

LEVERAGING FEDERAL FUNDS FOR JUSTICE: LESSONS FROM SAINT PAUL

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Background

The City of Saint Paul, MN is breaking ground on a historic project to redevelop a former golf course on the city's East Side into a large-scale, mixed-use development with 1,000 living wage jobs and 1,000 affordable housing units. **The entire development – called “The Heights” – is striving to be net zero thanks to federal funding from the Inflation Reduction Act (IRA).**

Saint Paul's East Side

Saint Paul's East Side neighborhoods have been home to immigrants and migrants seeking community, jobs, and homes for decades. In the mid-1800s, immigrants fleeing poverty and oppression in Ireland, Germany, and Scandinavia settled in East Saint Paul, followed by immigrants from southern and eastern Europe in the late 1800s and early 1900s. New arrivals from the Middle East – particularly Lebanon – moved to the area too, along with newcomers from

Mexico and African American people fleeing the American South. Together, these groups built vibrant communities and powerful [labor movements](#) and fought for a voice in city politics.

Unfortunately, in the 1970s, many residents were forced to move out of the neighborhood as industries [fled](#) the area and jobs disappeared, resulting in severe economic disinvestment that still persists today. **Today, the East Side is home to a culturally diverse population of working-class Asian American (mostly Hmong), Caucasian, African American and Latine residents.** Due to disinvestment and racism, many residents of East Saint Paul continue to struggle to make ends meet, let alone afford high-quality housing and secure good union jobs.

The Heights

The City of Saint Paul spotted a key opportunity to advance its housing, climate, and equity goals through a large-scale project to redevelop a formerly very polluted golf course on the city's East Side into a net-zero (meaning, the amount of carbon it adds to the atmosphere is no more than the amount it removes), mixed-use – light industrial and residential – development called “[The Heights](#).” With the City's support, the Saint Paul Port Authority purchased the property, cleaned it up, and is now leading the charge to develop The Heights, which will **bring more housing, jobs, and environmental benefits to the East Side of Saint Paul.**

The Saint Paul Port Authority is the sole land owner *and* primary developer on this project, and the City – under the Mayor's leadership – is responsible for the planning process. Knowing that authentic community engagement would be key to ensuring that the redevelopment would boost opportunity and community wealth in the neighborhood, **the City's Department of Planning and Economic Development worked collaboratively with community members and the Saint Paul Port Authority at each step of the way to develop the plan.**

In June of 2022, the Saint Paul City Council voted [unanimously](#) to approve the City's redevelopment [plan](#), which – thanks to deep community engagement – aims to bring **more housing, jobs, and public amenities to the East Side of Saint Paul.** Specifically, **The Heights is expected to bring 1,000 good jobs and 1,000 new housing units**, including deeply-affordable, affordable, and market-rate units. Homes will be available for owning or renting, and cooperative ownership models will be highly encouraged.

Ramsey County Commissioner and [Local Progress Minnesota \(LPMN\) Co-Chair Mai Chong Xiong](#) represents District 6, which includes The Heights and a large portion of the East Side of St. Paul. As Chair of the Ramsey County Housing Redevelopment Authority (HRA), Commissioner Chong [approved \\$1.4 million in HRA levy funding](#) to develop affordable housing on the site. [JO Companies](#) received \$1 million to build 199 affordable units, with 20 units to be available to residents making less than 30% of Area Median Income (AMI) with the remaining units to be income restricted to those making less than 60% AMI. [Twin Cities Habitat](#) received the remaining \$400,000 in HRA levy funds to build 74 owner-occupied units for low and moderate-income

first-time homebuyers making less than 80% AMI. Commissioner Xiong has also advocated for more deeply affordable units to meet her community's needs, including recent efforts that directly resulted in developers' renewed commitments to increase the rate of available units at 30% AMI.

Ramsey County Commissioner and LPMN Co-Chair Mai Chong Xiong expressed optimism for the construction of new housing. *“Ramsey County is short 15,000 units of affordable housing available at 30% AMI. In District 6, like the rest of Saint Paul, we also lack land availability to build new housing. As the Chair of the County HRA, I understand that The Heights is a beacon of hope, offering affordable housing and additional community resources. Ramsey County’s commitment to affordable housing enables residents to live their fullest lives and ensures a safe place where families can build generational wealth, grow, and prosper.”*

Three to six light-industry buildings will also set up shop on the development to bring family-sustaining job opportunities to the neighborhood. Local leaders and key stakeholders made sure to specify that the diverse local communities who call East Saint Paul home should have the opportunity to benefit from job and home ownership opportunities. To that end, an equity-focused procurement process is part of the finalized plan. There are also plans to build a workforce development training center on the land to ensure the continued development of good union jobs in the East Side community.

