Delaware Sustainable Energy Utility
Loan Committee
DESEU Office - 500 W. Loockerman Street, Suite 400, Dover, DE 19904
January 22, 2018, 2:00 PM

Members present were: Kristopher Knight (teleconference), Trey Paradee, Doug Bacher, NW Financial Group (teleconference), Andrew Slater (teleconference), and Anthony DePrima. Also present was Brent Shaffer, Young Conaway Stargatt & Taylor, LLP (teleconference).

1. Odyssey Charter School – The Odyssey Charter School ("Odyssey") has made application to the DESEU for a loan totaling $222,774 for purposes of converting the existing indoor lighting systems and certain exterior lighting systems on the building, in the parking lot and along the roadway at its facilities (the "Project") at 4319 in Wilmington, Delaware. Odyssey has also received a letter from DNREC approving a $61,600 grant. Although left undetermined and not identified in the loan application, Odyssey did discuss a loan with a term as along as 10 years. The simple payback, not including the DNREC grant is approximately 2.81 years.

<u>Summary</u>
NW Financial reviewed the following information in connection with this loan request:

- The DESEU Loan Application
- The Odyssey Financial Reports for years ending June 30, 2015, 2016 and 2017
- The Energy Savings Report from Lumiix
- The DNREC Grant approval letter dated December 26, 2017
- And the following documents regarding The Delaware Economic Development Authority's issuance of $34,650,000 Revenue Bonds (Odyssey Charter School, Inc., Project) Series 2015 (the "Bonds"):
  °Trust Indenture
  °Loan and Security Agreement

<u>Project</u>
The Project consists of the conversion of existing lighting to LED lighting as described earlier. It includes the installation of over 2500 light bulbs that will provide annual savings of over $79,000. As noted, the simple payback is 2.8 years.

<u>Loan Security</u>
Odyssey was organized as a Delaware State entity under Title 29, Chapter 50, Sub-Chapter IV of the State Statutes and organized as a Charter School under Title 14, Chapter V of the Delaware State Statutes. It was incorporated as a 501(C)(3) in April 2006. It has operated as a Charter School since 2017. The Charter has been previously renewed and is renewed with the State of Delaware every 5 years. Current enrollment is approximately 1,600 children with recognized grades of K-10. Grades 11 and 12 will be added over the next 2 years.

A review of Odyssey's financial information for years ending June 30, 2015, 2016, and 2017 showed the following:

- The annual operating budget for Odyssey is approximately $18,000,000.

- In 2015 Odyssey issued Bonds through the Delaware Economic Development Authority consisting of 2 Series, $33,965,000 Tax exempt Series A and $695,000 Taxable Series B Bonds for purposes of financing and refinancing the cost of acquisition and the redevelopment of 35.93 acres and 8 buildings to be developed as a K-12 school; pay capitalized interest during construction, funding required reserve funds and to pay the cost of issuance. The bonds are secured solely by the revenues of Odyssey. There is no recourse or obligation of the State of Delaware. The Taxable Series B mature in September 2018 and carry an interest rate of 7%. The Tax-Exempt Series A Bonds mature as follows: $4,075,000

(6.25%) in 2025, $9,890,000 (6.75%) in 2035 and $20,000,000 (7%) in 2045. The Bonds do not have a credit rating. The Bonds were placed through a Private Placement with Wells Fargo and Nuveen.

- Odyssey posted an operating deficit in years 2015 and 2016 that was funded by reserves on hand. Odyssey did realize a positive net position in year 2017.

- Odyssey had several outstanding loans with various terms that were paid off with the issuance of the bonds. During the years noted Odyssey did not meet its loan covenants (i.e. reserve requirements, debt ratio, etc.) for these loans. The financial reports note that no action was taken by the financial institutions holding these loans supporting the concept that Odyssey was given permission by the lending institutions during the Bond financial planning and issuance to ignore these covenants.

The financials viewed independently without an examination of the bigger does not properly provide an adequate picture of Odyssey. Although the issuance of long term debt to fund the acquisition and construction of the new facilities will put any loan provided by the DESEU in a subordinate position to bondholders, for purposes of a financial review for this loan, the issuance of long term bonds does provide some comfort in the ability for Odyssey to repay a small energy loan.

