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# 2019 Annual Legislative Report

## Local Energy Efficiency Program & Energy Savings Partnership

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Prepared by  
Minnesota Department of Commerce, Division of Energy Resources

Pursuant to Minnesota Statute 216C.43, subd. 12

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## Executive Summary

Following is the 2019 report required by Minnesota Statute 216C.43 subd. 12. on projects studied and implemented under the Local Energy Efficiency Program (LEEP) and the Energy Savings Partnership (ESP) and enabled by Minnesota Statutes 216C.42 and 216C.43.

The Minnesota Department of Commerce (Commerce) operates both the Local Energy Efficiency Program (LEEP) and the Energy Savings Partnership (ESP). The LEEP provides local units of government with technical services to conduct energy project studies. The ESP is a standard energy project financing agreement for local units of government managed by the Saint Paul Port Authority through a contract with Commerce. These combined programs enable local governments to easily identify and implement energy conservation measures that help meet locally-identified energy and greenhouse gas emissions goals as well as reduce the financial burden from both utility bills and operations and maintenance costs.

The LEEP was formally launched in 2016 with the purpose of conducting energy project studies and technical review of projects. However, despite significant efforts from 2016-2018, no studies were completed due to a number of barriers faced by local governments to implement long-term projects. Thus in 2019, Commerce refocused its work on identifying the challenges and existing barriers that impact a local unit of government's ability to move forward with energy efficiency projects for their publically owned buildings. Commerce, and partners, conducted discussions and surveys with communities to identify critical issues and explore ways to address these issues for a successful reboot of the program in 2020.

The ESP was created in 2012 as a standard lease-purchase financing agreement. Two million dollars in Commerce funds were dedicated as a loan loss reserve to make a wider range of energy project sizes and types financially viable for communities across Greater Minnesota. The ESP has funded several energy projects since inception through lease-purchase financing. ESP continued a portfolio of eight financed projects in 2019 totaling over \$5 million. The projects included three cities and five school districts, ranging from \$500,000 to \$1.8 million.

Commerce reports on high-level metrics of the ESP to the U.S. Department of Energy (DOE) on a quarterly basis. Cumulatively the ESP loan loss reserve has leveraged over \$5.2M in private capital with an estimated annual energy savings of over \$296,000.

## History

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Minnesota Statutes 216C.42 and 216C.43 authorize the Department of Commerce to provide local units of government a standard project financing agreement and a supplemental cash flow agreement for technical services in conducting energy project studies. Local units of government are defined as a Minnesota county, statutory or home rule charter city, town, school district, park district or any combination of those units operating under an agreement to exercise powers jointly.

### Energy Savings Partnership (ESP)

In addition to the authority to offer energy project studies to local units of government, Minnesota Statutes 216C.42 and 216C.43 also direct Commerce to provide a “standard project financing agreement” through private financial institutions for local units of government wishing to implement energy improvement projects. Under this authority, Commerce reviews projects to determine eligibility.

In 2012, Commerce entered into a contractual agreement with the Saint Paul Port Authority (SPPA) to administer the Energy Savings Partnership (ESP) Program and offer lease-purchase financing to local governmental units across Minnesota for energy efficiency and renewable energy improvements.

The ESP was established after \$2 million in Commerce funds were committed to establishing a loan loss reserve (LLR) fund which leveraged \$20 million in private equity from US Bank for lease-purchase financing agreements under the program. This LLR allows the SPPA to offer lower interest rates for a wider range of project sizes, which makes smaller projects in cities, counties, and school districts viable across Greater Minnesota. To protect the LLR funds dedicated by Commerce and ensure that high-quality projects leverage other existing state energy programs, Commerce must review and approve any project seeking financing through the ESP on the basis of:

- Technical and economic feasibility, with a projected positive cash flow each year of the financing agreement
- Provision for continued operation and maintenance of the project
- Use of Conservation Improvement Program opportunities with the utilities providing gas and electric service

### Local Energy Efficiency Program (LEEP)

An energy efficiency improvement program for local units of government, LEEP was formerly titled the Public Buildings Enhanced Energy Efficiency Program (PBEEEP). Commerce initially contracted with the Center for Energy and Environment (CEE) to develop and administer the local government PBEEEP offering. In April 2012, all program materials were transferred to Commerce where it was re-instated as a Master Contract with 26 engineering firms using existing program guidelines.

