Delaware Sustainable Energy Utility
Loan Committee
DESEU Office - 500 W. Loockerman Street, Suite 400, Dover, DE 19904
November 6, 2017

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

1.a. Chick-A-More Farms - Mr. Bacher stated that Chick-A-More Farms has requested a loan in the amount of $400,000 for the purchase and installation of a ground mount solar array. Because this loan was applied for under the DESEU's Energize Delaware Farm Program, the loan is eligible for a 2% interest rate with a 20 year term.

<u>Project</u>
The Farm is a poultry farm located in Laurel, Delaware. The Farm was incorporated in 1984 and has expanded over the years to 275 acres and 7 chicken houses which produce about 185,000 chickens in each 9-week cycle. The Project includes the purchase and construction of a 260 kW ground mount solar array. The Project will generate 110% of the Farm's electrical usage and provide electric to the Farm's chicken houses.

<u>Loan Request and Security</u>
As noted above, the total Project costs are estimated to be $443,000. The Project construction costs will be funded by the proposed DESEU loan $400,000 and a cash contribution from the owner of the Farm of $43,000. When applying the savings to the payment for a $400,000 loan calculated at 2% interest and providing for a 1.1 to 1 savings to debt payment ratio the loan can be repaid in 18 years.

Repayment of the loan is first and foremost contingent on the ongoing operation and financial position of the Farm. The Farm operation receives its annual revenue through a contract with Amick Farms. Amick Farms is a chicken processing and hatchery that started operations in 1941 that has grown over the years to include processing and hatchery facilities in South Carolina, Maryland and Delaware. The contract provides that Amick Farms gives the Farm the chicks, the feed, and other materials needed to raise the chicks to chickens (i.e. adulthood). The Farm raises the chicks over a 9-week period and at the end of the 9 weeks, the chickens are sent to Amick Farms for processing. The 9-week cycle is continually repeated over the course of the year. The Farm raises approximately 185,000 chickens in each 9-week cycle. The Farm is paid for chickens delivered on a per thousand basis.

A review of the Farm's Federal tax returns submitted in 2014, 2015 and 2016 show a profitable corporation with taxable income of $428,880, $370,994, and $414,638 respectively. The returns also provide Form 11205 which is a 5 year look back at income. That look shows that income going back to 2010 was greater than $400,000 in each year except in 2012 when an income of approximately $350,000 was reported. The Farm appears to be an ongoing, profitable corporation.

The Project generates energy savings and provides additional monetary benefits to the owner of the Project over the same proposed 20-year term of the loan. The monetary benefits are estimated to be a total of over $1,216,506. These projected energy savings and financial benefits are as reported by Sunrise Solar, the company that provided the energy audit report to the Farm.

Energy Savings: $610,079

SREC Revenues: $283,903

Depreciation: $78,874

Federal Tax Credit: $132,900

REAP Grant: $110,750

Total: $1,216,506

The REAP grant is not guaranteed. Application for a REAP grant is made and grants are awarded on an annual cycle after each application has been reviewed and graded. Highest scoring applications are awarded and each application following is awarded in order of the scoring until the annual appropriation is depleted.

The Federal tax credit has recently been extended for the next 5 years. Although it is being phased out over the next years, the Farm is eligible for a 30% construction cost rebate when the Project is completed and operational. Assuming the completion of the Project in 2017, the tax credit will be made available to the owner in 2018. Depreciation is received by the recipient over a 6-year period.

As noted in the summary of revenues above, the Project will also be generating SREC revenues which are projected by Sunrise Solar to be $283,903. This revenue is also not guaranteed as they are subject to the efficient operation of the Project, the continuing availability of the SREC revenue and SREC market fluctuations. All that said, the additional revenue sources are income to the Farm and as such are available for repayment of the loan. Additionally, the owners of the Farm have agreed to provide a personal guaranty for repayment of the loan.

<u>Conclusion</u>
The DESEU should consider a loan of 2% at no longer than 18 years. The savings amount generated over the 18 years is adequate to provide repayment of the loan with an energy savings to annual debt payment of 1.1-1.

The Project generates additional income to the Farm that will be available for the repayment of the loan. The owners of the Farm have also indicated that they are willing to provide a personal guaranty for the loan repayment. And, as with all DESEU loans, the DESEU should be given a lien on the solar array equipment that is purchased and constructed.

Several members voiced concerns regarding the viability of these types of farms and their sustainability.

