CONNECTICUT
GREEN BANK

Board of Directors

Meeting Date
September 18, 2018

CONNECTICUT
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Board of Directors

845 Brook Street, Rocky Hill, CT 06067
T 860.563.0015
ctgreenbank.com

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GREEN BANK

September 11, 2018

Dear Connecticut Green Bank Board of Directors:

We have a special meeting of the Board of Directors scheduled on Tuesday, September 18, 2018 from 2:00 to 2:30 p.m. in the Colonel Albert Pope Board Room of the Connecticut Green Bank at 845 Brook Street, Rocky Hill, CT 06067. The special meeting of the Board of Directors will follow a Deployment Committee meeting to take-up business that requires full review and approval by the Board of Directors.

On the agenda we have the following items:

- **<u>Investment Business Previews and Recommendation</u>** – we will briefly preview a few transactions that we anticipate on the horizon (e.g., commercial solar PPA and tax equity, and fuel cell construction facility for sub-base project) as well as propose (1) an interim financing facility with IPC for PosiGen using the PBI (and LMI-PBI) payments through the RSIP, and (2) initial purchase of C-PACE facility from Hannon Armstrong.

If you have any questions, comments or concerns, please feel free to contact me at any time. Looking forward to talking to you next week.

Sincerely,

Bryan Garcia
President and CEO

AGENDA

Board of Directors of the
Connecticut Green Bank
845 Brook Street
Rocky Hill, CT 06067

Tuesday, September 18, 2018
2:00-2:30 p.m.

Staff Invited: George Bellas, Craig Connolly, Mackey Dykes, Brian Farnen, Bryan Garcia, Ben Healey, Dale Hedman, Bert Hunter, Kerry O'Neill, Eric Shrago, and Kim Stevenson

1. Call to order

2. Public Comments – 5 minutes

3. Investment Business Previews and Recommendations – 20 minutes

    a. Preview Investments
        i. IPC commercial solar/REA/Sunwealth
        ii. Fuel Cell Energy – Construction Finance Facility for CMEEC/Sub-Base Project

    b. Recommendation Investment
        i. PosiGen PBI "Interim Financing Facility" with IPC
        ii. C-PACE Initial Investment from Hannon Armstrong

4. Adjourn

Join the meeting online at https://global.gotomeeting.com/join/550855125

Or call in using your telephone:
Dial (786) 535-3211
Access Code: 550-855-125

Next Regular Meeting: Friday, October 26, 2018 from 9:00 -11:00 a.m.
Connecticut Green Bank, 845 Brook Street, Rocky Hill, CT

RESOLUTIONS

Board of Directors of the
Connecticut Green Bank
845 Brook Street
Rocky Hill, CT 06067

Tuesday, September 18, 2018
2:00-2:30 p.m.

Staff Invited: George Bellas, Craig Connolly, Mackey Dykes, Brian Farnen, Bryan Garcia, Ben Healey, Dale Hedman, Bert Hunter, Kerry O'Neill, Eric Shrago, and Kim Stevenson

1. Call to order

2. Public Comments – 5 minutes

3. Investment Business Previews and Recommendations – 20 minutes

   a. Preview Investments
      i. IPC commercial solar/REA/Sunwealth
      ii. Fuel Cell Energy – Construction Finance Facility for CMEEC/Sub-Base Project
   b. Recommendation Investment
      i. PosiGen PBI "Interim Financing Facility" with IPC

Resolution #1

WHEREAS, the Connecticut Green Bank ("Green Bank") has an existing and successful partnership with PosiGen, Inc. (together with its affiliates and subsidiaries, "PosiGen") to support PosiGen in delivering a solar lease and energy efficiency financing offering to LMI households in Connecticut;

WHEREAS, the Green Bank Board of Directors ("Board) previously authorized the Green Bank's participation in a credit facility (the "BL Facility") encompassing all of PosiGen's solar PV system and energy efficiency leases in the United States as part of the company's strategic growth plan, in an amount not to exceed $15 million;

WHEREAS, that prior authorization for the BL Facility excluded financing against Performance Based Incentive ("PBI") payments due to PosiGen under the Residential Solar Investment Program ("RSIP"), as such financing was expected to be provided by Inclusive Prosperity Capital, Inc. ("IPC"); and

WHEREAS, IPC is unable to provide such financing as needed by PosiGen upon the closing of the BL Facility, but is expected to be in a position to provide such financing as IPC secures its initial funding.

NOW, therefore be it:

RESOLVED, that the Green Bank Board authorizes the extension of credit under a separate PBI-only facility to PosiGen in addition to the BL Facility, provided that Green Bank capital outstanding between such PBI-only facility and the BL Facility does not exceed the previously authorized $15 million total;

RESOLVED, that once IPC has secured its initial funding and is able to extend credit itself, the Green Bank will sell down its position in the PBI-only facility to IPC on the same terms as will exist between Green Bank and PosiGen, but the Green Bank shall be permitted to co-lend with IPC to PosiGen under the PBI-only facility until IPC can satisfy 100% of the capital required under the PBI-only facility, provided that Green Bank capital outstanding between such PBI-only facility and the BL Facility does not exceed the previously authorized $15 million total; and

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and negotiate and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

ii. C-PACE Initial Investment from Hannon Armstrong

<u>Resolution #2</u>

WHEREAS, the Connecticut Green Bank ("Green Bank") has an existing partnership with Hannon Armstrong ("Hannon") pursuant to the C-PACE Program, Master Assignment and Servicing Agreement, dated December 17, 2015 (the "Program Agreement") approved by the Green Bank Board of Directors (the "Board") at a meeting held on October 16, 2015;

