

Minutes

Town of Norwich Finance Committee Meeting Tuesday, March 30, 2010 Tracy Hall, Norwich, Vermont

Members present: Cheryl A. Lindberg (Chair), Robert Mitchell, Stephen Flanders (Secretary), Keith Moran (Vice Chair), James Dwinell (left at 6:40), Ann Sargent (arrived 5:10), Dan Weintraub (left at 6:30)

Members absent: None

Also Present: Neil Fulton, Linda Gray (Norwich Energy Committee), Gerry Tolman, Stan Williams (Norwich Energy Committee), Dennis Kaufman (Lister), Brett Tofel (Renewable Energy Systems & Technologies, LLC)

Acting Chair Lindberg called the meeting to order at 5:05 PM.

Agenda Items Discussed

1. Review/Amendment of Agenda:

Lindberg reviewed the agenda. Bragg Hill added under other topics.

2. Review/Approval of Minutes:

Lindberg asked for comments on the minutes of the meeting of 16 March 2010.

Motion: Weintraub moved and Moran seconded that the 16 March 2010 minutes circulated to the NFC be accepted as drafted with any editorial changes.

The motion passed unanimously.

3. Public Comments:

No public comments were offered.

4. Committee Items:

Welcome new member – The NFC welcomed James Dwinell as a new member.

Farewell to member – Dan Weintraub announced his resignation effective 1 June.

Elect chairperson – Moran nominated Lindberg to be NFC chair for the next year. Weintraub seconded the nomination. The vote was unanimously in favor.

Elect vice-chairperson – Sargent nominated Moran to be NFC vice-chair for the next year. Mitchell seconded the nomination. The vote was unanimously in favor.

Elect Secretary – Weintraub nominated Flanders to be NFC secretary for the next year. Moran seconded the nomination. The vote was unanimously in favor.

Identify candidate for DFC chair – Sargent and Weintraub recommended Flanders as the NFC candidate. It was agreed that an NFC member will put his name in nomination at the next Dresden Finance Committee meeting.

5. Revised Norwich Energy Committee Solar Project:

Flanders presented a draft “NFC Assessment of the Solar Energy Project,” which is reproduced in Appendix A with underlined amendments that arose out of the ensuing discussion. Attendees commented as follows:

- **Sargent:** Sargent expressed concern that the voters might vote on the project without understanding it accurately. She asked about the appropriateness of providing bonus points to Clean Renewable Energy Bond (CREB) holders. She received the explanation that such points were built into the financial model and were necessary to sell the no-interest bonds.

Sargent asked about a scenario wherein town electricity usage would decline to achieve budgetary savings. The explanation is that all unused town electricity could be absorbed by Marion Cross School, assuming a contractual arrangement

Sargent recommended that a business plan would explain the viability of the project more clearly than has been done to date.

- **Tolman:** Tolman suggested that the use of internal rate of return (IRR) is an inappropriate indicator, if one compares it with other investments, such as securities that the town could purchase. He emphasized that the town is really choosing between purchasing electricity through the solar project or through Green Mountain Power.

He now feels that the project has financial benefit to the town, having contributed to the development of updated spreadsheets. He reported that a model that he circulated the afternoon of this meeting has a favorable financial return. Tolman expects increasing electric rates.

- **Weintraub:** Weintraub suggested that employing debt is always risky, and particularly so in this uncertain economic environment.
- **Moran:** Moran advocated the Vermont Clean Energy Development Fund (CEDF) grant should allow the grant funds to pay off the bond and for it to be available for other project purposes. Gray reported that the grant would come in two payments, plus a lump sum. She said that the contract was being finalized currently.

Moran reminded those present that the Norwich Selectboard would like to meet jointly with the NEC and NFC to discuss the project, prior to framing its decision.

- **Mitchell:** Mitchell recommended that the project be evaluated against the worst-case scenario. He asked what interest rate incentive would attract CREB bond investors. Gray reported that a local investment firm felt that 1% would be a viable rate.
- **Lindberg:** Recommended adding RFP policy adherence to the NFC criteria for project execution.
- **Flanders:** Flanders expressed concern that information about the project keeps changing, making it difficult to provide a recommendation to the Selectboard and the voters. He suggested that either the NFC base its recommendations on the material provided to date or that it report its inability to pass judgment until a final proposal has been made.

