CONNECTICUT GREEN BANK
Board of Directors

Minutes – Regular Meeting
Friday, January 15, 2016

A regular meeting of the Board of Directors of the **Connecticut Green Bank (the "Green Bank")** was held on January 15, 2016 at the office of the Connecticut Green Bank, 845 Brook Street, Rocky Hill, CT, in the Colonel Albert Pope board room.

1. <u>Call to Order</u>: Catherine Smith, Chairperson of the Green Bank and Commissioner of the Department of Economic and Community Development ("DECD"), called the meeting to order at 9:00 a.m. Board members participating: Mun Choi; Bettina Ferguson, State Treasurer's Office; Norma Glover; John Harrity; Reed Hundt (by phone); Rob Klee, Vice Chairperson of the Green Bank and Commissioner of the Department of Energy and Environmental Protection ("DEEP"); Matthew Ranelli; Patricia Wrice.

Members absent: Tom Flynn and Kevin Walsh

Staff Attending: George Bellas, Andy Brydges, Joe Buonannata, Craig Connolly, John D'Agostino, Mackey Dykes, Brian Farnen, Bryan Garcia, Ben Healey (by phone), Dale Hedman, Bert Hunter, Andrea Janecko, Alex Kovtunenko, Alysse Lembo-Buzzelli, Jane Murphy, Kerry O'Neill, Cheryl Samuels, Genevieve Sherman and Kim Stevenson.

Others Attending: Henry Link, Melissa Patterson-Meador and Mike Trahan.

2. <u>Public Comments</u>

There were no public comments.

3. <u>Consent Agenda</u>

Ms. Smith explained to the Board that Mr. Garcia would review program and budget progress to targets during the President's Update portion of the agenda, and then called for discussion and a vote on the items in the Consent Agenda.

Upon a motion made by Mr. Klee, seconded by Mr. Harrity, the Board members voted unanimously in favor of adopting the Consent Agenda and Resolution #1 as written.

Resolution #1

Motion to approve the minutes of the Board of Directors Regular Meeting for December 18, 2015

4. President's Update

Mr. Garcia informed the Board that U.S. Department of Housing and Urban Development Secretary Julian Castro was visiting several Connecticut cities that day and that CGB staff Kerry O'Neill and Gladys Rivera would attend at least one of the scheduled events. Next, Mr. Garcia updated the Board on the "Energy on the Line" partnership between the Green Bank and DECD, stating that the $800,000 of incentives had been approved by the Manufacturing Innovation Fund advisory board - bringing the opportunity for C-PACE financing to more manufacturers. Lastly, Mr. Garcia invited the Board to visit the Green Bank's recently launched website, www.ctgreenbank.com.

Program and Budget Progress to Targets

Mr. Garcia updated the Board on how the Green Bank was progressing programmatically, as well on budget progress to targets. Regarding the Residential programs, he explained that the Smart-E Loan program is behind on its fiscal year goals due in part to (1) competition from another loan product (i.e., the utility subsidized Heating Loan) that was discussed with the Board in December where there is a target of 135 loans and only 44 loans closed to date, and (2) lack of origination efforts through the CHIF/HES channel where the goals were set by the utilities to originate 300 loans and only 10 loans have been closed to date. Mr. Garcia added that he and Ms. O'Neill are going to shift focus since there is very little that can be done to meet these goals and focus efforts on health and safety issues with low-income and multifamily programs.

Mr. Garcia noted that the Green Bank is beginning to see projects emerge from private capital partners and that an organizational effort moving forward will be to continue to unlock those markets. He stated that the Green Bank will assess staying in the market if necessary to move projects forward or stepping out to allow for the private sector to continue progressing, while the Green Bank focuses on other areas.

Regarding the budget, Mr. Garcia explained that the Green Bank model is in full effect, with current assets shifting to other assets (i.e., loans and leases), and that the FY 2016 budget is ahead on revenue projections and behind on expenses. Mr. Bellas noted that expenses are likely to pick-up for marketing and other consulting services in Q3 and Q4.

Ms. Smith asked what risk the current low energy prices pose to the Green Bank, if any. Mr. Garcia replied that the source of funds received by the Green Bank remains steady. Mr. Harrity then asked if low energy prices could hurt the demand for clean energy upgrades, to which Mr. Hunter explained that there is a natural replacement market for some equipment, so residents should still be encouraged to upgrade outdated and inefficient equipment.

