CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY
Board of Directors
Minutes –Special Meeting
Friday, September 28, 2012

A special meeting of the Board of Directors of the **Clean Energy Finance and Investment Authority (the "CEFIA")** was held on September 28, 2012, at the office of CEFIA, 865 Brook Street, Rocky Hill, CT.

1. Call to Order: Since Catherine Smith, Chairperson of CEFIA, will be arriving late, Mr. Esty, Vice Chairperson of CEFIA, called the meeting to order at 3:38 p.m. Board members participating: Mun Choi (by phone); Daniel Esty, Vice Chairperson of CEFIA and Commissioner of the Department of Energy and Environmental Protection ("DEEP"); Tom Flynn arrived at 4:00 p.m.; Norma Glover; Reed Hundt (by phone); Sharon Dixon-Peay, State Treasurer's Office; John Olsen; Matthew Ranelli; and Catherine Smith, Chairperson of CEFIA and Commissioner of the Department of Economic and Community Development ("DECD") arrived at 3:45 p.m.

Member Absent: Patricia Wrice.

Staff Attending: Jessica Bailey, George Bellas, Mackey Dykes, Brian Farnen, Bryan Garcia, Dale Hedman, Bert Hunter, Dave Ljungquist, Cheryl Samuels, Shelly Mondo, and Kimberly Stevenson.

Others Attending: Chris Bernard, Northeast Utilities; Eric Brown, CBIA; Phil Suita, CI; John Schuyler from Marcum; Peter Tavino; and Frank Wolak, FuelCell Energy.

2. Public Comments:

Peter Tavino stated that he is very interest in discussions about the geothermal program. He indicated that he and the Connecticut Geothermal Association are willing to work with CEFIA. Mr. Tavino noted that the geothermal installers are unhappy that the commercial geothermal program did not meet expectations. He indicated that the geothermal industry could not handle paying prevailing wages that were required with ARRA funding. Mr. Tavino expressed concern with paying for a geothermal study but noted the importance of understanding the geothermal system. He stated that he is looking forward to advancing geothermal in Connecticut and helping Connecticut residents with solutions.

Ms. Smith arrived at this time.

3. Approval of Minutes of Meeting of July 27, 2012:

Ms. Smith asked the Board to consider the minutes from the July 27, 2012 meeting.

Upon a motion made by Mr. Olsen, seconded by Ms. Glover, the Board members voted in favor of adopting the minutes from the July 27, 2012 meeting as presented (Mr. Flynn was not present for the vote).

4. Update from the President:

Mr. Garcia introduced and welcomed Ms. Dixon-Peay who is representing the treasurer's office for today's meeting. He recognized Ms. Peay's efforts along with Ms. Sanders, Mr. Harris and Mr. Kirshbaum in amending CEFIA's statutes regarding bonding and the use of the special capital reserve fund. Mr. Garcia mentioned that CEFIA is attempting to modernize meetings with online capabilities through GoToMeeting.

Mr. Garcia provided an update on the Residential Solar Investment Program. He indicated that the program continues to drive down costs which have been reduced by approximately 5 percent over the last two to three months, and the payback for homeowners has been reduced by about one year. Mr. Garcia stated that step 2 progress is continuing and staff will begin work soon on a step 3 recommendation for the Deployment Committee and then the Board. He indicated that approximately $16,000,000 has been invested so far in residential solar PV with approximately $5,000,000 of incentives provided by CEFIA to support the implementation of over 3 megawatts. Mr. Garcia mentioned that staff will be working with Mr. Hundt and the Deployment Committee to discuss step 3.

Mr. Garcia mentioned that the first phase of the Solarize Connecticut Pilot Program was recently launched in connection with funding from CEFIA and the John Merck Fund to SmartPower. Four communities will participate in the first phase of the pilot program to help drive down the costs of PV. Mr. Garcia stated that customers are required to get energy assessments as part of the installation of PV systems.