WHEREAS, the Green Bank and Hannon have elected not to extend the Program Agreement beyond its December 17, 2018 termination date;

WHEREAS, Green Bank and Hannon have agreed to terms pursuant to which Green Bank would repurchase and acquire 100% ownership in the Benefit Assessment Liens originated pursuant to the Program Agreement as set forth in a memorandum to the Board dated September 11, 2018;

NOW, therefore be it:

RESOLVED, that the Board authorizes Green Bank to repurchase and acquire 100% ownership in the Benefit Assessment Liens originated pursuant to the Program Agreement, materially consistent with the terms set forth in the Board Memo;

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and negotiate and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

4. Adjourn

Join the meeting online at https://global.gotomeeting.com/join/550855125

Or call in using your telephone:
Dial (786) 535-3211
Access Code: 550-855-125

Next Regular Meeting: Friday, October 26, 2018 from 9:00 -11:00 a.m.
Connecticut Green Bank, 845 Brook Street, Rocky Hill, CT

CONNECTICUT GREEN BANK SM

Board of Directors Meeting

September 18, 2018

Board of Directors
Agenda Item #1
Call to Order

Board of Directors
Agenda Item #2
Public Comments

Board of Directors

Agenda Item #3a

Investment Business Previews

Upcoming Projects
Preview of Investment Opportunities – Solar PV

- **<u>Commercial Solar</u>**
  - Via Inclusive Prosperity Capital ("IPC") as "sponsor"
  - Tax equity to be sourced on a "project" basis rather than a "fund" basis, initially through REA (http://www.rea-investments.com/about/)
  - Green Bank to continue to develop or co-develop projects through CEFIA Holdings (earning development fees in return)
  - Green Bank to maintain the opportunity to lend to IPC (in a back-leverage position)
    - Likely investment size = $5 - $10 million
  - Alternative track for projects includes extension of Onyx partnership for specific projects and new sourcing / potential debt relationships with emerging market players like Sunwealth (https://www.sunwealth.com/)

Upcoming Projects
Preview of Investment Opportunities - Hydro

- **Hydro**
  - Canton Hydro – 1 MW project at the Upper Collinsville Dam
  - Virtual Net Metering Project with the State of Connecticut as off-taker (facilitated by CT DEEP)
  - Senior / sub debt lending structure, with senior debt likely to be provided by The Provident Bank
  - Total capital cost = ~$6.5 million
    - Green Bank subordinated loan + limited balance sheet guaranty ≤ $2 million

  - Historic Cargill Falls Mill – hydro project successfully operating for months now
  - CT DOH ready to close on funds ($20 million +) to rehab the entire mill site
  - Using MacArthur funds, the Housing Development Fund likely to participate in an expanded Green Bank C-PACE loan (increase of ~$1.5 million, all funded through MacArthur) to support the inclusion of high-performance energy systems in the renovated mill buildings

Upcoming Projects

Preview of Investment Opportunities – FuelCell Energy

- **FuelCell Energy ("FCE") 7.4 MW Groton Submarine Base Project**
  - Oct 2017 FCE signs PPA with Connecticut Municipal Electric Energy Cooperative ("CMEEC") for the supply of power to the U.S. Navy Submarine Base in Groton, Connecticut in order provide the U.S. Navy with energy that is (1.) clean, (2.) resilient
  - PPA will be underpinned by the production from two FCE SureSource 4000TM power plants, located on site at the U.S. naval base, which combine for 7.4 MW of total electrical output and an expected annual production in the first full year of operation of over [[redacted]] kWh
  - The Project will be constructed, owned, operated, and maintained by FCE.
  - Construction already commenced; expected COD: July 2019
  - Investment Grade offtaker (rated Aa3 and A+ by Moody's and Fitch, respectively).

Upcoming Projects

Preview of Investment Opportunities – Fuel Cells

- **FuelCell Energy ("FCE") 7.4 MW Groton Submarine Base Project**
  - Total construction expenditure calculated to be [[redacted]] million from May 2018 to June 2019, with a 3rd party Construction Facility sized at $20 – $30 million pending the results of a competitive bid process (i.e. ~[[redacted]]% - [[redacted]]% equity cushion);
  - Anticipated Construction Facility close: October 2018, with an initial advance upon closing sized based on the results of a competitive bid process, and subsequent draws on a monthly basis until Project construction completion;
  - Green Bank Support: $5 million subordinated tranche
  - Green Bank Staff to seek approval from Board in October

