

LOWER PAXTON TOWNSHIP
BOARD OF SUPERVISORS

Minutes of Workshop Meeting held September 7, 2010

A workshop meeting of the Board of Supervisors of Lower Paxton Township was called to order at 7:50 p.m. by Chairman William B. Hawk, on the above date in the Lower Paxton Township Municipal Center, 425 Prince Street, Harrisburg, Pennsylvania.

Supervisors present in addition to Mr. Hawk were: William C. Seeds, Sr., William L. Hornung, Gary A. Crissman, and David B. Blain.

Also in attendance were George Wolfe, Township Manager; Steven Stine, Township Solicitor; Watson Fisher, and Ted Robertson, SWAN.

Pledge of Allegiance

Mr. Hawk suspended the recitation of the Pledge of Allegiance as it recited during the previous business meeting.

**Continued discussion regarding the proposed
solar farm at the closed municipal landfill**

Mr. Wolfe explained that he would like to review his memo concerning the solar farm. He noted that Mr. Jeff Wendle came to the Board of Supervisors, roughly a year ago, with the idea to develop a solar farm on the closed municipal landfill facility. At that time, Mr. Wendle introduced the Board members to representatives from Energy Systems and Installations, Inc., (ESI) who suggested that a solar farm with net metering could be developed to provide electricity to the Swatara Township Authority Sewage Treatment Plant (STASTP) to save the Township money. He noted that ESI applied, on the Township's behalf, to the Commonwealth Financing Authority (CFA) for a \$3 million grant. He noted that the Township was granted the \$3 million grant to construct a solar farm on the closed municipal landfill facility, however, if the Township were to be in competition for the same grant today, it would probably not receive the grant as the process is much more competitive at this time.

Mr. Wolfe noted that ESI's proposal was to develop a 3 megawatt facility at the landfill using 12 acres and sell the electricity, called net metering, to ourselves, assuming that it would

be ourselves, since the Township is a component of the STASTP. He noted that the plant is located within two miles of the solar farm and since the proposed solar farm is not over 3 megawatts, net metering would be permitted. He noted that the Township would gain revenues through the energy sold and solar renewable energy credits (SREC).

Mr. Wolfe noted that through the exploratory process, he has found that net metering is not a sure thing, noting that it would have to be worked through the Public Utility Commission (PUC) and PPL. He noted that the two meters to be used are not in the same corporate name; one is in the Township's name and the other is in the Swatara Township Authority's name. He explained that this may disqualify the Township for net metering, noting that he has not been given a final decision on this matter yet, however, the Township has received a favorable analysis from the Township's Bond Counsel who specializes in utility work.

Mr. Wolfe explained that the sale of SRECs should generate between \$200 per credit to \$300 per credit. He noted that energy credits cannot be locked in long-term. He noted that the term of the grant does not permit locking in credits for more than nine years; however, most long-term contracts for energy credits are not more than five years. He noted if the Township decides to borrow funds for 20 years by way of a General Obligation Bond (GOB), to cover the rest of the project, the SREC should correspond in length with the term of borrowing, and they don't. He noted that it is estimated that the Township would have to borrow an estimated \$12.5 million on a \$16 million project.

Mr. Wolfe noted that ESI's proposal is a \$15.6 million project with \$12.5 million from the Township's GOB. He noted for wholesale performance, it is estimated that the project would produce \$291,000 in revenues in year one, and up to a million dollars in revenues in year 20.

Mr. Wolfe explained that ParenteBeard evaluated ESI's proposal and found that ESI did not take into account that the Township would have to replace the three invertors in year 20 at a cost of \$800,000. He noted that the ParenteBeard numbers found that the income in year two would be \$234,426; decreasing to \$112,000 in year 20 due to the inverter changeover, at a cost of \$761,557; followed by \$150,000 in revenues for the following ten years.

Mr. Wolfe noted that ESI also suggested that the solar farm could be turned into a public/private project. He noted that they provided follow-up information on this possibility from the last meeting. In addition, he explained that he has been in contact with Kenyon Energy in regards to a public/private partnership.

