

**STAR ISLAND CORPORATION
SPECIAL BOARD OF DIRECTORS MEETING**

Thursday, May 15, 2014
By “Go To Meeting”

Members in attendance:

John Bush, Treasurer
Erik Cordes (for part of the meeting)
Josh Davis
Nick Dembsey
Debbie Duval (President, SIUCC)
Sharon Kennedy, President
Gary Kunz, Vice President
Suellen Peluso
Russell Peterson
Sally Russell (for part of the meeting)
Jordan Young (Acting Clerk)

Absent:

Karen Mathiasen, Clerk
Tom Smurzynski (Pres., ISAUU)

Others attending the meeting:

Joe Watts, CEO

Sharon Kennedy, President, called the meeting to order at 6:36 p.m. In the absence of the Clerk, Jordan Young took the minutes. Eleven Board members were present and none voiced any objection to the short notice for the meeting. Karen Mathiasen and Tom Smurzynski, not having been present, are executing waivers of notice to be filed with the archival minutes of the meeting.

The subject of the meeting was to consider whether to provide Ayer Electric with a resolution from the Board indicating an intention to proceed with negotiations intended to culminate in the construction of a solar energy project on Star Island under terms substantially as presented in a memorandum dated 5/7/2014 (version called “Ayer Electric PPA Proposal 05.14.14.pdf” specifying “Seasonal Minimum Production KW/H 68,000”), from Ayer Electric to the Star Island Board of Directors.

In the absence of a formal agenda, Sharon reviewed the plan for the meeting, in which Joe Watts would review his memorandum and analysis describing the proposed solar energy project, along with his recommendation regarding the board’s action on the proposal. Following that, John Bush would review the financial outline of the project, along with his assessment and recommendation for action. Finally Russ Peterson would review the Ad Hoc Solar Committee’s assessment of the project and their recommendation. Discussion was invited at the end each of the presentations.

Joe Watts reviewed his written analysis. In it he outlined the facts of the situation - a brief review of Ayer Electric, a summary of the Ad Hoc Solar Committee’s position (reviewed below by Russ Peterson), and the time sensitive nature of the decision facing us.

His written analysis expands on the following points which argue for proceeding:

- Our community is expecting us to act.

- The excitement over the substance of the project is a major motivator for staff and volunteers.
- It enhances our profile before a number of possible grant and charitable funding sources.
- Ayer Electric is a unique partner who may not be in a position to work with us if we defer.
- As the technical, implementation, and financial principal in the arrangement, Ayer Electric is a unique partner.
- There is significant public-sector interest and support for this project.
- It moves us forward on our strategic map's environmental goal
- It reduces our vulnerability to the many hazards involving diesel: environmental, fiscal, and regulatory.
- Reaching a definitive conclusion will free up staff and management time, for whom the on-going RFP and design process has been a significant time-sink.
- David Ayer, principal in Ayer Electric, has committed to seek an anonymous donation of several tens of thousands of dollars to support the project.
- It would be a very good PR story to enhance Island marketing.

Beyond that, he mentioned the support of Dick Case, until recently chair of the facilities committee. He also relayed that the current chair of the committee, Ron Cordes, is not enthusiastic about the timing or specifics of the Ayer proposal.

In addition, Joe shared that our experience with the solar panels in EMB. Over last 10 years, these have not degraded in performance. Performance degradation over time has been a question regarding the longevity of the infrastructure proposed in this project.

Joe also reviewed the Naushon Island experience in Buzzards Bay. They went from 100% diesel power in 2012 to a solar/battery/diesel hybrid. They had difficulty finding contractors to do work in their environment, which is not dissimilar to ours. Their 125Kw solar / 300Kwh battery bank, cost \$1.1 million. It has been over-performing its engineering specifications. Their budget predicted a 50% reduction in diesel, but its actual performance has been closer to a 66% reduction.

There were no questions to Joe.

John Bush reviewed Joe's spreadsheet, noting that the Ayer proposal costs us about \$50 thousand more per year over the first 13 years of the contract. Due to present value considerations, the savings in the later years are less significant than the additional spending in the early years.

