network**

The Solar Energy Innovation Network (SEIN) seeks to overcome barriers to solar adoption by connecting teams of stakeholders who are pioneering new ideas with the resources they need to succeed. SEIN is funded by the US Department of Energy Solar Energy Technologies Office and is led by the National Renewable Energy Laboratory.

Teams that participate in SEIN receive direct funding and analytical support from the US Department of Energy national laboratories and participate in peer-to-peer learning with other teams tackling similar challenges. These teams are developing and documenting their solutions for solar adoption with scale in mind so that others can adapt those solutions to their own contexts. Ultimately, the true impact of these teams’ efforts will be to enable a wide array of communities to adopt solar solutions that meet their needs in their contexts.

#### **Disclaimer**

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#### **Overview**

The “Financing Options Brief” summarizes loans and financing mechanisms available to small businesses in the corridors. They are most suitable for small business owners seeking direct pay options for rooftop solar installations. The financing options provide a variety of scales and terms that may be applicable based on the size and cost of the solar array, business circumstance, project timeline, and expectations for return on investment.

The brief provides descriptions of each financing offering and the organization offering it. The information is summarized from the institution’s website and from interviews conducted by the Advancing Small Business Solar Equity project. This information is provided as a high-level summary only—complete and updated information should be obtained from the organization offering the loan.

Several barriers to access to capital were examined. First, conflict with Islamic religious beliefs prohibiting the payment of interest. A number of the finance institutions interviewed have experience with Murabaha transactions, which are cost-plus-profit purchases in lieu of interest payments in accordance with Islamic law. The bankability of a small business is another consideration of note. Conventional loans require high credit scores and business history to underwrite small business loans. Community development finance institutions (CDFIs) have greater flexibility with lending and, in many cases, established relationships with business owners.

Several CDFIs serving the corridors have expressed interest in developing a loan product specifically geared toward energy efficiency and renewable energy-related projects. The commercial loan program from the Center for Energy and the Environment (CEE), although currently inactive, is included below in Table E-1 as a model for informational purposes. It is one of the few options noted that specifically served businesses that lease their space.

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Table E-1: A summary of geographic eligibility, financing types, and finance parameters for programs serving small businesses in Minneapolis and Saint Paul, Minnesota.

	Metropolitan Consortium of Community Developers (MCCD); standard loan offering	Neighborhood Development Center (NDC); standard loan offering	Saint Paul Port Authority (SPPA); Commercial property assessed clean energy (C-PACE)	Center for Energy and the Environment (CEE); Commercial solar financing program	City of Minneapolis; 2% loan	City of Saint Paul; Neighborhood Sales Tax Revitalization (STAR) program
<b>Geographic eligibility</b>						
Lake Street	X	X	X	X	X	
West Broadway Ave.	X	X	X	X	X	
University-Midway	X	X	X	X		X
<b>Financing types</b>						
Loan	X	X		X	X	X
Property assessment			X			
<b>Financing parameters</b>						
Interest rate	5-7%	5-7.25%	5%	2-4%	2%	3%
Term length	10 years	5-20 years	10 years	5-10 years	5-10 years	8 years
Secured (requires collateral)	X	X		If >\$50,000	X	X
Match requirement					X	If >\$50,000
Per-project funding limit		<\$250,000	\$20,000-\$1,000,000	<\$100,000	<\$50,000 or <\$75,000	
Credit check required	X	X	X	X	X	X
Designed specifically for solar			X	X		
Able to structure with fees instead of interest				X		X
Special focus on low-income entrepreneurs	X	X			X	X

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#### Metropolitan Consortium of Community Developers

The information provided is summarized from the [Metropolitan Consortium of Community Developers website](#) (accessed May 2023) and from an interview with the Metropolitan Consortium of Community Developers (February 2023).

**Description:** The loan offering described below is the standard small business loan offering of the Metropolitan Consortium of Community Developers (MCCD). In the future, MCCD may choose to create or tweak its loan product to target the needs of solar projects more specifically.

**Originator type:** Community development finance institution (CDFI).

**Loan type:** Secured—usually done in partnership with a bank or credit union, which will require some type of collateral. MCCD is usually subordinate to the loan and last in line for the collateral.

**Loan rate/term:** The target rate is 5 percent. The standard is 7 percent, but it is common to use funds when possible to buy down rates for key target businesses. Usually, a 10-year term with no early repayment penalty.