Mr. Wolfe distributed a large chart to the Board members to review as part of the presentation. He explained that he would like to discuss the last two columns concerning the public-private partnerships.

Mr. Wolfe noted that ESI stated that they could build a 2.9 megawatt solar farm and involve private sector investors. He noted that he has met with Kenyon Energy who brought a team in to do an analysis and they do not believe a 3 megawatt facility is doable, and suggested that a 1.5 megawatt facility is doable. He noted that both companies looked at a 20-year lease and both need the assignment of the \$3 million grant funds from the CFA, from Lower Paxton Township to the private developer. He noted that Kenyon Energy needs a dollar-for-dollar transfer of the grant funds, noting that the grant funds were based upon \$1 per watt, with a 3 megawatt facility at \$3 million, however, Kenyon Energy wants to do a 1.5 megawatt facility but they still need the \$3 million. He noted that a public/private partnership can qualify for a special 30% Federal tax credit. He noted to qualify for the tax credit the project has to be under construction before the end of the year. He noted that the Federal tax credit would only be for 30% of construction costs, and for a \$15.6 million project, it would amount to a check of \$4.7 million to the developer. He noted that it would be in addition to the \$3 million from the CFA, and with that, this becomes a very attractive project for private developers. He noted that seven to eight other firms have called him wanting to talk to him about the project.

Mr. Wolfe noted that the two big assumptions for the public/private partnership are, can the grant be assigned to the private developer, and if it is Kenyon Energy, can it be done at less than \$1 per watt. He explained that he met with the representatives from the CFA last week and asked them about the two assumptions. He noted that he was immediately told that the CFA grant was based upon \$1 per watt for the facility, and then he received a phone call on Friday from the CFA stating that it would not allow the Township to assign the grant to a third party. He noted that the project must be developed as it was proposed in the grant application. He noted that he was told the reason for this is that CFA has shovel-ready projects in line waiting for funds, and if the Township can't use the funds as proposed, then someone else could.

Mr. Wolfe noted that the ESI private-public partnership, where a private developer owns the array, and that Township leases the land, could generate roughly \$60,000 per year for a land lease, in addition to the reduced cost for sanitary sewer treatment. He noted that Kenyon Energy will not put anything in writing to him, however, they quoted him a lease revenue of \$10,000 per

year, plus energy cost reduction for sanitary sewer treatment. He stated, with all the staff has gone through for the process, \$10,000 does not make it doable. He noted that the Township is leasing 60 foot by 60 foot sites for cell towers at \$15,000 per year.

Mr. Wolfe noted that the Board has one or two decisions to make, either not to proceed with the project or to proceed as ESI has proposed, and if the Board chooses to proceed, it should look at the ParenteBeard analysis found in column two. He noted that the 2.9 megawatt solar farm owned by Lower Paxton Township would have a 30 year life expectancy at a total project cost of \$16.8 million, with \$3 million in grant funds. He noted that the Township's financial commitment would be \$13.8 million on a general obligation bond. He noted that the Township would pay the bond over a 20-year period and receive SREC's of \$280 to \$300 per unit, generating an annual income of \$1.1 million on an annual basis. He suggested that he should be able to lock a SREC rate for five years. He noted that according to ParenteBeard, the minimum SREC number to make the project viable is \$239.00. He noted that he has not heard that you could get less than that in the current market, but no one will predict what you could get in the future markets. He noted that the sale of electricity to STASTP is all over the board, noting that ParenteBeard is suggesting that it would be \$.05 per kilowatt; however Swatara is currently paying \$.078 per kilowatt to Direct Energy. He noted that he showed his analysis to the staff at the CFA and they said that the Township should be able to get more than \$.05 per kilowatt; however, it would not get more that \$.08. He noted that ESI stated that the total operating costs would be \$40,000, whereas, ParenteBeard suggested it would be closer to \$100,000. He noted that Kenyon Energy expects it to be \$100,000 as well. He suggested that the concept for the solar farm project is that the Township bid the work, install the facility, and own it.