Mr. Klee asked if a seasonality trend is apparent with solar. Ms. O'Neill replied that the Green Bank sees seasonal variances with the installation of solar systems, but that the sales cycle is steadier year round – as evidenced by past Solarize campaigns that have been successful even in cold weather months.

Ms. Glover asked if there is an assumption that more solar companies entering the Connecticut market will translate into increased adoption of solar systems. Mr. Hunter replied in the affirmative, explaining that companies take a significant step entering the Connecticut market which is between a much larger New York market and a heavily subsidized Massachusetts market. Ms. O'Neill added that the market should continue to grow with the recent multi-year extension of the Federal Investment Tax Credit ("ITC"), with Attorney Farnen noting that the Green Bank will likely not see the expected bump in installations this year because of the extension.

Ms. Smith echoed Mr. Garcia's earlier request that the Board continue to provide consistent feedback to Green Bank staff in the future.

5. <u>Board of Directors Strategic Discussion</u>

Mr. Garcia explained that this portion of the agenda would focus first on "green bonds," then on the Green Bank's evaluation framework.

Green Bonds

Mr. Garcia reminded the Board that discussions on bonding have gone back several years with the Connecticut Office of the Treasurer ("OTT") and acknowledged that Ms. Ferguson and OTT will continue to be a key partner of the Green Bank moving forward.

Regarding the public policy that allows the Green Bank to issue bonds, Mr. Garcia explained that it allows issuance of revenue bonds authorized by a resolution of the Board to support the purposes of the organization. He noted that the legislation allows the Green Bank to establish a non-impairment provision of the system benefit fund received by the Green Bank to protect bond holders. He noted that the organization has access up to $100 million of a Special Capital Reserve Fund (SCRF) to support the issuance of bonds

Mr. Hunter provided an overview of the Green Bank's bond strategy, including a reminder that in the fall of 2015, 20 firms responded to a Request for Proposals and were selected to perform the role of book-running senior manager, co-manager, and/or private placement agent for bonds issued by the Green Bank.

Ms. Ferguson noted that OTT has done three green bond issuances to date. Ms. Smith asked what the pricing may look like, to which Mr. Hunter replied that pricing will depend on the issuance. He added that if the bonds are Special Capital Reserve Fund ("SCRF")-backed, the credit rating will be a bit lower than the State's general obligation bond rating. Mr. Hunter also provided an example, stating if the State is AA rated, the Green Bank issued bonds may be AA-, which should cost the Green Bank just 10-15 basis points more than the State rate.

Mr. Hundt asked why the Green Bank's bonds would be rated lower than the State's. Mr. Hunter replied that the input the Green Bank received was related to bond issuance backed by leases with a State agency. He added that when dealing with counterparties rated at a certain level, it is hard to improve upon a credit rating unless you supplement it with something else – an additional undertaking or collateral. Ms. Ferguson agreed, adding that it is a longstanding practice with the rating agencies.

Ms. Smith expressed interest in how the process might work for the Green Bank to receive its own credit rating, being a small agency relative to the State. Ms. Ferguson replied that even though the Green Bank's rating will be lower than the State's, as a new credit in the market, she believes the Green Bank can receive a good price (interest rate) for its issuances.

Regarding the bonding timeline, Mr. Hunter explained that each bond issuance will require separate Board approval. He noted that Green Bank will plan to submit a master trust indenture at the April Board meeting (which falls on Earth Day) and discuss a plan for financing products and projects. He added that at the June Board meeting, the Green Bank will ask the Board to review and approve a Comprehensive Plan for Fiscal

Years 2017-2018, inclusive of authorization to use bond funds as a source of capital with SCRF.

Mr. Klee acknowledged that the Green Bank has set a solid framework for potential bond issuance and Ms. Glover praised Ms. Ferguson's efforts at OTT on this topic. Ms. Smith added that with the State frequently coming close to its bonding cap, it is good to have the Green Bank as another avenue for issuing bonds.

Mr. Harrity asked if it is possible to do a retail type bond so that people can invest in the Green Bank's bonds. Ms. Ferguson replied that every State issued bond has a one day retail period supported by a marketing campaign to alert potential investors. She added that there is often a very good response during the retail period and restated her initial thought that as a new name in the market, the Green Bank's bonds will also be well received. Staff agreed to investigate retail bond issuances in denominations less than the typical minimum of $5,000.

