

MINUTES - MEETING NO. 008
HAWAII GREEN INFRASTRUCTURE AUTHORITY
State of Hawaii

October 1, 2015 – 12:30 PM

Department of Business, Economic Development and Tourism
250 S. Hotel Street, 4th Floor, Conference Room 436
Honolulu, Hawaii 96813

ATTENDANCE

Members Present: Mark Glick, Wesley Machida, Jeff Mikulina, and Luis Salaveria

Staff Present: Gregg Kinkley (Deputy Attorney General), Cyd Miyashiro, Merissa Sakuda, James Bac, and Holly Broman

Members of the Public: Tara Young and Bill McKillop

I. ROLL CALL

Chair Salaveria called the meeting of the Hawaii Green Infrastructure Authority (HGIA) to order at 12:32 PM.

Chairperson Salaveria	Present
Vice Chair Glick	Present
Member Machida	Present
Member Mikulina	Absent / Arrived later

MATERIALS DISTRIBUTED

1. Agenda for October 1, 2015 Meeting.
2. Minutes of the Regular Meeting on August 5, 2015.
3. Report Of The Acting Executive Director
4. Approval of Changes to the Commercial/Non-Profit Product
5. Ratification of HGIA Auditor Contract

II. APPROVAL OF MINUTES

Chair Salaveria announced that the first item on the agenda was the approval of the minutes of the August 5, 2015 regular meeting, and asked for a motion to approve the minutes. Member Machida moved, and Vice Chair Glick seconded. The members declined further discussion.

Chair Salaveria queried the public to see if there were any comments. There being none, Chair Salaveria called for a vote.

Ayes: Members Glick, Machida, and Salaveria

Nays: None

Absent: Member Mikulina

The motion carried unanimously, 3 to 0.

III. REPORT OF THE ACTING EXECUTIVE DIRECTOR

Chair Salaveria stated that the next section on the agenda was the report of the Acting Executive Director, and that Cyd Miyashiro would be presenting the report.

Ms. Miyashiro reported these items:

1. Administrative Updates

a. Reorganization

The delegated reorganization adding a part-time accountant to the HGIA organization chart has been completed. The reorganization packets have been submitted to both the Governor's and Lieutenant Governor's offices with copies to Department of Human Resources Development and the Department of Budget and Finance. The official copies are on file at HGIA.

2. Loan Product Updates

a. Nonprofit PV Loan Product

As of September 25, 2015, the GEMS Financing Program ("Program") approved 6 companies to be installers for the Nonprofit Loan Product. The Program received 42 applications, representing an installed capacity of 2.4 MW. Of the 42 applications, 33 have been pre-qualified and 6 are pending review. Of the 33 pre-qualified applicants, 7 have been visited by installers.

The Program anticipates that 13 projects should close in November and 6 in December.

b. Small Business PV Loan Product

No update.

c. Consumer PV Loan Product

As of September 29, 2015, 106 applications were received. Status of the applications is as follows:

Conditional Pre-approval	47 loans
Denials	35 loans
Bankruptcy in the current, past or present:	4 loans
Collection action or judgement:	9 loans
Credit score below program guidelines:	8 loans
Delinquent Past or Present:	5 loans
Ineligible Property/Weren't Owner Occupants:	9 loans
Pending/Properties held in Trust	18 loans
Withdrawn	5 loans
Docs Out	1 loan

Chair Salaveria asked who bears the cost of the Trust review. Ms. Miyashiro stated that at least initially, the Trust review cost would be passed on to the borrower.

Chair Salaveria asked Ms. Miyashiro to explain the process and what "Docs Out" means. Ms. Miyashiro explained the process.

Vice Chair Glick asked if the set of loan documents out had been executed. Ms. Miyashiro replied that due to missing documents, they were not complete. Mr. Glick reiterated that disbursement is later, but asked if the loan is considered closed once the loan documents are signed. Ms. Miyashiro replied that technically, it is considered closed since the borrower is obligated upon signing of the documents.

Member Machida asked if there was a dollar amount for the loans in the pre-approval process. Ms. Miyashiro responded that until the documents are produced/executed, the amount is undetermined. However, one could average the loans at approximately \$30,000 each. Chair Salaveria asked if this was a gross cost amount, and Ms. Miyashiro affirmed.

- d. Commercial Energy Efficiency Financing Product
No update.