Board of Directors

Agenda Item #3bi

PosiGen PBI “Interim Financing Facility” with IPC

PosiGen PBI Financing Facility Background

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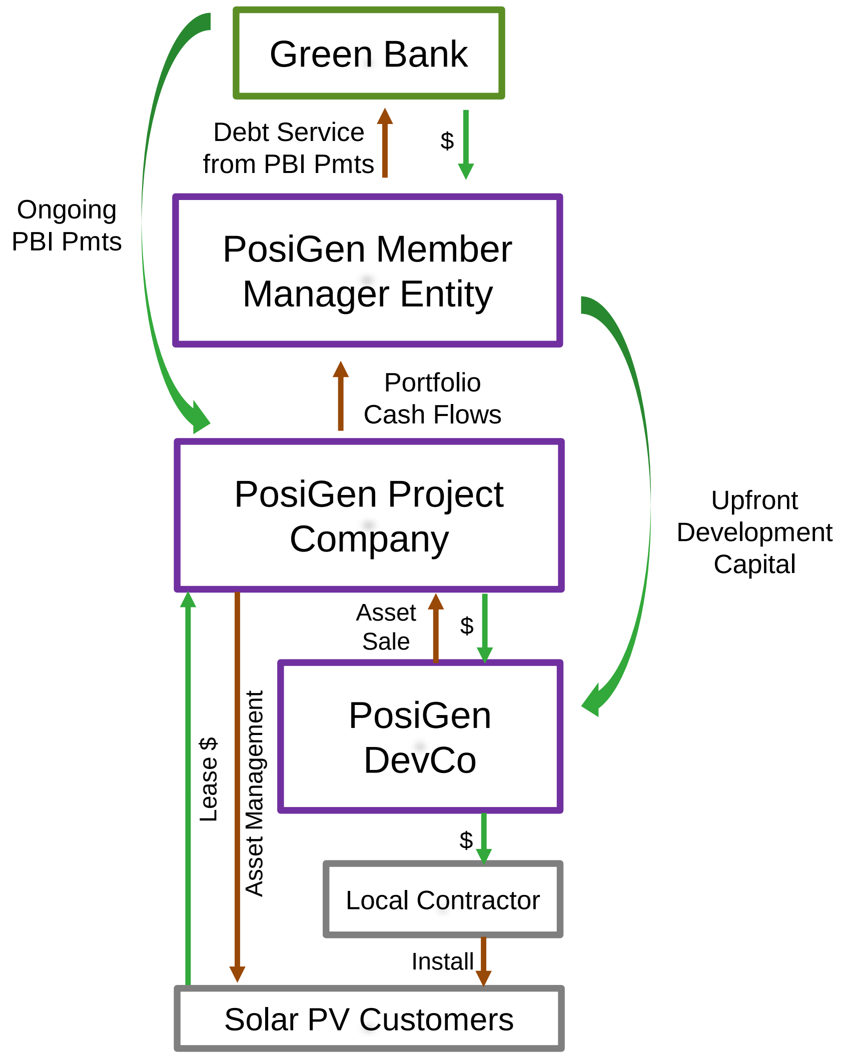
- **<u>Existing Board Authorization</u>** – not-to-exceed $15 million for PosiGen global back-leverage facility, approved in July 2018

- **<u>Collateral for Back-Leverage Facility</u>** – collateralized solely by solar lease and energy efficiency financing agreement cash flows; intentionally excluded PBI cash flows

- **<u>Differential Risk Profile</u>** – PBI cash flows subject to production risk but not the credit risk of the underlying homeowners; however, based on historical data, this production risk is "known" and thus the PBI facility should carry a lower cost of capital

- **<u>Anticipated Financing by IPC</u>** – Green Bank staff expected Inclusive Prosperity Capital ("IPC") to provide financing directly against the PBI cash flows, but IPC has yet to receive its initial funding, resulting in a gap relative to PosiGen's capital needs

PosiGen PBI Financing Facility Cash Flow Diagram



PosiGen PBI Financing Facility Request

- **Total Authorization** – maintain the not-to-exceed $15 million amount already approved, split between an anticipated $10 million for back-leverage and <$5 million for the PBI facility

- **Facility Terms** – anticipated to be a fully amortizing, six-year loan (in line with the term of PBI payments), with an interest rate of about [[redacted]]% subject to final negotiation

- **Assignment / Sale of Facility** – once IPC has received its initial funding, allow the Green Bank to assign / sell its position in the PBI facility (either in whole or in part) to IPC to allow the Green Bank to continue to fund the back-leverage loan while IPC fully retains or leverages its position as PBI lender

PosiGen PBI Financing Facility Resolutions

- RESOLVED, that the Green Bank Board authorizes the extension of credit under a separate PBI-only facility to PosiGen in addition to the BL Facility, provided that Green Bank capital outstanding between such PBI-only facility and the BL Facility does not exceed the previously authorized $15 million total;

- RESOLVED, that once IPC has secured its initial funding and is able to extend credit itself, the Green Bank will sell down its position in the PBI-only facility to IPC on the same terms as will exist between Green Bank and PosiGen, but the Green Bank shall be permitted to co-lend with IPC to PosiGen under the PBI-only facility until IPC can satisfy 100% of the capital required under the PBI-only facility, provided that Green Bank capital outstanding between such PBI-only facility and the BL Facility does not exceed the previously authorized $15 million total; and

- RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and negotiate and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