As Commerce developed the Guaranteed Energy Savings Program (GESP), it was evident there was significant overlap between GESP and PBEEEP. With limited staffing capacity, priority was given to the development of GESP because it offers technical assistance to a wider range of building owners and is directed towards larger energy savings projects. The PBEEEP Master Contract was cancelled in 2014 when it was determined the program structure needed significant changes to better meet the needs of local units of government. This streamlining of programs created efficiencies in the development, promotion, and delivery of programs.

In 2016, Commerce hired a dedicated administrator to re-develop the energy efficiency improvement program for local governments. A new name was given to differentiate the program from previous versions: Local Energy Efficiency Program (LEEP). A new master contract was issued and negotiated in 2016 and the program was promoted statewide.

The LEEP was then formally launched in 2016 with the purpose of conducting energy project studies and technical review of projects. A master contract with ten engineering firms was established along with the program requirements to provide a pool of qualified contractors, as well as standard contract and procurement documents, to local governments. Commerce issued a request for proposals, evaluated the responses, and negotiated the LEEP Master Contract with qualified firms.

Commerce lead an intense LEEP program development and outreach process throughout 2017 and 2018. Three dedicated staff contacted hundreds of local governments, attended events, and partnered with outside community and economic development organizations. Commerce also partnered with these and other organizations to create new marketing materials and integrate LEEP into utility rebate programs. Further, Commerce explored ways to integrate LEEP into state long-term facility maintenance revenue dollars along with the Department of Education.

Despite these efforts, LEEP was not able to gain traction as a master contract program with local units of government. Thus in 2019, Commerce refocused its work on identifying the challenges and existing barriers that impact a local unit of government's ability to move forward with energy efficiency projects for their publically owned buildings. Commerce and partners conducted discussions and surveys with communities to identify critical issues and explore ways to address these issues.

## 2019 Annual Summary and Metrics

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### Energy Savings Partnership (ESP)

The ESP contract between the SPPA and Commerce was last amended on June 18, 2019. This amendment maintained the terms and conditions of the previous year's amendment, but extended the terms through FY2020. Commerce worked with the SPPA to develop a tool and process for loan application intake, including a checklist for local governments to complete, to ensure smooth technical review and implementation..

Of the original \$2 million in Commerce funds originally dedicated to the ESP, all program funds remain as no loan defaults occurred between 2016-2019. Further, Commerce and SPPA negotiated a program account interest change in 2019. Program funds now return a 1% interest income rate which is added quarterly to the reserve funds that support the private capital. This means that while LLR programs typically are designed to facilitate losses in support of program activity, the ESP is anticipated to continue growth over \$2 million in 2020, providing further longevity for these funds.

The ESP has leveraged projects valued at over 250% of the LLR dedicated funds, which has given it the ability to make a greater impact than a revolving loan fund (RLF). While projects financed under the ESP do not increase the total program capacity through project interest income, the leverage in the ESP has been successful in supporting private capital capacity for a range of project types and continues to preserve program capacity to support the use of more private capital in upcoming program years. Since 2012, the ESP has financed energy projects at local governments with a total project costs of \$5,180,930. The building space impacted by the program projects total over one million square feet.

## Metrics

Commerce reports on high-level metrics of the ESP to the U.S. Department of Energy (DOE) on a quarterly basis. Project information as a cumulative summary of all projects to date can be found in the following table.