3. Projected Fund Deployment Allocation and Timeline

To date, no loans have been made. The Projected Fund Deployment Allocation and Timeline, which was submitted to the PUC in the Fiscal Year 2016 Annual Plan on March 31, 2015, is included in your board packets as requested at the August 5, 2015 meeting, and will need to be updated in the next Annual Plan submitted to the PUC on March 31, 2016.

4. Regulatory Activities

No Update.

5. Legislative Activities

No legislative proposals are anticipated for the upcoming session.

Chair Salaveria asked if there were any questions from the members. There were none.

Chair Salaveria asked if there were any questions from the public. None were asked.

IV. DISCUSSION AND/OR DECISION MAKING

Chair Salaveria moved on to the next item on the agenda - the appointment of the HGIA Executive Director.

A. Appointment of the HGIA Executive Director

Chair Salaveria reviewed the timeline of the hiring process of Tara Young, and subject to the vote, anticipated her start date to be Friday, October 16, 2015.

Chair Salaveria called for a motion to formally approve and vote in the new Executive Director of HGIA. Vice Chair Glick moved and Member Machida seconded the motion.

Chair Salaveria, seeing that there was no further discussion, called for a vote. Vice Chair Glick queried if they might wait for Secretary Mikulina to be present for the vote, and Chair Salaveria conceded that they should pause.

Chair Salaveria asked if there were any questions for Ms. Young. There were none.

At this time, Secretary Mikulina arrived at the meeting, and Chair Salaveria informed him that the board was just going to vote on the hiring of the new Executive Director, Tara Young. Secretary Mikulina expressed his gratitude for waiting for him to add to the vote.

Chair Salaveria asked for the vote, which was a unanimous 4-0 vote in favor. Congratulations were offered to Ms. Young.

B. Delegation to the Executive Director for the authority to do Certain Acts

Chair Salaveria moved on to the next item on the agenda and listed the delegation to the Executive Director for the authority to do certain acts, including but not limited to the following:

1. Signing authority for contracts for services of consultants for rendering professional and technical assistance and advice and any other contract necessary and proper for the implementation of the Green Infrastructure Loan Program, pursuant to Section 196-64 (a)(4).
2. Signing authority for contracts for the administration of the loan program, pursuant to Section 196-64 (a)(5).
3. Signing authority to certify payrolls, requisitions, invoices, and other documents essential to the proper administration of the Authority.
4. Hiring employees necessary to perform the duties of the Hawaii Green Infrastructure Authority.

Chair Salaveria stated that these powers have in the past been delegated to the Acting HGIA Executive Director, and asked for a motion to approve the delegation. Member Machida moved and Secretary Mikulina seconded.

Chair Salaveria asked for any public comments, and hearing none, asked if there was any discussion among the members. He further clarified that the purpose of this delegation was to clarify that these authorities are delegated to the position of the Executive Director, rather than the individual in that position. Seeing no further discussion, Chair Salaveria called for a vote, which passed unanimously 4-0 in favor.

C. Approval of Changes to the Commercial/Non-Profit Product

Chair Salaveria stated that the next item on the agenda was the Approval of Changes to the Commercial/Non-Profit Product, and that Cyd Miyashiro would present the Action Item.

Ms. Miyashiro pointed out that Bill McKillop with Clean Power Finance was in the room as well to answer questions. She further stated that non-profit organizations are one of the underserved markets, and that it was by legislative mandate that GEMS offer financing to this segment. Clean Power Finance has been working on this for approximately two years, and most of the pipeline in this segment is due to Bill McKillop's efforts, who started in May 2015. Ms. Miyashiro further stated that the following recommendations are to give the installers incentive to push the GEMS product, Ms. Miyashiro then expanded on the Approval for Changes as follows:

1. Purpose -

The requested change is to address the issue of smaller sized PV systems. Small systems associated with under-served communities have higher than expected install costs. Fixed design & permitting, and overhead & sales origination costs make small systems more expensive than larger ones. Additionally, the program relies on installers to sell deals. Installers are not incentivized to bring deals because they're not paid enough on small systems.

In the current Hawaii solar market tax equity investors are offering higher PPA rates for systems 100 kW and less. The GEMS offering is too low to be competitive and removes margin that is otherwise needed to cover fixed overhead costs, etc. for smaller systems that are costly. On the other hand, tax equity investors are offering lower PPA rates for systems greater than 100 kW. However, GEMS cannot compete there because the loan amount is fixed. If we can offer a lower loan amount then we can be competitive.