**Funding source:** A mix of traditional lending dollars sourced from banks making Community Reinvestment Fund investments and philanthropic funds that can be lent at lower interest rates.

**Geography:** Seven-county metropolitan area, with a targeted focus on corridors, such as Lake Street, that have higher concentrations of Black, Indigenous, and people of color (BIPOC) and low-income entrepreneurs.

**Eligibility:** Located within the eligible area.

**Limitations:** MCCD has not specifically made loans for solar energy in the past, so the process may need to be tweaked to be optimized for solar.

**Website:** <https://mccdmn.org/business-loan>.

#### About

MCCD is an association of nonprofit community development organizations committed to expanding the wealth and resources of neighborhoods through housing and economic development initiatives. For close to 30 years, MCCD members have worked together to increase opportunities for the development of quality, community-based projects through collaborative action on public policy issues, loan fund development, public education efforts, and long-term strategic planning. Through these efforts, the organization has demonstrated the effectiveness and efficiencies gained by a shared vision of cooperation.

MCCD provides capital to entrepreneurs who face challenges in accessing the commercial banking system, with a focus on BIPOC communities, women, low-wealth individuals, and geographic areas of underinvestment. They offer a variety of loan programs depending on the size and need of the business, including microloans for start-ups, commercial real estate gap and acquisition financing, and others. In addition to financial resources, borrowers receive one-on-one technical assistance. Between 2013 and May 2020, MCCD provided 509 small business loans, deploying \$16.5 million in funds and leveraging \$118 million in additional capital.

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#### Neighborhood Development Center

The information provided is summarized from the [Neighborhood Development Center website](#) (accessed May 2023) and from an interview with Neighborhood Development Center (February 2023).

**Description:** The loan offering described below is the standard loan offering from the Neighborhood Development Center (NDC) for existing small businesses. NDC has expressed interest in adapting or creating a loan product to specifically target the needs of energy efficiency and solar projects in the future.

**Originator type:** CDFI.

**Loan type:** Secured—NDC takes a lien on business assets and requires a personal guarantee.

**Loan rate/term:** The standard term for most loans is five years, but in some instances, the term will extend to 10-20 years to allow a lower payment amount.

**Funding source:** NDC has two sources of funds:

1. Resource funds that come from a larger lender (such as a bank complying with the Community Reinvestment Act or the US Small Business Administration) at a low interest rate. These funds must be repaid to the original lender.
2. Non-recourse funds that are received from foundations and other large donors. NDC can be more flexible with the uses and terms of these funds and often uses them to reduce the interest rate on important projects or to underwrite riskier loans.

**Geography:** NDC works throughout the Twin Cities metropolitan area and, in certain cases, elsewhere in Minnesota. However, they lend mainly in 10 low-income neighborhoods in Minneapolis, Saint Paul, Brooklyn Park, and Brooklyn Center, where 80 percent of their services are focused.

**Eligibility:** Eligibility based on geography.

**Limitations:** Loans will rarely go above \$250,000, although NDC has made larger loans in a few circumstances. Usually, larger loans require the participation of another lender.

**Website:** <https://www.ndc-mn.org/business-loans>.

#### About

NDC is a nonprofit community economic development organization that supports small businesses from start-up to expansion. For 30 years, NDC has served the needs of low-income, BIPOC entrepreneurs in key Twin Cities communities. They offer extensive training and individualized support for businesses at launch and through many stages of growth, including at several business incubators started and operated by NDC, such as the Midtown Global Market on Lake Street.

As a CDFI, NDC offers microloans, small business loans, real estate loans, and more. They have provided over 950 loans, constituting more than \$26 million in funding, with an average loan size of \$30,000.

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#### Saint Paul Port Authority, commercial property assessed clean energy

The information provided is summarized from the [MinnPACE website](#) (accessed May 2023), the [Clean Energy Resource Teams property assessed clean energy website](#) (accessed May 2023), and from an interview with Saint Paul Port Authority (February 2023).

**Description:** Commercial property assessed clean energy (C-PACE) is a financing mechanism that allows energy efficiency and renewable energy improvement project loans to be repaid through a special tax assessment tied to a building's property tax bill. Unlike a traditional loan, which remains the obligation of the borrower, the C-PACE assessment stays with the property. Saint Paul Port Authority administers the program and a revolving fund of capital granted from the American Recovery and Reinvestment Act (ARRA) and the Minnesota State Legislature. PACE may also utilize private capital. PACE has financed hundreds of projects under \$250,000, some as small as \$20,000, as well as projects in excess of \$20 million. C-PACE is typically considered a Muslim-friendly finance mechanism since the repayment is considered a tax assessment and not interest.

