

# CONNECTICUT GREEN BANK

Board of Directors

Minutes

Monday, November 13, 2017

A special meeting of the Board of Directors of the **Connecticut Green Bank (the “Green Bank”)** was held on November 13, 2017 at the office of the Green Bank, 845 Brook Street, Rocky Hill, CT, in the Colonel Albert Pope board room.

## 1. Call to Order

Catherine Smith, Chairperson of the Green Bank, called the meeting to order at 5:02 p.m. Board members participating: Rob Klee (by phone), John Harrity (by phone), Reed Hundt (by phone), Betsy Crum (by phone), Gina McCarthy (by phone), Matt Ranelli (by phone), and Eric Brown (by phone)

Members Absent: Tom Flynn and Kevin Walsh

Others Attending:

Staff Attending: Bert Hunter (by phone), Eric Shrago, Bryan Garcia, Cheryl Samuels, George Bellas, Dale Hedman, Brian Farnen, and Jeff Schub (by phone)

## 2. Public Comments

There were no public comments.

## 3. Mitigation Plan to Address the Recently Approved Budget

Commissioner Smith commended the team for their hard work. She stated that the team has worked very hard to come to conclusions, in what is not an easy situation. She stated that it's very challenging to think about running programs that require cash when that is what has been taken. She stated that staff need to really think hard about the way that they manage the remaining cash. She stated that what comes in is barely enough to cover the basic expenses. She stated that the challenges before them are how do they make sure that they are solvent over the next 12 – 18 months and how do they create a business model that's much less dependent on ratepayer money.

Reed Hundt stated that he does not agree with the idea of borrowing funds. He stated that they cannot continue to borrow into a business model that is inevitably going to produce the reality that they will go out of business. Commissioner Smith stated that they need to get to a breakeven point in the next 18 – 24 months and that the borrowing does not go into the long term.

Bryan Garcia thanked the Board for reconvening following last week's special meeting, which was held in Executive Session, due to the State budget sweeps and the impact on

the Green Bank's mission, certain commercial commitments, as well as, personnel-related matters.

Bryan Garcia stated that there were four areas that were going to be covered in the current meeting. The first being the current situation for the FY18 budget given ratepayer and RGGI sweeps to the General Fund, including the burn rate and the impact on the Green Bank's cash position.

Bryan Garcia stated that the second area of focus would be the actions to remedy the situation. He stated that this would include Senior Staff's plan to reduce operating expenses and increase revenues/cash flow to cope with the ratepayer and RGGI sweeps while continuing to make progress towards maintaining the Green Bank's mission. He stated that they are confident that they have a mitigation strategy that reduces expenses, keeps the Green Bank cash flow positive, and minimizes the impact on the programs that the Green Bank offers.

Bryan Garcia stated that the third area of focus that was requested by the Board would be the assets that are on the balance sheet that could be used to raise capital for further revenue generating investments.

Bryan Garcia stated that the last area of focus would be the covenants associated with some of the transactions, as well as, guarantees that were issued in support of other transactions with the Green Bank's private capital providers.

George Bellas provided an overview of the FY18 Budget and the cash projections through June 30, 2018, and 2019. Bert Hunter explained the cash projections graph. He stated that it shows the impact of the expenditures that are to be made over the next few months before the impact of mitigating adjustments that staff will be proposing. He stated that as expenses stand today, without any adjustments to reduce operating expenses and cash impact costs, that by April the Green Bank would be at the end of their cash. He stated that this assumes the System Benefit charge being paid in June, based off of prior discussions with OPM on sweeps that occurred several years ago. He stated that if that assumption is incorrect and that the Green Bank has to pay what is due from July of this Fiscal Year through the current date in a lump sum, as well as pay off the balance of the sweep as it comes due in the next several months, then the cash flow would be underwater quicker. Bryan Garcia stated that the sweeps have put the Green Bank into a projected negative cash flow in May of 2018.

Bryan Garcia discussed the actions to remedy the situation. He stated that the Green Bank wants the Board to understand that Senior Staff has a plan of attack to cope with the ratepayer and RGGI sweeps while minimizing the impact on the Green Bank's mission and clean energy goals. He stated that this is their statutory charge and the purpose of the ratepayer dollars and the RGGI Funds. He stated that their immediate focus is addressing the P&L and reducing operating expenses. He stated that with regards to non-personnel related operating expenses he had tasked the Senior Staff with reducing operating expenses significantly. He stated that Reed Hundt and Jeff Schub of the Coalition for

Green Capital had suggested an exercise to him. The exercise was to start with \$0 of non-personnel related operating expenses and have the staff justify expenses from there. He stated that the focus was to think about operating expenses that actually contribute to revenues or where, in the staff's judgment, a significant investment had been made to date, towards programs that have both, significant community impact, as well as, revenue potential. They would keep those. He mentioned an example. He stated that for statutory and infrastructure programs, they have a large inspector budget for the RSIP. He stated that they hire outside inspectors to randomly check projects. He stated that as they approach the 300 MW goal for the RSIP, of which they are at about 200 MW, they want to transition the market need for inspectors. The exception would be for new market entrants and problematic contractors. He stated that after 300 MW's is reached, the market will not have inspections as the RSIP incentives will no longer be offered. He stated that Dale Hedman and Eric Shrago feel that they can make significant cuts to their inspector budget by focusing on new and problematic contractors and using their resources more efficiently. He stated that for those expenses that don't contribute to revenue, they will need a strong justification to keep those. He provided an example. The Green and Healthy Homes initiative with state agency partners, they want to advance that because it is important for the low to moderate income household market development. He stated that they will reduce marketing expenses. He explained that they engage with customers a lot to educate them about the importance of Green Energy, as well as, its accessibility and affordability, along with the solutions provided by the Green Bank's products.