The Heights’ Ambitious Climate Goals

From the start of this redevelopment project, the Saint Paul Port Authority, the City of Saint Paul, and other key stakeholders worked to ensure that the development would advance the City’s bold climate justice goals. As part of the Port Authority’s community engagement process, they set up a Sustainability Task Force composed of community members who lived and worked nearby, city representatives, climate advocates, and local business owners. The task force set the ambitious goal that The Heights be *entirely* net zero – with all of its energy sustainably and cleanly created on site. **Their plan? Build a geothermal system – the first in Minnesota and one of the first in the nation – to heat and cool the development, and power the site with as much on-site solar as possible.**

Geothermal energy is the most environmentally friendly energy technology for heating and cooling, particularly in cold climates like Saint Paul. That’s because it’s clean and renewable, and it doesn't require burning fossil fuels like coal, gas, or oil to heat buildings. Geothermal energy is created using the heat energy that naturally exists under the Earth’s surface. Geothermal heat pumps use the natural heat of the earth to heat and cool buildings.

The geothermal system will be completely owned and operated by a new community energy nonprofit – The Heights Community Energy (HCE) – under the direction of District Energy St. Paul,

a long-standing nonprofit utility partner to the City of the Saint Paul and the Saint Paul Port Authority. This nonprofit, community-based geothermal system, coupled with solar panels, will allow The Heights to produce all of its thermal energy on site.

Ramsey County Commissioner and LPMN Co-Chair Mai Chong Xiong explained why this clean energy project is so critical for her community. *“Ramsey County is fully developed and the most densely populated county in Minnesota. We also have some of the most polluted property. In a densely populated area like Ramsey County, implementing a geothermal system provides significant environmental benefits, including reducing reliance on fossil fuels and decreasing air pollution.”*

As the first geothermal energy system in Minnesota and one of the first in the country, this project provides a roadmap to be replicated in localities nationwide.

Saint Paul Mayor and LPMN member Melvin Carter told [Minnesota Public Radio](#) that *“using the Earth’s natural energy to heat and cool a whole community is a big step toward achieving our local climate goals. We’re building a neighborhood that can be a blueprint for a cleaner, more sustainable future.”*

This clean energy plan will advance equity in several key ways. For starters, geothermal energy is typically far out of reach for working people because the cost of conversion is expensive – even with available credits for homeowners. **The fact that a local government and nonprofit utility are partnering to build and operate a geothermal energy system means that working families can take advantage of it and benefit from its environmental impact.** Second, **creating this net-zero energy system will significantly lower utility bills for residents.** Third, **it improves indoor air quality for residents and the surrounding East Side community.** And finally, **a project of this scale requires labor**, and the Saint Paul Port Authority ensured that businesses are incentivised to hire local workers and pay living wages.

Saint Paul City Councilmember and LPMN member Nelsie Yang represents the Hillcrest neighborhood where The Heights is being developed, and was deeply involved in the project from start to finish. She [explained](#) the scale and importance of this clean energy project in her neighborhood. *“The Heights is truly a once-in-a-lifetime investment to the East Side of Saint Paul. With the addition of a geothermal energy system, we hope to achieve the creation of sustainable, energy-efficient homes and close the clean energy divide by eliminating the burden of high utility bills and increasing access to the tools that’ll help communities lower their carbon footprint. This is a precedent for what is to come.”*

But how could the City of Saint Paul afford to make this ambitious goal a reality?

Leveraging Federal Funding for Climate Justice

As noted above, the geothermal system will be owned and operated by a new community energy nonprofit – The Heights Community Energy (HCE). HCE is utilizing two key funding sources to pay for this clean energy project: (1) a \$4.7 million loan from the Minnesota green bank ([Minnesota Climate Innovation Finance Authority](#), MnCIFA); and (2) reimbursement for about 50 percent of the project in the form of Direct Pay tax credits from the federal government. The green bank loan will help cover the upfront costs of installing the geothermal system, effectively bridging the funding gap until the Direct Pay reimbursement comes in.

The HCE expects to recoup the remaining half of the upfront costs through future consumer payments. It is key to remember that nonprofit, community-based utility partners will be doing the upfront labor and taking on these upfront costs. This of course is more feasible – and equitable – than contracting out to private utilities. Now let's dig into each of these funding sources.

Green Bank Loan

Last May, Minnesota lawmakers [passed legislation](#) (HF2336 and SF2301) establishing a state green bank – the [Minnesota Climate Innovation Finance Authority](#) (MnCIFA). In March 2024, the MnCIFA announced its first loan: \$4.7 million for a geothermal energy system at [The Heights](#). **MnCIFA invested in this project for three key reasons: (1) it would have been very challenging for The Heights to secure private funding; (2) they needed upfront funding because piping for geothermal infrastructure has to be done during the very early development stages; and most important, (3) the project serves the state green bank's [goals](#) of accelerating the adoption of clean energy technology and greenhouse gas reduction projects and bringing the benefits to historically underserved communities.**

As noted above, the \$4.7 million loan doesn't come close to covering the development of the entire geothermal system, but it will kick-start the project and act as a bridge until the City receives reimbursement from the federal government in the form of Direct Pay tax credits.

