CONNECTICUT GREEN BANK
Board of Directors
Minutes - REVISED
Tuesday, April 3, 2018

A regular meeting of the Board of Directors of the **Connecticut Green Bank (the "Green Bank")** was held on April 3, 2018 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 9:30 AM a.m. Board members participating: Rob Klee, Betsy Crum (by phone), John Harrity, Matt Ranelli, Gina McCarthy (by phone), Bettina Bronisz, Tom Flynn (by phone) and Eric Brown.

   Members Absent: Kevin Walsh

   Others Attending: Guy West, Ray Casella

   Staff Attending: Bryan Garcia, Mackey Dykes, Brian Farnen, Kerry O'Neill, Eric Shrago, George Bellas, Bert Hunter, Benjamin Healey, Cheryl Samuels, Kim Stevenson, Dale Hedman, Jane Murphy, Alex Kovtunenko, Madeline Priest, John D'Agostino, Emily Basham, Mariana Trief (by phone) and Fiona Stewart.

2. **Public Comments**

   There were no public comments.

3. **Consent Agenda**

   Commissioner Smith reviewed Consent Agenda and asked for a motion to approve.

   > **Upon a motion made by John Harrity, and seconded by Eric Brown, the Consent Agenda was unanimously approved.**

   Resolution #1

   Motion to approve the minutes of the Board of Directors Meeting for February 15, 2018.

   Resolution #2

   WHEREAS, pursuant to Conn. Gen. Stat. 16a-40g (the "Act") the Connecticut Green Bank ("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, pursuant to the C-PACE program, the Green Bank Board of Directors (the "Board") had previously approved and authorized the President of the Green Bank to execute financing agreement for the C-PACE project described in the Memo submitted to the Board on March 27, 2018 (the "Finance Agreement");

WHEREAS, the Finance Agreement were authorized to be consistent with the terms, conditions, and memorandums submitted to the Board and s executed no later than 120 days from the date of Board approval; and

WHEREAS, due to delays in fulfilling pre-closing requirements the Green Bank will need more time to execute the Finance Agreement.

NOW, therefore be it:

RESOLVED, that the Board extends authorization of the Finance Agreement to no later than 120 days from April 3, 2018 and consistent in every other manner with the original Board authorization for the Finance Agreement.

4. Investment Business

Bryan Garcia requested George Bellas provide an update on monthly cash flows at a high level before diving into the Investment Business.

George Bellas provided an update on monthly cash flows at a high level. The materials provided are how we are doing with regard to the Green Bank's incentive business and investment business. The Green Bank closed the cash books on Friday, so a schedule has been put together, and he welcomed any questions. At high-level, the Green Bank is continuing to go along as projects close to provide our cash balances. Our total is $16 million today, $15.979 to be exact. The detailed reports are broken out by the incentive business and the investment business. With respect to investments, the Green Bank is a little behind, but it is not a bad thing. The investments have been focused on CPACE area, continuing to invest funds in projects. The Green Bank is continuing to pay the EPPBs and PBI and collect all the principle interest payments on CPACE and non-CPACE. Looking ahead, June is a significant milestone where the Green Bank has $14 million payment due to the state. These funds will be provided through the SHREC securitization process currently underway, which will provide a big inflow of cash projected at $18 million, of which $14 million will go to state. George suggested going over securitization.

Commissioner Smith noted that was an agenda item and will be reviewed later.

Bryan Garcia recognized George Bellas, Jane Murphy, and accounting team for 4th CAFR award. Additional recognition is due to the Audit, Compliance and Governance

Committee chaired by Matt Ranelli, including Tom Flynn and formerly John Harrity, and supported by Brian Farnen. George Bellas noted that the CAFR award is significant because it can provide some comfort to prospective investment partners as to the quality of the financial reporting by the Green Bank.. John Harrity remarked "they don't just hand these out at end of every school year". It's truly is mark of excellence.

Bryan Garcia set the context as we go through each of the three lines of the sustainability plan approved by the Board of Directors on December 15, 2017. On the investment side, a large part is shifting the Green Bank strategy from a focus on leveraging funds to achieving sustainability of the organization, earning more of the returns as we go. As discussed in December, the Green Bank are focused on breaking even in 4-7 year period, done so in 2 areas: using ratepayer resources in projects and products that deliver a weighted average of 5% return with a 10-year maturity generating principal and interest revenues, while also working to decrease our personnel and non-personnel expenses. The Green Bank made some significant reductions of expenses in December of 2017 for FY 2018 that will transfer over to FY 2019.

Mackey Dykes presented the proposed 6th version of the CPACE guidelines The Green Bank is implementing a new process for review of the guidelines: through the deployment committee, the board, public committee and back to board, if necessary. The main potential issue that could get attention is around how we govern the SIR test, savings to investment ratio. The expected SIR has to be greater than one. The Green Bank developed the SIR test, which states that the expected energy savings plus other expected project revenue has to outweigh costs, including interest and fees. The Green Bank also developed project technical standards that requires a third-party engineer validate the work of the contractor and developer. The Green Bank believes this adds a necessary check for capital providers who have the incentive to do greatest loan possible. The only thing that governs the long size is the savings, so the Green Bank wants third party review. In the early days of the program, Green Bank went out through RFP process and selected Sustainable Real Estate Solutions ("SRS") as the technical administrator. The contractor, developer, building owner, lender, or whoever put the project together came to the Green Bank with technical information and the Green Bank worked with the technical administrator to verify it. The Green Bank would then approve, assuming the project met all other statutory requirements. This process worked and provided confidence to market. It worked because the Green Bank was the only one in the state doing CPACE lending at the time and the process worked well. The Green Bank grew with SRS and helped grow their business model. But this process started to change when the CPACE platform opened to third-party capital providers, although, the Green Bank still has to approve projects. The key thing was to make sure the expected energy savings exceeds costs. To structure this open platform, the Green Bank laid out a couple options: use our technical administrator and we'll charge a fee, or you can propose another process or third-party engineer/technical reviewer to review your project. That reviewer would produce an independent verification of the SIR and return a report that the third-party capital provider would return to the Green Bank. At the time of opening up to third party capital providers, Greenworks Lending ("GWL") was really the only active 3rd party lender. GWL proposed to Green Bank that they would separately contract with Celtic Energy ("Celtic"), instead of coming to the Green Bank for technical review. The project data would go to Celtic to review the SIR and return a report and a letter stamped with engineering seal, which GWL would then submit to the Green Bank for approval.