In order for this program to succeed we need the installers to sell and close. By giving installers the flexibility to move their cost by system/customer we can expect more volume and have a successful program. The inherent competition within the market and a highly educated solar customer prevent margin gouging.

2. Recommended Action -

Recommend the Board approve changes to the Commercial/Non-Profit Product, by:

- a. Modifying the pricing structure from a fixed cost structure to a floating cost structure - This request moves from a fixed cost structure to floating with a loan amount ceiling. Due to the change in cost structure, the recommendation is to monitor purchase prices and loan amounts resulting from this change.
- b. Offering a flat 6% fixed interest rate - Allow all GEMS loans to be priced at 6% interest rate with a requirement of 1.15x debt service coverage ratio. All loans must comply with GEMS underwriting guidelines and are subject to loan committee review. Exceptions may be granted by the loan committee in accordance with the HGIA bylaws.

Chair Salaveria asked if there were any questions, and seeing none, asked what the cost savings difference on the bill was for this proposal. Ms. Miyashiro answered that the new savings was approximately 20%, with 20% being within the programmatic parameters.

Chair Salaveria then asked whether these changes were to incentivize the installers so that their profit margin was greater. Ms. Miyashiro confirmed this. Chair Salaveria further reiterated that the intention of the program was to serve an underserved market, and asked why this market hadn't yet been served. Ms. Miyashiro explained that when the legislation for the program went out in 2013, the underserved market was healthy and robust. As tax equity continues to push against the tax credit sunset in 2016, this market has gotten significantly more aggressive. Tax equity investors are in projects that they weren't in a year ago, 9 months ago, or even 6 months ago, and tax equity investors are digging deeper into smaller loan sizes, smaller systems, and are willing to take on more risk before the tax credit goes away. They are also reaching further down into the credit spectrum, and in the market where GEMS intended to be.

Chair Salaveria asked whether the tax investors could flood the market until December 2016, securitize the loans, and then leave after December 2016. Ms. Miyashiro responded that there is already a rise of tax equity investors issuing PPAs, and after they get the Federal Tax recapture, they are selling off to yield companies. Ms. Miyashiro further explained that part of this request is because tax equity investors are offering lower PPA rates and paying the installers more as an incentive to obtain more projects before the tax credit deadline. She stated that this request is a result of talking with our installers and seeing what was working in the GEMS program and what was not.

Vice Chair Glick asked how the payback period would be affected by these changes. Ms. Miyashiro replied that the fixed 20-year payback period would not be affected.

Mr. Glick then asked what the price difference would be. Ms. Miyashiro replied that given the changes proposed, the kilowatt hour could go up.

Chair Salaveria asked Bill McKillop if the installers were just not pushing the product. Bill replied that they were not, that the installers are interested in an easier and more lucrative process. Since GEMS is a two-step process of gathering information and getting approved, and then working up an estimate before knowing if they have the project, it doesn't provide an easy or stable product for them. Mr. McKillop stated that the price change would help give them an incentive to sell the product.

Vice Chair Glick asked about the proposed kw price to the customer, and how that would affect things. Mr. McKillop replied that on Oahu it would still be competitive, and on the neighbor islands it would still save the customers a lot of money. Mr. McKillop further stated that the pricing is a part of it, but that an attractive factor is that GEMS is a State of Hawaii program, as well as the guarantee provided by Panasonic, which are both stable entities. These both would also help move more installers towards the GEMS program.

Ms. Miyashiro stated that it is not beneficial for the installers to price aggressively and ultimately lose the bid. She stated that this mechanism is also in place to help regulate the market, and not ultimately harm the customers, but also should be monitored.

Ms. Miyashiro circled back to Mr. McKillop's point in regard to a difficult sales process, reiterating that the GEMS program is a PPA and a loan, so that the State could take all of the credit risk. She stated that the result is a two-part process that is more difficult than other processes. The proposal of a flat interest rate, while meeting the debt service requirements, would still allow the program to function and streamline the process. The flat interest rate would not make fundamental changes, but would allow for ease of sales flow.