Board of Directors

Agenda Item #3bii

C-PACE Initial Investment from Hannon Armstrong

C-PACE Initial Investment from Hannon Armstrong – Background

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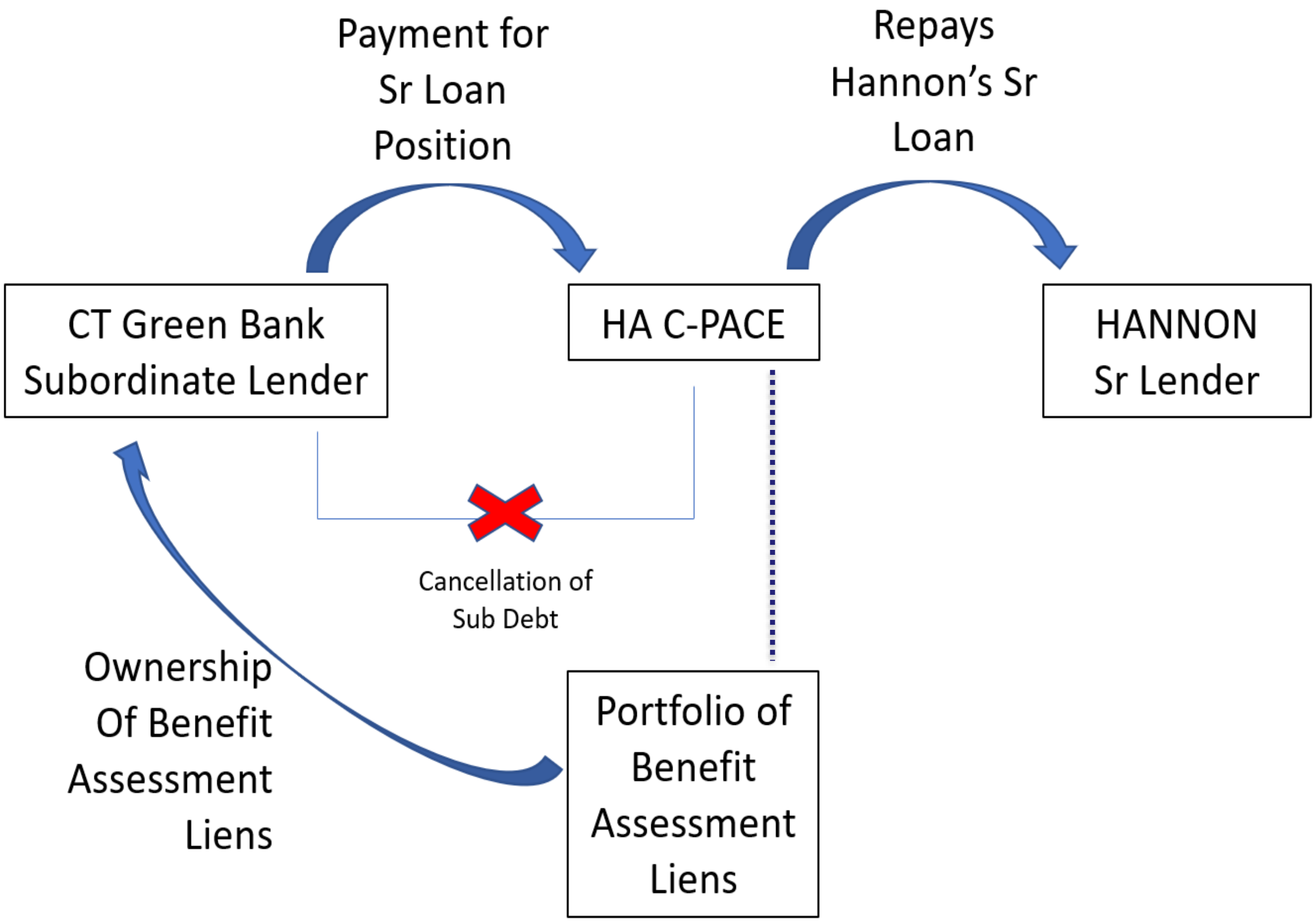
- **Existing Program w/Hannon** – pursuant to Dec 2014 RFP, Hannon selected as private Capital provider for C-PACE program.
- **Parties agree to not extend** – facility terminates Dec 2018. For strategic reasons, parties agree not to extend arrangements
- **Best to have either Green Bank or Hannon own the senior BALs** – due to capital markets issues – Green Bank agrees to buy Hannon position in senior benefit assessment liens
- **Impact to Green Bank** – limited incremental credit risk due to Green Bank's existing subordinated position. Increased portfolio in C-PACE assets enables Green Bank to get a head start on sustainability plan

C-PACE Initial Investment from Hannon Armstrong – Cash Flows



C-PACE Initial Investment from Hannon Armstrong – structure

- Initial purchase by October 15 (two smallest tranches, **$3.7 million** across 16 transactions and a “senior yield” of 4.31%)

- When combined with our existing subordinated yield of 11.45%, the overall yield of the reconstituted Benefit Assessment Liens would be 5.62%.

- Green Bank to purchase the balance of the Hannon portfolio once Green Bank receives the proceeds from its SHREC securitization

- Second (final) purchase of Hannon portfolio to take place by the end of 2018. The second purchase will require an additional **$9.8 million** in capital across 19 transactions and a “senior yield” of 4.59%.

- When combined with our existing subordinated yield of 10.74%, the overall yield of the reconstituted Benefit Assessment Liens would be 5.72%.

C-PACE Initial Investment from Hannon Armstrong – Impact

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- Collectively, the purchase involves **$13.5 million** in capital across 35 transactions and a "senior yield" of 4.51%.

- When combined with our existing subordinated yield of 10.93%, the investment would total $15.2 million and an overall yield of the reconstituted Benefit Assessment Liens would be 5.69%. At an annual rate, the transactions will **yield overall cash flow of approximately $1.4 million annually,** including interest income in the first year of $865,000.

C-PACE Initial Investment from Hannon Armstrong – Resolutions

RESOLVED, that the Board authorizes Green Bank to repurchase and acquire 100% ownership in the Benefit Assessment Liens originated pursuant to the Program Agreement, materially consistent with the terms set forth in the Board Memo;

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and negotiate and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

Submitted by: Bert Hunter, EVP and CIO, Mackey Dykes, Vice President, Commercial, Industrial and Institutional Programs and Mike Yu, Associate Director, Clean Energy Finance

Board of Directors

Agenda Item #4

Adjourn

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Memo

To: Connecticut Green Bank Board of Directors

From: Bert Hunter, EVP and CIO

CC: Bryan Garcia, President and CEO; Brian Farnen, General Counsel and CLO

Date: September 10, 2018

Re: Performance Based Incentive (PBI) Financing Facility for PosiGen

Background

At its July 27, 2018 meeting, the Board of Directors ("Board") of the Connecticut Green Bank ("Green Bank") approved the following changes to the Green Bank's credit relationship with PosiGen, Inc. and its subsidiaries (collectively, "PosiGen") to support the company's further growth as it continues to serve low- and moderate-income ("LMI") customers with its solar lease plus energy efficiency financing offering (a Summary of the CGB / Posigen Credit Relationship and description of the credit facilities is attached as Appendix A):

1. To increase the amount of the Green Bank's participation in the Term Loan A Facility from its current level of $8.5 million of total debt advanced up to $10,000,000 of total debt advanced, and
2. To increase that participation in an expanded back-levered credit facility[1] (the "Expanded BL Facility") up to $15,000,000 of total principal outstanding with the Green Bank to be collateralized – in a subordinated position – through PosiGen solar leases and energy efficiency contracts in Connecticut and around the country. Note – the Expanded BL Facility will replace – in its entirety – the Term Loan A Facility.

