

Request for City Council Committee Action from the Department of Community Planning & Economic Development - CPED

Date: August 18, 2009

To: Council Member Lisa Goodman, Community Development Committee
Referral to: Council Member Paul Ostrow, Ways and Means/Budget Committee

Subject: Approval of contract and funding of the partnership with Center for Energy and Environment (CEE) and the City of Minneapolis for establishing an Energy Efficiency Business Loan and Grant Program as part of the City's small business assistance programs.

Recommendation: The CPED Director recommends that the City Council:

1. **Authorize an allocation of \$15,000 for the Center for Energy and Environment (CEE) for marketing and outreach efforts and an execution of the contract for the partnership of the City of Minneapolis with CEE, on establishing the Energy Efficiency Business Loan and Grant Program as part of the City's small business assistance programs; and**
2. **Approve the attached Resolution delegating authority to the Executive Director of CPED or his designee to make and execute Loan Participation Agreements and other appropriate Loan and Grant documents consistent with the Energy Efficiency Business Loan and Grant Program Guidelines.**

Previous Directives: City Council approved action on June 12, 2009 authorizing an application to the U.S. Department of Energy for \$3.9 million of EECBG funds to support proposed activities by June 25, 2009. Of that \$3.9 million, \$780,000 was recommended for a Revolving Loan Fund for Non-Residential Energy Efficiency and Conservation to help small and large businesses audit their buildings and finance energy efficiency projects.

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| Prepared by: Becky Shaw, CPED Business Finance | Phone: 612-673-5066 |
| Approved by: Charles T. Lutz, Deputy Director CPED | _____ |
| Catherine A. Polasky, Director, Economic Development | _____ |
| Presenters in Committee: Bob Lind and Becky Shaw | |

Reviews

- Permanent Review Committee (PRC): Approval _N.A._ Date _____

Financial Impact

- Other financial impact: Initial capital for the Energy Efficiency Business Loan and Grant Program would be provided by the \$780,000 EECBG grant, existing Business Finance revolving loan payments and other potential grant sources yet to be determined. The Program will eventually become self-supporting through the revolving loan fund nature of the program, similar to the other small business assistance programs of the City of Minneapolis administered through CPED.

Community Impact

- Neighborhood Notification: N.A. A city-wide program available to all Minneapolis businesses.
- City Goals: The Program meets the City's goals for Greenspace, Sustainability in an Enriched Environment.
- Sustainability Targets: The Program will assist with the City's efforts on climate change and renewable energy.
- Comprehensive Plan: Loans funded through the Program will be in compliance with the City's Comprehensive Plan.
- Zoning Code: Projects will comply.
- Living Wage/Business Subsidy Agreement Yes ____ No X The Program is not subject to the State Business Subsidy Act in that the financial assistance is less than \$150,000 and assistance for energy conservation is not a business subsidy under the Act. The Program is also not subject to the City's local Ordinance on Living Wage based on the exemption for projects under \$100,000.
- Job Linkage Yes ____ No X Projects are being undertaken for the purpose of energy conservation.

Supporting Information

In February of 2000, The Minnesota Department of Commerce approved the implementation of the One-Stop Efficiency Shop lighting program as part of Xcel Energy's 2000-2001 Conservation Improvement Program. The One-Stop Efficiency Shop is a program available to small businesses in Xcel Energy's Minnesota service territory with an electrical demand of 400kW or less. The program offers rebates combined with low interest financing to small business owners interested in decreasing overall output and increasing energy savings. The program has significantly exceeded its saving goals for the past seven years and is on track to do so again in 2009. This successful program sends a One-Stop representative to the business to perform a free audit of current lighting, usage and possible cost savings by installing more efficient lighting. One stop also offers assistance in finding contractors, filling out rebate forms, and low interest financing. To date, CEE has performed about 9,237 audits metro wide through the One-Stop Program and has completed 509 retrofits in Minneapolis for a total energy savings of 6926 kW or the energy equivalent of 3,700 cars. As you can see by the attached *Energy Efficiency in Minneapolis* map, the potential for energy savings in Minneapolis by lighting energy savings alone is enormous.