Motion: Sargent moved that the recommendations, as presented in Appendix A with the additions of requiring a business plan and adherence to the town's RFP policy, be considered a working document and a basis for discussion with the Selectboard when it meets with the NFC and NEC. Dwinell seconded the motion.

The motion passed unanimously.

6. Budget Guideline Tools: Discussion/Action – 30 minutes (6:20)

Reverse Tax Calculators – Owing to the lengthy discussion of the solar power project, the chair decided to delay presentation of Flanders's "reverse tax calculator" for a subsequent NFC meeting.

DSD Budgetary Guidelines – The NFC discussed its recommendations to the Dresden Finance Committee (DFC), regarding new Dresden School District (DSD) budgetary guidelines in the upcoming revision and re-vote. Some issues included:

- Flanders advocated emphasizing curbing the rate of growth through examination of the district's compensation package.
- The implementation the Callaghan suggestion for receiving public input in formulating the next budget and it's being an invitation for the DFC to offer specific suggestions beyond general guidelines.
- Sargent emphasized the Dresden School Board's historical lack of due diligence in scrutinizing the DSD budget.
- Moran suggested that the NFC formulate a statement to present to the DFC. Flanders volunteered to draft such a statement to circulate to the NFC.

Action: Flanders to circulate a draft budgetary recommendation for the NFC to present to the DFC. Lindberg will collect input from the NFC and provide it back to Flanders for final drafting of the NFC recommendation to the DFC.

7. Other Topics: Topic for future meetings, include:

- Criteria for Non-Profit Organization Tax Support
- Review of Town Eating Day
- Communication of concerns with budgets to the public and the town boards

8. Summary of Next Agenda:

- Demonstration of reverse town tax calculators.
- Independent management audit report.
- Financial report from the town manager.
- Discussion of NFC approach to school district issues, including contract negotiations and formulation of Budget Guidelines
- Review of Fulton draft "Annex to Selectboard Financial Policies Defining Fund Types."

9. Adjournment

Motion: Moran moved and Sargent seconded that the committee adjourn.

The vote was unanimous.

Adjourned at 7:06 PM.

Upcoming meeting dates:

Tuesday, April 20, 2010

Tuesday, May 18, 2010

Tuesday, June 15, 2010

Appendix A: NFC Assessment of the Solar Energy Project as Proposed by the NEC on 16 March 2010 and updated 26 March 2010

By Stephen N. Flanders for the Norwich Finance Committee
As of 30 March 2010¹

Criteria

The Norwich Finance Committee thanks the Norwich Energy Committee for its hard work in assessing the financial viability of a photovoltaic power project. The NFC's criteria for supporting the project, as a town investment, would be:

1. *Annual Savings* – The project is highly likely to cost the town less than it would otherwise pay in every fiscal year, during the life of the project.
2. *IRR* – The Internal Rate of Return (IRR)² should substantially exceed the rate that the town could receive on reserve funds, invested for multi-year periods at the same level of security.³
3. *Insurance* – The project is insured in such a manner that the town would be made whole, in the event of damage to or destruction of any part of or the entire project infrastructure.

Assessment

On 16 March, the NEC presented six scenarios in which a key assumption was whether the GMP premium payment on electrical rates of \$0.06 is ended or phased out. On 26 March, the NEC added the assumption of Renewable Energy Certificates (RECs)⁴ to scenarios 1, 2, 4 and 6, omitting the assumption of Renewable Energy Production Incentives. These credits would have to be sold *after the project was built, functioning and the credits had been sold through a broker* in a marketplace for such credits. This income stream depends on the continuation of the programs that authorize RECs.

¹ Text inserted as a result of NFC discussion in its 30 March meeting is underlined.

² http://en.wikipedia.org/wiki/Internal_Rate_of_Return

³ E.g. Treasury notes are offering between 1.5% and 3%, secured by the full faith and credit of the Federal Government.

