

New Nicollet Clean Energy Infrastructure Funding & Financing Resources

The New Nicollet Phase 1 RFP encourages proposers to incorporate *low to no natural gas* heating and cooling systems into their designs and proformas. To support developers in this process, the City of Minneapolis is providing this a) list of resources and b) example comparison of costs across a few select mechanical systems. This resource list is not all-inclusive and other incentives and grant opportunities may be available.

A. Resources:

I. Federal Investment Tax Credits (ITC)

Eligible technologies, including geothermal, water energy recovery systems, and energy storage, may receive Investment Tax Credits (§ 48 Energy Credit ITC or § 48E Clean Electricity ITC). Even after changes this year from the Federal Government, tax credits up to and beyond 30% are still achievable for eligible entities. [*A comprehensive IRS guide for these tax credits is linked here.](#)

Base and Bonus Tax Credits:

- A *base tax credit* of 6% is available for projects <1 MW (megawatt) of electrical or thermal energy produced.
- *Bonus tax credits* can be added to the *base tax credit*. For this project/site, the most likely bonus credits include:
 - *Prevailing Wage and Apprenticeship Bonus Credit* – **for projects <1 MW in energy production, you are automatically eligible for 5x the base tax credit** (even without prevailing wages or apprenticeships). It is likely that per the size of the load and systems expected for a project at this site, the project would be eligible to apply the multiplier to the base credit, immediately bringing the tax credit up to 30%.
 - *Domestic Content Bonus Credit* – 2-percentage points of additional tax benefit for projects that meet this requirement. However, projects that are eligible for this bonus and are <1 MW, or comply with prevailing wage requirements, are able to instead receive a 10-percentage points of total bonus tax credit.

Domestic content is a two-part test. Both tests must be satisfied to earn the domestic content bonus

- 1.) Structural Steel Test – 100% of structural steel and iron in the applicable equipment must be 100% produced in the United States
- 2.) Manufactured Product Test – Applicable percentage of components making up manufactured product (primarily equipment) within the energy property must be sourced from the United States.
 - Applicable percentage for projects beginning before 2025 is 40%
 - Applicable percentage for projects beginning in 2025 is 45%
 - Applicable percentage for projects beginning in 2026 is 50%

- Applicable percentage for projects beginning in 2027 and thereafter is 55%
- *Energy Communities Bonus Credit* – 2-percentage points of additional tax benefit is available for projects at this site, which meets the [Energy Communities Bonus Credit requirements](#). The New Nicollet site is eligible for this bonus credit because it is in a qualifying metropolitan statistical area (MSA). However, projects that are eligible for this bonus and that are <1 MW or comply with prevailing wage requirements can receive up to 10-percentage points of total bonus tax benefit. ([Eligible MSAs are listed here.](#))
- *Low-Income Communities Bonus Credit* – geothermal projects **are not** eligible for this bonus, however this credit could be applied to other green technologies such as battery storage or other zero-emission electricity generating equipment for on-site use. Up to 20-percentage points of additional tax benefit for projects that meet this requirement. While this site is not located within a designated “low-income geography”, your project may be eligible for this bonus under the “qualified low-income residential building project” portion of the criteria. Under this bonus credit, a [competitive application](#) is required and needs to be completed before the equipment is placed in service. Thus, this bonus is not guaranteed, but contingent on an application process and there is a limit to how many projects will be awarded.

Equipment Applicability:

Costs that are eligible for the above tax credits include not only the mechanical equipment (e.g. solar or geothermal wells) but also portions of the HVAC distribution infrastructure that is inherent to the delivery of the energy generated (e.g. distribution equipment).

Geothermal System Example:

For geothermal energy property, equipment distributing the geothermal energy is eligible for the tax credit. This would primarily include HVAC (air handlers, ducts, VAV, hydronic piping, etc.). This is subject to the concept of dual-use. For example, if 60% of the energy going through your distribution system is sourced from geothermal and 40% is from non-geothermal (e.g. a natural gas boiler), only 60% of the distribution system would be eligible for the tax credit.

