Deployment Committee of the Connecticut Green Bank

845 Brook Street
Rocky Hill, CT 06067
Friday, November 20, 2015
3:00-4:00 p.m.

A special meeting of the Deployment Committee of the Board of Directors of the Connecticut Green Bank was held on November 20, 2015 at the office of the Green Bank, 845 Brook Street, Rocky Hill, CT.

1. Call to order

Bryan Garcia called the meeting to order at 3:01 pm. Deployment Committee members participating: Pat Wrice (by phone), Reed Hundt (by phone), and Bettina Ferguson (by phone).

Staff Attending: Bryan Garcia, Bert Hunter (by phone), Genevieve Sherman, Mackey Dykes, Matthew Ranelli (by phone), Cheryl Samuels, and Ben Healy (by phone).

2. Public Comments

There were no public comments.

3. Consent Agenda

a. Approval of Regular Meeting Minutes for September 22, 2015

Bryan Garcia asked for questions or comments on the meeting minutes. Bryan Garcia requested that a change be made on page 5. Rick Ross provided the update, not Kerry O'Neill.

Upon a motion made by Reed Hundt and seconded by Bettina Ferguson the Committee voted unanimously to make the change.

<u>Resolution #1</u>

Motion to approve the minutes of the Deployment Committee for September 22, 2015 Special Meeting.

4. **Commercial and Industrial Sector Program Updates and Recommendations**.

a. C-PACE Transactions

i. Plainville – C-PACE Transaction

Genevieve Sherman provided an update on 7 Johnson Ave. Plainville. She advised that this is an exception bucket transaction. The Green Bank will be providing 20% investment as opposed to the normal 10%.

She stated that the property owners are working with Connecticut based American Solar & Alternative Power and installing a 228 kilowatt system. They are also replacing their roof. She stated that the terms are standard for a solar project. She explained that the exception is that the LTV is approximately 87%. She advised that the Green Bank can go all the way up to 90% LTV as long as the project meets other underwriting criteria. She explained that DSCR is 2.31%.

Reed Hundt questioned the savings to investment ratio of 1.01. He explained that under the section called Leverage Scenario that the worst case scenario is .87 savings to investment. He explained that the math suggests that this is pretty marginal. Genevieve Sherman explained that this project has the solar component as well as the fact that they are replacing the entire roof on the facility. She explained that since the program rules allow for financing of projects of an SIR of 1 or greater, property owners often elect to include energy-related capital improvements, in this case replacing the roof to support the solar panels. She explained that replacing and repairing the roof is common in conjunction with solar. She explained that the building owner is also putting cash towards the roof replacement.

Reed Hundt questioned if the fact that the investment includes non-energy related expenses if that will jeopardize the ability for pay back. Genevieve Sherman explained that the C-PACE statute gives the Green Bank authority to approve projects where the energy cost savings pays for improvements. She explained that the Green Bank has used the statute to allow for this type of improvement. She also explained that these sets of capital costs are always related to the energy project.

Reed Hundt asked what the protocol or the method of thinking is and if there is something on this deal if the savings to investment were to dip down to a negative or flat rate. Bert Hunter explained that they would never approve anything with a negative SIR, but that is why they look at other parameters. He explained that they look at financial health of the company, generally. He explained that they can’t lose sight of the fact that a lot of the motivation of the property owners is to take a holistic view of their improvements.

Reed Hundt questioned why they are charging 6% instead of 5%. He explained that the Committee doesn’t know much about the volatility of the revenue. Bert Hunter explained that there are different factors. He explained that if the interest rate was lowered the SIR would be a bit higher, but there are other factors as well. He explained that they are seeing the roof repair lower the SIR.

Genevieve Sherman explained that if they wanted to use the SIRas a financial underwriting metric, such as DSCR, they might set a requirement of an SIR of 1.2 or 1.5. She explained that lower interest rates might have motivated the property owner do more energy improvements, which would push the SIR rate back towards 1. She explained that they are very careful to insure that all financed measures support energy savings and are a benefit.

Bettina Ferguson explained that she has the same concern as Reed Hundt. She explained that the Leverage Scenario looks like $15,000. She explained that that equates to Projected Cash Flows on page, 2. She asked for clarification on the numbers. Genevieve Sherman explained that the $221,000 up front is largely their investment tax credit. She explained that the way this is projected is designed heavily weighted toward the first six years of the solar project. The addition of the roof would exacerbate that pattern. The $15,000 is their nominal net cash flow over the financing term. This is acceptable from an SIR perspective.

Bettina Ferguson questioned if the company is aware of this projected cash flow. Genevieve Sherman explained that yes they are. She also explained that they have to achieve the consent of their existing lender.

Matt Ranelli explained that he too shared both sets of concerns. He explained that they are over the normal LTV ratio and that they are cutting it very close. He explained that they had this conversation on a previous project and that maybe for projects that are similar to this that maybe there should be a higher standard since more risk is being taken on.

Bert Hunter explained that the debt service coverage is over two times. He explained that the amount of negative cash flow, just looking at the project, appears to be about $19,000 to $20,000. He explained total cash flow at the property is in excess of $225,000 and that is part of the consideration so that the property owner has these benefits. He explained that it's a really small incremental risk compared to the property owner's cash flow. He stated that they also have to remember that there is a mortgage on the property that must obtain consent.

Reed Hundt questioned if $800,000 was being invested in this. Genevieve Sherman stated that it's $800,249. Reed Hundt questioned what percentage goes to the solar component. Genevieve Sherman stated that it's about $700,000.

Reed Hundt questioned if they have some limit on how much non-energy related construction they are willing to participate in. Bert Hunter explained that no, it's bound by the SIR.