Note: Both the Term Loan A Facility and the Expanded BL Facility are "back-levered" facilities.

[1] In response to the unique challenges of matching the demands of secured permanent debt and tax equity investments, many renewable energy project finance deals use a back-levered debt structure. When a solar PV partnership finances using a back-levered structure, this simply moves the debt from the project level up to a holding company level, above the tax equity investor level, such that the sole collateral securing the debt is the sponsor-side equity interests and the associated cash held by the holding company borrower. This alleviates tax equity investor's concern over "foreclosure risk" which would unwind the tax benefits the tax equity has paid for. As a result of the high quality of the solar asset and the relatively low operating risk, the value of the sponsor-side cash flow streams in an operational solar facility can be significant enough to fully secure permanent debt for the project in this back-levered structure, even without project-level collateral.

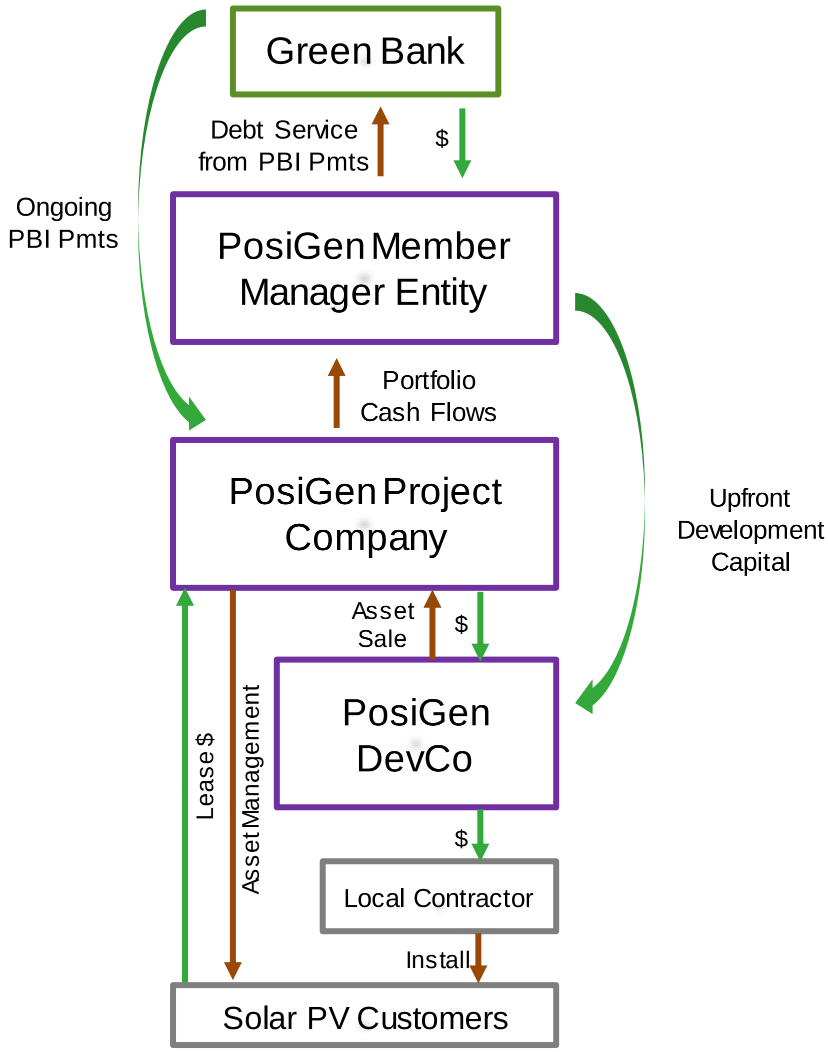
The not-to-exceed amount of $15 million of that Expanded BL Facility authorization specifically excludes from the financing facility (and the associated collateral package) specific cash flows associated solely with Connecticut systems, namely, the Performance Based Incentive ("PBI") for third party owned residential solar PV systems paid out to PosiGen under the Residential Solar Investment Program ("RSIP").

PosiGen and Green Bank staff both anticipated that the Green Bank's new spin-out entity, Inclusive Prosperity Capital, Inc. ("IPC") would provide financing for the PBI portion of the company's cash flows. Unfortunately, due to unanticipated delays in IPC receiving its initial capitalization from the Connecticut Department of Energy and Environmental Protection ("DEEP") because of ongoing contractual review from the Office of the Attorney General ("OAG"), IPC is unable to timely fund the PBI facility.

As PosiGen and the Green Bank are now moving quickly towards closing with a senior lender ("LibreMax") on the Expanded BL Facility, the lack of funds on the PBI front leaves a critical gap in PosiGen's capital stack due to the fact that when the Expanded BL Facility is entered into by PosiGen, LibreMax and the Green Bank, the Term Loan A Facility, as well as the financing against the future PBI revenue stream that is currently in place under the Term Loan A Facility, will cease. This gap was to have been filled by IPC with a portion of the DEEP funds (now delayed).