John pointed out that in years 14-20, he expects a \$50 thousand/year replacement expense, primarily as regards batteries. Total replacement of the battery bank would be \$200 thousand; John assumes we would have to take that on when we ultimately exercise our option to buy out the project.

Aside from that, John said his financial assessment is broadly similar to Joe's spreadsheet.

John reviewed his present value illustration, in order to understand the sensitivity of the present value to various scenarios. He compared three added cost scenarios (\$40, \$50, and \$60 thousand/year over the first 13 years) and three savings scenarios (\$35, \$45, and \$50 thousand/year over years 14-20). This nine item grid indicates that the present value is not too sensitive to which one of the scenarios actually occurs. At the low end, the present value cost is \$240,000; at the high end, it is \$356,000. Basing our analysis on the midpoint \$300,000 scenario seems reasonable. In other words, were we to enter in to the contract, we could be incurring a expense valued at \$300,000 at the moment we did so.

John spoke to the “buy out” available to us in year 8, for \$508 thousand. Discounting the decreased payments we would make were we to do that yielded a present value savings of \$503 thousand. In addition, we would assume risks related to the equipment in the later years. He does not find this attractive.

Regarding the technical aspects of the project, he found them in general desirable. From what John has learned, Ayer Electric would seem to be a desirable partner for this kind of project in our location.

John reviewed his 5:30PM email, which many board members had not had a chance to review. It presented three points

1) Fiduciary responsibility. Our original goal was to implement a solar project without putting Star Island’s capital at risk. Our original annual energy cost was \$160 thousand. Thanks to efficiencies, it is now \$135 thousand. These were the parameters under which we agreed to take on a solar project. The current proposal is very different. Under this proposal, we are responsible for diesel and for energy efficient equipment. The solar/battery system proposed is much smaller than what we have been considering to date. Finally, we know much more now than we did before, so were we to re-initiate an RFP process, it will be a much more sophisticated process than it was before.

2) Use of available tax advantages. The return to Ayer Electric seems to be very very high. If Ayer is counting on getting available tax credits, then the \$80 thousand they are putting in to the project is recouped at the beginning of the project; the return is infinite. Based on the cash flows, which John described, he estimates a present valued \$110 thousand return on Ayer’s \$80 thousand investment. This leads John to speculate that there is no tax benefit useful to Ayer. So, were we to find a bidder who could take advantage of the tax credit, they would most probably offer us a better deal.

3) Capital expense planning. Given that we are facing a rebuild of the waste water treatment plant, and given the other capital needs we have been talking about, it seems as if we should be doing unified financial planning. That would argue that taking on this capital commitment now, in the absence of a comprehensive plan, is premature.

John summed up his assessment as, “I’d like to do it but I think we should defer to a more deliberative process.”

Jordan asked about the discount rate used in the analysis. John used 10%; Sharon pointed out that the World Bank is using 7%.

Russ Peterson shared the deliberations of the Ad Hoc Committee on Solar Power. Despite a lot of work, the Ad Hoc Committee could not conclude an agreement with Revolution Energy. A lot of people spent a lot of time figuring out how much more this will cost - but numbers like \$40 thousand or \$60 thousand seem reasonable. That may be reason enough to forego it. Or not.

Russ asked us to reflect on what actual money we are willing to put in to our strategic goals, given that this proposal moves us ahead on many of them.

He also brought forward some additional points for reflection:

1. The rushed nature of the proposal doesn't feel good.
2. The Ad Hoc Committee is not at consensus on this proposal.
3. There are strong arguments on both sides.
4. The Ad Hoc Committee asked Ayer Electric to review their proposal to see if they could make it more attractive. The result was basically, no material change.
5. John's analysis is sound, though the discount rate seems on the high side.
6. Bird in the hand, two in the bush.

In conclusion, Russ shared that he could support this proposal, while understanding why we might not do it.

Suellen Peluso asked all the presenters whether Ayer Electric seriously considered our request to “sharpen their pencils” and improve their offer. Russ replied that they made minor adjustments to the cost basis of some items, but that these did not materially affect the proposal.

John did a quick review of his numbers at a 7% discount rate rather than 10%, and shared that the “central” number in his discounted present value moved only \$20 thousand.