In the same model, CEE and Xcel wish to expand on the original successful One-Stop lighting program by including other energy efficiency upgrades and making funding available to business owners. During the initial free audit, One-Stop auditors would assess available energy conservation potential based on excessive waste in the business and identify projects with the most immediate payback in terms of Xcel rebates. A report would be drafted by the auditor of the most advantageous retrofits from both an energy savings and cost breakdown analysis. If an engineering survey is required for more specific cost/energy savings, a One-Stop representative would be able to find an expert in that field if the business owner requested it. For those interested in following through energy efficiency plans, CPED Business Finance would offer low interest financing and grants to

fund improvements. Applicable incentives and rebates provided by Xcel would be used to buy down the principal of the loan.

Eligible improvements under the new Energy Efficiency Business Loan and Grant Program would include:

- Lighting Technology Upgrades
- Ventilation Control Optimization
- Addition of programmable controls
- Through-the-wall air conditioning upgrades
- Retro-commissioning of HVAC systems
- Other upgrades as determined by One-Stop or Xcel auditor and approved by CEE and CPED.

Through the American Recovery and Reinvestment Act (ARRA), \$3.2 billion was allocated to the Energy Efficiency Conservation Block Grant Program (EECBG). The City of Minneapolis was an EECBG recipient in the amount of \$3.9 million. The CPED Business Finance department has been allocated \$780,000 of that EECBG to start a revolving loan fund program. CPED Business Finance would work in participation with CEE to provide a low interest business loan up to \$75,000 with the opportunity for a portion of the loan to be a grant to cover the costs of an engineering study or set up costs. The grant, in an amount of up to 10% of the loan amount, would be a prepayment credit at the back end of the loan. The Energy Efficiency Revolving Loan Fund would roll out in early fall of 2009.

Participation in the One-Stop Efficiency Shop program is still fairly low. The attached map illustrates the significant potential for energy savings in the small commercial sector in Minneapolis. The key barriers to implementation include (among others) long economic payback or low Return on Investment and budgeting or financing the projects. By developing an Energy Efficiency Business Loan and Grant program we would alleviate some of the financial burden to business owners. Funding the gap between the actual retrofit process and rebates earned back from Xcel would improve the participation in energy efficiency programs. Some contractors and vendors charge as much as 36% interest to the end user to do retrofits on lighting and new equipment. Low interest financing is definitely in demand given the current economic climate.

CPED Business Finance would accept applications for Energy Efficiency Business Loans and Grants either directly from the applicant or through CEE. Costs of energy improvements would be determined by CEE's auditors or an independent Energy Efficiency Auditor hired by the business owner. CEE would apply directly to Xcel for rebates earned on the improvements and retrofits and pay down the loan directly using rebates earned. All applicants are eligible for a 10% grant written off on the back end of the loan. The business owner would pay for the remaining expense not covered by rebates and the 10% grant. Return on investment is also determined by a CEE auditor. The payback is typically 2-3 years. Most improvements and retrofits will pay for themselves within 5 years.

A Minneapolis Mini-Pilot will be rolled out in Mid-August. The area to be audited will be the 2 blocks on either side of Lake Street and Bloomington Avenue. About 40 qualified businesses have been targeted for the initial Mini-Pilot. CEE and Lake Street Council will work together to notify businesses of the upcoming pilot program. After business owners have been notified of the project, a few days will be set aside for audits of businesses in the areas to be performed. Lighting consultants will go out to each business, draft a lighting and cost savings report and determine other potential energy savings project for the business. Based on audit results and business owner feedback, CEE, the Lake Street Council and the City of

Minneapolis will determine the best way to encourage implementation of the retrofits. Any larger energy savings will be determined by the auditor and passed on to CPED Business Finance by CEE for potential loan and grant application.

The purpose of the Minneapolis Mini-Pilot will be to gain feedback from the business owners in the Lake Street and Bloomington Avenue area. Business feedback is an integral step in devising a program that will work with and for Business owners. The goal is to reduce energy use and lower cost savings in a manner that will be extremely user friendly and create the lowest impact to day to day business as possible.