Commissioner Smith questioned if the Green Bank approved the form and the vendor GWL was using.

Mackey Dykes confirmed that, yes, the CPACE team reviewed process and documentation with Celtic. He explained that there was no program framework for the Green Bank to decide what is acceptable for third part reviewers generally. The structure where there is choice to use what the Green Bank has or propose an alternative worked early on, but now that interest in the market has grown, there is a need to develop a standardized structure and framework for what's allowed. In looking at how CPACE is governed in other states and counties, there are a couple different directions.

These are the options discussed with the Deployment Committee:
- Continue forward with broader open market approach, allow for independently-sourced technical providers, and then lender can go to all approved to get independent review done. The technical reviewer would return agreed-upon letter to the Green Bank as part of approval package
-The Green Bank would accept also accept Investor Confidence Project's IREEcertification along with a letter validating SIR is greater than 1.,

Mackey Dykes discussed the pros and cons to more open market approach. It promotes competition, quality of service, constant price discovery, and ability to scale as the market grows. The cons are potential reductions in quality around SIR test, a key component of program.

John Harrity asked what is meant by "constant price discovery".

Mackey Dykes clarified that opposed to the Green Bank doing an RFP where pricing is submitted through a proposal, the pricing in the market is developed through constantly negotiating deals with all providers, a more dynamic view of the market.

Commissioner Smith asked if the Green Bank could structure the RFP to provide more sensitivity on pricing and not lock in pricing. Mackey Dykes confirmed the approach with leaving it to the providers to determine cost.

Bettina Bronisz asked if the pre-selection is done by the Green Bank. Mackey Dykes said companies would have to meet a minimum set of qualifications or standards. The Green Bank could accept firms that meet that minimum standard.

Commissioner Smith asked if the national certification company mentioned previously, IREE, conducts similar prequalification of firms.

Mackey Dykes said that the IREE reviews energy efficiency projects nationally, though not CPACE specific. He confirmed that they prequalify firms to do independent review. He continued the discussion with naming another con to the open-market option is that capital providers want to lend as much as possible. They could potentially form shop and find reviewers that are willing to skirt edges estimating savings and reviewers who want to grow business might be willing to do that.

Mackey Dykes stated the other option would be to go back to more centralized model. CGB would source one technical administrator, third party lenders come to us with technical data and we work with technical administrator to make sure SIR is met. He discussed the pro would be to that the Green Bank would make sure no corners are cut and maintain trust, whereas the con is losing the open market aspect to it and competition, as well as it is not as quickly scalable. He explained that more resources would be required at the Green Bank to manage process and manage pipeline through technical review phase.

Since there was no quorum for the Deployment Committee, there was no official recommendation however the unofficial recommendation landed somewhere between the two of these options. Mackey Dykes asked Matt Ranelli to share his concerns with full market approach.

Matt Ranelli shared his reservation distilled down to the fact that the SIR is critically important measure for projects. He stated that many commercial businesses do not know a lot about it and are banking on saving money. The SIR is the Green Bank proxy for that calculation to ensure the savings will be more than the investment. He said that the constituency may not understand on any deeper level than that; and if SIR is gone and money is not saved, companies will be rightfully disappointed. The SIR is an important article of faith in the program by which they judge projects. In all likelihood, there might be financing available outside the CPACE environment but added benefit of CPACE is capital provider has secured investment by securing on property. The CPACE benefit assessment lien is enormously powerful and that power was given to us at the Green Bank with the only caveat is to be good shepherds of that right and to not hand out to just anyone. Our obligation is to be careful how SIR is implemented. Generally, the Green Bank is in favor of opening up markets and not centralizing, but this is analogized through Rob's agency (DEEP). He discussed the risks of greed and profit and if either of those begin through this opening, any fraud or malfeasance is going to come back on the Green Bank. If the Green Bank is going to do open market, then there needs to be control. Two things he expressed interest in are that the first mortgage holder has right to know if the SIR is not done by the Green Bank technical administrator The second control would be to make clear any sort of sign off the Green Bank has. That the Green Bank should reserve the right to say no to option 3 on a project by project basis, either too complicated, too big or too close to SIR, would have to go through the Green Bank technical reviewer at the cost of the project. The Green Bank should have ability to step in and take closer look. He liked the Investor Ready Energy Efficiency Program and indicated should drive market that way.

Brian Farnen suggested that we can add to these additional conditions to the resolution.