- Odyssey successfully issued long term debt (final maturity in 2045) based on Odyssey's ability to demonstrate to investors that Odyssey can handle the annual debt service payments and continued operations based upon the revenues and fees that Odyssey generates on an annual basis.

- The $222,774 loan request is relatively small compared to the $18,000,000 operating budget. The simple payback period considering the projected annual savings only of $79,000 is 2.8 years. The payback is shorter when considering the approved $61,600 DNREC grant. The DESEU 1.1 to 1 annual savings to debt service coverage ratio requirement is not an issue with this application with any loan with a term that is over 3 years.

- The Bond covenants are strict providing for reserves for debt service and ongoing capital maintenance. In short, they are designed to protect the bondholders and their capital investment. They include the following:

  - Minimum cash on hand, 60 days
  - Net Revenue to debt service requirements ratio (coverage ratio) of 1.1 to 1
  - Repair and Replacement Fund annually funded to $600,000
  - Supplemental Reserve Fund of $1,400,000
  - A Reserve Fund of 5% annual operating expenses
  - Submit to Trustee on an annual, quarterly or monthly basis as noted in the indenture:
    - State required budget
    - Annual financial report
    - Copies of Minutes
    - Copies of monthly financial expense reports
    - Annual enrollment reports
    - Quarterly financial statements
    - Board minutes

  °Certificate that Odyssey must be and remain an educational facility and a 501(c)(3) throughout the life of the Bonds

<u>Conclusion</u>

Odyssey is an ongoing educational facility with a successful 10 year operating history. They have successfully issued a $34,695,000 bond issuance based solely on the credit and operating history of Odyssey. The covenants of the outstanding Bonds require Odyssey to maintain reserve funds and debt ratios that provide some comfort to the investors of the Bonds. That said, the loan to Odyssey will be in a subordinate position to the Bonds if there is a default.

Odyssey has received a $61,600 grant from DNREC that is available for repayment. The terms associated with a loan approval should take into consideration Odyssey's public purpose and 501(c)(3), not for profit status.

As we have not received a definitive request regarding the term of the loan, the DESEU may want to consider a loan with different interest rate based on the maturity. A suggestion is a 5-year maturity at 2%, a 7-year maturity at 2.75% and a 10-year maturity at 3.5%. And although admittedly the lien is of less value given the equipment being installed includes light fixtures and light bulbs, as with all loans, the DESEU should be given a lien on the equipment being installed.

After much discussion, Mr. Paradee moved to approve the loan request in the amount of $222,774 giving the applicant discretion of a rate and maturity of 5-year at 2%, 7-year at 2.75%, or a 10-year maturity at 3.5%. The motion was seconded by Mr. Knight and unanimously carried.

2. Edison Energy Loan Modification – Mr. DePrima explained that approximately 2 years ago, as part of the Solar Resiliency Program, the Loan Committee approved a concept of a $2M loan for Edison Power. The DESEU's role was to finance the solar developer and provide incentives in the form of buying SREC's for three (3) fire houses and one (1) school to enter into PPA (Purchase Power Agreement) for solar power and battery backup systems. The loan was contingent upon them providing satisfactory financial information. During the interim, the above projects began to fall apart; the fire houses pulled out of the project, they didn't think there was going to be enough savings to be worth the work. The school's board of directors also pulled out of the project because they believed that solar panels located in front of their building would cause a distraction and not be esthetically pleasing to the eye.

In the meantime, discussions were taking place with the Jefferson School, a charter school located in Sussex County. Between the solar developer, engineering company, and school they developed an acceptable PPA. The SEU has since then packaged a new loan commitment letter that resembles the first one; however, this commitment letter would in the amount of $981,500 for a 20 year term.

Mr. Paradee moved to re-issue a commitment letter to Eznergy, A.F. Mensah and Edison Power in the amount of $981,500 (including the terms sited in the letter dated 12/27/2017). The motion was seconded by Mr. Knight and unanimously carried.

3. Update – Loan Program Evaluation – Mr. DePrima informed members that Bluestem is putting the final touches on a draft report, which includes several recommendations. He indicated that the draft report would be presented to the Loan Committee first for review.

Meeting Adjourned at 2:50 PM