Mr. Wolfe noted, on page two, ParenteBeard estimated that the inverter replacement in the year 2021 would cost \$899,465 noting that it was figured into the analysis for the cash flow. He noted, in the final analysis, ParenteBeard's 2nd year number is \$234,436 for operating income, decreasing to \$112,000 in year 20 as a result of the inverters replacement, and then annual income thereafter of \$150,000 per year. He noted from what he could tell, this would be the worst case scenario, but of course, there are no guarantees for any of this. He explained that his concern is that the Board needs to do something soon, and he needs to know what further information the Board needs from him to make a decision to either proceed with the project or to forget the project.

Mr. Seeds noted that the Board was to hear by the end of August if it received the PEDDA grant. Mr. Wolfe explained that the Township applied for a \$1 million grant to the Pennsylvania Energy Development Authority (PEDA), however, it did not receive the grant.

Mr. Seeds noted that Kenyon Energy wants to do a 1.5 megawatt project on ten acres, but he questioned how ESI was proposing to do a 2.9 megawatt project on 22 acres. Mr. Wolfe answered that ESI was proposing to do their project on 12 acres. He explained that Kenyon Energy would not provide him anything in writing but they told him that they would provide \$2,000 per acre, noting the highest figure they provided to him was \$10,000. He noted that it is not worth doing the solar project with the private sector, only to receive \$10,000 per year for the lease.

Mr. Seeds noted that Kenyon Energy claims that they received \$3,436,000 in grants for projects in Pennsylvania; he questioned who they receive their grants from. Mr. Wolfe answered that he did not know. He noted that they could have been under contract to those entities, much like ESI is under contract to the Township, noting that ESI applied for and received the \$3 million grant from the CFA for the Township. He noted that Kenyon Energy is trying to steal the project from ESI, and ten others are also trying to do the same. Mr. Seeds noted that \$10,000 is not enough money for all the hassle the Township would have to go through with all the issues. Mr. Wolfe noted that the CFA has already stated that the Township cannot assign the grant to anyone else and they will not provide more than \$150,000 in grant funds for a 1.5 megawatt project.

Mr. Wolfe noted that he is not asking the Board to do or not to do the project but he needs to know what is needed to make a decision. He noted that Mike Bova stated, if the Township issues a bond, there would be a potential refund, and putting both together you would get economies of scale. He noted that he has been avoiding talking to ESI about the project, and the Szeles representative want to meet with the Board at the next meeting to talk about their neighborhood issues and how it would affect the lots in their development. He noted that there are many issues that need to be resolved.

Mr. Seeds noted that ParenteBeard questioned ESI's procedure of the screw fasteners. Mr. Wolfe noted that others have done the same. Mr. Seeds noted that he questioned ESI several times as to the effect of settlement on the project. Mr. Wolfe noted Kenyon Energy was adamant that they would not use ground screws, instead they would use concrete ballasts. He noted that

the concrete ballasts would be a slight increase in project costs. He noted that it would be a design issue that would need to be addressed later if the Board chooses to move ahead with the project. He noted that the first level decision is whether or not to move ahead with the project.

Mr. Hornung noted that unless the Township gets at least \$100,000 for the project for a privately owned project he is not interested. Mr. Wolfe noted that the project can make \$100,000 a year, but not with the private sector. Mr. Hornung noted that he did not want to take the risk. Mr. Hawk noted that Mr. Hornung is afraid of having what occurred in the City of Harrisburg with their incinerator, to the Township. Mr. Hornung questioned what happens if the economy goes down and there is no demand for electricity and a lot of these things dry up. He noted that the Township would have to cover the losses by raising taxes significantly and he is not interested in doing that.

Mr. Wolfe noted, in regards to the economy, only two factors will produce revenue, the sale of electricity which is 15% of the overall revenue, and the majority of the revenue would be through the SREC and it is not an economic driven item. He noted that SREC is a government created market item. Mr. Hornung noted that the government could ease up on the utilities and not force them to purchase the SRECs. Mr. Wolfe noted that the State government is really big on this and they want to see this go and be successful, however, PPL is not happy that the Township is doing this and they will not be cooperative.

