

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

Tuesday, June 10, 2014
By “Go To Meeting”

Members in attendance:

John Bush, Treasurer
Erik Cordes
Josh Davis
Nick Dembsey
Debbie Duval (President, SIUCC)
Sharon Kennedy, President
Gary Kunz, Vice President
Suellen Peluso
Russell Peterson

Sally Russell
Tom Smurzynski (Pres., ISAUU) – part of
meeting
Jordan Young (Acting Clerk)

Absent:

Karen Mathiasen, Clerk

Others attending the meeting:

Joe Watts, CEO

Sharon Kennedy, President, called the meeting to order at 6:36 p.m.

Sharon outlined the purpose of the meeting. Specifically, at our May 15 meeting we voted to move forward with a proposal from Ayer Electric, ratifying the concept behind that proposal. The board did so in awareness of the facts that the proposed arrangement with Ayer Electric was expected to cost more than we planned and that it was expected to increase our energy cost relative to the forecasting figures we have been using for our current budgeting.

Drafting of the agreement has moved forward and those directly involved feel that the agreement presented tonight is specific enough that the remaining points (principally, the exhibits referred to in the main agreement) can be worked out within the CEO’s discretion. They have therefore brought it before the board for approval.

She then reviewed the significant points of the agreement, particularly as they relate to the discussions we have had to date on the project. In summary, this is a revised version of what we proposed to do with Revolution Energy; however this project is simpler. Other points included:

1. The project is anticipated to meet 53% of electrical needs through solar power; the balance will be generated using diesel generators;
2. The term of the project is 13 years;
3. At the end of the contract, the Star Island Corporation has an option to buy the solar infrastructure;
4. The contract will be between the Star Island Corporation and an LLC to be created by Ayer Electric;
5. Notwithstanding the existence of the LLC, through a provision in the contract, Ayer Electric guarantees to fulfill all the obligations of the LLC;

6. The solar field and associated equipment will be owned by the LLC;
7. The diesel generators will be owned by the Star Island Corporation;
8. Both solar and diesel sources will feed a battery bank, which will then provide power to the Island "grid";
9. We understand that Ayer's bank, The Provident, has approved the arrangement to Ayer's satisfaction;
10. Our bank, Eastern Bank, has indicated that they will in all likelihood approve an increase in our line of credit, which will facilitate the initial payment required to start the contract;
11. It is our intention to look for grants and donations to offset the additional cost of the system;
12. It is management's opinion that Ayer Electric represents a good partner in terms of technical capabilities and responsiveness to the Island's needs.

Sharon invited clarifications or corrections from Joe, and questions from the board; there were none. She then invited Russ to discuss the work of the Ad Hoc Solar Committee in drafting the agreement with Ayer Electric.

At the Ad Hoc Committee's last meeting, there were those who thought the contract was too expensive. They were reminded that the board was aware of the expense when it voted to go forward. At the Committee meeting it was also pointed out that there are the possibilities of future lower solar generation costs relative to diesel generation, but these are speculative.

The Committee had several suggestions with regard to details of the contract. They tasked Joe with working on "improvements" of undetermined size with Ayer. At the end, they agreed that if Joe could negotiate these successfully, the committee would by consensus recommend that we proceed to a vote. The Ad Hoc Committee believes that the contract language is appropriate, while being aware of the unfinished exhibits, which include the exact equipment list, timetable for construction, and exact installation locations.

Throughout the negotiation of the contract, the Ad Hoc Committee had concerns, which they communicated to CEO Joe Watts. He acted on those to the Committee's satisfaction.

The board is therefore presented with the option to approve this contract with the three items described above remaining open, to be negotiated by the CEO.

It is the Russ and the Committee's desire and recommendation that rather than work out the remaining details here and now, that the board allow the CEO to work within his prerogatives.

Russ invited questions regarding the Ad Hoc Committee's deliberations. There were none.

Because he was required to leave the meeting, Tom Smurzynski took the opportunity to express his support for a contract consistent with the previous board decision. He said, "I do not expect that I will hear anything from Joe that will change that assessment." Before exiting the meeting, he requested that the minutes reflect that support.

CEO Joe Watts reviewed the more significant changes to the contract relative to the electronic

version the board received prior to the meeting. Specifically, all of the “conditional” language in that version has been agreed to by Ayer Electric.

Tom Blum, member of the Ad Hoc Committee, had some very late items that, through discussions with Joe Watts, he wished to bring to the Board's attention. From that conversation, there were two additional contract wording changes presented late this afternoon. Both were approved by Tony Deliani (our attorney), Joe Watts, and David Ayer. Joe does not deem them to be immensely material.

As mentioned above, the exhibits forming part of the contract are “to be completed” and must be approved by the Star Island Corporation. Joe Watts hopes we will delegate that authority to him, in consultation with Dick Case, Jack Farrell, and others.

Joe made the following additional comments:

1. He clarified Sharon’s comments, pointing out our options to buy out the contract in years seven through thirteen.
2. Current planning is for the system to be operational by end of September.
3. Differences between the Revolution Energy contract and this one are mostly in the removal of items that no longer figure in the system, including the following
 - a. The energy efficiency components (in terms of Island equipment) are no longer part of contract;
 - b. The diesel generators are not part of contract
4. Note that we can expand the system, which we couldn’t under contract version with Revolution Energy;
5. There is no “cap” on our diesel costs. In previous versions of the contract, our “cap” was \$15,000. So in theory we have unlimited upside exposure;
6. As mentioned above, the our position should there be a default by the LLC is stronger given Ayer’s guarantee of performance should the life of the LLC be foreshortened;
7. Tony Deliani, our attorney, has been actively involved in the contract discussions and is satisfied that we have well represented our interests.