Secretary Mikulina asked what the increase of percentage might be from the installers once these changes are made. Mr. McKillop replied that he hoped around 80%, and that once the changes are finalized, they would circle back to the installers and be able to encourage them to utilize the GEMS product.

Vice Chair Glick commented that the issue is the money differential, yet conceded that with the price of oil going up it may end up being a wash at some point. He reiterated that though the timeline doesn't change, the return on investment does. Chair Salaveria clarified that it affected the return on savings.

Secretary Mikulina inquired about the upcoming DER/NEM decision, and how it might affect this decision and the GEMS program. Ms. Miyashiro replied that

everyone is aware that this decision is coming, and that – depending on what the decision is – there would have to be a re-evaluation, and appropriate discussion, of the product in a future meeting.

Vice Chair Glick asked that if the interest rate element were not included, would Clean Power Finance support the program. Ms. Miyashiro replied that the interest rate isn't changing – that the original structure was 6% for debt service coverage ratios of 1.15x and above, and another two-tiers of percentages for lower debt ratios. She continued to say that they were now shifting into taking the other two tiers on an exception basis rather than accepting the range outright. Vice Chair Glick asked whether the flat percentage rate had an effect on Clean Power Finance's decision. Ms. Miyashiro clarified that the percentage rate was less about the economics and more to address the installers' concerns about the cumbersome GEMS process in comparison to other products, to increase the ease of sales flow.

Chair Salaveria asked if there were any more questions on the subject. Seeing none, he reiterated his concerns about the GEMS product, and how this seemed to be a niche market initially that opened up to the private market. He continued that with the Federal ITC sunset, GEMS is inadvertently in competition with the aggressive private market. Vice Chair Glick attempted to clarify that these issues were only in the non-profit market. Both Ms. Miyashiro and Mr. McKillop clarified that this is across the board, in all markets. Vice Chair Glick added that this is a fluid market, and that moving forward the board reserves the right to make changes as needed.

Chair Salaveria clarified that the board had heard the proposal, and asked for a motion to approve the changes to the Commercial/Non-Profit Product. Vice Chair Glick moved, and Secretary Mikulina seconded. Chair Salaveria then asked if there were comments from the public or further discussion. Seeing none, he called for a vote, on the conditions that this would be closely monitored. The motion passed unanimously, 4-0, in favor.

D. Ratification of HGIA Auditor Contract

Chair Salaveria stated that the next item on the agenda was the Ratification of the GEMS Bond Fund and HGIA Special Fund Auditor Contract, and that Cyd Miyashiro would present the Action Item.

Ms. Miyashiro stated that this item was in relation to contracting for services relating to an Audit of DBEDT GEMS Bond Fund and HGIA GEMS Special Fund, and gave the following as an overview:

Purpose	Compliance with the audit provisions of sections 196-67(c) and 196-64(a)(7), Hawaii Revised Statutes, is required for the GEMS bond fund and HGIA GEMS program, respectively.
Entity:	N&K CPAs, Inc.
Compensation	The contract will be encumbered and paid by the Hawaii Green Infrastructure Special Fund. The Hawaii Green Infrastructure Bond Fund will reimburse the Green Infrastructure Special Fund upon receipt of an invoice(s) for the required payment amount(s) in accordance with the payment waterfall and timing specified in the Indenture of Trust between the State of Hawaii and US Bank National Association dated November 1, 2014.
Scope	The deliverables for this contract are as follows: <ul style="list-style-type: none"> (1) Detailed work plan prepared by the contractor (2) Auditing of the GEMS Bond Fund (3) Auditing of the HGIA Special Fund
Legal Review	The contract was reviewed the Attorney General's office.
Selection method	DBEDT-SID and HGIA have received Department of Accounting and General Services Comptroller's approval to engage a Certified Public Accountant to provide these services in accordance with Comptroller's Circular No. 1994-2. Before using the RFP method, DBEDT-SID and HGIA issued two solicitations (Solicitation Nos. SID-PS-02-15-01 and SID-PS-02-15-01A) using the professional services procurement method. However, neither professional services solicitations received the requisite minimum number of respondents to proceed with selection. Pursuant to HAR §3-122-43, it has been determined that competitive sealed bidding is neither practicable nor advantageous for the State since the primary consideration in determining award will be on qualifications and may not be price. Therefore, DBEDT-SID and HGIA have decided to utilize the RFP method of procurement.
Recommended Action:	Recommend the Authority ratify the contract for services relating to an audit of DBEDT GEMS Bond Fund and HGIA GEMS Special Fund.

