

**REGULAR MEETING OF THE BOARD OF DIRECTORS
KAUAI ISLAND UTILITY COOPERATIVE**

Held at 4463 Pahe`e Street

Līhu`e, Kaua`i, Hawai`i

On October 29, 2019

MINUTES

Call to order at 1:02 p.m.

1. Roll Call

1.1 **Present:** Directors Jan TenBruggencate (Vice Chair, Chair pro tem), Director Allan Smith (Chair) (via conference call), Dee Crowell, David Iha, Janet Kass, James Mayfield, Calvin Murashige (Secretary), Teofilo Tacbian, and Peter Yukimura (Treasurer); and David Bissell (President and CEO). A quorum of directors were present.

1.2 **In attendance:** Laurel Loo (General Counsel), Karissa Jonas (CFO), Maile Alfiler (Member Services Mgr.), Rick Eckert (Financial Planning & Strategy Mgr.), Brad Rockwell (Power Supply Mgr.), Beth Tokioka (Communications Mgr.), Lisa Ubay (HR Mgr.), and Nadine Tipps (Executive Administrator); and two (2) members of the public.

2. Invocation – Director Tacbian opened the meeting with prayer.

3. Approval of Agenda - The agenda was approved as circulated.

4. Approval of Minutes

4.1 The 09/19/2019 meeting minutes and the 10/07/2019 Special Board meeting minutes were approved unanimously. [Motion: Murashige/Yukimura]

5. President's Report. David Bissell, President and CEO

5.1 The current Cooperative statistics were reported. (report attached)

5.2 KIUC was mostly affected with Wi-Fi during the Spectrum outage.

5.3 KIUC sends employees to the NRECA Safety Summit each year.

6. Financial Report: Karissa Jonas, CFO reported.

6.1 CFC and CoBank approved KIUC's loan requests for the Construction Work Plan. The loan documents were received yesterday.

6.1.1 CoBank has approved the loan request. Their attorneys are working with Eversheds-Sutherland to conform their loan agreements to be consistent with the terms of the Indenture.

6.1.2 Hoping to get the loan closed in November.

6.2 **Budget Process**

6.2.1 The draft 2020 ROO budget has been prepared and is being reviewed.

6.2.2 The draft 2020 Capital budget has been prepared and is being reviewed.

- 6.2.3 The Board Budget Workshop is scheduled for Monday, 11/18/19.
- 6.2.4 The 2020 Budget is targeted to be presented to the Board for its approval at the 12/17/19 General Board meeting.
- 6.3 Annual Audit
 - 6.3.1 Our auditors, Moss Adams, were here on site last week to perform preliminary fieldwork. All went well.
- 6.4 Warehouse – Physical Inventory Count
 - 6.4.1 Results of the annual physical inventory count:

| | <u>Old</u> | <u>New</u> | <u>Adj</u> | <u>% Change</u> |
|--------------------------|----------------------|----------------------|-------------------|---------------------|
| Eleele | 3,588,189.94 | 3,590,144.86 | 1,954.92 | 0.05% |
| Kapaa | 210,520.04 | 207,177.95 | (3,342.09) | -1.59% |
| Eleele-01A | 76,188.18 | 76,188.18 | 0.00 | 0.00% |
| Service Assurance | 3,874,898.16 | 3,873,510.99 | (1,387.17) | -0.04% |
| Production | 8,072,560.81 | 8,072,236.69 | (324.12) | 0.00% |
| Kapaia | 2,201,856.21 | 2,201,856.21 | 0.00 | 0.00% |
| Production | 10,274,417.02 | 10,274,092.90 | (324.12) | 0.00% |
| Total | 14,149,315.18 | 14,147,603.89 | (1,711.28) | -0.01% |

- 6.5 The September 2019 preliminary financials were reviewed. (scorecard attached)

7. NRECA Hawaii Director Report – Director David Iha

- 7.1 The NRECA September 2019 Board Notes and Presentation were provided for director review.
 - 7.1.1 NRECA is lobbying for the Rural Act, which may not affect KIUC. They are trying to position themselves on how to add certain legislative pieces by the end of the session. Congress pushed back the deadline to November.
 - 7.1.2 Retirement system - trying to change the laws on how they treat coops. They are treating some large individual entities as one big organization and the premiums are high.
 - 7.1.3 Appreciate Peter Baxter, Senior Vice President for Insurance and Financial Services from NRECA, who met with KIUC directors and senior staff to explain how the management team does the investment and retirement system program for employees. It was a very educational meeting.