Mackey Dykes agreed with Matt Ranelli's suggestion not to do full market approach. He stated that there are other concerns with fully centralized model. Since the Green Bank has already opened the door allowing Celtic, the Green Bank seeks to correct the position in market that one lender got a deal. He explained that this hybrid model has been successful. The Green Bank is the 2nd most successful CPACE program in country in terms of deal volume, second to California who has larger program. Many of the top ten CPACE programs have some sort of open market process. Where the Deployment Committee discussion landed was to keep our technical review as an option. The Green Bank would also maintain option to propose working with another technical reviewer and we have a minimum set of qualifications to consider. If those minimum qualifications are met, the Green Bank would do exhaustive review and go through the process with any new reviewers. Anyone that is approved, the Green Bank would make them available for all capital providers to use. The Green Bank is not throwing the door open with a full RFQ, but instead it would be more deliberate. The Green Bank will conduct random project audits to make sure review are done in accordance with guidelines. Additionally, the Green Bank will make sure eligibility is reviewed periodically.

Commissioner Smith raised the question "Do you have 100% confidence that IRE certification is as strong as what we've done?"

Mackey Dykes confirmed, yes, in fact the reason their program is not as fast-growing is because protocols are tougher making the economics harder to reach for smaller projects.

Bettina Bronisz asked for more explanation of the IREE certification and how firms qualify.

Mackey Dykes explained that it is similar to what we do in CT for CPACE, They have protocols which are guidelines for how to develop energy efficiency projects, train contractors how to do that, certify set of contractors that meet protocols. They require a third party independent review through engineering firms to check. Then go to GBCI to request certification, they review and give approvals.

Bettina Bronisz questioned if that process is sufficient to weed out the bad actors.

Mackey Dykes responded that it is still an open market approach some of the incentive still there and it is possible bad actors will come, but GBCI will begin doing process of checks on watching watchers, providing independent review of reviews, which is still not perfect but very robust.

Bettina Bronisz asked do we know who bad actors are in the market.

Mackey Dykes answered the Green Bank has not seen any yet.

Bettina questioned if this is proactive and protective.

Brian Farnen jumped in to say the Green Bank are learning lessons from other states too, which Mackey Dykes confirmed that it is protective against greed and capital providers.

Eric Brown questioned what the goals that were pushing the Green Bank away from status quo and if we were preparing for scaling. He commented that the hybrid structure seems to be beneficial between all the reviews, audits and annual recertification. He also questioned if there were after-affect consequences for bad actors in terms of their license like with LEP program, since the safety net put in place seems to be all upfront, and if there were any options here when savings aren't true to have it structured in a way so that someone is on the hook, whether it be the certifier or contractor for the after-affect recuperations of not meeting promise.

Mackey Dykes answered that the changes from the status quo are from the fact that the Green Bank is currently structured in a gray area by not having a transparent process for reviewing other technical reviewers and who is allowed. He explained that the Green Bank gets questions more and more from capital providers that want to use their people, particularly since one capital provider has been allowed to use a third party technical reviewer.

Eric Brown stated that given his background, he was sensitive to that.

In response to Eric Brown's second question, Mackey Dykes stated that the problem is not just that an inaccurate technical review can lead to non-performance of project. Therefore, adding a guarantee to the SIR is equivalent to a performance guarantee and that can raise costs significantly. more cost, posing additional risk, doing more than validating risk, but whether it will play out. There are also conditions outside the scope of the SIR, for example, the building use profile has changed such as the company can hire more people and using building differently. Also, price escalation of electricity costs is an assumption that might not always bare out. The Green Bank is looking for some sort of platform to do review of projects on the evaluation, measurement, and verification ("EMV") front, but if we pose a requirement to perform, then projects become more expensive.

John Harrity raised the question if guidance will be provided to companies who technically qualify, but not have done this time of work before to ensure that they are not wasting time putting a project or review together only to have it ultimately rejected by the Green Bank. and not wasting open up to people who haven't done this type of work before, even if technically qualifies, a lot of time to put project together and then they should get guidance to navigate process. It wouldn't be great to spend time putting project together and then be rejected.

Mackey Dykes responded that there have been a few different business models out there. The current Green Bank technical administrator is not sitting back and waiting to review, but is actively working with contractors, specifically less sophisticated contractors, helping to do estimates as opposed to do in response. Certainly, some guidance is what the market needs, but then other companies, like solar companies, that do not want guidance. This allows for different business models and gives the Green Bank flexibility in process. That is the Green Bank's role.

Commissioner Klee commented that as the chair of Deployment Committee, he wanted to thank everyone for getting into weeds. In response to Eric Brown's point, the choice in process that is being recommended is codifying what the Green Bank has been doing and also allow others to do what GWL did, but with centralized control and understanding not fully open market. The Deployment Committee did think about LEP program and infrastructure around that, but the Green Bank does not have licensing board or review board to review those who are not doing well in program. That could be included in further iterations of the program down the road. But that this is a good step, and since the Deployment Committee did not have quorum, they are not formally recommending.

Bettina Bronisz stated that this approach might be a barrier for other firms that want to get into this business in the future, where if there are other engineering firms interested in participating and the Green Bank closes the door now, then closing business and opportunities. She said that the Green Bank should be sensitive to any minority-owned and women-owned businesses.

Commissioner Smith responded that it is open and that they would just have to meet requirements. Also, she stated that the Green Bank need to be clear with qualifications. Commissioner Smith commented that she liked the idea of having the current firm be on-call for projects that raise any speculation. The quality of work in these firms are all about the people in them and that changes all the time. She asked if there were any questions from anyone on the phone.

Matt Ranelli asked if the Green Bank could think about small fee for option 3 because we would have to work to discipline provider. It would make sense to think about fee attached to this option and that the funds be reserved for associated administrative expenses.