Structure

The following diagram illustrates the cash flows associated with a PBI financing facility. As opposed to financing against PosiGen's solar leases, the PBI facility avoids the credit risk of PosiGen's customers but does accept the production risk that is inherent to the payments associated with the Green Bank's PBI under the RSIP.



Recommended Approach

The Green Bank Board has already provided the authorization to commit $15 million in debt financing for PosiGen under the Expanded BL Facility. At the closing of the Expanded BL Facility (which, again, excludes the PBI), the expectation is that the Green Bank's exposure will be $10 million (with all of this exposure being in the Expanded BL Facility and no remaining exposure under the Term Loan A Facility, which will be repaid from the funding being advanced by the Green Bank and LibreMax under the Expanded BL Facility). At that same time, the amount of funds needed for the PBI facility will be less than $4 million. Thus, Green Bank staff recommends that the Board authorize the Green Bank to fund the PBI facility so long as outstanding balances for the Green Bank combined between the Expanded BL Facility and the PBI facility stay within the existing not-to-exceed amount of $15 million as previously authorized by the Board.

While Green Bank capital is at risk in the proposed PBI facility, Green Bank will earn interest on its capital at risk at the PBI facility interest rate. Then, once the OAG and DEEP have approved of the release of funds to IPC, the Green Bank would be further authorized to sell down its position in the PBI facility to IPC at an arm's length transaction so that IPC can step into the role originally envisioned for it, leveraging its investment as appropriate to allow for further scale and reinvestment. No terms or conditions under the PBI facility would be changed as a result of IPC taking over the Green Bank position. Through the sale of the PBI facility to IPC, the Green Bank would be able to continue to participate in the Expanded BL Facility up to the full $15 million amount. As it may take additional time for IPC to arrange funding for 100% of the PBI facility, it is possible that the Green Bank and IPC may jointly fund the PBI facility for some period of time. Nonetheless, as noted above, at no time would the outstanding balances for the Green Bank combined between the Expanded BL Facility and the PBI facility exceed the $15 million exposure limit previously authorized by the Board.

Finally, with respect to the basic material terms of this proposed debt investment, staff recommends that the PBI facility be structured as fully amortizing in line with the underlying tenor of the PBI payments (so, approximately six years), and with an interest rate at or about 6.5%, given the lower risk associated with this collateral (that is, versus the Expanded BL Facility) once production history on PosiGen's existing Connecticut portfolio is factored in via an appropriate haircut to the overall advance rate.

As this request does not increase the capital exposure of the Green Bank to PosiGen or increase the balance of risks faced by the Green Bank, but provides an additional path to fund PosiGen while IPC arranges its funding needed to participate in this transaction, staff requests and recommends Board approval.

Resolutions

WHEREAS, the Connecticut Green Bank ("Green Bank") has an existing and successful partnership with PosiGen, Inc. (together with its affiliates and subsidiaries, "PosiGen") to support PosiGen in delivering a solar lease and energy efficiency financing offering to LMI households in Connecticut;

WHEREAS, the Green Bank Board of Directors ("Board) previously authorized the Green Bank's participation in a credit facility (the "BL Facility") encompassing all of PosiGen's solar PV system and energy efficiency leases in the United States as part of the company's strategic growth plan, in an amount not to exceed $15 million;

WHEREAS, that prior authorization for the BL Facility excluded financing against Performance Based Incentive ("PBI") payments due to PosiGen under the Residential Solar Investment Program ("RSIP"), as such financing was expected to be provided by Inclusive Prosperity Capital, Inc. ("IPC"); and

WHEREAS, IPC is unable to provide such financing as needed by PosiGen upon the closing of the BL Facility, but is expected to be in a position to provide such financing as IPC secures its initial funding.

NOW, therefore be it:

RESOLVED, that the Green Bank Board authorizes the extension of credit under a separate PBI-only facility to PosiGen in addition to the BL Facility, provided that Green Bank capital outstanding between such PBI-only facility and the BL Facility does not exceed the previously authorized $15 million total;

RESOLVED, that once IPC has secured its initial funding and is able to extend credit itself, the Green Bank will sell down its position in the PBI-only facility to IPC on the same terms as will exist between Green Bank and PosiGen, but the Green Bank shall be permitted to co-lend with IPC to PosiGen under the PBI-only facility until IPC can satisfy 100% of the capital required under the PBI-only facility, provided that Green Bank capital outstanding between such PBI-only facility and the BL Facility does not exceed the previously authorized $15 million total; and

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and negotiate and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

Submitted by: Bert Hunter, EVP and CIO

Appendix A

Summary of CGB / Posigen Credit Relationship

REDACTED

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Memo

To: Connecticut Green Bank Board of Directors

From: Bert Hunter, EVP and CIO, Mackey Dykes, Vice President, Commercial, Industrial and Institutional Programs and Mike Yu, Associate Director, Clean Energy Finance

CC: Bryan Garcia, President and CEO; Brian Farnen, General Counsel and CLO; George Bellas, Vice President, Finance and Administration

Date: September 11, 2018

Re: Approval to Repurchase Hannon Armstrong's Senior Position in C-PACE Benefit Assessment Liens

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Background

At its October 16, 2015 meeting, the Board of Directors ("Board") of the Connecticut Green Bank ("Green Bank") approved arrangements whereby Hannon Armstrong ("Hannon") would fund along with Green Bank Benefit Assessment Liens originated by Green Bank for the Commercial PACE ("C-PACE") program in the state. Hannon was selected pursuant to the C-PACE Warehouse Capital Provider RFP released on December 24, 2014. As a result of the RFP, Green Bank and Hannon entered into the C-PACE Program, Master Assignment and Servicing Agreement dated December 17, 2015 (the "Program Agreement"). Pursuant to the Program Agreement, Hannon and Green Bank co-financed $16.3 million in Benefit Assessment Liens for 35 transactions.