Ms. Bailey provided an update on the Commercial and Industrial Property Assessed Clean Energy ("C-PACE") Program which is moving rapidly. She indicated that staff has been working on the design of the program. CEFIA has been working with towns to opt into the program by passing resolutions to collect property tax assessments. To date, two towns have passed resolutions (i.e. Bridgeport and Norwalk), and approximately six others will be ready in the next several weeks. Ms. Bailey noted that CEFIA wants to be responsive to property owners, and the goal is to close on several deals so that when the program is publicly launched in the beginning of 2013, there is proof of concept. She indicated that a Request for Qualifications has been released for program administrative support to work with CEFIA to manage the pipeline and attract projects. Additionally, a Request for Information has been released for capital providers. Ms. Bailey mentioned that the technical standards have been finalized and include questions and answers about eligibility and financing. She mentioned that Attorney Farnen has been instrumental in helping to standardize the process for the entire state. She noted that the process needs to be robust enough to attract private capital. The Board discussed some of the benefits and value of having a standardized process. The Board also expressed an interest in standardizing energy efficiency performance contracts. Mr. Hunter indicated that staff is working actively on financing for two projects and that the program has a pipeline of $5 million in transactions at this time. He noted that staff has met with regional financial institutions and a money-center bank which are very excited about the program.

Mr. Garcia mentioned that Ben Healey has been hired as the Senior Manager of Clean Energy Finance and Ali Lieberman has been hired as the Manager of Clean Energy Finance.

5. Audit, Compliance and Governance Committee ("Audit Committee") Updates and Recommendations for Approval:

Mr. Olsen, Chairman of the Audit Committee, mentioned that the Audit Committee met on September 20, 2012 with members of the audit team from Marcum, CEFIA's independent auditor, to discuss the Audited Financial Statements and the Federal Single Audit Report of CEFIA for the Fiscal Year Ending June 30, 2012. In summary, Mr. Olsen stated that CEFIA received a clean audit, and there is nothing unusual to report. He indicated that the Audit Committee recommends that the Board accepts the audit. Mr. Schuyler mentioned that Marcum issued an unqualified opinion on CEFIA's financial statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. He stated that Marcum reported on the internal controls, compliance and other matters required under Government Auditing Standards.

Upon a motion made by Ms. Glover, seconded by Mr. Esty, the Board members voted unanimously in favor of adopting the following resolution regarding the acceptance of the Audited Financial Statements and Federal Single Audit Report of CEFIA for the Fiscal Year Ending June 30, 2012.

WHEREAS, Article V, Section 5.3.1 (ii) of the Clean Energy Finance and Investment Authority ("CEFIA") Operating Procedures requires the Audit, Compliance and Governance Committee (the "Committee") to meet with the auditors review the annual audit and formulation of an appropriate report and recommendations to the Board of Directors (the "Board") with respect to the approval of the audit report; and

WHEREAS, the Committee met with the auditors on September 20, 2012 to review and recommend for approval the Audited Financial Statements and the Federal Single Audit Report of CEFIA for the Fiscal Year Ending June 30, 2012.

NOW, therefore be it:

RESOLVED, that the Board hereby accepts the Committee's recommendations for approval of the Audited Financial Statements and the Federal Single Audit Report of CEFIA for the Fiscal Year Ending June 30, 2012.

6. <u>Budget and Operations Committee ("Budget Committee") Updates and Recommendations for Approval—Revised FY2013 Budget and Program Metrics</u>:

Mr. Esty, Chairman of the Budget Committee, noted that the Budget Committee has met several times to go through CEFIA's budget elements associated with the program elements to ensure that staff and the Board has clear quantified targets and metrics for tracking progress and benchmarks over time. He noted that a positive statement was made in the report from the Brookings Institute on the state clean energy finance banks. Mr. Esty noted that the report indicates that Connecticut is breaking new grounds.

Mr. Dykes mentioned that several months ago the Board directed staff to come back with an updated fiscal year 2013 budget and to adjust the format to conform to the new financing direction of CEFIA. He mentioned that since that time, a lot of progress has been made to shape new programs and put targets in place.

Mr. Hunter noted that a detailed description of each of the programs that CEFIA will undertake in fiscal year 2013 was provided. He reviewed the program investments which are broken out by the transitional (nonrecurring programs), the new programs and the provisions for loan losses. Mr. Hunter mentioned that the amounts in the fiscal year 2013 budget for some of the new programs, (i.e. solar lease, solar loan and energy efficiency loan program) will be significantly higher for fiscal year 2014. He noted that it is the intent of staff to have a two to three year budget in the future so that the Board can see the larger picture and better gauge CEFIA's goals and their impact on CEFIA's balance sheet and capital position.