Chair Salaveria asked for a motion to ratify the contracting of audit services for the GEMS Bond Fund and HGIA Special Fund. Secretary Mikulina moved, and Vice Chair Glick seconded.

Chair Salaveria then asked if there was any discussion.

Secretary Mikulina questioned the pricing of the N&K services, stating he was aware of pricing for other entities that was much less expensive. He further asked if there were comparable figures to know whether this pricing was accurate and/or fair. Ms. Miyashiro responded that the pricing was within the scope of work needed, and that the pricing was under the agreed-upon ceiling for the two separate audits that are needed, including the loan review(s). She cited another comparable DBEDT agency whose audit was exponentially higher than the price of this contract, and stated that research had been done in this way. Ms. Miyashiro continued to say that the bond fund audit was considerably less expensive due to the more straightforward cash nature of the bonds.

Secretary Mikulina asked what the first year for the HGIA Special Fund audit process was going to include. Ms. Miyashiro answered that it would be for the administrative services and up-front costs mostly, since there had been no loan activity yet.

Member Machida commented that the price was fairly high. Ms. Miyashiro stated that the price was to include the projection of individual loans. Member Machida stated that he could see the justification going forward, but the initial cost was not in alignment with the current amount of loans.

There was further discussion from the members in regards to the multiple solicitations for professional services for the contract, with no valid offers; that through the RFP method, there was one respondent; that due to the statute we are required to complete this audit by an independent entity prior to year's end.

Vice Chair Glick asked how much flexibility there was in negotiating the price of the contract at this stage, clarifying that this was a fixed price. Ms. Miyashiro confirmed this, and added that a portion of the Authority's pricing is reimbursed through the bond fund.

Member Machida stated that the figures go down, because the contractor is anticipating more work for the groundwork in the initial year, and that the two other years would be less work. There was further discussion from the members that in this case, it may actually be more work when more loans are being processed. Member Machida reiterated his hesitation in regards to the pricing, noting his knowledge of hourly costs, etc. Ms. Miyashiro agreed, yet reiterated the urgency of finding an auditor to comply with the statute, in conjunction with the minimal respondents to the

multiple requests. Vice Chair Glick confirmed the timing and urgency in regards to the upcoming report due under the statute.

Member Machida asked if the Authority was bound to the contract for more than one year. Ms. Miyashiro clarified that the Authority is bound to the first year, with an option to extend for two additional years. There was further discussion amongst the members in regards to the extension options being mutually agreeable, and that the Authority had the discretion to exercise the option to move forward.

Vice Chair Glick commented that due to the timing, as well as the bond reimbursement, he thought moving forward was the best option. There was further discussion from the members and Acting Executive Director in regards to funds, payment, etc.

Ms. Miyashiro's suggestion to the Board was to evaluate deployment based on the market and where the program is currently, and create a draw-down schedule to help with yield management as well.

There was further discussion in regards to the statutory guidelines of the State, statutory provisions, etc.

Member Machida announced that he would need to recuse himself from the vote, due to his many connections at N&K. He further commented that he thought the figures were not appropriate for the level of work contracted, though he understood that there was a compliance issue with a deadline and other factors which led to the decision.

Ms. Miyashiro reiterated that unfortunately the RFP method didn't work, and the selection method that was used that had room to negotiate did not produce the respondents needed. She expanded to say that even when there was a lack of respondents, HGIA made calls to other companies to inquire why they hadn't responded to the request, and that the response from the companies was a lack of time for the scope of work.

Chair Salaveria asked that if there were no further discussions from either the members or the public, could they please have a vote.

Ayes: Members Salaveria, Glick, and Mikulina

Recused: Member Machida

Nays: None

The motion passed in favor 3-0, with 1 recused.

V. ADJOURNMENT

Chair Salaveria asked if there were any other matters to be brought up, or any further discussion. Seeing none, he asked for a motion to adjourn.

Member Machida moved and Vice Chair Glick seconded the motion. Chair Salaveria called for a vote.

Ayes: Members Glick, Machida, Mikulina, and Salaveria.

Nays: None

The motion passed unanimously.

Chair Salaveria adjourned the meeting at 1:38 PM.

Respectfully Submitted By:



Jeff Mikulina