Direct Pay Tax Credits

The Heights Community Energy expects to **recoup about half of the total cost of this project through Direct Pay tax credits**, a key provision of the IRA. Direct Pay tax credits are available to tax-exempt entities like cities, counties, schools, hospitals, public utilities, houses of worship, and nonprofit organizations. Because these entities are tax-exempt, **Direct Pay tax credits function like a direct cash payment from the IRS after an eligible project is placed into service** (in other words, once it is generating and distributing thermal energy).

The tax credits are available for **projects built in 2023 and last until 2032**. Direct Pay tax credits are available for various renewable energy generation projects like solar, wind, and geothermal electricity production. They also support green infrastructure like EV charging stations, EV vehicles, geothermal heat pumps, and storage resources like batteries. For more information about how to seize this opportunity, see this [policy memo](#).

Lessons for Other Localities

- 1. Take advantage of the IRA's Greenhouse Gas Reduction Fund (GGRF), which includes money for states and localities to create green banks to fund local climate projects.** If your state has a green bank, consider proposing a clean energy project. If your state doesn't have a green bank, consider urging your state to use the GGRF to create one.
- 2. Seize the opportunity to receive direct, tax-free, cash funding for local climate projects through the IRA's Direct Pay tax credits.** Direct Pay tax credits are available for various renewable energy generation projects. For more information about how to seize this opportunity, see this [policy memo](#).
- 3. Target clean energy projects to disinvested neighborhoods.** Clean energy projects bring cleaner air and water, along with much-needed cost savings to communities. It's up to local leaders to ensure that historically disinvested communities can reap these benefits. It is also important to ensure that guardrails to prevent displacement are in place when taking on such projects.
- 4. When possible, pursue projects owned and developed by one single public owner and developer.** The Saint Paul Port Authority served as the single owner and developer of The Heights. This made securing federal funding possible, and ensured a shared vision, values, and goals for the project.
- 5. Ensure that development of clean energy creates good, family-sustaining jobs.** Clean energy projects require significant labor. Make sure the jobs go to local community members who are being paid a living wage.
- 6. Partner with community-based, nonprofit local utilities to build clean energy infrastructure.** Doing so ensures that economic investment stays within your community and that good green jobs go to locals.
- 7. Partner with nonprofit affordable housing developers for residential clean energy projects.** Sustainable energy systems cost more up front, and often, the large-scale payoffs come after many years. Affordable housing developers tend to hold their properties for a longer time, so sustainability goals will be more incentivizing. More

importantly, partnering with nonprofit affordable housing developers will help to ensure low-income residents will benefit from less expensive utility bills.

8. Develop local clean energy projects in conjunction with larger-scale city development projects that center equity. Local governments have an important role to play in helping local entities access state green bank funding and identify projects eligible for Direct Pay tax credits. Think critically about what projects are currently ongoing and what projects are coming down the pike – how can we leverage federal funding to make sure they advance our climate goals?

9. Directly involve impacted communities early and often. The only way to know whether a project – big or small – will actually benefit a community is to directly and authentically engage them in early brainstorming and ideation conversations, and ensure they stay involved throughout the entire project – start to finish.

Feeling Inspired?

Local governments have a [once-in-a-generation opportunity](#) right now to leverage historic federal funding to advance racial, economic, and climate justice. For the first time ever, thanks to the IRA, tax-exempt entities like local governments and schools will receive tax-free, direct, cash funding for clean energy projects via [Direct Pay tax credits](#). Because Direct Pay operates as a refund, these projects must find upfront financing to cover the cost of project construction before they receive their Direct Pay tax credit(s). That's why it is critical that states and local governments take advantage of federal funding available to create [green banks](#), nonprofit entities that can provide upfront funding to bridge this gap.

As the impacts of climate change grow rapidly, particularly on our most vulnerable communities, local governments must take advantage of these historic federal funding opportunities. Are you interested in using Direct Pay to fund a local clean energy project? Creating a local green bank for your community? Leveraging your state's green bank for local climate projects? Or generally just want to take advantage of historic federal funding for communities? [Reach out to us](#) to get started!

Additional Resources

- [Using Federal Funds for Racial & Economic Justice: IJJA / IRA Implementation](#)
- [Cash for Communities: Leveraging Historic Federal Funding for Racial, Economic, & Climate Justice](#)
- [State and Local Government and the Formation of Green Banks](#)
- [Summary of GGRF, Implementation Framework](#)