Mr. Hunter explained that since CEFIA is more like a financial institution, it is appropriate to set aside funds in the budget for potential loan losses. He noted that this issue was discussed with the Budget Committee, and the Budget Committee agreed on an adequate amount of reserves for loan losses. This will be done over a two year cycle, and approximately $2,500,000 is allocated in the 2013 fiscal year for loan losses; and it is likely that a similar amount will be included in the 2014 fiscal year. Mr. Hunter explained the difference between loan loss reserve and interest-rate buy downs. He stated that the loan loss reserve acts as a credit enhancement mechanism provided for private capital to incentivize their participation in the energy efficiency and clean energy market. Interest-rate buy downs are payments to financial institutions to enhance the yield to the lender on a transaction so that the end user pays a lower interest rate. He explained how the total incentives are calculated with the loan loss reserves, interest rate buy downs, grants and financial incentives. In response to a question about the provision for loan loss, Mr. Hunter explained that a higher percentage of reserve is being taken in fiscal year 2013 even though there will not be as much activity as is expected in fiscal year 2014 so there is a more balanced impact on the profit and loss statement.

With respect to Project 150, staff was asked to notify the Board immediately if the projects are not going to move forward.

Mr. Hunter discussed the proposed income for fiscal year 2013. At the request of the Budget Committee, Mr. Hunter mentioned that staff revisited the estimates for customer utility assessments and verified the projections with the Conservation and Load Management Plan issued by the Public Utilities. As a result of this further analysis, Mr. Hunter stated that the customer utility assessment amount that was presented to the Budget Committee has been reduced by $150,000. In response to a question, Mr. Esty indicated that $2,000,000 is a fair estimate for the Regional Greenhouse Gas Initiative ("RGGI") funding proceeds. Staff was asked to inform the Board if the actual RGGI proceeds are under budget projections. Mr. Hunter reviewed the budget projections for expenses, and summarized that CEFIA is projecting to be close to a breakeven point with income and expenses for fiscal year 2013. The Board discussed projected administrative fees. A suggestion was made to allocate certain expenses to programs where appropriate and to make it clear that CEFIA is also managing approximately $25,000,000 of past commitments. It was noted that it is difficult to compare the budget with the audited financial statements for fiscal year 2012 because of the differences with reporting. Mr. Hunter reviewed the Projected Profit and Loss Statement, Projected Statement of Cash Flows and Projected Balance Sheet.

Questions arose regarding the American Recovery and Reinvestment Act ("ARRA") funds. Mr. Garcia explained that the former Connecticut Clean Energy Fund ("CCEF") received $20,000,000 of the $36,000,000 allocated to the State of Connecticut under ARRA. CCEF's funds were used to provide support for fuel cells, solar PV, geothermal and thermal solar. Mr. Garcia explained that two new programs had to be created and the project development cycles for fuel cell projects is quite extensive. As a result, last fall, rather than risking the loss of approximately $8,300,000 of potential unspent funds, CEFIA asked and received approval from the Federal Department of Energy ("DOE") to repurpose the funds as financing programs. Mr. Garcia stated that the ARRA funds, for purposes of the DOE, are considered spent; and CEFIA will use the ARRA funds under newly developed financing programs that are consistent with its new mission. Those funds will attract private capital through credit enhancements, a strategy that is more consistent with CEFIA's new financing mission. It was noted that while waiting for approval to repurpose the funds, the projects in the ARRA pipeline received CEFIA funding through the Clean Energy Fund (i.e. 1 mil surcharge on ratepayer bills), which are less restrictive and a better match for the projects in the pipeline. It was noted that CEFIA's funds were used in substitute of some of the ARRA funds to help stimulate the economy. Mr. Hunter noted that $3,000,000 of CEFIA's funds were being used in new programs to leverage approximately $50,000,000 of private capital; whereas, the ARRA funds were matched dollar for dollar.

In response to a question, Mr. Bellas explained the independent valuation process performed every year to determine the value of assets. With respect to OptiWind, Mr. Bellas explained that the company had been written down, and staff and CEFIA's independent auditors receive the company's financial statements. Mr. Schuyler confirmed that Marcum participated in the valuation process for CI and CEFIA.

Mr. Esty mentioned that staff has been asked to present financial statements to the Board on a quarterly basis. The Budget Committee will receive the Statement of Income and General Operations and Program Expenses; Statement of Revenues, Expenses and Change in Net Assets; Statement of Cash Flows; Statement of Net Assets; Statement of Program Investments; and Statement of Incentives, Grants and Rebates on a monthly basis. If there are significant changes, Mr. Esty stated that the Board will be notified immediately.