Bryan Garcia stated that taking all of this into consideration, they believe that they can significantly reduce the non-personnel related operating expenses. He stated that with regards to personnel related operating expenses, that discussion should be done in Executive Session.

Bryan Garcia discussed canceling the Green Bank's Research and Development initiatives. He stated that this would help them to manage their cash. He stated that there are opportunities for leadership, innovation, and new market development that they would need to forego on. He stated that the Green Bank prides itself on being a leader and innovator, but they need to set that aside to remain focused on what they need to get done to make progress towards maintaining their mission of clean energy deployment, that lowers the energy burden on families and businesses, while still creating jobs in the communities, through their existing programs.

Bryan Garcia stated that those four actions need to be addressed immediately. He proposed that they assemble a Budget & Operations Committee Meeting this week to discuss. He suggested that a recommendation by that Committee be brought to the Board before the Thanksgiving holiday.

Bryan Garcia discussed the canceling or transferring of outstanding commitments. He stated that they will take a hard look at the status of projects that have been approved by the Board, but whose transactions have not yet closed and/or are not expected to close in the near future. He stated that they have a number of Anaerobic Digestion and combined

heat and power projects that have a lot of outstanding commitments to them, in the tens of millions of dollars that are not in a position to close in the near future. He stated that those developers can always come back to the Green Bank when they have made significant progress and are closer to being shovel ready. He stated that they will need to decide which projects they should cancel outstanding commitments for, or transfer the projects to private capital providers, perhaps with credit enhancements from the Green Bank. He stated that they can address the outstanding commitments in the new year.

Bryan Garcia discussed the actions to increase revenues and access to cash by using the balance sheet. He stated that Bert Hunter would lead the way, as he has always done. He stated that the Green Bank model is all about how they use limited public funds to mobilize more private investment in Connecticut's Green Economy. He stated that last year, they used \$25 million in public funds to mobilize \$190 million of private investment. He stated that that was their greatest leverage ratio year to date. He stated that that created nearly 1,700 jobs by deploying green energy in nearly 5,500 buildings, and 1,250 units reducing the energy burden on families and businesses.

Bryan Garcia stated that they have built a balance sheet of non-current assets with loans of about \$60 million that they can use to help them borrow low and lend high, to increase revenues. He stated that Bert Hunter has a strategy for how they can increase revenues by using their balance sheet. He stated that many of the strategies that they will deploy by reducing operating expenses will help them on their path to self-sustainability. He stated that there are certain necessary actions for them to remain cash flow positive over the next two years that will also delay this goal. He stated that in some situations, it will make more sense to have private lenders step in and provide more of the financing so that the Green Bank can free up cash on their balance sheet. He stated that they have considered these needs and have developed a balanced approach.

Bryan Garcia stated that they need to look at office space to address another P&L issue. He stated that they currently sublease space from Connecticut Innovations at 865 Brook Street. He stated that they will need to do some consolidation to further live within their means. He stated that perhaps their colleagues at Connecticut Innovations would understand the situation that the Green Bank is in and would be willing to release them from the sublease. He stated that he feels confident that they understand the situation, and that management has a plan of attack to cope with the ratepayer and RGGI sweeps and continue to make progress towards maintaining their mission.

Commissioner Smith stated that they need to identify the level of expenses. She stated that when you look at the P&L, income is going to be around \$14 - \$15 million. She stated that there will be nothing left for expenses. George Bellas stated that they will be doing roughly a third of the reduction in operating expenses between now and June 30<sup>th</sup>.

Commissioner Smith questioned the canceling of outstanding commitments. Brian Farnen stated to think of them as stale projects that have gone silent over the last year. Farnen stated that those developers can always come back to us at a later date. George Bellas discussed balance sheet requirements to meet certain loan covenants in place with

lenders., stating that the Green Bank must maintain \$4 million in liquid assets for this purpose. In addition, based on the strength of its balance sheet, the Green Bank has also provided loan guarantees to several 3<sup>rd</sup> party lenders who provide loans to residential and commercial borrowers that are participating in Green Bank programs. These guarantees total approximately \$6 million. The Green Bank would have a legal obligation to make the 3<sup>rd</sup> party lender whole if there were to be a default by one of its borrowers.