Brian Farnen stated that the Green Bank will take all comments raised as internal guidance, specifically including an additional mortgage holder disclosure if using third party and the Green Bank reserves right to use our technical review process for more complex projects.

Commissioner Klee motioned to move the resolution, seconded by Matt Ranelli. Commissioner Smith asked if there are any other questions.

Eric Brown asked if the other third-party reviewer, Celtic Energy, is subject to checks and annual recertification.

Mackey Dykes confirmed that they are, which Eric Brown agreed with.

With a motion to move by Commissioner Klee, seconded by Matt Ranelli and no other outstanding questions, Commissioner Smith asked for a vote. Unanimous approval by the board with modifications to the resolution, no opposed, no abstentions.

<u>Resolution #3</u>

WHEREAS, Conn. Gen. Stat. Section 16a-40g (the “Authorizing Statute”) authorizes what has come to be known as the Commercial Property Assessed Clean Energy Program (“C-PACE”), the Authorizing Statute designates the Connecticut Green Bank (“Green Bank”) as the state-wide administrator of the program;

WHEREAS, the Authorizing Statute charges the Green Bank to develop program guidelines (the “Program Guidelines”) governing, among other things, the (i) terms and conditions under which state and third-party financing may be made available to C-PACE, and (ii) standards to ensure that the energy cost savings of energy improvements financed thought C-PACE over the useful life of such improvements exceed the costs of such improvements;

WHEREAS, the Green Bank staff seeks to update the Program Guidelines and seeks Board approval of the Program Guidelines in light of structural changes included therein, including but not limited to, how projects must demonstrate compliance with the savings to investment test.

NOW, therefore be it:

RESOLVED, the Green Bank Board of Directors (the “Board”) approves the C-PACE Program Guidelines submitted to the Board on March 29, 2018 with the following additional modifications to be incorporated into the Program Guidelines (i) that additional mortgage holder disclosures are required if a capital provider is using a third party technical review process and (ii) the Green Bank shall reserve the right and ability to use the Green Bank’s own technical review process for more complex C-PACE projects.

5. <u>Non-Profit Organization</u>

Bryan Garcia outlined the goals of the nonprofit: allow products serving underserved market segments to continue to serve and offer benefits in CT, achieve operating leverage by reducing personnel costs, and access new capital providers. In December, the Board directed staff to create the business plan for presentation by the end of Q1 of 2018.

Commissioner Smith complimented the team on the write up for the nonprofit.

Bert Hunter provided a brisk walk through of the nonprofit progress and acknowledged the many staff and external help that was provided.

Bert Hunter noted that the Green Bank has used several outside advisors, including Scott Murphy of Shipman and Goodwin and Ray Casella, also from Shipman and Goodwin. Brian Farnen introduced Mr. Casella to the Board and offered a bit about his background as an expert in nonprofit structuring and governance. Bert Hunter also noted that staff consulted with our auditors, Blum Shapiro, who assisted with matters related to independence of the Non-Profit from the Green Bank as well as "component unit" issues under GASB. Finall, Bert Hunter mentioned the Green Bank had connected with Forsyth Street to assist with overall strategy and focus on the investments.

Bert Hunter referred the Board to slide 23 that describes which programs are moving to the nonprofit and the rationale. In the Multifamily product sphere, he discussed that more investment is needed to crack the nut in this market and resources at the Green Bank are severely constrained because of sweeps. The scale that the Green Bank needs to attract additional investment is under pressure. He explained that the team has discovered that mission-oriented investors are quite open to partnering with the Green Bank through a separate nonprofit entity than they were before when subject to sweeps. When the Green Bank reaches a greater scale, it can be more competitive with private capital found in the market. He commented that "We've seen this in the commercial space, we've done an amazing job with commercial solar. For us the volume is off the charts, but it's not enough to get notice in sourcing tax equity."

Bert Hunter continued with the Solar for All initiative and discussed how through the Green Bank partnership with PosiGen, they are really turning a corner in terms of attracting additional investment and allowing them to scale and expand to additional markets. He explained that the Smart-E loan program is not sustainable in CGB, losing on the order of a half million dollars per year. This loss will continue as the program moves to the non-profit but has a chance of lowering this loss as the program is adopted by other areas in addition to Connecticut.

In terms of structure and governance, Bert Hunter commented that it is essential to maintain a mission that is compatible with the Green Bank and establish the new entity as a charitable organization to qualify for tax exempt status which it will be necessary to apply with the IRS for that status. He discussed that independence is critical with respect to sweeps, but with a mission that is fully complementary to the Green Bank, lenders could approach financing with the nonprofit as a way to avoid their concerns about financial sweeps that might arise in the future. Even though the nonprofit would be under its own board control, the Green Bank would be represented, but not as a majority so the nonprofit could be independent. He stated that the nonprofit would be a non-member Connecticut non-stock corporation with a self-perpetuating board. He explained the Green Bank had to decide between this structure and a board named by a member-owner. He explained that this is a complication with member-owner form of governance since it does not achieve independence from the Green Bank.

Bettina Bronisz questioned how the state would control the nonprofit board since the state named the Green Bank board.

Commissioner Smith asked how the nonprofit board would be appointed.

Brian Farnen clarified that the Green Bank's Board is not approving of the nonprofit's bylaws or operating procedures, but just approving that it can operationalize and enable one. The nonprofit board would likely consist of an initial 5 members, of which the Green Bank Board would name 2 members. What is currently envisioned is that the incorporator would set up the initial board of directors as Brian Farnen, Bert Hunter, Kerry O'Neill, Benjamin Healey, and the fifth would be an independent representative most likely from a funding source such as a foundation. At that point, the nonprofit would consider bringing on additional board members based on other funders.