Mr. Dykes explained that the program budget has been broken into four different categories—1) the loan programs, 2) the programs to be transitioned, 3) the programs to be maintained and 4) the statutory programs. He noted that 37 programs have been reduced to 4 programs. Mr. Dykes noted that the operational/support category includes operational expenses and staff salaries and benefits. He reviewed the performance metrics, noting that the first metrics is the "amount of clean energy deployed per dollar of ratepayer capital invested." A recommendation was made to include "jobs" to the list of metrics. Mr. Dykes noted that the loan program is for two calendar years. He talked about the targets for the loan programs. Mr. Garcia explained how CEFIA over two years will be able to leverage significantly more private capital and produce more megawatts with fewer dollars than CCEF did over 10 years.

Mr. Dykes spoke about the budget and targets for the residential loan programs through calendar year 2014. It was noted that the targets will be embedded in the performance goals of the staff. Management will ensure that staff understands the goals of CEFIA. A discussion ensued on the Governor's Comprehensive Energy Strategy that will be announced in the near future. It was noted that CEFIA is working to demonstrate its transition to a new financing model that produces more, cheaper and faster, leveraging more private capital.

Staff reviewed the budget and targets for the commercial/industrial programs; the Municipal, University, School and Hospital ("MUSH") Loan Program; grid-tied Renewable Energy projects; Transition programs; programs to be maintained; and statutory programs.

> **Upon a motion made by Mr. Esty, seconded by Mr. Olsen, the Board members voted unanimously in favor of adopting the following resolution accepting the revisions to the FY2013 Budget and Program Metrics:**

WHEREAS, Article V of the Clean Energy Finance and Investment Authority ("CEFIA") Operating Procedures requires the CEFIA Board of Directors ("Board") to adopt an Annual Operating Budget for each forthcoming fiscal year; and

WHEREAS, Article V, Section 5.3.2 of the CEFIA By-laws charges the Budget and Operations Committee to recommend to the Board the annual operating budget; and

WHEREAS, the Board directed CEFIA staff to provide an updated Fiscal Year 2013 budget; and

WHEREAS, the CEFIA staff provided an updated Fiscal Year 2013 budget to the Budget and Operations Committee on September 21, 2012; and

WHEREAS, the Budget and Operations Committee recommends to the Board for approval the updated Fiscal Year 2013 Budget.

NOW, therefore be it:

RESOLVED, that the Board hereby approves the Budget and Operations Committee recommendation of the updated Fiscal Year 2013 budget.

7. Technology Innovations Committee Updates:

Mr. Choi, Chairman of the Technology Innovations Committee, reported that contracts have been executed with Apollo Solar and Anchor Science under the Alpha Program. He mentioned that staff is performing due diligence for four projects under the Operational Demonstration Program, including RPM, New England Hydropower, Fuel Cell Energy and Owl Power Company. Staff is in the process of closing out existing non-performing investments and has transitioned existing investments to CI to manage. In response to a question, it was noted that the assets and equipment at Tallon Lumber will be auctioned.

8. Deployment Committee Updates:

Mr. Garcia mentioned that under the Campus Efficiency Now program, the contracts have been closed and the Energy Savings Agreement Program has been launched. Several colleges and universities are helping to identify projects for Energy Savings Agreements (ESA). Mr. Garcia reported on the Multifamily Energy Loan Fund and indicated that a letter has been submitted to the U.S. Department of Housing and Urban Development in support of an innovative financing program with Winn Development, LISC and CHFA that uses ESAs and credit enhancements to finance energy efficiency at multifamily properties. Staff was asked to determine whether loans can be provided for enhanced energy efficiency measures in new construction.

9. Approval of the 2013 Board Meeting Schedule:

Ms. Smith asked the Board to consider the 2013 Board meeting schedule for the 2013 calendar year.

> Upon a motion made by Ms. Glover, seconded by Mr. Ranelli, the Board members voted unanimously in favor of approving the regular meeting schedule of the Board of Directors for 2013 for the Clean Energy Finance and Investment Authority as follows:

- March 15, 2013
- June 21, 2013
- September 20, 2013
- December 20, 2013

and the following list of dates if necessary:

- January 18, 2013
- February 15, 2013
- April 19, 2013
- May 17, 2013
- July 19, 2013
- August 16, 2013
- October 18, 2013
- November 15, 2013

10. Adjournment: Upon a motion made by Ms. Glover, seconded by Mr. Ranelli, the Board members voted unanimously in favor of adjourning the September 28, 2012 meeting at 5:05 p.m.

Respectfully submitted,

Catherine Smith, Chairperson