Attachments

- Exhibit A: Business Energy Efficiency in Minneapolis Map
- Exhibit B: Energy Efficiency Loan and Grant Program Fact Sheet
- Exhibit C: Energy Efficiency Loan and Grant Program Guidelines
- Exhibit D: Resolution

Exhibit B

Energy Efficiency Business Loan and Grant Program

What is the City of Minneapolis Energy Efficiency Business Loan and Grant Program?

Energy Efficiency Business Loan and Grants provide financing to Minneapolis businesses (retail, service or light manufacturing) to improve their facility in ways that would decrease the business's overall impact on the environment. The City of Minneapolis would work in participation with the Center For Energy and Environment (CEE) to provide a loan up to \$75,000 at a 3.9 percent interest rate and a grant in the amount of 10% of the project cost (not to exceed \$7,500). The grant in the form of prepayment credits on the back end of the loan would be used to pay for a business's engineering study. The loan term can be up to 5 years. Both the City and CEE charge a \$200 origination fee due at closing.

Business owners can begin by contacting a CEE Energy Efficiency representative for a free audit of their facility. Potential energy savings will be identified by the CEE Energy Efficiency representative. If significant improvements are to be made to the facility, an engineering study may have to be conducted by a certified Energy Efficiency Measure (EEM) contractor. After total project costs are determined, the business owner can apply for financing to cover the costs of improvements. The Business Finance Division of the Department of Community Planning and Economic Development (CPED) receives an [application](#) with supporting sustainable living audits and financial information. CPED processes the request for financing in participation with CEE and can close the loan in as little as two weeks.

After the loan has been closed, CEE will assist the business owner in submitting rebate paperwork to Xcel Energy. Rebate incentives are up to 60% of the installation costs.

The City cannot finance any work started prior to the loan closing.

Prepayment credits are based on the amount of the Energy Efficiency loan. A business with a \$75,000 loan may receive a maximum of \$7,500 in prepayment credits.

Who is eligible for an Energy Efficiency Business Loan and Grant?

- All businesses located in Minneapolis financing energy output reduction improvements to their facility.
- The applicant may be individual owners, partnerships, corporations, tenant operators or contract for deed partners.
- Businesses that benefit low-to-moderate income persons by creating jobs or improving services.
- Minneapolis businesses in the Xcel service territory qualified under the approved usage guidelines as determined by CEE and Xcel.

All Energy Efficiency Business Loan and Grant recipients must:

- Repay the loan and be an acceptable credit risk
- Use contractors licensed in Minneapolis
- Meet Minneapolis city codes for all rehab work or equipment installations
- Comply with Minneapolis zoning ordinances

- Make efforts to hire Minneapolis residents through cooperation with the [CPED Workforce Coordinator](#), the [Minneapolis Employment and Training Network](#) as well as JobLink.
- Not use funds for billboard advertising
- Make improvements in compliance with the CEE energy reduction standards.

Eligible improvements include:

- Lighting Technology Upgrades
- Ventilation Control Optimization
- Addition of programmable controls
- Through-the-wall air conditioning upgrades
- Retro-commissioning of HVAC systems
- Other upgrades as determined by a qualified EEM (Energy Efficiency Measures) contractor and approved by CEE and CPED.

For more information contact Becky Shaw (612) 673-5066.

All programs and guidelines are subject to change without notice.

Online information from the City of Minneapolis at www.ci.minneapolis.mn.us/cped
Updated July 28, 2009.

Exhibit C

**Energy Efficiency Loan and Grant Program
Guidelines & Requirements Summary**

The City of Minneapolis through the department of Community Planning & Economic Development (CPED) in partnership with The Center for Energy and the Environment (CEE)

has established a city-wide, loan and grant program to provide financing for energy efficiency upgrades as determined by CEE.

The purpose of this program is to provide financial assistance to improve energy efficiency or decrease output in neighborhood retail, service and light manufacturing businesses through joint private sector and public action.

