BUDGET AND OPERATIONS COMMITTEE OF THE
CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY
Minutes – Special Meeting
Friday, June 15, 2012

A special meeting of the Budget and Operations Committee ("Budget Committee") of the Board of Directors of the **Clean Energy Finance and Investment Authority (the "CEFIA")** was held on June 15, 2012, at the office of the CEFIA, 865 Brook Street, Rocky Hill, CT.

1. **Call to Order**: Daniel Esty, Chairperson of the Budget Committee, called the meeting to order at 4:10 p.m. Budget Committee members participating: Mun Choi, Daniel Esty, and Norma Glover.

Other Board members attending: Reed Hundt (by phone); Donald Kirshbaum, State Treasurer's Office; John Olsen (by phone); Matthew Ranelli (by phone); and Catherine Smith (by phone), Chairperson of the CEFIA Board and Commissioner of the Department of Economic and Community Development.

Staff Attending: George Bellas, Mackey Dykes, Brian Farnen, Bryan Garcia, Bert Hunter, Shelly Mondo and Cheryl Samuels.

2. **Public Comments:** There were no public comments.

3. **Approval of Meeting Minutes:**

Mr. Esty asked the Budget Committee members to consider the minutes from the May 5, 2012 meeting.

> **Upon a motion made by Ms. Glover, seconded by Mr. Choi, the Budget Committee members voted unanimously in favor of adopting the minutes from the May 5, 2012 meeting as presented.**

4. **FY2012 Budget Reallocation:**

Mr. Dykes explained that there are several items from the fiscal year 2012 operating budget that are anticipated to be slightly over budget and will require a budget reallocation. In accordance with CEFIA's Operating Procedures, any expenditure over $10,000 must be approved by the full Board, and staff would like the Budget Committee to review the proposed reallocations and make a recommendation to the Board. Mr. Dykes stated that legal expenses are anticipated to be approximately $24,000 more than projected due to additional expenses incurred during the CEFIA transition to a quasi-public agency, and advisory expenses are anticipated to be approximately $48,000 higher than projected due to expenses incurred to recruit an Executive Vice President/Chief Investment Officer. Therefore, staff recommends reallocating $72,000 from marketing and external relations to cover the anticipated additional legal and advisory expenses. Mr. Dykes stated that staff also recommends reallocating $15,000 from salaries and wages and $11,000 from travel and subscriptions to cover higher than anticipated expenses for temporary employees due to unexpected vacancies in the accounting department. In response to a question, Mr. Garcia indicated that he is comfortable with the proposed recommendations. Staff clarified that the recommendation is to reallocate funding within the approved budget and not increase the overall budget.

Upon a motion made by Ms. Glover, seconded by Mr. Choi, the Budget Committee members voted unanimously in favor of recommending to the Board reallocations between budget line items in the FY2012 Budget as follows:

- **Reduction of $72,000 from marketing and external relations of which $24,000 will be allocated to legal expenses and $48,000 will be allocated to advisory expenses.**
- **Reduction of $16,000 from salaries and wages and $10,000 from benefits to be reallocated to temporary employees.**
- **Reduction of $11,000 from subscriptions to be reallocated to travel and entertainment.**

Staff asked for additional information on the areas where funding was significantly under or over budget.

5. <u>Purchasing and Accounts Payable Policies and Procedures</u>:

Mr. Dykes explained that CEFIA's Purchasing and Accounts Payable Policies and Procedures were adopted by the Board in December 2011. He stated that staff recommends minor changes in the policies and procedures to give the Chief of Staff signatory authority to approve items such as office supplies, office furniture, fixtures and equipment, subscriptions and reference materials, computer equipment and software; travel and entertainment, financial assistance, sponsorships and memberships, etc. Mr. Dykes explained that having the additional authorized signatory will help manage the day-to-day activities. He stated that expenditures above $25,000 would still require two authorized signatories. In response to a question, Mr. Bellas indicated that the auditors annually review CEFIA's internal control processes, policies and procedures and reports to the Budget Committee and/or Board on any deficiencies. Staff was asked to be proactive and seek approval from the auditors on the recommended change before the June 20 CEFIA Board meeting.

Mr. Dykes suggested that the Budget Committee recommend that the Board delegates authority to the Budget Committee to make changes to CEFIA's procedures and policies. In response to a question, Mr. Dykes stated that the CEFIA Bylaws authorize the Board to delegate any and all things necessary or convenient to carry out the purposes of the organization. After discussion on the issue, there was consensus not to recommend the change because the Board is not burdened by such tasks at this time.

There was also consensus that in the future the recommendation to delegate authority should come from the Board rather than a committee of the Board.

6. Review of Proposed FY13 Budget:

Mr. Esty thanked the Board members for participating in the meeting to discuss the proposed fiscal year 2013 budget. He noted that developing the fiscal year 2013 budget will be fundamental to the success of CEFIA going forward.