Joe solicited questions and Sharon opened the floor to discussion.

Suellen Peluso asked if there were opinions from the Ad Hoc Committee of which the board should be aware? In particular, have their opinions changed since the previous report of their meeting before our last meeting?

Joe commented that some members of the Committee continue to be concerned about cost of the project, and concerned that the number upon which we based our last board vote are unduly optimistic. Joe pointed out that there is a range of numbers before us, from his lowest estimate, to John Bush’s middle estimate, to Tom Blum's high estimate. Rather than debate these, the Ad Hoc Committee was satisfied that the board was aware of this, and moved off of the finance piece and on to the substantive contract provisions.

Russ added that, stemming from their deep care for the island, the Ad Hoc Committee’s concerned members wanted us to do better in financial terms. Specifically, Tom Blum has had

several opportunities to present different financial scenarios, but none of which seemed, in the end, to be a significant improvement over what is before us. It is Russ' opinion that everyone on the Committee feels heard. While there is not 100% agreement, given the nature of the discussion, everyone on the Ad Hoc Committee is prepared to support the project.

Josh Davis made the following observations: The status of our \$110,000 initial payment (sometimes referred to as a deposit or down payment) should be clarified: That \$110,000 does not get returned no applied to any future payments we need to make. Thus the word "deposit" is probably slightly misleading, and would be better referred to as a fee. He invited John Bush to comment as to whether there are the accounting issues with paying such a fee or referring to it as a deposit?

John Bush commented: This will be treated as a "deferred charge" (similar to a deferred expense with no time limit). It will function as an additional charge prorated over whole term. So in accounting effects, our annual cost of the contract becomes \$115,000 plus (\$110,000 divided by the 13 year term). Any hypothetical grant would appear as immediate income.

Regarding our debt service coverage ratio, we don't think it will be impacted. We informed Eastern Bank of this, and committed to inform them if it looks that that will change.

Eric Cordes noted that it appears that we're doing all transport for the material and equipment involved in the project. He asked Joe for clarification as to whether that is true, and what the particulars are likely to be.

Joe noted that there was much conversation on this, in particular around provisions to hold the Corporation not responsible for transportation damage unless due to egregious negligence. But we are responsible for out of pocket costs for running transport. We expect most trips will be on existing almost daily contractor runs. We don't expect the cost of transport to be significant.

Eric was concerned that some of the equipment is large enough that we will need specialized vessels beyond the normal contractor runs.

Joe acknowledged this fact. In particular, there is an excavator which would cost about \$5,000 should we have to make a special trip for it. However we already have a barge trip in the budget for other projects, and expect to be able to move the excavator on one of those trips at no additional expense.

Eric invited Joe to clarify the dates and provisions of the "high season" and "low season" conditions in the contract.

"High season" is April 1 through October 31. Section 3.1 of the contract talks about low season. During that low season, we can use about 18,000Kwh of electricity at no additional costs to us. Were our winter operations to change significantly, we would need to assess whether that power "allowance" was sufficient, and possibly renegotiate this provision. It was Joe's assessment that 18,000Kwh is a generous estimate of our winter needs.

Jordan Young pointed out that the contract calls for 24/365 connection to the Internet to monitor the status of the solar generation system. This will involve maintaining power to more of the island than has been our practice. A succession of such changes could result in our winter power consumption being higher than currently anticipated. Joe acknowledged that this is a provision that could be reexamined if future use makes that necessary.

Russ enjoined us not to get bogged down in technical details, of which there are plenty. This will be the province of the staff, and we rely on Joe and Jack to get a result which meets our needs. Our task tonight is to determine whether we should proceed with that work.

Taking into account all the facts and circumstances surrounding entering into the solar power contract with Ayer Electric, including the need to increase the credit line with Eastern Bank by \$150,000, Russ therefore

Moved: to authorize the CEO to sign a contract with an LLC to be established by Ayer Electric, subject to the CEO's approval of the final design and submittal package and completion of contract exhibits A, B, and C.

Suellen seconded the motion.

Josh pointed out that there will be other insignificant changes needed to finalize the contract. He therefore offered a friendly amendment, adding to the existing wording:

And for the CEO to make such other changes as he deems reasonable, necessary, or desirable to further the purpose of the contract.

Russ and Suellen accepted the amendment.

Sharon solicited additional observations and comments. There were none.

The motion

Passed unanimously, with no abstentions.

In his closing remarks, Joe acknowledged how pleased he and staff are with the vote, recognizing the huge amount of work that has been done to get to this point. He recognized that this was not an easy decision, nor was it the best deal we had conceived of, but he committed himself to work to his utmost capacity to make the project a success.

Thanks are due to all for the traveling on this difficult road with its sometimes-ambiguous directions. There will be much finance committee work to come, but this should conclude our special meetings on this issue. Let us celebrate our success to this point.

Josh, to general seconding and assent:

Moved: that the Board express its appreciation and convey its commendation to the Ad Hoc Committee on Solar Energy and the staff for their diligence and dedication in bringing the project to this point. We are indebted to you for your work on this project.

Passed: unanimously with no abstentions.

On behalf of the Ad Hoc Committee, Russ accepted the Board's good wishes, and noted that he considers the work of the Ad Hoc Committee to be concluded.

The meeting adjourned at 7:28 PM by acclamation.

Respectfully submitted,

Jordan Young, Acting Clerk