Bettina Bronisz questioned whether the state would have to approve formation.

Brian Farnen responded that they would not.

Commissioner Smith asked whether having staff on the board would count as an independent structure.

Brian Farnen responded that it is a line for careful consideration. He stated that the Green Bank has consulted outside legal and accounting input in this regard. In a minority board position with other funding streams besides the Green Bank funds, this would be seen as independent and would not roll up in the Green Bank's financials.

George Bellas mentioned that the Green Bank engaged independent accounting firm Blum Shapiro to provide guidance on whether the non-profit must be included in the Green Bank's CAFR as a component unit since it is important that the non-profit be structured to be independent from the Green Bank. Blum Shapiro provided staff with a memo based on their research   The memo details guidance from the GASB as to when a non-profit entity would be required to be included in the Green Bank's financial statements. He stated that the memo was included in the board package. In order for the non-profit to be considered independent of the Green Bank, the Green Bank cannot control the organizational operations of the entity, cannot benefit financially, cannot have an equity interest, or incur a financial burden e.g. guarantee the entity's debt. He remarked that staff thought it was important to request guidance from Blum Shapiro at this time.

Brian Farnen said that there are additional protections that will be covered later in the presentation.

Commissioner Smith questioned that if they are nominating two nonprofit board members, but two others are former employees, is that enough distance because four out of five members sound like controlling.

Ray Casella clarified that anyone can name the initial board, which is the incorporators' job. They do not look at the initial incorporators as constituting control, they are simply setting the board. He explained that if the board turned out to have all Green Bank employees, then yes, that would constitute control. However, once the board is set the nonprofit is responsible for appointing members with no input from Green Bank.

Commissioner Klee contributed that two of three members suggested would have been just recently Green Bank employees and that is not a good perception. Those members are also co-located here. He commented that it is not always about the letter of law but appearance.

Commissioner Smith agreed that was her point as well. She stated that to be cautious, the Green Bank might want to consider other people, maybe third parties to try to make sure balance for initial board.

Bettina Bronisz agreed.

Commissioner Klee agreed but is not opposed to the initial board because the nonprofit needs to get ramped up quickly.

Brian Farnen added that the initial board member structure and business plan has been vetted from legal, ethics and accounting perspective. He understands the concern about perception issues, however he would be hesitant for having complete third party membership of the board because of the opportunity for this organization to go off in another direction. He stated "We want mission alignment. Main area for mission alignment is that the Green Bank will have certain power because the non-profit will have a financial incentive to meet goals we set up as they relate to the professional service agreements we enter into with the nonprofit."

Commissioner Smith suggested to put issue aside to think about further.

Continuing the conversation on, Bert Hunter referred to the slide 25 for details on the overall structure and how the nonprofit is organized. The arrow represents the Green Bank's relationship into the Credit Committee and into the board as representation, not control. He indicated that the diagram shows some funds that come from the Green Bank that will be dedicated for use in CT and will be DEEP funds initially.

Commissioner Klee clarified the amount would be $5 million.

Kerry O'Neill explained an additional $1.5 million will be coming from a revolving loan fund to address health and safety issues in buildings.

Bert Hunter added that "we will have "go anywhere capital" that can be input to support the nonprofit activities."

Commissioner Smith thanked Commissioner Klee for the agency's contribution and noted that it sounds like there is foundation type support available. She also asked whether "go anywhere capital" referred to private sector providers.

Bert Hunter clarified that he was thinking in terms of other states, such as the State of Rhode Island ("RI") who wants to do commercial solar. The nonprofit would be interested in assisting but would need assistance in terms of capital support. The state of RI would then put in funds specifically dedicated to RI, for instance.

Commissioner Smith asked whether the Green Bank sees this as a funding mechanism to support the current Smart-E program.

Bert Hunter responded that the team is looking at support for Smart-e from foundations but not in an investment sense, as a grant to help with development of the platform. Commissioner Smith questioned the contribution of for profit investors and whether it was against the mission of the nonprofit.

Bert Hunter clarified that tax equity partners are for-profit entities and they work with us as a quasi-state entity (which doesn't make a profit per se). He stated that every co-investor that works with us are in profit-gaining activity. He explained that there is no conflict in terms of mission. There is alignment among various lenders that need to meet Community Reinvestment Act ("CRA") requirements or nonprofit investment requirements.

Brian Farnen added that in terms of structure, the board presentation has been vetted by outside counsel, ethics, and accounting. Non-stock non-member structure, where the ultimate control will be with the board. He explained that having this set up as a nonprofit is important in the sense that they have adequate protection, that it is mission oriented. There are limitations in the nonprofit that are not found in for profit. Bylaws require super majority to make changes to the bylaws. Reality is that funding streams from the Green Bank and program-related investments from foundations will be restricted. The Green Bank will not be approving the governance docs, but instead enabling the entity to come into existence.

Eric Brown asked whether the nonprofit can adopt a number of bylaws.

Brian Farnen said that the nonprofit has budgetary constraints and won't have time to set up new bylaws and governance. With the Green Bank's Performance Service Agreements (PSAs) there will be certain requirements and clear metrics for the nonprofit to meet.

Bert Hunter explained the relationship of the nonprofit to the Green Bank, in terms of projects, will be contracted to operate these products henceforth, including Smart-E, multifamily products, Solar for All partnership with PosiGen, commercial solar PPA, and other flexible project finance offerings. These will be under separate PSAs.

Commissioner Smith asked about moving the existing book of business into the nonprofit.