8. Committee Reports

- 8.1 **Executive – Committee Chair, Jan TenBruggencate**
 - 8.1.1 The committee met on October 18th.

- 8.1.2 Approved Director Mayfield's recommendation for appointment of 2020 Nominating Committee members, which will be taken up in New Business.

- 8.2 **Finance & Audit –Committee Chair, Peter Yukimura**
 - 8.2.1 The committee met on October 18th.
 - 8.2.2 CFO Jonas reported the financials.
 - 8.2.3 The committee has a few items, which will be taken up under New Business.

- 8.3 **Government Relations/Legislative – Committee Chair, Phil Tacbian**
 - 8.3.1 The committee met on October 18th.
 - 8.3.2 Planning to meet with our Legislators.
 - (a) A couple of dates have been sent out.
 - (b) The venue will be either JJ's Broiler upstairs or Gaylords.
 - 8.3.3 Committee Chair Tacbian circulated and reviewed pictures that were taken at Region 9 in Spokane, Washington.

- 8.4 **International – Committee Chair, David Iha**
 - 8.4.1 The committee did not meet.
 - 8.4.2 Committee Chair Iha received an email from Rudy Sina asking if we should continue the book collection.
 - (a) In addition to collecting books from schools, Rudy Sina has also been in contact with the Friends of the Lihue Library for library books that are being removed from the library collection that may be valuable to schools in the Philippines. That conversation is ongoing.
 - (b) Rudy Sina targets very specific types of books that he is collecting to meet the needs of schools in the Philippines.

- 8.5 **Member Relations – Committee Chair, Calvin Murashige**
 - 8.5.1 Met on October 18th.
 - 8.5.2 Received reports from Member Services and Communications.
 - 8.5.3 Committee Chair Murashige highlighted the amount of coverage that KIUC has been receiving. The latest is an article in Hawaiian Airlines' Hana Hou Magazine. KIUC has also had exposure in other cooperative type magazines. Thanks to staff and management for getting us in the forefront of other coops.
 - 8.5.4 No action items.

- 8.6 **Policy – Committee Chair, Dee Crowell**
 - 8.6.1 Met on October 18th.
 - 8.6.2 Reviewed Board Policy No. 11, Patronage Capital Allocation and Retirement Policy, which will be taken up under New Business.

8.7 **Strategic Planning –Committee Chair, James Mayfield**

8.7.1 Met on October 18th.

8.7.2 Beth Tokioka circulated and discussed the results on Electrical Vehicles (EVs) from the 2019 KIUC Member Satisfaction Questionnaire.

- (a) KIUC pays to have about 400 members each year take a survey. Questions were added this year about EVs.
- (b) A relatively small number of our members own EVs, and most that do, charge at home.
- (c) Ulupono is working with the County of Kauai on a grant program to install charging stations at commercial places and possibly apartment complexes.
- (d) KIUC has a good relationship with Kauai EV Organization, and has supported them in many ways.
- (e) Nissan rebates for EVs has been extended to the end of the year.
- (f) We will continue to monitor how many EVs are on Kauai.

9. **Charitable Foundation (CF) Board** – Teofilo Tacbian, President

9.1 The CF Board met last week.

9.2 Kauai Economic Opportunity (KEO) assisted two families for a total of \$584. They have a balance of \$6,900.

9.3 Makana Program –

9.3.1 We are going to issue a press release this Friday to discuss the program and how people can sign up.

9.3.2 Will have a feature on Channel 8 Hawaii News Now Sunrise Program on November 11th, which will be about the program.

9.3.3 This will become a continual part of our marketing effort moving forward.

9.3.4 Will be featured in the December Currents Issue.

9.3.5 The CF Board will be able to handle the funds in the beginning, but once it becomes large, they might need to seek assistance from other foundations.

9.4 The Golf Tournament Committee is getting everything ready for the November 16th Tournament.

9.4.1 This year is the 6th Annual Tournament, so this year's grand prize winner will be 6th place.

9.4.2 The Golf Tournament is a function independent of KIUC that raises money for the KIUC Charitable Foundation, which has a number of charitable purposes.

9.5 Going to streamline our insurance. Have consulted with our legal team on that.

9.6 Looking at other ways to make contributions to our members. Looking at the youth and our elderly.

10. **Public Testimony.** Member Steve Parsons provided oral testimony to the Board of Directors.