The arrangement we entered into with Hannon will expire on December 17, 2018, the 3rd anniversary of the Program Agreement. Over the past few months, staff has discussed with Hannon representatives whether or not to extend the arrangements. For a variety of strategic reasons, Hannon and Green Bank have decided not to extend the facility. This potential decision to not extend the arrangements with Hannon was made clear to the Board during the FY2019 budget process, including funding set aside in the budget to repurchase the portion of the Benefit Assessment Liens previously funded by Hannon.

Rationale for Repurchase

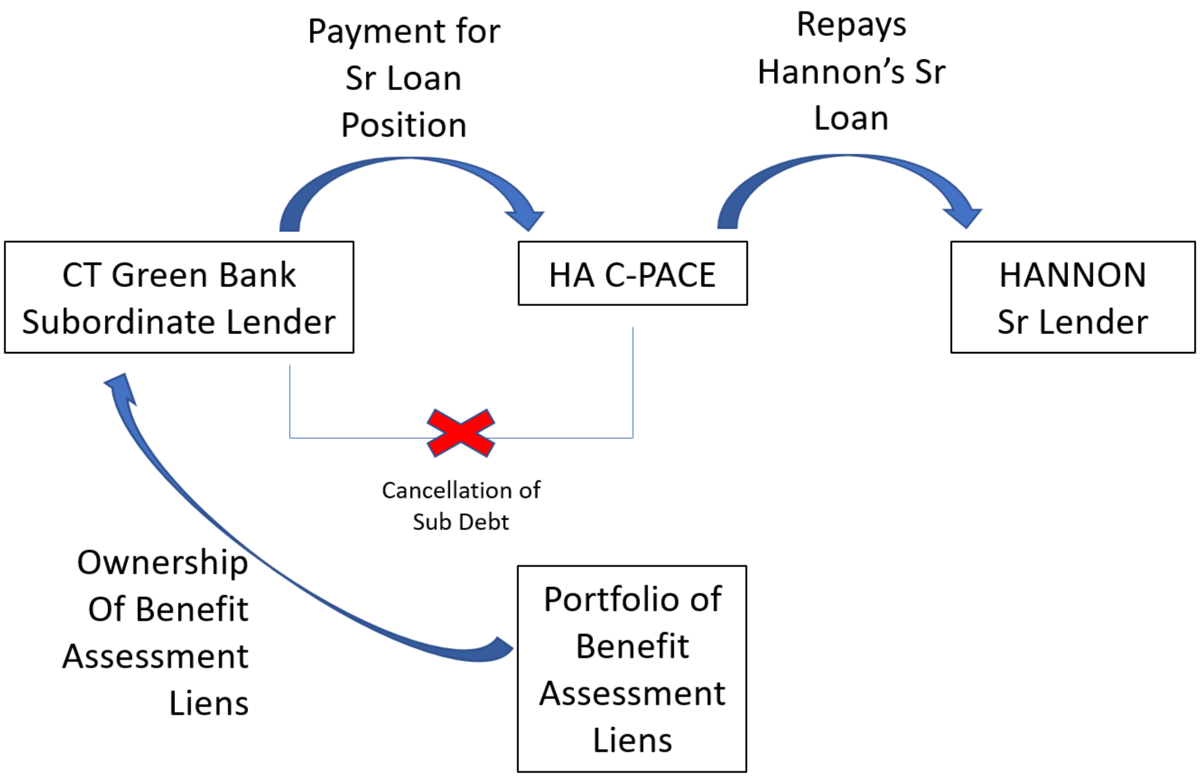
Under the expiring Program Agreement, 80% to 90% of the investment towards the Benefit Assessment Liens was purchased by Hannon, leaving Green Bank with a 10% to 20% subordinate position in the Benefit Assessment Liens, and more typically 10%. For Green Bank, by ending the arrangements with Hannon, a larger portion of the Benefit Assessment Liens can be retained. Retaining more of the investments originated by Green Bank, particularly highly secure investments in C-PACE Benefit Assessment Liens, enables Green Bank to reach sustainability more quickly, in accordance with the Sustainability Plan approved by the Board at the December 15, 2017 meeting.

Structure

The Benefit Assessment Liens are owned by an SPV which is owned 100% by Hannon. At the present time, Green Bank lends on a subordinated basis to the SPV and Hannon lends on a senior basis to the SPV.

To unwind the transaction, Green Bank would repurchase from the SPV the Benefit Assessment Liens it purchased from Green Bank at “par”. The actual structure of the repurchase transaction could take place in a few ways, but the purchase will involve advancing to the SPV the “par” amount of Hannon’s senior loan position (with appropriate adjustments for interest accrued on the underlying Benefit Assessment Liens) and cancelling the subordinated debt Green Bank has outstanding to the SPV that is associated with the Benefit Assessment Liens being repurchased. As a result, the Benefit Assessment Liens will once again become owned 100% by Green Bank (or Green Bank’s 100%-owned C-PACE subsidiary).

The following diagram illustrates the cash flows associated with a repurchase of the Benefit Assessment Liens co-funded with Hannon.



Request for Approval

The Green Bank Board (or the Deployment Committee) has already provided the authorization to assume the risk on a subordinated basis for the Benefit Assessment Liens that would be repurchased. It is a risk we know well and this C-PACE portfolio is fully performing. In practical terms, since the Green Bank already has the subordinated exposure, and given the highly secure nature of C-PACE Benefit Assessment Liens generally, staff is comfortable that the repurchase of the Benefit Assessment Liens from Hannon. This proposed repurchase does not result in any material incremental risk to Green Bank while affording an excellent opportunity to derive additional income from retaining a larger portion of the Benefit Assessment Liens on our books.