Mr. Blain noted that he agrees with Mr. Hornung noting that the Township is not in the business of developing and running solar farms. He noted that it should be left up to the private sector. He noted that the Township has an asset in its landfill and the Township would need to make a lot more money out of the project to consider this project. He noted that he does not want to do the project with its own money, and he stated that he would rather be in a position where the Township enters into a land lease and the risk would be on the private developer. He noted that the Township would be provided with income from a land lease, but \$10,000 per year is not enough. Mr. Seeds agreed.

Mr. Blain explained that the State is really into these alternative fuel sources. He noted that he has a client that is involved in bio-diesel and the majority of the income that he makes is tax credit income that is Federal or State monies. He noted if a client is heavily dependent on Federal or State credits to make money, it is not a good idea. He noted that alternative fuel sources will continue to be developed and improve, and will be able to make money without

Federal or State grants. He noted that he is very leery about being involved in a subsidized project in order to make money.

Mr. Hawk noted that he came in with an open mind but the more he hears the more he is convinced that the project is not worth the risk. He noted that a Zoning Hearing Board variance would be needed. Mr. Blain noted that it would only be needed if the project was done by the private sector.

Mr. Hawk questioned if the project was good for the citizens of the Township and if there would be some opposition from residents. He noted if those two questions are yes, then he would look for some opportunity to resolve the issues, however, he is not seeing that happen. He noted that it is not the Township's business to run a solar farm. Mr. Blain noted that is his biggest concern as well, noting if the cash flow was providing significant money it would be one thing, especially if it was not dependant on tax credits. He noted that you never know what will happen from one Federal or State administration to another one. He noted that this is not what the Board of Supervisors does.

Mr. Wolfe suggested that the Board needs to tell ESI what it is thinking, and provide a final one-on-one with them. He noted that he would invite them to the next workshop meeting to let them hear where the Board stands.

Mr. Hawk questioned what opposition it would receive from the citizens of the Township. Mr. Wolfe noted that the Board would get opposition from the surrounding neighbors, but as long as the project would work, most residents would be happy that it is generating revenue and reducing the costs for sewage treatment. He noted that there are no guarantees for the project. He noted that the Township would be pledging obligation bonds using tax dollars without a definite backup source to get the payments. Mr. Hawk noted that he does not like to gamble with Township money anymore that he is in favor of doing bond swaps.

Mr. Crissman questioned if Mr. Wolfe would like to invite ESI to the next workshop meeting. Mr. Wolfe noted that the Board needs to hear from ESI one more time noting that he has limited knowledge and the Board is talking about turning back \$3 million to the CFA. He noted that the Board needs to be one hundred percent sure before it sends the funds back. He noted that the Board should voice its concerns to ESI and see if they have any rebuttal. He noted that ESI needs to hear from the Board specifically that the Board does not like the short-term

speculative nature of the SREC market, that net metering is not a sure thing, or that PPL is difficult to deal with and see if they have responses for that.

Mr. Seeds questioned how long the Township has until it needs to send the funds back. Mr. Wolfe noted that the CFA would like to know as soon as possible, noting that there is a date in the grant, but the time schedule for the project had the Township going to construction in October, 2010.

Mr. Crissman noted that the five Board members have all agreed in its thinking on this matter. He noted that it is good to have the unanimity as opposed to one or two opposing views, and for all the right reasons.

Mr. Blain noted that the Board did the right thing by going out and investigating how the landfill asset could be used to generate another source of income to try to alleviate the increases in sewer rates and fees. Mr. Crissman agreed. Mr. Blain noted that it does not make sense to do this project at this time, not to say that something couldn't be done in the future.

Adjournment

There being no further business, Mr. Blain made a motion to adjourn the workshop meeting and reconvene the business meeting. Mr. Crissman seconded the motion, and the workshop meeting adjourned and the business meeting reconvened at 8:30 p.m.

Respectfully submitted,

Maureen Heberle
Recording Secretary

Approved by;

Gary A. Crissman
Township Secretary