Evaluation Framework

Mr. Garcia explained to the Board that the team is working on an evaluation framework for green banks based on the mission and goals of the Connecticut Green Bank. He noted that one of the five key points of a recently released report of the SEE Action report from December 2015 was to develop a program logic model to illustrate the market transformation theory for financing products. Having set some context, he turned the presentation over to Mr. Brydges to explain the model.

Mr. Brydges described the Green Bank's effort to develop an organization-wide evaluation, measurement and verification ("EM&V") framework, noting that the first step was to create a program logic model and input the Green Bank's data to track the progress of its programs. Mr. Brydges provided an overview of the seven steps of the model, beginning with the Green Bank's financing and marketing programs and data accessibility, and ending with prospective impacts, including increased financial savings, investments and jobs, and decreased greenhouse gas emissions. The focus of the discussion was on the "Financing Market Transformation Process" portion of the model which describes a long-term feedback loop whereby increasing the supply of capital and consumer demand results in greater data availability and a lower risk profile for clean energy investments.

Mr. Klee noted that Green Bank funds are only part of this model and that it is also important to factor in its marketing and other support. Ms. Smith asked if, at a macro-level, companies are doing better because of these savings, including with job growth.

Additionally, Ms. Wrice inquired if the social benefits like public health of having these savings were also being captured, to which Mr. Garcia and Mr. Brydges replied that the model does discuss indirect factors. Mr. Garcia added that they are looking into health and safety benefits, and that, eventually, the Green Bank will collect that data for evaluation to attempt to quantify those benefits.

Ms. Glover stated that it will be interesting to deploy this model, and asked if it will be applicable to most of the Green Bank's programs. Mr. Garcia replied in the affirmative, explaining that people will now be able to track the programs' progress and that the model will help the Green Bank focus on key performance indicators and that this evaluation framework will be useful to other green banks.

Mr. Ranelli expressed hesitation around the idea of attribution, stating that while all factors have to be measured, it may be difficult to tell whose effort is doing what. He recommended that a frank discussion should be had on reduction of greenhouse gas emissions and advised that this is something to consider as selling off renewable energy credits ("RECs") is not a one-to-one benefit.

Mr. Brydges described a former Green Bank program (i.e., CT Solar Loan) within the parameters of the model, but acknowledged that some work must still be done to present the model more clearly. Mr. Garcia noted that the Green Bank's efforts on the model should encourage other states to share their data and best practices.

Mr. Klee stated that the full story of this model should be financing, as well as installer/distributor and customer perspectives. He asked how the model would be shared, to which Mr. Garcia replied that data will initially be presented via Yale University and SEE Action network webinars, but more thinking will need to be done regarding how actively it will be promoted beyond that.

Mr. Hundt stated that it was announced in Paris that ClimateWorks Foundation is providing seed funding for a new global green bank network, spearheaded by the Coalition for Green Capital and the Natural Resources Defense Council. He noted that the program logic model could be an exciting tool for the network and that the Connecticut Green Bank should use that channel to discuss evaluation frameworks for green banks.

Mr. Harrity asked about the potential for competition amongst green banks for access to private capital. Ms. Smith replied that the more the green banks pass off to the private sector, the better, and added that if the programs work, they will continue to attract private capital. She expressed that the staff should keep the model usable and not get too caught up in too much analysis. Mr. Brydges noted that this issue is a prime argument for regionalization, since neighboring states often have differing ways of doing business. Mr. Klee agreed with Mr. Brydges' point – particularly from the contractor perspective, and Ms. O'Neill added that the Green Bank is already having informal conversations with neighboring states and lenders on Residential PACE so that the region becomes more attractive to investors.

6. <u>Staff Transaction Recommendations</u>

Mr. Garcia introduced the staff transaction recommendations, noting that the small hydro transaction would be pulled from consideration and reintroduced likely at a special Board meeting later in the first quarter of 2016.

Mr. Hundt drew the Board's attention to an op-ed in the January 14, 2016 edition of the *New York Times* co-authored by U.S. Senator Lisa Murkowski entitled "Stop Wasting America's Hydropower Potential." The Board and Green Bank staff agreed to discuss the topic in more detail at a later meeting and that connecting with DEEP on the subject matter was appropriate.