The Process

Applicants will begin by calling CPED Business Finance or CEE to determine eligibility (based on Xcel servicing area and usage requirements). CEE will schedule a free audit of the facility at business owner's convenience. Audits performed by an outside auditor must be approved by a CEE representative. CEE's auditors will determine which projects are most advantageous from a usage and return on investment standpoint. A report will be drafted including cost breakdowns from the most significant projects. If the business owner wishes to move forward with retrofitting, CEE will schedule a time to send service representatives to complete retrofitting process. If business owner wishes to finance the projects, they can fill out an application through the CEE representative or contact CPED directly to facilitate the loan process. CEE would fill out proper rebate incentives and rebate paperwork to Xcel on behalf of the customer. Rebates would be used to pay down the principle balance of the loan.

The Loan

CPED will provide a loan up to \$75,000 at a 3.9% interest rate for a term not to exceed 5 years. A grant in the amount of 10% of the total project cost (not to exceed \$7,500) would be paid back in the form of a prepayment credit. The grant portion would be written off the remaining principle balance of the loan on the back end of the loan. All eligible rebates would be used to pay down the principle balance of the loan. An application fee in the amount of \$200 will be collected by CPED at the time of the loan closing.

Eligible Applicants

- An applicant must be in Xcel's servicing area and qualify through CEE's usage requirements.
- An applicant must have the ability to repay the loan and be an acceptable credit risk as determined by the lender.
- An applicant's property status must be as a conforming use or a legal non-conforming use under the City's Zoning Ordinance.

Priority will be given first to those business which, without the low rate of return, are unable to improve their property or expand their business. Secondly, priority will be given to those businesses located in Priority or targeted areas of the City. If the business is not located in a targeted area, then the extent to which the project will benefit low to moderate income persons through job creation or improved services will be considered. Thirdly, priority will be given to applicants with personal net worth less than \$1 million. Subject to these priorities, the City in reviewing applications will also consider the date of the application, the extent of the improvements leveraged by revolving loan funds and the extent of reduction of overall output or total kWh savings.

Eligible Improvements

- Lighting Technology Upgrades
- Ventilation Control Optimization
- Addition of Programmable Controls
- Through-the-wall Air Conditioning Upgrades
- Retro-Commissioning of HVAC systems

- Other upgrades as determined by a qualified Energy Efficiency Measures (EEM) Contractor and approved by CEE and CPED.

For more information

For additional information please contact:

Becky Shaw (612) 673-5066

City of Minneapolis
Department of Community Planning and Economic Development
Crown Roller Mill
105 - 5th Avenue South, Suite 200
Minneapolis, MN 55401-2534

Kristen Funk (612) 335-3487

Center for Energy and Environment
2121 3rd Avenue North, Suite 560
Minneapolis, MN 55401-2534

**RESOLUTION
of the
CITY OF MINNEAPOLIS**

By _____

Delegating Authority to make and execute Loan Participation Agreements and other appropriate loan and grant documents consistent with the Energy Efficiency Loan and Grant Program Guidelines.

Resolved by The City Council of The City of Minneapolis:

Authority is delegated by the City Council to the Director of the Department of Community Planning and Economic Development (CPED) or his designee the Manager of Business Finance for CPED, to make and execute Loan Participation Agreements and other appropriate Loan Documentation not to exceed the City Council authorized appropriation for the Energy Efficiency Loan and Grant Program.

Certified as an official action of the City Council:

| RECORD OF COUNCIL VOTE (X INDICATES VOTE) | | | | | | | | | | | | | |
|---|-----|-----|------------|--------|------------------|-----------------|----------------|-----|-----|------------|--------|------------------|-----------------|
| COUNCIL MEMBER | AYE | NAY | NOT VOTING | ABSENT | VOTE TO OVERRIDE | VOTE TO SUSTAIN | COUNCIL MEMBER | AYE | NAY | NOT VOTING | ABSENT | VOTE TO OVERRIDE | VOTE TO SUSTAIN |
| President Johnson | | | | | | | Goodman | | | | | | |
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PASSED _____
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APPROVED NOT APPROVED

DATE

ATTEST _____
 CITY CLERK

 MAYOR DATE