Matt Ranelli requested that they amend the resolution contingent upon the Z-REC being extended. Genevieve Sherman requested clarification on the Z-REC piece. Matt Ranelli explained that he would like to confirm that the Z-REC is extended. Ben Healy explained that they can get an extension with a simple request. He explained this this process is done regularly with projects. He explained that they need to make sure that prior to the close of the project that the request has been granted.

Bert Hunter explained that they need to make clear in the disclosure that they see and sign off on such negativity. He explained that they need be fully aware of the fact that they have to have the project in service within the 6 month extension.

Bryan Garcia explained that they will add the two additions to the resolutions.

Genevieve Sherman explained that they have already gotten a Z-REC contract that they must meet the in-service date.

Bryan Garcia explained that they will need to amend another resolution, that the loan amount cannot exceed 110%. Ben Healy stated that 110% will take the SIR below 1. Genevieve Sherman explained that it would not be made available to them in this particular case. She explained that this is a standard language to enable projects that have work order changes, to move forward without going back for additional approval. She explained that they always rerun the entire project against all programmatic underwriting thresholds.

Reed Hundt questioned why they are charging 6% on this particular deal. He explained that they are not in the business of financing home renovations. He explained that they are in the business of proving that people can have lower energy bills than they had before.

Pat Wrice stated that it does not make sense to not replace the roof prior to putting solar panels on.

Bryan Garcia stated that they will go back and take a look at everything in terms of non-energy improvements and make sure that there's a nexus between energy and non-energy.

The Committee voted unanimously to approve.

<u>Resolution #2</u>

WHEREAS, pursuant to Section 16a-40g of the Connecticut General Statutes, as amended, (the "Act"), the Connecticut Green Bank (the "Green Bank") is directed to, amongst other things, establish a commercial sustainable energy program for Connecticut, known as Commercial Property Assessed Clean Energy ("C-PACE");

WHEREAS, the Green Bank Board of Directors (the "Board") has approved a $40,000,000 C-PACE construction and term loan program;

WHEREAS, the Green Bank seeks to provide a $800,249 construction and (potentially) term loan under the C-PACE program to Ice Cube Building, LLC, the building owner of 7 Johnson Avenue, Plainville, Connecticut (the "Loan"), to finance the construction of specified clean energy measures in line with the State's Comprehensive Energy Strategy and the Green Bank's Strategic Plan;

NOW, therefore be it:

RESOLVED, that the staff must confirm that the building owner is aware of the negative cash flows on the project in the out years of the Loan;

RESOLVED, that the staff must confirm that the ZREC contract extension as noted in the Project savings to investment Risk Rating "Comments" section is approved and that there is no adverse impact on the ZREC savings;

RESOLVED, that the President of the Green Bank and any duly authorized officer of the Green Bank is authorized to execute and deliver the Loan in an amount not to be greater than one hundred and ten percent of the Loan amount with terms and conditions consistent with the memorandum submitted to the Connecticut Green Bank Deployment Committee (the "Deployment Committee") dated November 13, 2015, and as he or she shall deem to be in the interests of the Green Bank and the ratepayers no later than 120 days from the date of authorization by the Deployment Committee;

RESOLVED, that before executing the Loan, the President of the Green Bank and any other duly authorized officer of the Green Bank shall receive confirmation that the C-PACE transaction meets the statutory obligations of the Act, including but not limited to the savings to investment ratio and lender consent requirements; and

RESOLVED, that the proper the 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.

5. C-PACE Consent Agenda Transaction Approval Process

Staff provided an overview on the proposed process to expedite C-PACE transaction approval through a Consent Agenda process. Mackey Dykes provided an update on the Consent Agenda Approval Process. He explained that in a previous board meeting, staff put a few C-Pace projects into the Consent Agenda with the goal of streamlining. He explained that Reed Hundt and Catherine Smith were not comfortable with this process. He explained that they wanted to clarify the process for what is put on the consent agenda. No changes to the approval limits will be made.

Bert Hunter explained the existing criteria under the expected private placement warehouse. He advised that 80% of the property value and the Green Bank's exposure will not exceed 35% of the property value. He explained that they look at the financial performance of the property owner on smaller transactions that are less than $300,000, where the LTV is less than 20%, with an SIR of less than 1. He explained that they are moving to the new processing facility and that they have standard underwriting criteria that must be met by all transactions with the private capital provider. He explained that if they fit in this criteria, they would go into the Consent Agenda, because they will go right into the new facility with a 10% Green Bank investment. He explained that also, expedited underwriting criteria less than $1 million and Lien to Value less than or equal to 15%, with no restrictions on the property that they will also go to the Consent Agenda. He explained that transactions that fall out of those criterion will be discussed in more detail with the Deployment Committee.

Mackey Dykes explained that any projects under $2.5 million that have met the criteria will be on the Consent Agenda, all others will be discussed. He explained that if the project requires discussion that it will be done at the Committee meeting. Reed Hundt requested that they reach out to Catherine Smith with this information. Bryan Garcia stated that they would not make a motion today to approve a resolution, but that instead they will take the feedback of the Deployment Committee back to Commissioner Smith. He explained that they will discuss this with Catherine Smith first.

Bettina Ferguson questioned that anything going to the Board would always be on the Consent Agenda. Bryan Garcia explained that if the project is inside the box, it will be on the Consent Agenda. If the project is outside the box it will be on the regular Agenda.

Mackey Dykes suggested that if the Committee is able to review the items either inside or outside of the box, anything can go to the Consent Agenda to the Board. Bryan Garcia stated that they would discuss both options with Catherine prior to making any decisions.

6. Adjourn

Bryan Garcia adjourned the meeting at 4:00 p.m.

Respectfully Submitted,

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Reed Hundt, Chairperson