Commissioners Smith and Klee questioned whether these guarantees were against the balance sheet. Bert Hunter stated yes, that the Green Bank would have to make the lender whole if there was a default. George Bellas stated that by contractual obligation the Green Bank has set aside \$1.2 million as restricted cash on its balance sheet to meet these potential obligations. Any payments made in excess of this \$1.2 million would have to come from existing unrestricted cash balances. He emphasized the importance of maintaining a minimum unrestricted cash balance of \$5 million to meet these loan covenants and guarantees.

Commissioner Smith stated that they did not discuss securitization of funding in the future. She stated that she agrees that it's not ideal to be borrowing without knowing the long-term future of the organization.

Betsy Crum stated that she thinks that the Green Bank staff has taken a hard look at a lot of things. She stated that she didn't completely understand what was being proposed around the borrowing structure. She suggested maybe restructuring the existing debt or sell some of the Green Bank's assets. She stated that this is a one time approach. She stated that this is not sustainable. She stated that she is supportive, but that they need to keep a really close eye and be willing to revisit over the next 12 – 18 months.

Brian Farnen stated that they're not talking about borrowing to pay operating expenses. He stated that they are suggesting using assets on their balance sheet to borrow against for new projects. He stated that they can minimize the use of lending off the balance sheet if we target a larger SHREC securitization. Bryan Garcia stated that they had worked into the policy, the creation of a Master Purchase Agreement with the utilities. He stated that they would purchase over a 15-year period at a price that the Green Bank had set. Brian Farnen stated that the SHREC legislation and the related MPA was done with a securitization in mind.

John Harrity stated that they need to have a strategy for preventing the Legislature from doing this in the future. He questioned if there was room to go back at this to make sure that this doesn't happen again.

Reed Hundt thanked everyone for their hard work. He stated that the operating income is \$5 million a year and that operating expenses are \$15 million a year, in addition to that, they have grants of \$9 million. He stated that they are minus \$10 million a year. He suggested a way out of paying the grants by reducing the RSIP incentive. He stated that unless they can increase revenue significantly, he doesn't see a lot of choices.

Commissioner Smith stated that it sounds like RSIP is the one outflow that they are obligated to do, but that they still have a \$10 million gap. She stated that they have ways to go to get operating expenses down. She questioned the obligation to pay the grants.

Brian Farnen stated that these are RSIP incentives that the Green Bank has already committed to for closed projects. He stated that he doesn't feel that they have a contractual out to not pay the grants.

Reed Hundt stated that they should consider it an option. He stated that as to the expenses they need to cut them to get some kind of bearable status quo. He stated that it seems that they need to reduce operating expenses significantly.

Gina McCarthy stated that they have a fundamental question to answer, and that is, do they feel that they can absorb the cuts and have a strategy to be sustainable without weakening the fundamental structures of the Green Bank. She questioned if it would be responsible to keep functioning if there's likely to be more cuts in the future.

Matt Ranelli stated that they need to decide what the cut point is, and when is it as a Board that they are at the point that it's not recoverable. He stated that the options provided have given the Board a good view, but that they need to be aware that all of the steps are attached to professionals that have poured their hard work into all of this. He stated that they need to realize that the decisions impact people that are working hard on the mission. He stated that they need to alert the Legislature. Commissioner Smith stated that they do need to communicate effectively to the decision makers.

Eric Brown stated that his sense is that the staff has been going this direction to keep achieving the mission of the Green Bank to the maximum extent in the short term. He stated that he would like them to do everything possible to maintain the integrity of the Green Bank and to sustain the mission. He noted that the Green Bank should communicate to the legislature how the sweep has slowed down their progress towards sustainability.

Commissioner Klee stated that they need to do what they can to get to that point to have a conversation with the Legislature in the sustainable future.

Reed Hundt stated that they need to consider another arm of government to take over the grant-making activities.

Brian Farnen stated that the issue with shortchanging the RSIP is that they have Legislation passed, the SHREC, which acts as the funding source for the RSIP. He stated that his concern is that this would make a non-impairment argument doubtful and cause more issues with the Legislature if we reneged on existing RSIP commitments as opposed to making reductions elsewhere.

Commissioner Smith stated that there have been a lot of ideas to follow up on and regroup after a few days of thinking. She stated that they need to consider further

expense reduction and look at the RSIP situation. She stated that there has been a lot of discussion around borrowing. She stated that they need to do a deeper dive on that.

Betsy Crum stated that they need to look at the impact on their integrity and reputation.

Matt Ranelli questioned if there is an opportunity to put staff on loan to other Green Banks as a way of reducing operating expenses. Reed Hundt stated that as a coalition other Green Banks would do that.

Gina McCarthy stated that they need to make sure that someone is taking a look at the legal requirements. Brian Farnen stated that he would take the initiative on that. He stated that it would not likely create any liability to the State, only to the Green Bank.

Bryan Garcia stated that they wanted to move forward on the immediate operating expense items. Commissioner Smith stated she didn't feel that anyone would object to that, but before they make any decisions they need to have a conversation with the Budget and Operations Committee.

4. **Adjourn**

**Upon a motion by Reed Hundt and, seconded by Matt Ranelli the meeting was adjourned at 6:14 p.m.**

Respectfully Submitted,

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Catherine Smith, Chairperson