11. New Business

11.1 Appointment of 2020 Nominating Committee

- 11.1.1 There was a motion to approve the names of Allison Mizuo Lee, Marissa Sandblom, Ian Jung and Kaaina Hull as the members of the Nominating Committee. [Motion: Iha/Murashige]
- 11.1.2 There will be an ad in the newspaper on October 30th on how to apply for the KIUC Board, and it will also be on Facebook, for anyone that might be interested in running and those that are up for re-election.
- 11.1.3 The deadline to apply for the KIUC Board is November 22nd.
- 11.1.4 The recommendation carried unanimously.

| | | |
|-----------|---|-----------|
| IN FAVOR: | Crowell, Iha, Kass, Mayfield, Murashige, Tacobian, TenBruggencate & Yukimura | Total – 8 |
| OPPOSED: | None | Total – 0 |
| EXCUSED: | Smith | Total – 1 |

11.2 February Storm Jobs

- 11.2.1 F&A Committee Chair Yukimura reported the committee discussed and recommended approval of the additional \$342k for the February Storm Jobs. [Motion: Yukimura]
- 11.2.2 This damage is not budgeted. We do not want to over budget anything.
- 11.2.3 The recommendation carried unanimously.

| | | |
|-----------|---|-----------|
| IN FAVOR: | Crowell, Iha, Kass, Mayfield, Murashige, Tacobian, TenBruggencate & Yukimura | Total – 8 |
| OPPOSED: | None | Total – 0 |
| EXCUSED: | Smith | Total – 1 |

11.3 Distribution Transformer - Overhead – New Customer

- 11.3.1 F&A Committee Chair Yukimura reported the committee discussed and recommended approval of \$535k for transformers that will be ordered for inventory for next year in case of another storm. [Motion: Yukimura]
- 11.3.2 There is a four month lead time.
- 11.3.3 This will be in the 2020 Budget.
- 11.3.4 The recommendation carried unanimously.

| | | |
|-----------|---|-----------|
| IN FAVOR: | Crowell, Iha, Kass, Mayfield, Murashige, Tacobian, TenBruggencate & Yukimura | Total – 8 |
| OPPOSED: | None | Total – 0 |
| EXCUSED: | Smith | Total – 1 |

11.4 HCP 2020 DOFAW HCP Projects

- 11.4.1 F&A Committee Chair Yukimura reported the committee discussed and recommended approval of an additional \$720k to pay the Department of Fish and Wildlife (DOFAW) to help run the program on the birds. [Motion: Yukimura]

11.4.2 The recommendation carried unanimously.

| | | |
|-----------|--|-----------|
| IN FAVOR: | Crowell, Iha, Kass, Mayfield, Murashige, Tachian, TenBruggencate & Yukimura | Total – 8 |
| OPPOSED: | None | Total – 0 |
| EXCUSED: | Smith | Total – 1 |

11.5 **CFC and CoBank Secured Term Loans**

11.5.1 F&A Committee Chair Yukimura reported the committee reviewed, discussed and recommended adoption of Board Resolution 02-19, CFC and CoBank Secured Term Loans. [Motion: Yukimura]

11.5.2 The recommendation carried unanimously.

| | | |
|-----------|--|-----------|
| IN FAVOR: | Crowell, Iha, Kass, Mayfield, Murashige, Tachian, TenBruggencate & Yukimura | Total – 8 |
| OPPOSED: | None | Total – 0 |
| EXCUSED: | Smith | Total – 1 |

11.6 **BP#11, Patronage Capital Allocation and Retirement Policy**

11.6.1 Policy Committee Chair Crowell reported the committee has reviewed and discussed this policy for the last couple of months, and recommends approval of Board Policy No. 11, Patronage Capital Allocation and Retirement Policy. [Motion: Crowell]

11.6.2 The recommendation carried unanimously.

| | | |
|-----------|--|-----------|
| IN FAVOR: | Crowell, Iha, Kass, Mayfield, Murashige, Tachian, TenBruggencate & Yukimura | Total – 8 |
| OPPOSED: | None | Total – 0 |
| EXCUSED: | Smith | Total – 1 |