⁴ <http://www.massenergy.com/Solar.REC.sale.html>, referenced in e-mail from Linda Gray.

Premium	Range of NEGATIVE account balances	Range of IRR	Range of Present Value of Ending Balance
Ended	(\$17K)-(\$117K)	0.95%-2.7%	\$96K-\$232K
Phased out	\$0	3.5%-4.0%	\$312K-\$357K
REC ⁵	\$0	2.1%-4.4%	\$357K-\$718K

Table 1. Range of indicators under project assumptions.

With the **Assumed** project assumptions in Table 1 scenarios, which assume an ending of the \$0.06 GMP premium for solar power, the project addresses NFC criteria, as follows:

1. *Annual Savings – Fails:* The premium-*ended* scenarios (1, 2, and 4) require the town to draw into the tax budget to cover cumulative deficits totaling between (\$17K) and (\$117K). **Passes:** The premium-*phased-out* scenarios (3, 5, and 6) do not require the town to draw into the tax budget to cover deficits. While phasing out of the premium is likely, according to the NEC, it is not guaranteed. **Passes:** The *REC* case (with scenarios 1, 2, 4, and 6) do not require the town to draw into the tax budget to cover deficits. While the availability of the REC program is likely in the near term, its continuation is not guaranteed. Overall: **Passes.**
2. *IRR – Fails:* For the premium-*ended* scenarios (1, 2, and 4), the IRR does not exceed the assumed 3% rate of return on reserve capital fund, assumed by the NEC. **Marginal:** The premium-*phased-out* scenarios (3, 5, and 6) exceed the assumed 3% rate of return on reserve capital fund, assumed by the NEC. However this investment incurs risk that treasury notes (the alternative) do not. **Marginal:** The *REC* case (with scenarios 1, 2, 4, and 6) exceed the assumed 3.5% rate of return on reserve capital fund, assumed by the NEC. REC continuation is not guaranteed and does not give the security of treasury notes. Overall: **Marginal.**
3. *Insurance – Passes:* The town insurance would cover losses at replacement value.

In reviewing the project, the NFC believes that the assumptions in Table 2 represent more realistic values. Here are some discussion points:

- *Premium end versus phase out* – The NEC expects that GMP will likely phase out its premium payment, not end it. The viability of the project against NFC Criterion 1 relies on this assumption, which is not guaranteed.
- *Interest rate available to the town* – The NEC believes that, using long-term investments 3% interest is attainable. Currently, the town obtains approximately

⁵ Renewable Energy Credits case for Scenarios 1, 2, 4, and 6.

0.7% on its overnight “sweep” accounts. The town could invest in safe Treasury notes at between 1.5% and 3%. Therefore the NFC recommends the assumption of a 2% interest rate.

- *Rate of growth in expenses* – The NEC assumed 1.6% as a growth rate in maintenance expenses. The NFC believes that 3% better represents the annual growth in expenses as seen in the change in the CPI. This is based on historical trends in CPI and compensation of town personnel.
- *Solar Panel Salvage Value* – Solar panel salvage value is a significant portion of the bottom-line benefit claimed for the project. The NFC is not aware of a current market for 25-year-old solar panels. The NEC explains the \$150K salvage value of the photovoltaic panels, as a stand-in for the continued functioning of the panels after the project financing is complete. The NFC maintains that this would be better handled, using present-value formulas. Note, however, most citations found on the web suggest that the useful life of photovoltaic arrays is about 25 years, so it would be imprudent to use a planning horizon much longer than that.

Other issues, like the non-uniform production of power and receipt of income from year to year, the role that street lamps play in the town’s consumption of power, the lack of accounting for the opportunity cost of using town property for this project, are not part of the considerations, discussed for this project. They do, however, belong in a thorough analysis of the financial benefits and risks.

Variable	Assumed 16 March	Assumed 26 March	Recommended
Interest on sinking fund	3%	3.5%	2%
Annual growth in expenses	1.6%	1.6%	3%
Solar Panel Salvage	\$150K	\$150K	\$0

Table 2. Recommended project assumptions.⁶

With the NFC-recommended assumptions, the figures in Table 1 change to those shown in Table 3.