Bert Hunter responded that the existing book stays with the Green Bank and only new origination will be assigned to the nonprofit. He also said it would be possible for the

Green Bank to co-invest with the non-profit if the Green Bank had funding available for this purpose.

Bettina Bronisz asked how existing staff is working.

Bert Hunter responded that under a Memorandum of Understanding (MOU), there are going to be shared services. Under the MOU there are going to be services back and forth; services that the Green Bank will draw from the nonprofit and services going to the nonprofit from the Green Bank, mainly in name of accounting services, Brian Farnen and Bert Hunter to provide counsel and investment advice, as well as software services, IT. Personnel, like payroll services, will be separate because the Green Bank personnel is tied in with the State. Sue Kaswan is helping lay the ground work for the benefits structure of staff moving to the non-profit.

Commissioner Smith asked whether new business generated would be going to the nonprofit's books. Bert Hunter responded that if the Green Bank wants to make available funds to be invested in nonprofit, if the investment met the new hurdle rate of 5% yield over10 years then the Green Bank could be a co-investor. He then turned it over to Kerry O'Neill to talk about grant investors.

Kerry O'Neill reiterated the existing $1.5 million for health and safety for multifamily projects and proposed additional $5 million for low-to-moderate income activities, both grants provided by DEEP that would be re-granted to the nonprofit. The proposed additional $5 million would likely be split between PosiGen and multifamily investing activities. Uses of funds would be laid out in the agreements between the Green Bank and the nonprofit.

Bert Hunter added that these funds provide important initial capital for the nonprofit. Initial reactions from investors have been positive because of that support. The funding that comes from the actual PSAs will pay for services and is also seen as important to investors – because of it the nonprofit is not burning through capital.

Commissioner Smith clarified that the Green Bank will pay the nonprofit a certain amount through the PSAs so the funds or grants to the nonprofit would not be impacted.

Bert Hunter confirmed and mentioned that support after three years shifts down for another three years.

Commissioner Smith recalled seeing more savings in modeling and asked if cash flow from projects was included.

George Bellas clarified that savings are derived from reductions in overheard.

Bryan Garcia added that those reductions will be seen in the Green Bank's FY 2019 budget.

Bert Hunter referred to slide 30 on how the Green Bank will invest funds, an estimated $10 million in value of PSAs and MOU.

Kerry O'Neill reminded the board that these products that the non-profit will run for the Green Bank will continue to be Green Bank products, listed on the CT Green Bank website and not to feel like they are going away.

Bert Hunter reiterated that the MOU for shared services is a two-way street. There is a certain level of IP that the nonprofit will have license to use in addition to 8 staff transitions, 7 immediately and 1 later in the fiscal year. The Green Bank will come back to the Board at the end of April to get approval on staff transitions and in June will seek approval for PSAs and MOUS. The Green Bank will continue to talk internally to ensure smooth transitions.

Brian Farnen discussed the background into approaching the nonprofit and relationships in this way. He explained that forming a nonprofit, entering into contracts, transition of employees all raised issues under code of ethics. He commented that this idea of a spin out originally came up in the Board offsite in New Haven back in January 2017. He continued to explain that the "Jobs Ban" would be not triggered but in caution, the Green Bank will terminate transitioning members in advance of them starting at the nonprofit. There are one-year limitation on types of interactions these employees can have and the agreements cannot be opened in any way. He remarked if the Green Bank follows the road map, then it will be consistent with the Office of State Ethics informal opinion. The informal opinion is in the process of being presented to the Citizen's Ethics Advisory Board in April. The goal is that they confirm the informal opinion from the Office of State Ethics.

Bettina Bronisz asked whether any other quasi-public state agencies have formed nonprofits.

Brian Farnen confirmed that it had occurred previously. Since the Green Bank began the process, there are two other quasi-public state agencies that he was aware of seeking to go this route. One of the previously established examples was CT Innovations creation of a foundation – Connecticut Innovations Foundation.

Bryan Garcia added that SmartPower was co-created by Connecticut Innovations, as administrator of the Clean Energy Fund, along with other philanthropic foundations in the early 2000's.

Brian Farnen offered to dig up the exact quasi-public state agencies and send to Director Bronisz.

Commissioner Smith asked whether the subject of staff members on the nonprofit board went through office of ethics.

Brian Farnen confirmed that it had and that as many details as were available were presented to the state office of ethics.

Eric Brown suggested being proactive in terms of briefings to legislators or some interaction with the efficiency board and encouraged the Board to think about proactive steps to mitigate any opportunity for legislators or others to misconstrue.

Brian Farnen confirmed that the team will do that and have started this process with some legislative leaders already.

George Bellas discussed Blum Shapiro's research on GASB's guidance on maintaining the independence of the non-profit from the Green Bank for financial reporting purposes. An important consideration is control of the non-profit's board of directors through the appointment of a majority of its members. The current suggestion of two out of five members on the nonprofit board being either employees of the Green Bank or board members would not result in control of the non-profit. He cautioned that if the Green Bank appointed a majority of the board of the non-profit, it would be a concern.

Commissioner Smith asked for further clarification.
George Bellas reiterated that a combination of Green Bank board members and Green Bank employees totaling three out of the five members of the non-profit board would constitute control by the Green Bank of the non-profit.

Commissioner Smith suggested replacing one or two nonprofit board members with Green Bank board members and asked whether the Green Bank board members were considered a closer to the nonprofit than Green Bank staff.

Commissioner Smith stated that, upon review, the financials for the nonprofit looked very aggressive with very rapid business growth. She stated this seems risky and although the Green Bank and the Green Bank Board are not responsible, that they should want to make sure they are not sending something off that will not succeed.