12. **Calendar:**

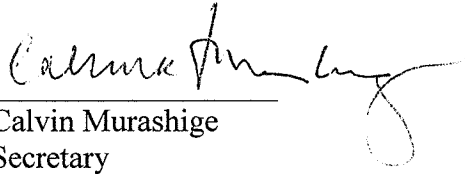
- 12.1 **November 11, 2019** – HOLIDAY (Veteran’s Day), KIUC Offices Closed
- 12.2 **November 15, 2019** – Board Committee Meetings (9:00am., MCR)
- 12.3 **November 18, 2019** – 2020 Budget Workshop (9:00am., MCR)
- 12.4 **November 26, 2019** – Board Meeting (9:00am., KIUC Main Conf Rm)
- 12.5 **November 28, 2019** – HOLIDAY (Thanksgiving Day), KIUC Offices Closed

- 12.6 The November 26th Board meeting time was changed from 1:00pm to 9:00am.
- 12.7 There was discussion about next year’s Board calendar. It was suggested to have the Board Committee meetings and Board Meeting all in the same week. This item will be added to the November 15th Executive Committee meeting agenda.

13. **Executive Session.** At 1:58 p.m. the Board recessed the meeting to enter into an Executive Session closed to the public on matters limited to those specified in Section II. A. 2. of Board Policy No. 16. The items to be discussed in the Executive Session are

matters of a proprietary or financial nature, public disclosure of which could affect on-going or potential negotiations or legal or administrative proceedings and human resource issues related to the hiring, evaluating, dismissing or disciplining an officer or employee and a matter requiring legal consultation on issues pertaining to the powers, duties, privileges, immunities and liabilities of the Board of Directors.

14. **Adjournment.** The open session of the meeting reconvened at 2:47 p.m. Director TenBruggencate moved to adjourn the meeting; the motion was seconded by Director Murashige. All directors present voted in favor of the motion and it passed unanimously.



Calvin Murashige
Secretary



President's Report

October 29, 2019

David Bissell, President and CEO

President's Report

David Bissell, President and CEO
October 29, 2019

Safety (September)

| | <u>Month</u> | <u>2019 YTD</u> | <u>2018 YTD</u> |
|----------------------|--------------|-----------------|-----------------|
| Recordable Incidents | 1 | 2 | 1 |
| Days Away/Restricted | 18 | 18 | 133 |

Availability and Reliability:

| | <u>Month</u> | <u>2019 YTD</u> | <u>2018 YTD</u> |
|--------------------------------------|--------------|-----------------|-----------------|
| Reportable Outages | 1 | 35 | 31 |
| Average Outage Hours Per Customer | 0.0 | 4.03 | 0.76 |

Efficiency

| | <u>Month</u> | <u>2019 YTD</u> |
|---------------------|--------------|-----------------|
| Net Plant Heat Rate | 9,218 | 9,281 |
| Peak Demand (MW) | 78.7 | 79.70 |

Residential Rates:

| | |
|--------------|---------------------------------------|
| October 2019 | \$0.326/kwh Up \$0.013 from September |
|--------------|---------------------------------------|

Updates

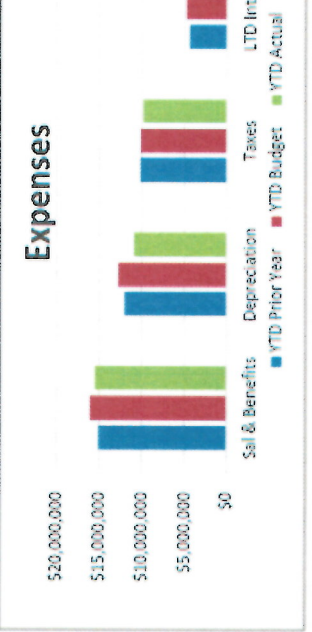
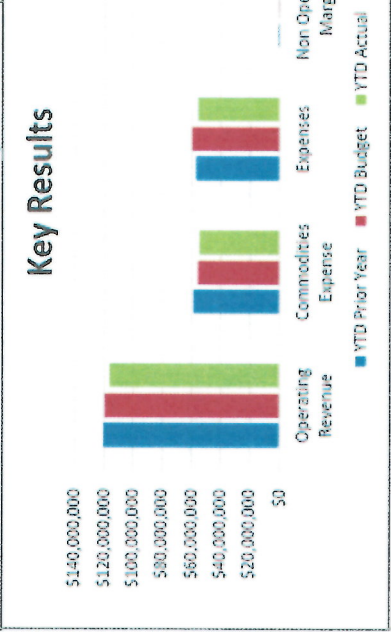
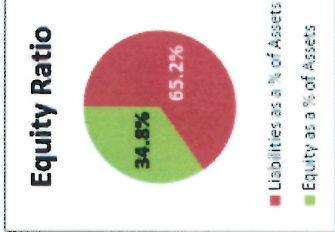
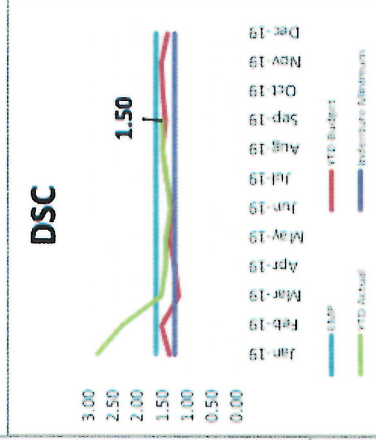
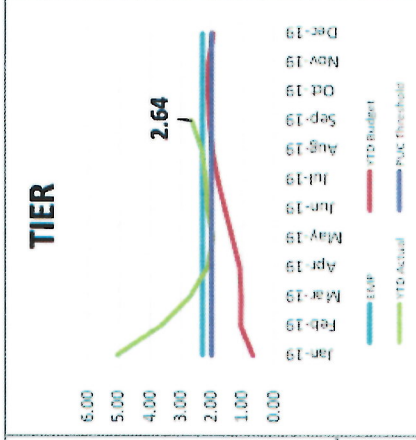
- West Kauai Energy Project – Community Meeting
- NRECA Onsite Safety Review
- Waiahi Hydro
 - BLNR RP approval
 - Siphon Repair
- AES PMRF
- Habitat Conservation Plan
- Cybersecurity