**Originator type:** Property assessment.

**Loan type:** C-PACE financing typically requires three years of financial records. When utilizing ARRA funds, property owners need to demonstrate they have adequate cash flow to service the debt. Private sector lending typically requires underwriting.

**Loan rate/term:** For a C-PACE project using ARRA funds, the interest rate is set currently (as of May 2023) at 5 percent for a 10-year fixed loan term. Projects are generally limited to projects less than \$1 million and cannot be accelerated. C-PACE projects that use non-ARRA funds may have variable rates and terms. The State of Minnesota limits PACE terms from going beyond 20 years. The first payment is always due May 15 of the following year, which allows the borrower time to complete the project and capture available rebates and tax credits.

**Funding source:** PACE is a financing mechanism to help renewable energy projects leverage private sector capital. The Saint Paul Port Authority utilizes a revolving fund originally granted by the Minnesota Legislature from ARRA to disburse loans. PACE may also utilize private sector capital.

**Geography:** Available in Minnesotan counties and cities that have signed a Joint Powers Agreement. Currently, 72 out of 87 Minnesotan counties and all Twin Cities metro area counties have signed an agreement.

**Eligibility:** Commercial and industrial businesses, nonprofits, and multifamily building owners located in a county or city that has signed a Joint Powers Agreement are eligible. Residential and public sectors are not eligible. The legal property owner(s) must agree to participate and must be a PACE applicant. Property owners must be current on existing mortgage(s), not have defaulted on deeds of trust, not be subject to involuntary liens or judgments, not have been delinquent on property taxes, and not be in bankruptcy. Applicant(s) must have obtained an energy assessment on the property.

**Limitations:** The project may not exceed 20 percent of appraised property value. The financing term may not exceed the estimated life expectancy of the improvement and must have a savings-to-



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investment ratio greater than one. ARRA funds cannot be applied toward houses of worship, but PACE can still be applied through funds from a separate private lender.

**Website:** <https://minnpace.com>.

#### **About**

Minnesota administers one of the most successful C-PACE programs in the country. Since the legislature enacted C-PACE legislation in 2010, the Saint Paul Port Authority has supported over 400 projects, the most of any state, and has assessed over \$300 million of clean energy projects, placing Minnesota fourth in the country. About two-thirds of funded projects are for solar arrays, and one-third are for energy efficiency improvements.

The Rural Minnesota Energy Board (RMEB) administers a separate PACE program through the Southwest Regional Development Commission for its 18 member counties in Southwest Minnesota. RMEB counties include Brown, Blue Earth, Cottonwood, Faribault, Freeborn, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, Sibley, and Watonwan. The two PACE programs in Minnesota are largely similar, but this briefing focuses on the program administered by the Saint Paul Port Authority (Clean Energy Resource Teams 2023).

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#### Center for Energy and the Environment, solar finance program

*(note: this program is currently unavailable as of May 2023)*

The information provided is summarized from an interview with Center for Energy and the Environment (February 2023).

**Description:** The Center for Energy and the Environment’s (CEE) solar finance program includes a commercial solar lending option with simple and agreeable terms. The program is currently inactive but may be reactivated if capital becomes available.

**Originator type:** State- and Nationwide Multi-state Licensing System (NMLS)-licensed nonprofit lender.

**Loan type:** If the project is borrowing less than \$50,000, and the client has good credit and utility bill history, the loan is typically unsecured with a 50 percent personal guarantee. The loan needs to be secured if the client has marginal credit or is borrowing more than \$50,000.

**Loan rate/term:** A 4 percent interest for businesses and 2 percent interest for nonprofits, up to a 10-year term with no prepayment penalty.

**Funding source:** CEE uses three sources of funding:

- Capital from CEE’s own lending fund.
- Additional funds from philanthropy, the Minnesota Department of Commerce, and the Inflation Reduction Act green banks to supplement their lending fund.
- When not using their own lending fund, CEE may administer lending from the City of Minneapolis.

**Geography:** Minnesota.

**Eligibility:** CEE maintains a loan loss reserve with the Minnesota Department of Commerce, which allows some flexibility for projects traditionally seen as risky. Riskier projects may require securing the loan.