Bert Hunter pivoted to review the nonprofit's financials, which were forecasted for two primary business lines. The main line would be the investment business which generates profit or net earnings by the nonprofits investment portfolio. He explained that this comes from net spread between the earnings on transactions plus cost of earning those transactions along the single family, multifamily and commercial solar programs. The team excluded flexible project financing from the forecast as staff had no firm basis for making estimates. He continued to explain how the second line would be the Smart-E Loan program, which would operate at a small loss, but it is not a big contributor or detractor to the forecast.

Commissioner Smith asked how the team made the decision on how rapidly something would grow.

Bert Hunter asked Kerry O'Neill to respond.

Kerry O'Neill outlined that origination would be similar to how the Green Bank team has approached these product lines to date and would utilize the best practices brought to and learned from the Green Bank over the past five years. She discussed that all the channels the team has built over the years such as contractors, program partners, municipal relationships, etc. will be used to develop the nonprofit and as they think outside of Connecticut, there are sister Green Banks that are interested. She said that will be an avenue they will investigate overtime.

Bert Hunter turned the conversation to the financials slides and the balance sheet in particular. He described that the idea here is that the nonprofit needs to get to sustainability and should be focused on the future on how cash flows would come in. The key is to focus on recurrent revenue streams. Initially providing 50% revenues and then growing to 66% into the third and fourth year of the forecast. He explained the decision behind the numbers came from current experience in the Green Bank. He remarked on the PosiGen relationship specifically and how the Green Bank interacts with them, how it has helped support PosiGen's growth in the Connecticut market and PosiGen's opportunity to grow beyond. He commented that the team knows the portfolio and it is secure because it is solar going on homes, something the Green Bank and the Green Bank board is familiar with through Solar Lease 2. He further discussed that they are comfortable from a growth perspective and a risk perspective in terms of losses and have incorporated that into the forecast.

Commissioner Smith questioned what the growth and revenue has been over the past three years and how aggressive are the projections. She also asked about the non-Connecticut business side and outsourcing to nonprofit business, how much would it own of our CT goal in their business. She commented that while the Green Bank and Green Bank board are not responsible for the financials of the nonprofit, by establishing the nonprofit "we are responsible for the success" and for the work done in Connecticut growth.

Ben Healey responded with an example with respect to PosiGen. He discussed that this morning, the Department of Treasury released updated guidance to the Federal Reserve on the CRA lending practices, which is always geographically bounded. Through nonprofit fundraising, staff is seeing how they can layer capital stacks and talking to CRA lenders. PosiGen, who wants to go to different states, would give the nonprofit broader access at much bigger scale and the nonprofit could lower Posigen's cost of capital. Previously, they would seek to secure capital for a concentrated area, which concentrates risk. The story of PosiGen, in light of what's happening at federal level, increases the sources of capital and will have a net spread of investments that ride together. Out of state growth with partners is not at the expense of CT growth. The industry needs this sort of intermediary. Connecticut can launch with homebased focus and ability to scale will bring reductions in cost.

Commissioner Smith is interested in hearing more about the assumptions behind the projects and would take topic offline. For this discussion, she is interested in what is driving the financial forecast, which looks like a rapid increase. She commented that we want to make sure we're setting the nonprofit entity up for success.

Ben Healey responded that all the numbers in the forecast are based on current projects in the pipeline. They have been able to do an actual growth analysis, with respect to PosiGen or commercial solar, on the amount of solar the Green Bank has been able to place versus real growth rates.

Bert Hunter added that the Green Bank has placed a large amount of debt with other providers – and in this respect, the forecast is attainable.

Commissioner Smith added that she wants to better understand this piece.

John Harrity commented with regard to the out of state business, saying if we just confine ourselves to Connecticut, it does not work.

Ben Healey agreed saying the path to sustainability is tougher. The capital they have been raising is inefficient and now needs to expand.

Commissioner Smith asked how they can ensure the mission at the Green Bank is not lost.

Bryan Garcia responded that the key part will be embodied in the Scope of Work between the Green Bank and the nonprofit with tangible deployment goals.

Commissioner Smith expressed the need for the Green Bank to figure out its goals and negotiate with a third party rather than trying to make both work at the same time.

Bert Hunter reminded the group that year one goals are Connecticut-centric.

Commissioner Smith responded that she is concerned about years four and five.

Bert Hunter turned the conversation to the Multifamily financials. This is based on $2 million of loans per quarter, which is achievable based on pipeline identified right now. He is looking for a percentage increase in second year.

Kerry O'Neill added that the nonprofit is not constrained with Multifamily loan sizes. They can increase because these projects are not only focused on clean energy, but also health and safety and other capital improvements in the building.

Bert Hunter contributed that they assume 3 MW per quarter deployment in solar. By way of reference, they deployed 30 MW in the last 18 months, which is a run rate in excess of that is assumed in the forecast. There is nothing in the forecast, he stated, that is more aggressive than what has been achieved already.

Commissioner Smith said there was no context for the growth and what is presented in the Board materials.

Bert Hunter said they can provide those numbers, which will show that the forecast is not radical. Referring to the financials in the Board packages, which are confidential, they have not assumed a superior amount of growth in second and third year, in terms of commercial solar. It is not flat growth, but a slow increase, showing how to get to the targets. In handout slide 35 (confidential balance sheet), the portfolio grows $70 million by year one. They will be in alignment with funding sources from CRA lenders, who are motivated lenders. The lower cost funds will lay the foundation for sustainability because they can incorporate net spread. Smart-E will be negative throughout at a $100,000 drag per year. Smart-E could be a big winner for fee generation, but staff is not counting on that, so it is not included in the forecast. In terms of actual cost, the majority of what it takes to run the nonprofit is staff expenses. Then product administration is at 24%, business development at 15%, which maintains itself over time. Growth in operating expenses increase from 3.5% to 5%. Although the expenses in Smart-e expand significantly, this is due to anticipated revenues from other geographies being added in. If revenue is not there, then the non-profit will not add to the expense base for Smart-e.