Mahalo!

Financial Scorecard

| Class | YTD Prior Year | YTD Actual | Percent Change |
|-----------------------|----------------|----------------|----------------|
| Residential (D) | 130,986 | 134,674 | 2.8% |
| Small Comm (G) | 47,998 | 50,846 | 5.9% |
| Large Comm (J) | 37,145 | 38,131 | 2.7% |
| Lrg Pwr Primary (L) | 38,941 | 38,490 | -1.2% |
| Lrg Pwr Secondary (P) | 80,122 | 80,978 | 1.1% |
| Street Lighting (SL) | 639 | 598 | -6.4% |
| Irrigation | 1,611 | 425 | -73.6% |
| Total | 337,442 | 344,142 | 2.0% |



Liquidity

| Category | YTD Actual |
|--------------------------|--------------|
| Cash | \$7,812,664 |
| Short-Term Investments | \$6,068,671 |
| Cushion of Credit | \$15,759,877 |
| Line of Credit Available | \$40,000,000 |
| Line of Credit Drawn | \$0 |

October 17, 2019

Memorandum

To: Allan Smith
Chair, Board of Directors
Kauai Island Utility Cooperative

Here are the members of the Nominating Committee for the coming year:

Allison Mizuo Lee - Attorney, Cades.Schutte
Marissa Sandblom – Business Executive
Ian Jung – Attorney, Belles Graham Proudfoot Wilson & Chun
Kaaina Hull –Director of Planning, County of Kauai

Please include these nominations for approval by the Board for the October Board Meeting.

Mahalo!

David Iha

**RESOLUTION 02-19 OF THE
BOARD OF DIRECTORS OF
KAUAI ISLAND UTILITY COOPERATIVE**

CFC and CoBank Secured Term Loans

October 29, 2019

WHEREAS, the Board of Directors of Kauai Island Utility Cooperative, a Hawaii cooperative association (the "Company"), has determined that the Company should obtain financing for certain general capital expenditures, including projects described in its 2016-2019 Construction Work Plan approved by the Board of Directors at its October 27, 2015 meeting (as such Construction Work Plan has been amended from time to time, the "Construction Work Plan");

WHEREAS, certain of the projects described in the Construction Work Plan are being or have been financed or reimbursed with the loan proceeds from the "D8" loan from the Federal Financing Bank (the "FFB"), guaranteed by the Rural Utilities Service ("RUS");

WHEREAS, to provide financing for general capital expenditures, including projects described in the Construction Work Plan that will not be financed with RUS-guaranteed FFB loan proceeds, the management of the Company has determined that it would be in the interest of the Company to enter into new secured term loan facilities with each of National Rural Utilities Cooperative Finance Corporation ("CFC") and CoBank, ACB ("CoBank"), with an aggregate total principal amount outstanding under such term loan facilities not to exceed \$49,519,000, as further described below:

- (1) A term loan facility with CFC (the "CFC Term Loan") with a maximum aggregate principal amount outstanding at any one time not to exceed \$49,519,000 less the aggregate principal amount borrowed by the Company from CoBank under the "CoBank Term Loan" (as defined below) and with the maturity date for any advance under the CFC Term Loan not later than 35 years after the date of such advance. Advances under the CFC Term Loan (as evidenced by a promissory note made by Company and payable to CFC) will be secured under the Indenture of Mortgage, Security Agreement and Financing Statement, dated as of April 30, 2019, between the Company and U.S. Bank National Association, as Trustee (the "Trustee") (as the same may be supplemented or amended from time to time, including by the "Supplemental Indenture" (as defined below), the "Indenture"); and
- (2) A term loan facility with CoBank (the "CoBank Term Loan"); and together with the CFC Term Loan, the "New Term Loans") with a maximum aggregate principal amount outstanding at any one time not to exceed \$49,519,000 less the aggregate principal amount borrowed by the Company from CFC under the CFC Term Loan and with the maturity date for any advance under the CoBank Term Loan not later than 30 years after the date of such advance. Advances under the CoBank Term Loan (as evidenced by a promissory note made by the Company and payable to CoBank) will be secured under the Indenture;

WHEREAS, prior to obtaining an advance under either the CFC Term Loan or the CoBank Term Loan, the Company will obtain bids with quoted interest rates as to the proposed advance from each of CFC and CoBank, and an "Authorized Officer" or "Designee" (as such terms are defined below) of the Company will determine whether it is advisable and in the interests of the Company to proceed with such advance, and if so, whether to award such advance to either CFC or CoBank (such process is hereinafter referred to as the "Advance Bidding Process");

WHEREAS, pursuant to Docket No. 2017-0371, Decision and Order No. 35424 (as such order has been or may be amended or supplemented from time to time, the "HPUC Order"), the Hawaii Public Utilities Commission ("HPUC") approved the Company's requested waiver from any requirement that the Company obtain the HPUC's approval to enter into and effectuate the New Term Loans; and

WHEREAS, the Board of Directors of the Company desires to authorize certain officers and staff (i) to pursue, negotiate, execute and deliver on behalf of the Company all documents, instruments or certificates necessary to effect or evidence each of the New Term Loans and (ii) to take actions necessary or desirable for the Company to perform its obligations or exercise its rights under the New Term Loans (including obtaining advances thereunder from time to time).

NOW, THEREFORE, BE IT RESOLVED, the recitals in this Resolution are hereby approved by the Board of Directors and incorporated into the terms of this Resolution;

RESOLVED FURTHER, that the Board of Directors does hereby authorize and empower the Company to enter into, and obtain advances from time to time under, each of the New Term Loans on the terms and conditions as are deemed advisable and in the interest of the Company by any one or more of the President & CEO or Financial Vice President & CFO of the Company (each of the foregoing, an "Authorized Officer") or a designee of an Authorized Officer (each, a "Designee"), *provided* that all terms and conditions of each of the New Term Loans (and the making of advances thereunder) must be consistent with the terms of (i) this Resolution and (ii) the HPUC Order.

RESOLVED FURTHER, that any Authorized Officer or Designee is authorized to make the determination pursuant to the Advance Bidding Process of whether to proceed with an advance, and if so, to approve the terms of the advance, including whether the advance will be from CFC or CoBank.

RESOLVED FURTHER, that any Authorized Officer or Designee is authorized and empowered, for and on behalf of the Company and in its name, to negotiate, determine the form and content of (subject to the limitations set forth herein), enter into, execute and deliver (with or without attestation of the Secretary or an Assistant Secretary of the Company), and the Company is authorized and empowered to perform its obligations under, agreements, documents and instruments pertaining to the New Term Loans, which shall, without limitation, include the following (collectively, the "Transaction Documents");

- (1) a loan or credit agreement or contract with CFC with respect to the CFC Term Loan;
- (2) a loan or credit agreement or contract (or a master loan agreement and loan supplement and/or note) with CoBank with respect to the CoBank Term Loan;

- (3) any promissory note made by the Company to evidence the Company's payment obligations under any New Term Loan, in each case, with a face principal amount not to exceed \$49,519,000 (collectively, the "New Notes") which promissory note or promissory notes shall be secured under the Indenture, and, in the case of any promissory note payable to CoBank, by a statutory first lien on all equity that the Company now owns or hereafter acquires in or allocated to CoBank;
- (4) a supplemental indenture, pursuant to Article XII of the Indenture (the "Supplemental Indenture"), for the purposes, among others, of (a) creating each of the New Notes to be authenticated and secured as an "Additional Obligation" under the Indenture and (b) confirming the lien of the Indenture unto the Trustee; and
- (5) any amendments, modifications, extensions, waivers or restatements of any of the foregoing as determined to be appropriate by an Authorized Officer or Designee.