⁶ Note: Output decay was determined not to be a very sensitive variable in determining the project’s standing against the criteria. Output decay was also assumed to be linear—an unlikely scenario.

Premium	Range of NEGATIVE account balances	Range of IRR	Range of Present Value of Ending Balance
Ended	(\$120K)-(\$220K)	(1.3%)-1.3%	(\$73K)-\$86K
Phased out	(\$5K)-(\$15K)	2.3%-2.9%	\$312K-\$357K
REC ⁷	(\$133K)-\$0K	0.4%-3.4%	\$26K-\$282K

Table 3. Range of indicators under NFC-recommended assumptions..

With the **NFC-Recommended** project assumptions in Table 2 scenarios, which assume an ending of the \$0.06 GMP premium for solar power, the project addresses NFC criteria, as follows:

1. *Annual Savings – Fails:* The premium-*ended* scenarios (1, 2, and 4) require the town to draw into the tax budget to cover cumulative deficits of between (\$120K) and (\$220K). The premium-*phased-out* scenarios (3, 5, and 6) require the town to draw into the tax budget to cover cumulative deficits of between (\$5K) and (\$15K). The *REC* case (with scenarios 1, 2, 4, and 6) require the town to draw into the tax budget to cover cumulative deficits of between (\$133K) and (\$0K).
2. *IRR – Fails:* For the premium-*ended* scenarios (1, 2, and 4), the IRR does not exceed the assumed 2% rate of return on reserve capital fund, assumed by the NEC. **Marginal:** The premium-*phased-out* scenarios (3, 5, and 6) exceed the assumed 2% rate of return on reserve capital fund, recommended by the NFC, but lack the security of treasury notes. **Marginal:** The *REC* case (with scenarios 1, 2, 4, and 6) IRR values range among the assumed 2% rate of return on reserve capital fund, assumed by the NEC. *REC* continuation is not guaranteed and does not give the security of treasury notes. Overall: **Marginal**.
3. *Insurance – Passes:* The town insurance would cover losses at replacement value.

Conclusions

To state the above more simply:

1. *Annual Savings –* At best, the project costs the town the same, as it would otherwise pay for electricity for the first 18 years, with the significant risk of having to pay much more. The reward presented by the NEC is in subsequent years (19 and on), when the bond is repaid. The NEC assumptions rely heavily on solar array productivity or resale beyond 25 years and growth of annual expenses of only 1.6% per annum.

⁷ Renewable Energy Credits case for Scenarios 1, 2, 4, and 6.

2. *IRR* – The Internal Rate of Return is the interest rate at which the costs of the investment lead to the benefits of the investment. For safe investments, this can be low, but higher than some other alternative under consideration, like Treasury Notes. For riskier investments, one expects the IRR to be much higher than a safe investment to attract the investor, despite the risks. For this project the IRR is little higher (if at all) than putting town money in a safe venue, like Treasury notes.
3. *Insurance* – The Town Manager reports that the town’s insurance would cover any damage or destruction of the installation with a minor deductible.

Given these considerations, the NFC does not view financial return as a reason to pursue the project. The NFC recognizes that other factors may motivate Norwich officials or voters to support the project.

Recommendations

If the town elects to go ahead with the project, the NFC recommends the following conditions:

1. Receive written confirmation that the CEDF grant funds will be received up front and can be applied to the town’s reserve fund, supporting the project.
2. The project qualifies for REC contracts.
3. Limit the Clean Renewable Energy Bond (CREB) interest incentive to 1.5% per annum.
4. Receive a firm commitment from the Norwich School District to buy additional generation capacity not used by the town.
5. Commit to investing reserve funds at rates comparable to those available through the State and Local Government Series (SLGS) securities program.
6. Receive a verifiable guarantee of the productive capacity of the project at the meter prior to acceptance of the project.
7. Project approval be contingent on a viable business plan
8. The project adheres to the town’s request for proposals (RFP) policy.