John Harrity raised an overall issue saying the ethics and rules are all about a group of people forming the nonprofit in order to gain advantage. However, there is nothing in the rules discusses creating a disadvantage for employees. People that move to the nonprofit experience a downgrading of jobs. He expressed concerned about that because there is a big debate in government about cutting expenses through privatizing. He said that in principle, that is not what people who are concerned about workers are crazy about. He asked what it means that savings are in personnel, stating that they do not want to be in position where employees are paying the price for sweeps. He indicated he raised specific questions that were sent to Bryan Garcia.

Bert Hunter responded to this concern stating that unlike many other privatizing situations, these staff members are keeping their jobs and that they are passionate and motivated by the mission. They see this as an opportunity to do well. He said that the savings come down to the overhead rate that is assigned by the state. The Controller said in a report on State benefits that the State is paying more than the normal cost of benefits (normal cost is what it costs a company for benefits earned by employees for that period). What the Green Bank is doing is paying for unfunded liabilities in the past, which accounts for 40%. He said the Green Bank is currently at 80% of overhead including a SEBAC agreement-related charge required in current fiscal year.

George Bellas stated that about 58% of the employee fringe benefit charge on every dollar of compensation goes towards the retiree pension and health plan while the remainder of the employee fringe benefit charge ,about 20%, goes towards medical and dental plan premiums and payroll taxes.

John Harrity asked if the savings come from the downgrade in pension and healthcare.

Commissioner Smith remarked that the board was almost out of time and indicated they should have a detailed call on the financials as well as the staff impacts. She invited any board member who was interested in attending and otherwise will send out the notes from the call.

Bert Hunter pointed out the loan loss provision in the Profit/Loss, which is higher than what the Green Bank is experiencing right now and through the 4-year projections total $5 million in provisions for losses. He said if they take this in combination with net assets built up over the same period, there is a $15 million base for losses, which is very substantial for a nonprofit.

He reviewed the timeline with early April meeting seeking approval for establishing the nonprofit, then end of April meeting seeking for approval of staff transitions, and back in June for approval of MOUs and PSAs.

Commissioner Smith asked if there were any more questions or comments.
Eric Brown requested to discuss offline on the nonprofit having their own system with respect to choosing vendors and contractors.

Gina McCarthy added that the Green Bank and the board needed to be highly transparent in this process in order that no one thinks they are trying to do anything outside of what they are doing, that they have the best intentions. She commented that the team should actively outreach to folks who will want to hear about it. She thanked the Green Bank team for thinking creatively and outside of the box to meet the mission of the Green Bank while reacting to the budget.

Commissioner Smith sought a motion to move.

Commissioner Klee moved and Matt Ranelli seconded. With no discussion, the board moved to vote. Seven in favor, zero opposed, with one abstention from John Harritty.

Resolution #4

RESOLVED, that the Board of Directors of the Connecticut Green Bank (Green Bank) authorize the President of the Green Bank and any other duly authorized officer of the Green Bank to participate in the formation of an independent non-profit non-stock corporation to further the purposes of the Green Bank, including by achieving operating leverage and attracting mission-oriented investors for a set of products serving underserved market segments.

Bryan Garcia noted that due to time limitations, the Resolution 5 related to the Green and Healthy Homes Initiative will be moved to the late April Board meeting.

6. Incentive Business

Commissioner Smith asked for a brief update on the SHREC program.

Bert Hunter discussed the updates to the SHREC program saying the Green Bank has a shortlist of investment banks, who are interested in providing funding. There are Connecticut banks interested in providing a warehouse of approximately $20 million.

Commissioner Smith raised question of the timing on the June cash flow to the State and whether that means one way or another the Green Bank will meet it.

Bert Hunter confirmed and continued with that securitization will take place in the fall so currently trying to source independent investor banks, so the Green Bank can move forward. In terms of the previously selected independent engineer DNV, Dale is working with them on data collection. The team issued the Green Bond Rating RFP, which received nine respondents.

Bettina Bronisz questioned what that means.

Eric briefly explained that this Green Bond Rating relates to the environmental attributes being financed by the SHREC bonds to be sold..

7. Other Business

Bryan Garcia remarked that materials on legislative items and key policies in play are included in the Board packages.

Brian Farnen reminded the board members to file their statements of financial interest with the Office of State Ethics. He discussed the key policies the Green Bank is watching. The Governor's bill which is an "aircraft carrier" of an energy bill that has major impact on overall energy policy. Overall, it advances the State's clean energy policies in a positive way. There is a bill raised by a small group of towns to reject the property tax exemption for third-party owned residential solar photovoltaic systems. Brian also remarked that there a few bills related to quasi-public agencies. These bills seek to rein in the autonomy and reconsider governance of independent quasi-public agencies, likely spurred by other quasi-public controversies that have been in the news lately.

Bryan Garcia recognized Brian Farnen for his team's award of "Best Inhouse Counsel".

8. Adjourn

Upon a motion made by Bettina Bronisz and seconded by Commissioner Klee the meeting was adjourned at 11:35am.

Respectfully Submitted,

Catherine Smith, Chairperson