Each of the Transaction Documents, including, without limitation, those referenced above, shall be in such form and have such terms and conditions as any Authorized Officer or Designee shall determine to be in the interest of the Company, *provided* that all terms and conditions of the Transaction Documents must be consistent with the terms of (i) this Resolution and (ii) the HPUC Order.

RESOLVED FURTHER, that the Board of Directors hereby authorizes and requests that the Trustee authenticate and deliver, pursuant to Section 4.1A of the Indenture, the New Notes with the specific series designation thereof to be as provided for in the Supplemental Indenture or as set forth in an Officers' Certificate delivered pursuant to Section 2.1 of the Indenture.

RESOLVED FURTHER, that the Board of Directors hereby authorizes and empowers any Authorized Officer or Designee to execute, with or without attestation by a Secretary or Assistant Secretary of the Company, and deliver on behalf of Company, the Transaction Documents, together with any and all other agreements, documents, instruments, certificates and other papers relating thereto or necessary or convenient in connection with the transactions approved in this Resolution (and to make any changes, amendments, or modifications to the Transaction Documents or other agreements, documents, instruments or certificates that are consistent with the authorizations herein), and to take such other actions and to do or cause to be done any and all other acts and things, including, without limitation, the expenditures of such funds, the delivery of pay down notices, the exercise of interest rate options and the making of selections and/or advance requests, and the obtaining of any required third party consent, all as may be determined to be advisable by an Authorized Officer or Designee in order to carry out and comply with the purposes and intent of this Resolution in all respects.

RESOLVED FURTHER, that the final determination and approval of the form, terms and provisions of any Transaction Document or any other document or instrument to be executed on behalf of the Company pursuant to this Resolution may be conclusively evidenced by the execution of the same by any Authorized Officer or Designee, and the final determination that the taking of any action or the causing of any action is in the interest of the Company or is appropriate or advisable shall be conclusively evidenced by the taking of such action or the causing of such action by any Authorized Officer or Designee.

RESOLVED FURTHER, that each and every action taken by any Authorized Officer or Designee prior to the date of the adoption of this Resolution which would have been authorized by this Resolution but for the fact that such actions were taken prior to such date are hereby ratified, approved, confirmed and adopted in all respects.

SECRETARY'S CERTIFICATE

The undersigned Secretary of KIUC hereby certifies that the foregoing Resolution of the Board of Directors of KIUC was duly adopted at the Regular Meeting of the Board of Directors held on October 29, 2019 at Līhu'e, Kaua'i, Hawai'i.

Dated this 29th of October, 20 19, at Līhu'e, Kaua'i, Hawai'i.

Calvin Murashige
Secretary

**KAUA'I ISLAND UTILITY COOPERATIVE
BOARD POLICY NO. 11
(Revised ~~0210/2229/2018~~2019)**

PATRONAGE CAPITAL ALLOCATION AND RETIREMENT POLICY

I. PURPOSE OF POLICY:

It is the goal of the Board of Directors of Kaua'i Island Utility Cooperative ("KIUC") to allocate and retire capital credits annually. This Patronage Capital Allocation and Retirement Policy is intended to allow all allocations and retirements of KIUC Capital Credits to be made in accordance with Article VII of the Seventh Revised and Restated By-laws of KIUC or the successor to said Article VII, and consistent with KIUC's current Equity Management Plan (EMP) as approved by the Board.

II. POLICY CONTENT:

KIUC is an electric cooperative organized under the provisions of the Chapter 421C of the Hawaii Revised Statutes. It is exempt from federal income taxes under the provisions of Section 501 of the Internal Revenue Code of 1954 as amended. Article VII of KIUC's Bylaws establishes certain requirements concerning the accounting for patronage capital furnished by member-owners. KIUC's policy concerning the allocation and retirement of patronage capital provided by member-owners is as follows:

- A. Allocation of Margins as Patronage Capital Credits: No later than August 15 of each year, KIUC shall mail to the last known address of each member-owner from whom patronage was received in the preceding year, a statement showing the amount of patronage received and the amount of patronage capital credited to each

member's account as a result of such patronage, provided that such statements shall not be required for years in which:

1. KIUC fails to earn assignable margins as defined in Article VII of the Bylaws; or
2. The amount of assignable margins earned is determined to be insufficient to warrant the assignment of patronage capital credits and issuance of statements.