ESP State Program funds spent (\$)	ESP Private Funding Leveraged (\$)	Buildings	Total Square Footage	Calculated Energy Savings (kWh)	Estimated annual Energy Savings (\$)
\$0.00	\$5,298,463	18	1,042,360	831,146	\$296,381.26

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## Local Energy Efficiency Program

In 2019 Commerce continued outreach efforts to promote LEEP with local governments and schools as a tool to help them achieve their goals for reduced energy use, adoption of renewable energy systems and reduction in Greenhouse Gas Emissions.

Commerce focused its development efforts on identifying key barriers that prevent local entities from initiating projects. For many entities, barriers included a range of issues including a lack of funding and access to necessary resources, a lack of localized project development experience and the technical expertise needed to analyze savings, and a mismatch between the size and scope of identified projects in relation to business priorities of the pre-qualified master contractors participating in the LEEP master contract program. In one such example, Commerce worked with a small city (pop. under 5,000 residents) to engage an engineering firm through the LEEP Master Contract Program. A request for proposals was issued, yet no responses were received from the participating firms. Commerce learned that the pre-qualified master contractors were not interested in this energy project study because they deemed the project too small to be viable for their firm.

Also during 2019, the Department of Education changed its determination on the use of state long-term facility maintenance revenue dollars ruling that schools can no longer use these dollars for LEEP energy project studies.

Commerce has therefore chosen to expire the master contract program while continuing to offer technical assistance around contracting, vendor selection, and project development.

In 2020, Commerce plans to implement a new outreach process to local units of government to assist them in reaching their building efficiency and energy savings goals. Additional staff time will be allocated for LEEP work through targeting wastewater treatment facilities for energy studies, and leveraging data and engagement done through the U.S. Department of Energy Wastewater Treatment Accelerator program at Commerce.

Additionally, as an active steering member of the Minnesota GreenStep Cities program which provides technical resources to member cities, Commerce staff will work to integrate LEEP into the GreenStep program's list of best practices. Commerce will also continue to foster a partnership with the Retiree Environmental Technical Assistance Program (RETAP) housed at the Minnesota Pollution Control Agency. RETAP provides a low-level audit for businesses and public entities using retired engineers throughout the state. In 2019, Commerce identified a change to RETAP's intake process and worked with staff to integrate LEEP and GESP into RETAP

messaging, along with changing RETAP preliminary energy reports for local governments to include a recommendation to leverage LEEP or GESP for full project implementation.

## Metrics

Commerce reports on high-level metrics of the LEEP to the U.S. Department of Energy (DOE) on a quarterly basis. At the time this report was written, Commerce had completed the following 2019 milestones and metrics:

**2019 LEEP Metrics Overview**

Metric Description	2019
<b>Organizational Outreach Contacts</b>	
Number of detailed contacts (count)	50
<b>Workshops, Training &amp; Education</b>	
Number of sessions (count)	4
Number of people attending (count)	133

## Conclusions & Next Steps

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Commerce will continue to develop the Energy Savings Partnership with the Saint Paul Port Authority in the coming year through specifically identified improvements to the program. This includes: better aligning ESP marketing with Commerce energy programs; increasing the outreach for the program through better tools and event presence; building new external-facing program documents to better integrate with local government projects and finance flows; and improving reporting information and internal review processes. The contract between Commerce and the SPPA will be up for renegotiation again in 2020, allowing for more specific definitions of expectations from both parties.

Commerce will reboot LEEP in order to better reach local governments and provide additional value, from partnering with new outside organizations that have deep relationships with elected officials and staff at local governments, to integrating LEEP into utility programs and marketing to help achieve their energy reduction goals alongside local governments. In addition, Commerce will continue working with its key partners including the CERTs, the MN Pollution Control Agency, and the Department of Education to target local governments and schools with potential for improvement. LEEP will continue to be an important part of Commerce's technical assistance portfolio for local governments, complementing the Guaranteed Energy Savings Program and Energy Savings Partnership.

In 2020, Commerce staff will continue to focus efforts on refining these programs, identify the resources necessary to support these programs, and work with outside organizations and utilities on outreach efforts that drive energy efficiency projects across the State.