The repurchase would take place in two phases:

1. An initial purchase is expected to take place by October 15 would repurchase the two smallest tranches of transactions purchased by Hannon. This would represent an investment by Green Bank of approximately $3.7 million across 16 transactions and a "senior yield" of 4.31%. When combined with our existing subordinated yield of 11.45%, the overall yield of the reconstituted Benefit Assessment Liens would be 5.62%. The documentation would refer to the fact that the repurchase of the two smaller tranches is the first part of the overall transaction. It would also indicate that Green Bank's obligation to purchase the balance of the Hannon portfolio of Benefit Assessment Liens would be executed once Green Bank receives the proceeds from its SHREC securitization, which is expected to close by the end of 2018.
2. The second and final purchase of Benefit Assessment Liens would be expected to take place (as noted above) once Green Bank receives the proceeds from its SHREC securitization, which is expected to close by the end of 2018. The balance of the Hannon Benefit Assessment Liens is anticipated to require an additional $9.8 million in capital across 19 transactions and a "senior yield" of 4.59%. When combined with our existing subordinated yield of 10.74%, the overall yield of the reconstituted Benefit Assessment Liens would be 5.72%.
3. Collectively, the purchase involves $13.5 million in capital across 35 transactions and a "senior yield" of 4.51%. When combined with our existing subordinated yield of 10.93%, the investment would total $15.2 million and an overall yield of the reconstituted Benefit Assessment Liens would be 5.69%. At an annual rate, the transactions will yield overall cash flow of approximately $1.4 million annually, including interest income in the first year of $865,000.

   The economics of the portfolio is summarized in **Table A** attached.

This requested capital investment represents incremental exposure to the underlying Benefit Assessment Liens of approximately $13.5 million. In light of the fact that the existing risk position exposes the Green Bank to $1.7 million of "first loss," staff is of the opinion that in practical terms the additional investment in secure Benefit Assessment Liens does not materially increase the effective exposure of the Green Bank. At the same time, the Green Bank has flexibility as the 100% owner of the Benefit Assessment Liens, at a subsequent point in time if needed for other investment or general corporate purposes, to monetize its position in the 35 Benefit Assessment Liens.

Given the benefits to the Green Bank's sustainability plan and the measured incremental risk profile of the investment, staff requests and recommends Board approval.

Resolutions

WHEREAS, the Connecticut Green Bank ("Green Bank") has an existing partnership with Hannon Armstrong ("Hannon") pursuant to the C-PACE Program, Master Assignment and Servicing Agreement, dated December 17, 2015 (the "Program Agreement") approved by the Green Bank Board of Directors (the "Board") at a meeting held on October 16, 2015;

WHEREAS, the Green Bank and Hannon have elected not to extend the Program Agreement beyond its December 17, 2018 termination date;

WHEREAS, Green Bank and Hannon have agreed to terms pursuant to which Green Bank would repurchase and acquire 100% ownership in the Benefit Assessment Liens originated pursuant to the Program Agreement as set forth in a memorandum to the Board dated September 11, 2018;

NOW, therefore be it:

RESOLVED, that the Board authorizes Green Bank to repurchase and acquire 100% ownership in the Benefit Assessment Liens originated pursuant to the Program Agreement, materially consistent with the terms set forth in the Board Memo;

RESOLVED, that the proper Green Bank officers are authorized and empowered to do all other acts and negotiate and deliver all other documents and instruments as they shall deem necessary and desirable to effect the above-mentioned legal instruments.

Submitted by: Bert Hunter, EVP and CIO, Mackey Dykes, Vice President, Commercial, Industrial and Institutional Programs and Mike Yu, Associate Director, Clean Energy Finance

Table A

	# of BALs	Annual P&I	HA Sales Price	Senior Note	CGB Sub Note	Advance Rate	Current Senior Amount	Current Sub Amount	CPACE Rate	Senior Rate	Sub Rate
Tranche 1	10	$ 354,840	$3,623,370.42	$3,236,533.99	$386,836.43	89.3%	$2,910,709.75	$358,652.50	5.50%	4.53%	8.93%
Tranche 2	8	$ 671,489	$7,971,903.80	$7,143,771.66	$828,132.14	89.6%	$6,748,162.48	$810,819.40	5.84%	4.60%	11.93%
4 New Park	1	$ 31,320	$245,730.15	$196,584.12	$49,146.03	80.0%	$178,291.41	$47,934.75	5.00%	5.06%	4.80%
Total	19	$ 1,057,649	$11,841,004.37	$10,576,889.77	$1,264,114.60	89.3%	**$9,837,163.64**	**$1,217,406.65**	**5.72%**	**4.59%**	**10.74%**
Tranche 3	12	$362,639.99	$3,522,671.87	$3,136,891.35	$385,780.52	89.0%	$2,880,634.97	$376,495.94	5.63%	4.17%	12.00%
Tranche 4	4	$93,146.82	$962,856.10	$866,570.67	$96,285.43	90.0%	$812,276.83	$93,953.37	5.59%	4.82%	9.24%
Total	16	$455,786.81	$4,485,527.97	$4,003,462.02	$482,065.95	89.3%	**$3,692,911.80**	**$470,449.30**	**5.62%**	**4.31%**	**11.45%**
Grand Total	**35**	**$ 1,513,435.67**	**$ 16,326,532.34**	**$ 14,580,351.80**	**$ 1,746,180.54**	**89.3%**	**$13,530,075.44**	**$1,687,855.95**	**5.69%**	**4.51%**	**10.93%**

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