Residential Sector Programs Transaction Recommendations

Working Capital Program

Mr. Healey discussed the request to extend the scope of the existing $5 million residential sector Working Capital Loan Guarantee program.

Mr. Healey explained that the program was initially approved by the Board about two years prior for the CT Solar Loan, CT Solar Lease and Smart-E Loan programs and that Green Bank staff now feels it should be expanded across all Board-approved Green Bank residential financing programs. He noted that the purpose of the program is to give qualifying contractors/developers access to increased lines of credit and noted that Webster Bank would continue providing the funds, secured by a guarantee from the Green Bank.

Mr. Healey stated that the request is for the Board to approve an increase in the maximum credit limit of a working capital line of credit to $2.5 million for the PosiGen engagement and $500,000 for all other contractors participating in Green Bank residential financing programs. He explained the rationale of the request to the Board, stating that this program would continue to provide contractors with access to low-cost capital and also assist PosiGen with entering the Connecticut market.

Ms. Ferguson asked if PosiGen entering the Connecticut market was the impetus for the request, to which Mr. Healey replied that though the Green Bank had been considering the expansion for some time, PosiGen's growth trajectory did spur the action. Ms. Ferguson then asked how much working capital has been used from the existing program and Mr. Healey explained that the minimal amount that has been used has been fully repaid.

Upon a motion made by Mr. Ranelli, seconded by Mr. Klee, the Board members voted unanimously in favor of adopting the resolution regarding the Residential Working Capital Program as written. Ms. Smith and Ms. Glover were not present at the time of the vote.

<u>Resolution #3</u>

WHEREAS, in March of 2013, the Connecticut Green Bank (the "Green Bank") Board of Directors (the "Board") approved the Contractor Working Capital Loan or Guarantee Program, making available up to $5,000,000 of guarantees for working capital loans issued to contractors installing residential clean energy and energy efficiency measures under the Green Bank's Solar Loan, Solar Lease and Smart-E Loan Programs; and

WHEREAS, in June of 2015, Green Bank approved the PosiGen Residential Solar Lease Engagement, making available up to $10,000,000 in debt capital for investment directly into PosiGen's Connecticut capital stack to support solar leases deployed primarily to low and moderate income households.

NOW, therefore be it:

RESOLVED, that the Board approves of the extension of the Working Capital Program to all residential financing programs supported by the Green Bank;

RESOLVED, that the Board approves of an increase in the maximum credit limit of a working capital line of credit to $2.5 million for the PosiGen Engagement and to $500,000 for all other contractors using Green Bank residential financing programs; and

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and execute and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

Note: Ms. Smith and Mr. Choi departed the meeting after the Residential recommendations. Mr. Klee assumed the role of Chairperson from this point forward.

Commercial and Industrial Sector Programs Transaction Recommendations

Working Capital and Timeliness Reserve Funds for C-PACE

Mr. Healey discussed the request to create timeliness reserve capacity associated with the Green Bank's new C-PACE financing facility with Hannon Armstrong ("HA") equal to 3% of total assets financed, not-to-exceed $750,000. Additionally, Green Bank staff is requesting the establishment of an internal working capital facility to allow for the short-term deployment of funds during construction (which would be recovered in monthly draws from HA, not-to-exceed $750,000).

Mr. Healey explained that a $500,000 timeliness reserve was in place for the previous facility with Clean Fund, so Green Bank staff hopes to establish something similar with HA. He added that the rationale for the working capital facility request is to ensure that projects move smoothly through construction without delays.

Mr. Klee asked what the Green Bank's experience has been so far on both the timeliness reserve and working capital facility, and how many C-PACE projects have experienced slow movement of funds. Mr. Healey replied that most municipalities improve their processes after completing one project; however, with over 100 municipalities opted into C-PACE and not all having done projects, the Green Bank is seeking to mitigate any potential issues. He explained that four or five projects have been impacted by slow movement of funds to date, totaling approximately $165,000 in timeliness funding released – most of which has been recovered, with the remaining funds currently being paid back via workout solutions on a few customers' property tax bills.

Mr. Healey added that the working capital facility will serve primarily as an operational smoothing tool. Mr. Bellas explained to the Board that he supports this request based on his prior experience dealing with this issue. He stated that he is hopeful that the Green Bank has forecasted this need correctly, noting that while $750,000 is a fair initial request, Green Bank staff may ask the Board later to increase the facility to $1 million.

