

Delaware Sustainable Energy Utility
Loan Committee

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

August 3, 2016 – 1:00 p.m.

Members present were: Kristopher Knight (teleconference), Senator McDowell (teleconference), Trey Paradee, Dave Bonar (teleconference), Doug Bacher, NW Financial Group (teleconference), and Anthony J. DePrima. Others present were Brent Shaffer, Young Conaway Stargatt & Taylor, LLP (teleconference), and Suzanne Sebastian.

1. Approval of Loan Committee Minutes – June 2, 2016 – Mr. Paradee moved to approve the minutes, seconded by Mr. Bonar and unanimously carried.

2. Review Loan Application – Police Athletic League of Wilmington - Mr. DePrima informed members that the Police Athletic League of Wilmington (PALW) has requested a loan in the amount of \$176,247 in order to fund a portion of capital upgrades to their existing building. Below is a summary provided by Mr. Douglas Bacher, NW Financial Group:

The Project and Loan Request

The Police Athletic League of Wilmington (PALW) is a 501(c)3 interested in pursuing energy conservation upgrades to their existing building in order to reduce the annual energy budget and the carbon footprint, and to complete capital upgrades. The PALW has been operating since 2002.

PALW is requesting a loan in the amount of \$176,247 from the DESEU to fund a portion of the improvements. Other funds are coming from two rebate programs funded through Delaware’s Department of Natural Resources and Environmental Control (DNREC) in the amount of \$23,753 and a \$50,000 direct cash contribution from PALW. Seiberlich Trane Energy Services (“STES”), PALW’s energy consultant and ESCO have projected total savings to be approximately \$436,000 over 20 years with \$182,000 being realized in the first 10 years. The savings in year one are \$15,720 and increase annually each year based on STES energy consumption and costs assumptions over that same 20 year period. Savings are realized through both energy and ongoing maintenance savings. PALW originally asked for a loan payback period of 20 years but are agreeable to a shorter maturity if the maturity schedule provides annual savings greater than the loan repayment in each year. We have attached maturity schedules to reflect the repayment based on a loan with interest rates at 2 and 3% for consideration. The maturity schedules reflect a shorter maturity than requested to minimize risk to the DESEU, 13 years at 2% and 14 years at 3% respectively. The maturity schedules provide debt coverage ratios slightly over 1.0 in the first year, but provide greater coverage ratios in later years. In the 2% schedule, 1.2 coverage ratio is reached by year five. In the 3% maturity schedule, the coverage ratio of 1.2 is reached by year six.

Seiberlich Trane Energy Services (STES) evaluated potential energy savings for this project. STES performed an ASHRAE Level 2 Investment Grade Audit (IGA) to identify where PALW could increase energy efficiency and occupant comfort through detailed capital upgrade solutions.

STES observed deficiencies in:

- lighting systems
- an inefficient heating system

- ventilation and air conditioning (HVAC) equipment
- controls

These findings included a significant amount of maintenance savings from the large number of repairs needed for the boiler.

For purposes of the review of the application, NW reviewed PALW's 2013, 2014, and 2015 tax returns and audits, and the company's 2016 Jan-June detailed monthly cash flow spreadsheets. A conversation with the Executive Director, Wilbert Miller, took place on June 7, 2016 and further discussion with Mr. Miller and Angela Weicht, of A and W Associates took place on June 17, 2016. Finally, there was a conference call with STES on June 23 to answer some of STES's questions regarding the proposed loan.

Proposed Improvements

STES and PALW developed package of Energy Conservation Measures (ECMs). The project includes the following Energy Conservation Measures:

- Boiler replacement to 500MBtu condensing boiler with 97.7% efficiency
- Building lighting retrofit with combination of White Optics reflector technology, LED upgrades, and retrofit kits
- Upgrade existing Tracer Summit controls system to Tracer ES system.

Loan Security

According to PALW's Financial and Disclosure Information:

- The 2016 budget is approximately \$1.9m
- For the past three fiscal years, PALW has concluded the year with \$200,000 or more cash-on-hand. Projected cash-on-hand for the close of this fiscal year, which ends June 30, 2016, is projected to be approximately \$276,500.
- We find no evidence of a loan or lease default.
- We find no evidence of a bankruptcy or inability to fund annual expenditures.
- The audit indicates that PALW is not currently involved in any lawsuits or legal actions.
- The audit indicates that PALW is not delinquent on any federal or state debt.
- PALW owns their building.

PALW is funded through several sources of revenue:

- State Grant Aid
- Department of Justice Grants
- Facility rental fees
- Before and after-care fees
- Summer camp fees
- Fundraising events
- Child care services
- Other grant funding

Currently PALW has other outstanding debt:

- 2008 loan from M&T bank with a balance of \$22,453
- 2009 loan from TD bank with a balance of \$76,596

These loans do not prevent PALW from acquiring other debt.

All utility accounts and operation costs are paid in full monthly.

PALW operates independently and is not overseen by a parent company. They do not have a parent organization to guarantee the loan. They must, however, answer to a Board of Directors. In the event PALW cannot repay the loan, the mostly likely outcome would be that the city would take-over and sell the land and building the PALW is currently using.

Summary

To move forward we suggest the following:

- Providing the loan at an interest rate recognizing the 501(c)(3) status of the applicant and that they provide a valuable public service (i.e. 2-3%)
- Term of the loan not to exceed 13 years at 2% or 14 years at 3% to reflect the nature and useful life of the equipment being acquired. Savings support a shorter term utilizing the energy cost and savings assumptions provided by STES.
- Assignment of the equipment as security to the loan.
- Language in the loan agreement that reflects that all revenues and assets of PALW are pledged to the repayment of the loan.

Responding to Senator McDowell, Mr. Bacher confirmed that the loan will be debt neutral and paid through the energy savings making it cash positive. Senator McDowell suggested that a “Thank you and Congratulatory” letter be sent to PALW Management with the loan thanking them for participation and reminding them that the loan will be paid through the energy savings; to assist with their budget over the next 13 years.

Mr. DePrima agreed and indicated that the “thank you and congratulatory letter” would be incorporated as a best practice going forward.

Mr. Bonar moved to approve the loan to the Police Athletic League of Wilmington, in an amount of \$176,247 at 2% interest rate and a term of thirteen (13) years. The motion was seconded by Mr. Paradee and unanimously carried.

Meeting adjourned at 1:32 PM.