Eligible Timelines

Tax credits will be available according to the following timelines:

- **Geothermal:**
 - Per § 48 Energy Credit ITC, this is available for projects that begin construction prior to January 1, 2035.
 - Projects <1.5MW can still receive *beginning of construction safe harbor* when 5% of eligible costs are spent or when there is “physical work of a significant nature”.
- **Solar:** **Information below reflects changes from the Big Beautiful Bill.*
 - The § 48 Energy Credit ITC is available for projects that begin construction prior to July 4, 2026, and those projects have four years to place the project in service (by December 31 of the fourth year). If the project begins construction after July 4, 2026, it must be placed in service by December 31, 2027.

- Projects <1.5MW can still receive *beginning of construction safe harbor* when 5% of eligible costs are spent or when there is “physical work of a significant nature”.

Tax Credit Beneficiaries

Developers that own the property when the clean energy assets are placed in service are eligible to be direct beneficiaries of the tax credits. Depending on your tax status, the pathway for eligibility will vary.

- For any **taxable entity**, you are eligible for the tax credits to off-set tax liability or have the ability to transfer tax credits if you are not able to realize the full value of these tax credits.
- For any **tax-exempt entity**, you have the ability to receive these tax credits through elective pay. Learn more about this process and how to register for payments [here](#).

Syndication of the clean energy investment tax credits alongside Low Income Housing Tax Credits (LIHTC) is possible and there are examples of this for various clean energy technologies. Typically, a developer would work with a single tax equity investor who would be able to take both the LIHTC and clean energy tax credits generated from the project.

Tax Credit Support

To take advantage of these tax credits, a development team should work with a tax advisor to understand how to structure the credits and maximize their benefits. The City is not able to provide direct tax advice.

II. Grant Funding

The City of Minneapolis *Green Cost Share Program* (through the Health Department) supports energy efficiency and decarbonization efforts for residential and commercial buildings across the community. Energy efficient building and greenhouse gas reduction (GHG) projects can receive between \$150,000 and \$500,000 in grant funding.

Uses of the funds are flexible and can help buy down construction costs, financing costs, or support early operating expenses. The two categories of grants most applicable to the New Nicollet project are called out below.

- ***Innovation Air Pollution Reduction Program:*** This grant opportunity is open multiple times a year (February, April, June, and August). Each award is offered on a per building basis and can be as much as \$175,000. Grant applications compete against other projects for limited funds. An organization can apply for grants only once per year but are eligible to apply multiple times if there are new assets constructed or operated. As of Fall 2025, approximately 90% of all commercial applications were able to be funded through the program.
- ***Large Greenhouse Gas Reduction Program:*** This grant opportunity is open once per year (typically late summer) and allows awards as high as \$500,000. Competitive projects must demonstrate annual GHG emissions around 175 thousand short tons avoided per the

program formula. As of Fall 2025, approximately 75% of all applications were funded through this program. ****Recommended due to larger potential grant size****

In any one calendar year, a grant recipient can only be awarded one grant and would have to choose which program to apply for. Additionally, any carbon reducing asset can only apply for the grant one time. If, however, not all equipment was included in an initial grant application, a grant recipient could apply again for new or new additions to equipment. If you are interested in the Green Cost Share program, contact the grant administrator before applying (early in the calendar year or ahead of the new year): greencostshare@minneapolismn.gov

Here are links to:

- [Learn more about how to apply and typical application deadlines](#)
- [Green Cost Share Programs rules and processes](#)
- [Access the application](#)

III. Utility Programs & Rebates

The pathway to utility rebates for new construction projects is through Xcel Energy and CenterPoint Energy's combined program, [Energy Design Assistance](#) (EDA). This program includes energy modeling and rebate identification to help development teams maximize utility rebates and offset capital costs.

As an example, a 190,000 square foot affordable multifamily and mixed-use building currently completing construction near the New Nicollet site is projected to receive a nearly \$170,000 utility incentive from the EDA program. Energy modeling shows that approximately 75% of that incentive (and of the modeled energy cost savings compared to a code baseline) is attributed to the use of a ground source heat pump system for building heating and cooling.

