Delaware Sustainable Energy Utility
Loan Committee

DE Sustainable Energy Utility Office
500 W. Loockerman Street, Suite 400, Dover, DE 19904

June 2, 2016 – 1:30 p.m.

Members present were: Trey Paradee (teleconference), Dave Bonar, Charles Wagner (teleconference), Doug Bacher, NW Financial Group (teleconference), Brent Shaffer, Young Conaway Stargatt & Taylor, LLP (teleconference), Anthony J. DePrima, and Lisa Gardner. Others present via conference call were Mr. Kenneth Becker, Mr. Roger Turk, Wilmington Housing Authority, Mr. John Bertuzzi, Ecogy Solar, and Mr. Jack Bertuzzi, Ecogy Solar.

1. Review Loan Application – Ecogy Delaware II, LLC - Mr. DePrima informed members that during the May 19, 2016 SEU Oversight Board meeting, for timing purposes, the Board authorized either the Executive and/or the Loan Committee to consider a loan in access of the $1 million cap. Ecogy Delaware II, LLC has requested a loan for an amount not exceed $1.5 million in order to build a 1.15 MW ground mounted solar array system. The project will be privately owned by Ecogy but will directly benefit the Wilmington Housing Authority (WHA) by providing the WHA with reduced electrical cost through a 25 year Power Purchase Agreement (PPA) between Ecogy and the WHA. The total project cost is estimated at $2,250,000 with funding coming from the DESEU and supplemented by a cash contribution from Ecogy of $750,000.

Loan Request

As previously noted, the total Project cost is $2,250,000. The funds that are being used to construct the Project include the $1,500,000 DESEU Loan and a cash contribution from Ecogy of $750,000. Revenues to repay the loan will come from two sources, the sale of the electricity to the WHA by Ecogy through a PPA and through the sale of SRECs by Ecogy. Ecogy is willing to put the revenue generated from those two sources in a bank account jointly held by both the DESEU and Egocy (i.e. lock box). The bank would have an agreement directing any money left over after maintenance, insurance, and asset management expenses are paid, to pay the DESEU loan before any distributions are made to investors.

Ecogy has stated that the loan supports a 15 year maturity schedule but would prefer a 20 year loan as it makes the Project the more economically feasible. The PPA has not yet been executed but will be for a period of 25 years. Because solar panels degrade over time, we discussed and they agreed to a maturity schedule that has principal more aggressively amortized in the first 10 years. The PPA includes a sale price of electricity to the WHA starting at 5.75 cents a kWh and escalates 2% annually thereafter over the 25 year term of the agreement.

Loan Security

Financial Strength of Ecogy Delaware II, LLC. Ecogy is a newly formed, single purpose LLC owned by the Parent LLC, JB Solar Investors, LLC for the purpose of owning and operating the Project. The cash flow analysis provided shows a positive cash flow and a DSCR of over 1.2. There is no company history to examine. Because Ecogy is a private entity they can take advantage of the valuable federal tax credits available to private investors when owning solar projects. These tax credits are typically paid to the owners (investors) over the first several years of ownership and are calculated based on equipment costs of the project (approximately 30% and in this case estimated to be approximately $600,000). The tax credit is not available to public entities. The tax credit has not been offered as money to be put into the proposed "lock box".

Financial Strength of the Parent LLC: The unaudited balance sheets demonstrate a strong financial position with total net worth at $19.8m in the year ending 2015, $17.6m in the year ending 2014 and $10.7m in the year ending 2013. Total liabilities (outstanding debt) are $280,000 in the year ending 2015 with the projects owned totaling $5.8 million. They own other solar arrays supported by PPAs through other single purpose LLCs organized under the Parent at Longwood Gardens, Howard University and several other sites. Following discussion the Parent LLC has agreed to provide a guaranty for the loan.

Financial Strength of the WHA: Housing authorities are funded through HUD operating (100%) and capital subsidies (typically 85%-90%). The HUD revenues are very consistent and considered stable. Funding structures and permitted activities have changed a little over time but the HUD subsidies have remained stable. The audits reviewed didn't reveal any abnormalities regarding revenues and expenses.

The WHA is a substantial entity with a budget of approximately $29m in 2015. They have cash and cash equivalents of over $4m. They were organized in 1938. Its economic position is dependent on HUD because most of its revenues come from HUD. A small portion of revenues come from rent. Factors that can influence the financial stability of the WHA over time are the economic viability of the City of Wilmington and the greater Wilmington area.

The WHA has no direct obligation to repay this loan. However, their ability to pay for the electricity through the PPA is important for the repayment of the loan. We see no issue here.

PPA: The PPA was reviewed to determine price, escalators and term. The term of the PPA is 25 years and includes an initial price to the WHA of 5.75 cent per kWh with a 2% annual escalator. It is not clear if the PPA can be assigned to the DESEU or other entity upon default or bankruptcy of Ecogy or the WHA. I would suggest that the DESEU have the right to have the PPA assigned to the DESEU upon the default of Ecogy.

SREC Revenues/Contracts: Like PPA revenues described above, the Project is dependent on SREC revenues for loan repayment. The Project cash flow performance provided shows revenues from SRECs as approximately 60% of the total Project revenue for 2017. This number drops significantly in 2018 and further declines as the analysis goes further out in time over the proposed 25 year PPA. I have no supporting information to comment on the SREC calculation but agree that with the assumption that revenue projections from this source should be less in future years as ongoing SREC revenue is market and regulation sensitive. That said, I would recommend that SREC revenues and or SREC contracts be assigned to the DESEU upon default of Ecogy.

Savings Analysis: The savings to the WHA over the 25 year PPA is projected to be $978,931. The calculation includes an annual electricity cost escalation factor of 3%.

Lock Box Structure: The inclusion of a "lock Box'' structure in which all PPA and SREC revenues are deposited into a bank account that is put in place by the DESEU and Ecogy with instructions to the bank that the DESEU loan is paid before any distribution to Ecogy is a good idea. This provides added protection to the DESEU.

Lien on Equipment: The DESEU typically requires a lien on the equipment to support the loan.

Parent Guaranty: Although a personal guaranty from Mr. John Bertuzzi is not being offered, I suggested that the Parent LLC, JB Solar investors, LLC be made available. They agreed to this added term. Although not as strong as a personal guaranty, it does add some additional protection in the case that the Project is underperforming or in default as it's possible for Ecogy to default on its own and not necessarily force the bankruptcy or default of the Parent LLC.

Other Factors: A loan to Ecogy will directly benefit and support the mission of the WHA through lower electric costs and provide a service to a public entity through the availability of a low cost loan.

After discussions regarding flood zones, Mr. Jack Bertuzzi indicated as with all their projects they carry a $2 million liability policy as well as an umbrella policy and property insurance.

Mr. Paradee expressed concern which party would be responsible for the fee's that are associated with a Lock Box structure.

After much deliberation over the Lock Box, Mr. DePrima recommended that all parties, except members of the Loan Committee, to drop off the conference call so that members could discuss further.

The consensus of members of the Loan Committee was to waive the Lock Box structure and to add language in the agreement requiring them to do what the Lock Box would force them to do will suffice.

Mr. Bona moved to approve the loan to Ecogy Delaware II, LLC profit, in an amount of $1.5 million at 2% interest rate with a term of "not to exceed" twenty (20) years.

Meeting adjourned at 2:06 PM.