Mr. DePrima informed members that the DESEU contracts with EnSave; which is a company that runs the Farm Program and are experts in the field. He suggested that we ask EnSave to evaluate the farms and report the findings to the DESEU.

Due to the above concerns, Mr. Slater moved to table items 1a, 1c, and 1d until further sustainability information can be provided. The motion was seconded by Mr. Knight, and unanimously carried.

1.b. Hy-Point Dairy – Mr. DePrima informed members that when evaluating the loan application, Mr. Bacher recommended a 2% interest rate. However, since this does not fall under the Farm Program; a 4% rate was offered to the applicant. The applicant was aware of the DESEU's normal interest rate, and did not accept 4%. The counter interest rate offered was 3.25%, which was accepted and agreed upon.

Summary

Hy-Point Dairy Farms, Inc., ("Hy-Point Farms") has made application to the DESEU for a $419,000 loan for purposes of purchasing and installing a Solar Thermal System and a Roof Mount Solar Array and (the "Project"). The request is for a 10-year maturity at 2% interest. Hy-Point Farms is a family owned and operated business founded in 1940. Owners are 3 cousins, W. J. Meany, John Meany and James Meany. The company manufactures and distributes milk; ice cream; and dairy products for retail and wholesale customers. Hy-Point Farms also recently acquired Lewes Dairy in Lewes, DE, and is building another distribution center is Millsboro, DE. The combined companies employ approximately 105 people.

The Project, Estimated Savings and Loan

The project includes the purchase and installation of solar thermal panels that are designed to heat water used for steam for sterilization and cleaning. The solar panels will reduce the amount of heating oil used to heat water for this same purpose. The project also includes the construction of truck ports that will protect refrigerated trucks from sun and heat and include a roof mounted solar array that will be used to provide electricity to these same refrigerated trucks.

According to the energy savings reports submitted to Hy-Point Farms by Wise Power Systems, Inc., and Solar Unlimited North America, Inc., the combined energy savings from the 2 projects is projected to be approximately $57,883.

The total combined costs for the two projects are $592,770. The proposed sources of funds to fund the two projects are:

Borrower cash contribution:	$ 8,200
DE Green Grant:	$162,000
Delmarva Power Solar Grant:	$ 3,000
DESEU Loan:	$419,000
Total:	$592,770

The borrower has requested a 2% loan not to exceed 10 years. Although there are circumstances that warrant providing a 2% loan to a borrower, for the most part, 2% loans have been limited to loans with short terms, not for profit institutions and public entities and farmers who apply through the DESEU's Energize Delaware Farm Program. Further, a 10 year loan with a higher interest rate (proposed 4%) can be supported by the savings to be received over that same time period and provide the DESEU a 1 to 1.137 debt service coverage ratio, over the 1 to 1.1 ratio which we look to provide in most other DESEU loans. We've attached a 10-year maturity schedule calculated using a 4% interest cost. Annual debt service is $50,906, well below the estimated annual savings of $57,883 and, as noted, providing the DESEU with an acceptable debt service to savings coverage ratio.

It should be noted that the borrower has indicated that it is the intention of the borrower to pay back the loan within 3 years.

Loan Request and Security
NW reviewed the DESEU loan application, the tax returns for Hy-Point Farms for the years 2014 and 2015, the certification of incorporation and the financial credit review provided by Equifax. As discussed in earlier loan reports regarding small corporations, 501(c)3's and farms that have made application to the DESEU for a loan, a review of the corporate tax returns provides only limited financial information. This is also true of the Hy-Point Farms tax returns. However, unlike some of the smaller farm loan applications reviewed in the past, the Hy-Point Farms tax returns show a corporation with substantial sales, receipts, assets, annual income and cash.

	2014	2015
Gross Receipts:	$33,921,011	$27,694,849
Total Assets:	$5,913,363	$4,873,147
Total Income:	$9,606,263	$6,201,080
Cash:	$1,328,684	$685,566

The Equifax report shows no issues regarding non-payment or credit, and the index scores that Equifax assigns to predict potential Business Failure and risk are within the normal ranges. Finally, I spoke to the applicant, Jay Meany, regarding the application for clarification on several issues. He indicated that he didn't want a loan with a term beyond 10 years and strongly asserted that it was his intent to aggressively pay the loan down within 3 years from available revenues and cash.