IV. Financing

Subordinate financing may also be helpful for a project's green infrastructure and low to no natural gas elements.

- Greater Minnesota Housing Fund's **Energy Loan Fund** offers very low interest rates on debt financing for projects that meet high-efficiency, electrification, or fully decarbonized building criteria. Rates for the decarbonization and/or efficiency elements of a project (approximately 10% of total development cost) can get as low as 3% and are available to projects reaching a near-zero or net-zero rehab or construction.

This lowest rate may be available to extremely high-efficiency projects using innovative technologies or projects that have fully carbon-neutral operations. **An Energy Loan can be layered with GMHF's [first mortgage](#), construction financing, and [Minnesota Equity Fund LIHTC equity](#) to blend down the overall interest rate for the project**

B. Example Applying All Rebates, Grants & Tax Credits:

The following table (Table 1) illustrates how an affordable housing, mixed-use project of 200,000 SF could utilize tax credits, City grants, and utility rebates to offset the increased capital costs of designing for low to no natural gas mechanical systems. **This illustration shows how an**

innovative solution with, for example, full-geothermal heating and cooling systems would meet a priority of the New Nicollet project and be cost-effective for the developer.

Three (3) technology scenarios are shown:

- 1.) an *Electric MagicPak* system is shown, which is relatively common and low cost and aligns with some of the sustainability priorities in this RFP (base case);
- 2.) a *Partial-Geo* system that electrifies all heating and cooling and is able to leverage about half of the available tax credits and some grants and low-interest financing;
- 3.) a *Full-Geothermal* system that is eligible for extensive clean energy tax credits, more City grants, and qualifies for low-interest financing

It is worth noting that low-interest financing is not reflected in the table below, but a further consideration when developing your operating proformas.

Note: During the RFP response period, City staff will post a report with a detailed energy modeling analysis and cost information specific to the New Nicollet site. Watch for updates in late November/early December.

Table 1. Example of Grants, Tax Credits, and Utility Rebates Applied

NOTE: Any ongoing energy cost savings are not included in the example below.

System Description	<u>Electric MagicPak:</u> No central heating and cooling system. Electric MagicPaks in each living unit	<u>Partial-Geo System:</u> Partial Geothermal (2-pipe) System with supplemental Air-Source Heat Pumps	<u>Full-Geo System:</u> Geothermal (2-pipe) System to serve all heating and cooling needs
Capital Costs			
Cap. Cost (\$) - Heating/ Cooling Plant + Terminal Device	NA	\$5,000,000.00	\$6,500,000.00
Cap. Cost (\$) - Distribution	\$3,300,000.00	\$1,300,000.00	\$1,300,000.00
Total Capital Costs	\$3,300,000.00	\$6,300,000.00	\$7,800,000.00
Cost Offsets			
Utility Rebates		\$75,000.00	\$150,000.00
Green Cost Share Grant (City program)		\$175,000.00	\$500,000.00

Tax Credit Applicable % <i>*Per 45L/48 ITC credits</i>	NA	25%	50%
Tax Credit (\$)	\$-	\$1,575,000.00	\$3,900,000.00
Net Cost (\$)	\$3,300,000.00	\$4,475,000.00	\$3,250,000.00

Cost Premium Compared to Electric MagicPak System:	\$1,175,000.00	\$(50,000.00)
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Table Notes and Assumptions:

- *The Full-Geo system scenario shows a 50% tax credit. This reflects the tax benefit a project would receive if it achieved all of the bonus credits listed above, with the exception of the Low-Income Communities Bonus Credit (which is not applicable to geothermal). Here we assume that a technology is able to achieve 100% of the Domestic Content Bonus by using a compliant technology (e.g. Darcy Solutions geothermal system) and compliant equipment used to deliver heat/cooling throughout the building.*
- *In the Partial-Geo System scenario half of the 50% tax credit is applied in the Full-Geo System scenario assuming that only half (approximately) of equipment costs would be eligible due to the “dual-use” principle.*