Mr. Ranelli asked if this would be a commitment on the Green Bank balance sheet, to which Mr. Bellas replied that only the funds used would appear on the balance sheet.

Ms. Ferguson proposed that these additional funds be built-in upfront for any future financing program facilities so that the Board can anticipate such requests. Mr. Ranelli added that the request could be built into the deal so that not just Green Bank funds are being utilized.

> **Upon a motion made by Ms. Ferguson, seconded by Ms. Wrice, the Board members voted unanimously in favor of adopting the resolution regarding the Working Capital and Timeliness Reserve Funds for C-PACE as written.**

Resolution #4

WHEREAS, on December 17, 2015, Green Bank closed on a financing facility with HASI OBS OP A LLC, a Maryland limited liability company ("HA"), and HA C-PACE LLC, a Delaware limited liability company ("HA C-Pace") in support of the C-PACE program and in order to fund C-PACE transactions (the "HA Facility");

WHEREAS, at its August 17, 2015 meeting, the Green Bank Deployment Committee authorized an increase in the timeliness reserve capacity associated with the Green Bank's C-PACE partnership with the private capital provider Clean Fund, up to a not-to-exceed level of $500,000 against $18 million in assets sold, and staff has requested the establishment of similar timeliness reserve capacity associated with the Green Bank's C-PACE partnership with HA to cover the first $25 million of this new facility; and

WHEREAS, under the HA Facility, the Green Bank is permitted to advance more than its pro rata share of funds to C-PACE borrowers during construction in order to avoid disruption in construction activities, and staff has requested the establishment of an internal working capital facility to permit short term funding that will be repaid under the terms of the HA Facility.

NOW, therefore be it:

RESOLVED, that the Green Bank Board of Directors ("Board") authorizes the creation of a $750,000 timeliness reserve fund associated with the HA Facility subject to advanced amounts not to exceed three percent (3%) of all assets financed under such HA Facility;

RESOLVED, that the Board further authorizes the creation of a working capital facility associated with the HA Facility in an amount not to exceed $750,000 for the purpose of allowing the Green Bank to make construction disbursements to C-PACE borrowers in excess of the Green Bank's pro rata share of such financing, which exceedance amount will then be recovered under the terms of the HA Facility; and

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and execute and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

7. Executive Session – Personnel Matters

Upon a motion made by Mr. Ranelli, seconded by Ms. Ferguson, the Board members voted unanimously in favor of moving into Executive Session for personnel matters at 10:36 a.m.

8. Regular Session – Voting on Personnel Resolutions

The Board voted to return the meeting to regular session at 11:15 a.m. and proceeded to vote on three proposed resolutions.

Upon a motion made by Mr. Klee, seconded by Ms. Ferguson, the Board members voted unanimously in favor of adopting Resolution #5 as written.

Resolution #5

RESOLVED, that the Board of Directors of the Connecticut Green Bank (Green Bank) as required by the Operating Procedures of the Green Bank, approve of the revised director-level position descriptions for the Director and Managing Director of Commercial and Industrial Programs as presented to the Board of Directors on January 15, 2016.

Upon a motion made by Mr. Klee, seconded by Ms. Wrice, the Board members voted unanimously in favor of adopting Resolution #6 as written.

Resolution #6

RESOLVED, that the Board of Directors of the Connecticut Green Bank (Green Bank) designates the responsibility to the Budget and Operations Committee to assess and determine an adjustment in compensation for Mackey

Dykes in the event he must step-in as Interim Director until such time as the Director of Commercial and Industrial Programs position is filled.

Upon a motion made by Mr. Klee, seconded by Mr. Harrity, the Board members voted unanimously in favor of adopting Resolution #7 as written.

Resolution #7

RESOLVED, that the Board of Directors of the Connecticut Green Bank (Green Bank) designates the responsibility to the President of the Green Bank to create an Institutional sector position to meet the market needs at a level below Director and subject to the reporting out to the Chairperson and Vice Chairperson of the Board of Directors.

9. **Adjourn:** Upon a motion made by Ms. Glover, seconded by Ms. Ferguson, the Board voted unanimously in favor of adjourning the January 15, 2016 meeting at 11:21 a.m.

Respectfully Submitted,

____

Rob Klee, Vice Chairperson