Some concern was expressed that the budget information provided does not include a budget perspective of the broader tools now available for CEFIA to fund other types of programs. The Budget Committee members spoke about the confidence they have with the CEFIA team in place to help guide away from a governmental subsidy model to a model where CEFIA can leverage private capital to fund clean energy. There was general consensus that while an interim budget is necessary, staff should develop, over the next 60 to 90 days, a supplemental revised budget that includes a proposed spending and financing strategy to reflect CEFIA's new funding tools and programs.

Mr. Esty talked about the Governor's comprehensive energy strategy and the need for CEFIA to build upon and be consistent with the state's strategy. He mentioned that the Governor announced several goals for the state which include: 1) reducing the state energy spending by 10 percent by the end of the calendar year; and 2) that Connecticut will be the most energy efficient state by the end of his first four-year term as Governor. Mr. Kirshbaum mentioned that the Treasurer's office is working with DEEP and the Office of Policy and Management ("OPM") on developing an energy efficiency program for state agencies and municipalities. He stated that there may be some benefits in having CEFIA issue the bonds for the program rather than using general obligation bonds. There was general consensus to have staff work with the Treasurer's office, OPM and DEEP to develop a strategy on funding a state and municipal government energy efficiency program.

While there may be a need to spend more in fiscal year 2013 to get programs up and running, some concern was expressed with spending more than annual revenues. Staff was asked to be mindful about managing CEFIA's profits and losses in the future and to carefully consider how investors would view CEFIA. The Budget Committee members asked staff to provide a balance sheet.

Mr. Dykes provided an overview of the proposed budget for fiscal year 2013. He stated that over the last several months staff examined existing programs and expenditures to determine which programs should remain with CEFIA. CEFIA's programs were reduced from 37 to 8 and might be reduced down to 5 if some are collapsed into others. In response to a question, Mr. Dykes stated that the programs that remain are consistent with the Comprehensive Plan adopted by the Board. Mr. Dykes reviewed the proposed budget breakdown, noting that there would be approximately $3,000,000 for the transitioned programs, $13,800,000 for the maintained programs, $15,100,000 for the statutory mandated programs and $38,000,000 for the financing programs.

A discussion ensued on Project 150 and the funding that has been committed and reserved for the program. It was noted that a majority of the funding agreements for Project 150 expire in 2014 or 2015. There was general consensus that staff should try take steps necessary to wind down the program. Mr. Bellas mentioned that CEFIA has to keep the funding commitments on its books until the expiration of each of the funding contracts. It was noted that legislative action to cancel the Project 150 commitments did not come to fruition and the request to open a docket with PURA was rejected. Mr. Esty suggested that staff go back to PURA to better articulate the situation. Staff was also asked to prepare a legal analysis of the issues and options.

Mr. Bellas reviewed the projected cash on hand, including the cash for commitments. He noted that the projected $35,000,000 cash on hand does not include the commitments for Project 150 and other funding commitments.

The Budget Committee asked staff to prepare a report for the next Board meeting on the outstanding funding commitments, including Project 150 and how any loose ends can be closed out.

The Budget Committee also asked staff to prepare a report on each of the 8 remaining programs that includes:

- Goals
    - Targets
    - Metrix for success
- Staffing levels
- Expenditures
- Budget

Mr. Esty opened a discussion about an article that recently appeared in the *New Haven Register* about the solar industry. The Budget Committee members noted the importance of ensuring that the industry is comfortable with the evolving new financing structure that will diminish incentive subsidies.

Mr. Esty asked the Budget Committee members to consider the proposed spending level of $75,000,000 versus the proposed revenue of $40,000,000 which will require a drawdown of about $35,000,000 of cash on hand. A suggestion was made to have several backup plans that can be implemented at any time during the year in the event adjustments have to be made. The Budget Committee members discussed an appropriate annual funding level and whether to keep a certain level of cash on hand or to spend the funds received from the ratepayers. Some concern was expressed with spending a large amount in one year on programs and significantly reducing the funding level in subsequent years because of the potential market disruption and loss of momentum that could result. There was general consensus to determine an appropriate date by which CEFIA should be operating as a sustainable agency

Some concern was expressed with consulting fees and spending funds on things that can be done internally.

The Budget Committee asked for a balance sheet and cash flow statement, including assumptions for loan loss reserves.

Mr. Hunter noted that one of the priorities is for staff to understand the capital requirements implied by the mandates of public act 11-80. He stated that once the determination is made, then staff can determine CEFIA's role and translate its role in the CEFIA budget.

The Budget Committee and Board members were encouraged to provide comments to staff before presenting the proposed budget to the Board at the June 20 meeting. There was some general consensus that while the proposed budget for program spending is aggressive, it may not be achievable, and there was general agreement that these budget issues should be discussed with the full Board in more detail on June 20.

7. **Adjournment**: Upon a motion made by Mr. Choi, seconded by Ms. Glover, the Budget Committee members voted unanimously in favor of adjourning the June 15, 2012, meeting at 5:40 p.m.

Respectfully submitted,

Daniel Esty, Chairperson of Budget Committee