Conclusion
The DESEU should consider a loan with a 10-year term with a 4% annual interest. This interest rate represents a loan with an interest rate closer to those available in the market place. Although the business financials appear healthy, there are no additional guarantees on the loan. The DESEU should be given a collateral position on the equipment and structures being built and installed.

Mr. Slater moved to approve the loan request in the amount of $419,000, with a 10-year maturity at 3.25% interest. The motion was seconded by Mr. Knight, and unanimously carried.

1.c. J & T Farms – Tabled

1.d. On the Bend Farms – Tabled

2. Credit Proposal – Intelligent Green Solutions – Mr. DePrima stated that Intelligent Green Solutions is a unique solar thermal company; he explained that they have perfected a solar thermal technology and have excelled in the dairy industry as well as poultry farms in Delaware.

They are proposing that the DESEU fund a pre-approved line of credit up to $1 million dollars for financing the solar thermal systems that they will be leasing to their customers.

They are proposing that they draw from the credit line $150,000 based on bundled systems that they have under contract. They are proposing a 3.25% fee with 10 year terms.

Mr. DePrima presented and reviewed the following term sheet:

The following Term Sheet is a proposal and outline to the Delaware Sustainable Energy Utility (DESEU), to finance solar thermal systems.

Based on conversations with DESEU and Intelligent Green Solutions (IGS), it is clear that the average project size of an individual solar thermal system falls outside of the minimum lending requirements. IGS would therefore like to propose a line of credit facility, allowing projects to be aggregated together into a larger loan.

The following are discussion points for the framework of the lending agreement between IGS and DESEU:

General Terms

Credit Facility:	$1,000,000
Minimum Bundled Loan Value/Line of Credit Facility:	$150,000
Term & Amortization:	10 years
Payment Frequency:	Monthly
Interest Rate:	3.25%
Origination Fee:	1%
Credit Facility Life:	1 year
Construction Interest:	Interest on the drawn portion of each bundled loan value of $150,000 will accrue until the full loan amount of $150,000 is drawn down, at which point the interest paid will be amortized into the loan
Equipment & System Owner:	IGS Solar Lease LLC
Max LTV:	70%
Guarantor:	IGS Solar Lease LLC
Collateral:	UCC filing on systems as completed, assignment of the lease payments
Location:	Project must be in Delaware
Equipment life:	25 years
Typical Construction Period per Project:	30 days
Cancelled Projects:	In the event projects are cancelled within Credit Facility, final loan amount will be re-amortized with new amount.
Creditworthiness:	DESEU shall have the right to evaluate the creditworthiness of lessees in the line of credit facility and accept or reject projects for insufficient creditworthiness.
Lease Payment Assignment:	Lease payments will be assigned to the DESEU

Funding

Encumbered	Funds will be reserved when project pool meeting the minimum loan bundle is submitted for funding review by DESEU.
Draw Downs	Upon completion of each individual project within each bundled loan of $150,000.

Time Limit	Each project within a bundled loan of $150,000 must be built within six (6) months. The bundle will be reduced by the amount of the remaining undrawn amount. Projects started but not completed at the end of the six months will be placed in the next bundled loan.

Sample Project Bundle

Fair Market Value:	$2,361,559
ITC Federal	$708,468
DESEU Grant:	$838,066
IGS Contributions:	$438,673
Total System Costs:	$2,361,559
Number of Systems:	25
Annual Lease Revenue:	$24,315
Lease Term:	10-year with automatic renewal (10 year); 20% escalation.
Total Lease Revenue (10 years):	$243,150
Salvage Value:	15% of FMV
Total Lease PMTS + Salvage Value:	$537,645
DESEU Discount Rate:	10%
Total LTV:	70%
Coverage Multiple"	1.43
Origination Fees:	$3,764
DESEU Legal Fees (to be paid by IGS):	$2,500
Total Loan Amount:	$376,352

General Document Workflow:

1. IGS submits batch of applications to DESEU for review
2. DESEU approves batch of projects for eligible grants & credit facility package.
3. DESEU issues term sheet / commitment letter for credit facility.
4. DESEU enters into credit facility agreement for set of project with IGS
5. IGS constructs projects
    a. IGS makes drawdowns against completed projects.
6. IGS completes all projects within credit facility package.
7. DESEU issues final signoff documents for credit facility.

Members were in agreement of this concept and suggested that Mr. DePrima move forward with researching IGS's credit and report back to the Loan Committee at a later date.

Meeting Adjourned at 2:49 PM