- B. Carry Forward of Unassigned Patronage Capital: If, pursuant to Section A.2 above, no assignable margins for a given year are assigned to the patronage capital credit accounts of KIUC's active member-owners during that year, said margins will be combined with those of the following year for assignment to member-owners providing patronage to the KIUC in the following year in proportion to that patronage.
- C. Retirement of Patronage Capital Credits: On an annual basis, the Board of Directors will authorize the retirement amount and method to be used for any capital credit allocations for the prior year. Such retirement amount and method will be consistent with KIUC's EMP.
- D. Compliance with Mortgage Requirements: KIUC shall at all times seek to fully comply with the various provisions of its long-term debt instruments with regard to the retirement of patronage capital.
- E. Payments to Estates: To the extent such action does not conflict with the provisions of KIUC's Bylaws or long-term debt instruments, KIUC will pay capital credits to the estates of deceased member-owners under the following conditions:

1. The deceased member-owner must have been a natural person;
2. The deceased member-owner must have been the sole owner of the capital credits to be retired. Patronage capital credits will not be paid to estates of deceased member-owners when the account was owned jointly with a surviving member-owner.
3. Requests for payment of a deceased member-owner's patronage capital credits must be submitted in writing by the personal representative of the deceased member-owner's estate, and must be accompanied by appropriate documentation as required by KIUC;
4. Any discounted patronage capital credits issued to estates as aforesaid shall be discounted using the following assumptions:
 - a. For purposes of discounting only, KIUC will assume that payments of patronage capital credits would have been made in equal installments over a period of years to be determined annually by the Board after issuance of its annual audit report.
 - b. KIUC will use a discount rate to be determined annually by the Board after issuance of its annual audit report at the same time as determining item II. E. 4. a. above using the Goodwin Formula previously approved by the Board by motion on May 30, 2006.
5. To the extent it can be determined, discounted patronage capital credits paid to estates will be for the decedent's residence only. No patronage capital

credits earned on commercial meters and discounted as set out above will be paid to a deceased member-owner's estate.

6. The portion of any deceased member-owner's patronage capital account retained by KIUC after any discounted patronage capital refund is made to a deceased member-owner's estate as aforesaid shall become permanent capital of KIUC.
7. The Board will not approve the retirement of more than ~~two-four~~ hundred thousand dollars (~~\$200,000.00~~\$400,000.00) in discounted patronage capital credits to the estates of deceased patrons in a given year. In the event a request for payment is denied or only partially paid due to the ~~two-four~~ hundred thousand dollars (~~\$200,000.00~~\$400,000.00) limitation, the portion of such amount not paid in full that year will be paid during the following year prior to acting upon any later received requests for payment ~~to the extent the Board deems commercially reasonable.~~

~~F. Minimum Check Amount: Except in the case of retirements of patronage capital credits to the estates of deceased patrons, KIUC will not issue retirement checks in amounts less than ten one dollars (\$10.00).~~

~~G.F. Patronage Capital Credits from Associated Organizations: Except insofar as KIUC's Bylaws may require the application of such items to offset losses incurred in the current or prior fiscal years, patronage capital credits received by KIUC from associated organizations will not be segregated or otherwise treated differently from the remaining assignable margins of KIUC.~~

H.G. Method of Payment: Patronage capital credits may be retired by the issuance of checks, credit to member accounts, or by application to current outstanding balances due KIUC as determined by the Board.

H.H. Collection of Delinquent Accounts: No payment in retirement of a member-owner's or deceased member-owner's capital credits shall be made unless KIUC's records shall have first been reviewed to determine whether such member-owner or deceased member-owner owes any outstanding sums to KIUC. To the extent such member-owner owes any outstanding sums to KIUC, any patronage capital credits to be retired shall be applied by way of set-off to such sums, and no check shall be issued to the member-owner or deceased member-owner's estate until the amount owing KIUC shall have been paid in full.

III. RESPONSIBILITY

- A. KIUC's President/CEO shall be responsible for the implementation of this policy.
- B. KIUC's Board is responsible for the annual determinations required of the Board by this Policy.

Adopted on this 22nd, 29th day of February, October, 2018, 2019.

/s/ Jan TenBruggencate, Vice Chair

~~For~~ Calvin Murashige,
Secretary

Revised: 10/29/2019
Reviewed: 02/22/2018
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