Sharon reiterated that we are not voting on a contract tonight, but rather providing Ayer Electric with a “notice to proceed” based on the document they have submitted to us. She then invited all the Board members on the call to share their thoughts.

Sally Russell, as she need to leave the call, indicated her support to go forward on that basis. In sum, she was “willing to take the risk.” Due to a prior commitment, she left the call at 7:32.

Eric Cordes agreed that the proposal is more expensive in the short run, but expects it to yield unanticipated benefits. He expects that expense to be worth it in terms of the kinds of “values” intangibles that Russ mentioned. He trusts that we can make this work in the short term.

Nick Dembsey asked, “What would we get if we re-did the RFP next year?” His feeling is that of the RFP responses we got back last year, only Revolution Energy’s addressed our reality. This makes him uneasy about what kind of responses we might get back next year. Is our environment so unusual as to limit our options? In that case, we should take advantage of the

proposal we have. He also reflected that we committed in the “Island Opened Late” report to move away from a culture of poverty. Given that the project is broadly within the parameters that staff finds acceptable, we should live by our values, invest in our island, and go forward.

Josh Davis had a few questions: 1) Regarding the USDA grant, what is the order of magnitude on that grant, were we to get it? Answer: 25% of “eligible project cost” (of \$900 thousand) would be \$225 thousand. Ayer Electric says we can use this to pay down our \$110 thousand down payment and use the balance to increase the size of the system. This led to an additional question:

Could we use the hypothetical USDA money to reduce our annual payment? Joe Watts indicated that there is no clear answer to that question. He thinks Ayer Electric will be flexible, and that it had been their assumption that we would want to increase the size of the system.

In posing a final question, Josh pointed out that Ayer Electric is a unique partner for us: they are a sole investor / installer / with credit capacity. Investors more focused on tax credit will not have the commonality of interest we have here; the investors and we would have more disparate interests. There is no shell entity as there would be with arms-length investors.

Debbie Duval. As the new person, based on what I see here, the benefits outweigh risks. I would vote for moving forward

Gary Kunz. Although it goes against all my fiduciary bones, I am cautiously in favor of going forward.

Suellen Peluso. The fact that the Ad Hoc Committee is not in agreement is a concern. However, doing this project may open up funding opportunities, possibly beyond our usual sources. The fact that we’d be dealing with a sole source is also attractive. I would be in favor of taking this risk.

Jordan Young. The project departs significantly from the parameters we originally agreed to – no capital investment by the corporation and elimination of our dependence on diesel fuel. It is going to increase our operating expense at a time when the capital campaign has wound down and we will need to finance all of our maintenance and depreciation from current revenue. Finally, this deal has come to us in a last-minute fashion. The technology is not going to change significantly in a year, and I feel we are unlikely to get a significantly worse deal if we were to re-bid the project next year. I would vote against the project at this time, but am in favor of deferring.

Sharon summarized the discussion: There have been a lot of good comments this evening. I’m reluctantly in favor. In deference to Joe and staff, I take in to account the amount of work they've done putting together these numbers, and I want to honor that work. Finally, we shouldn’t let the perfect be the enemy of the good.

Russ Peterson moved:

To proceed with the solar electric project as proposed by Ayer Electric, subject to final Board approval of a contract; it is the intent of the board to give Ayer Electric the assurance they need to move forward.

Debbie Duval seconded the motion.

There were a number of final comments:

John Bush: It's not a matter of "do or not do," but a decision to wait and do it deliberately.

Russ Peterson: I'm ready to move forward - we've talked about alternatives. All the ones we've looked at haven't been cheaper.

Josh Davis: Without restricting our ability to negotiate the terms of sole-responsibility as opposed to responsibility via an intermediary entity, and without restricting our use of the possible proceeds of a USDA grant, I would be in favor. Joe commented that it is his expectation that Ayer Electric would negotiate these points.

The vote as above stated: **The Ayes being eight, the Nays being two, the motion passed.**

The meeting adjourned at 8:06 PM by acclamation.

Respectfully submitted,

Jordan Young, Acting Clerk