**Limitations:** If borrowing >\$50,000, the client must be the building owner.

**Website:** <https://www.mncee.org/cee-loan-programs>.

#### Overview

CEE is a Twin Cities-based nonprofit focused on supporting homes, businesses, and communities with practical energy efficiency and decarbonization solutions. Lending is a tool CEE has used since the 1970s to help finance projects. In 2022, in collaboration with Minnesota Housing and the Minnesota Department of Commerce, CEE lent \$25 million to residential efficiency and rooftop photovoltaic (PV) solar projects. CEE also administers lending programs for about 25 Minneapolis neighborhoods.

CEE’s commercial solar lending program is currently on hiatus due to rapid growth in its residential lending program. In 2022, 95 percent of lending went to residential programs, and 5 percent was allocated to commercial programs through smaller “One-Stop Shops” that CEE operates for lighting, HVAC (heating, ventilation, and air-conditioning), and refrigeration equipment. CEE is hoping to reinstate its commercial solar lending program by the end of this year—when it was operational, CEE funded around a dozen projects each year.

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CEE works with contractors by coordinating point-of-sale incentives and rebates. The net balance cost is then lent to the project owner, with funds paid directly to the contractor at closing. CEE does not manage tax credits. It is, therefore, the project owner's responsibility to apply for the federal solar investment tax credit (ITC).

CEE has offered Murabaha transactions, which are a cost-plus-profit purchase option in lieu of interest payments in accordance with Islamic law.

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#### City of Minneapolis, Two-Percent Loan Program

The information provided is summarized from the City of Minneapolis [Two-Percent Loan Program website](#) (accessed June 2023).

**Description:** Two-Percent Loans provide “financing to small Minneapolis businesses (retail, service, or light manufacturing) to purchase equipment and/or to make building improvements. A private lender provides half the loan at market rate, and the City provides the rest, up to \$50,000 at 2 percent interest (up to \$75,000 in designated neighborhood commercial districts)” (June 2023).

**Originator type:** Community Planning & Economic Development, City of Minneapolis.

**Loan type:** The loan must be secured prior to the start of construction.

**Loan rate/term:** The loan rate is split with half the loan set at 2 percent, while the rate and term for the other half are set by the private lender and can be for up to 10 years. The city charges a 1 percent origination fee with a minimum of \$150 due at closing.

**Funding source:** City of Minneapolis in partnership with private lenders.

**Geography:** Minneapolis.

**Eligibility:** All businesses located in Minneapolis are eligible. Applicants may be individual owners, partnerships, corporations, tenant operators, or contract for deed partners. The borrower must meet the qualifications of the primary lender, which are assumed to follow a standard lending practice.

**Limitations:** Eligible uses include building enhancements, including energy audits, energy conservation, and energy retrofits.

**Website:** <https://www.minneapolismn.gov/government/programs-initiatives/two-percent-loans>.

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#### City of Saint Paul, Neighborhood Sales Tax Revitalization program

The information provided is summarized from the City of Saint Paul [Neighborhood Sales Tax Revitalization program website](#) (accessed June 2023).

**Description:** The Neighborhood Sales Tax Revitalization (STAR) Program provides loans and grants for physical improvement projects that strengthen the vitality of the city’s neighborhoods. The program is intended to revitalize neighborhoods by spurring economic development opportunities.

**Originator type:** Planning & Economic Development, City of Saint Paul.

**Loan type:** Secured.

**Loan rate/term:** Forgivable grants and loans with a 3 percent interest and an eight-year term. No interest accrued nor payments are due for the first year after the loan is executed. Loans are amortized over a seven-year period beginning one year after the loan is executed.

**Funding source:** Revenue is generated by the City of Saint Paul’s half-cent sales tax. Revenues vary year to year. The 2022 awards totaled \$1.8 million.

**Geography:** City of Saint Paul.

**Eligibility:** For-profit entities that qualify as a “small business” under [MN Statute 645.445](#) are eligible to apply for loan and/or grant assistance. Small, for-profit entities are defined as businesses with under \$1 million in gross sales or fewer than 20 full-time employees. Nonprofit community organizations may apply to STAR for loan and/or grant funds. Large, for-profit businesses may apply for a loan or a loan/grant combination, provided the grant portion is equal to or less than the amount of loan dollars being requested. See the program website for project eligibility.

**Limitations:** Matching dollars required.

**Website:** <https://www.stpaul.gov/departments/planning-and-economic-development/economic-development/sales-tax-revitalization-star-3>.

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