VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 14

TO: Valley Clean Energy Alliance Board of Directors

FROM: Lisa Limcaco, Finance and Operations Director, VCE (outgoing)
George Vaughn, Finance and Operations Director, VCE (incoming)
Mitch Sears, Interim General Manager, VCE

SUBJECT: Approval of River City Bank Renewal Terms for the Existing Revolving Line of Credit (RLOC) and Debt restructure

DATE: October 10, 2019

RECOMMENDATIONS:

1. Approve the conversion of the current $1,976,610 Revolving Line of Credit (RLOC) balance to an amortizing 5-year term loan.
2. Adopt a resolution:
   a. Approving the River City Bank renewal terms for the existing RLOC;
   b. Authorizing the VCE Interim General Manager, in consultation with VCE Legal Counsel, to negotiate the Credit Agreement with River City Bank based on the renewal terms. The final Credit Agreement will be submitted to the Board for final approval at the November 14, 2019 board meeting.

BACKGROUND:

At the December 14, 2017 Board meeting, the Board adopted a resolution to select River City Bank as the credit and banking services vendor for VCE and authorized the Interim General Manager to execute a letter of intent and enter into negotiations for final contracts with River City Bank for VCE credit facilities. On March 7, 2018, the Interim General Manager executed a term sheet for up to $11,000,000 in total credit facilities for VCE with River City Bank.

At the May 10, 2018 Board meeting, the Board approved the Credit Agreement with River City Bank and authorized the Board Chair to approve and execute the Credit Agreement. The availability of the RLOC expires 1 year from execution of agreement (May 15, 2018) with an option to extend the line for another 6 months for a total of 18 months. At the April 11, 2019 Board meeting, the Board approved the extension of the line of credit for another 6 months expiring November 15, 2019.

Since August 2018, VCE has not drawn on the RLOC and the outstanding balance of the RLOC is currently $1,976,610. VCE is in compliance with all its financial covenants stipulated in the Credit

Agreement. At the expiration (including extension) of the RLOC, any outstanding balance can be converted to an amortizing Term Loan which matures up to 5 years from conversion date.

At the September 12, 2019 Board Meeting, staff provided an update of the River City Bank credit agreement and debt restructure. The Board gave staff direction to repay the initial $500,000 loaned by each member to VCE plus interest.

Staff now seeks Board approval on its recommendation for debt restructure with the existing RLOC balance.

DISCUSSION:

Bank update

Based on VCE's current financial position and the Board approved FYE June 30, 2020 budget, River City Bank has agreed to the following:

1. Terminate the Subordination Agreements with the member jurisdictions on the initial $500,000 loaned by each member to VCE.

2. Renewal of the existing RLOC with the following major terms of the agreement (see attached term sheet for additional details):
    - Up to $11,000,000 available credit for energy purchases on the RLOC (reduced by any amounts that have been converted to a Term loan on the existing RLOC)
    - One-year term from execution of agreement
    - Ability to issue Letters of Credit. In the event of a Letter of Credit draw, bank will disburse the funds from the RLOC and Borrower must repay bank within 3 days
    - Monthly interest payments due on outstanding RLOC balance at a variable rate of interest equal to the One (1) Month LIBOR plus 1.75%, subject to a floor rate of 1.75%
    - Interest rate on the Term Loan option is fixed for the Term at the three (3) year US Treasury note yield plus 2.00%
    - Loan fee of 0.25% of the Loan Amount, payable upon loan closing

Current Financial Position & Budget (Amounts in 000's)

	Actual		Budget
	6/30/2019		6/30/2020
Revenues	$ 51,035		$ 55,708
Power Costs	38,540		41,575
Gross Margin	12,495		14,133
Other Expenses	3,849		4,844
Net Margin	$ 8,646		$ 9,289
Net Margin %	15.42%		15.35%
Cash:			
Unrestricted	$ 6,914		$ 13,519
Restricted	1,756		2,641
Total cash	$ 8,670		$ 16,160
Debt:			
Member Loans	$ 1,500		$ 1,500
RLOC	1,977		1,779
Total Debt	$ 3,477		$ 3,279
Net Position	$ 7,222		$ 16,450

When preparing the budget for FYE June 30, 2020, we assumed the conversion of the RLOC to a Term loan with a repayment over 5 years and the member loans being repaid after the repayment of the Term loan starting in 2024.

Analysis

Since River City Bank has terminated the subordination agreements with the member jurisdictions, staff analyzed two different debt repayment options that VCE may explore for the next year and the impacts on VCE's financial position for FYE 2019/2020 and FYE 2020/2021. The following is a summary of the two options:

	Option 1	Option 2
Repay Member Loans	Yes	Yes
Repay RLOC	Yes	No
Convert to Term Loan (5yr Repayment)	No	Yes
Dividend Rate FY 2020	2%	2%
Dividend Rate FY 2021	1%	1%

Assumptions:

- Convert RLOC to Term Loan at current outstanding balance of $1,976,610
- Dividends accrued and paid in accordance with VCE's dividend program approved in June 2019
- Smaller dividend in FYE 2021 due to projected increase in RA costs resulting in a lower Net Margin

The following is a summary of the financial impacts of the two options on VCE's financial position (amounts in 000's)

	6/30/2020		6/30/2020		6/30/2021		6/30/2021
	Option 1		**Option 2**		**Option 1**		**Option 2**
Revenues	$ 54,594		$ 54,594		$ 56,271		$ 56,271
Power Costs	41,392		41,392		47,246		47,246
Gross Margin	13,202		13,202		9,025		9,025
Other Expenses	4,783		4,821		4,648		4,703
Net Margin	$ 8,419		$ 8,381		$ 4,377		$ 4,322
Net Margin %	15.42%		15.35%		7.78%		7.68%
Cash:							
Unrestricted	$ 9,603		$ 11,344		$ 10,819		$ 12,110
Restricted	2,636		2,636		3,450		3,450
Total cash [1]	$ 12,239		$ 13,980		$ 14,269		$ 15,560
Debt:							
Member Loans	$ -		$ -		$ -		$ -
RLOC	-		1,779		-		1,384
Total Debt	$ -		$ 1,779		$ -		$ 1,384
Net Position	$ 15,667		$ 15,629		$ 20,044		$ 19,951

The only financial impact on VCE's net margin is the interest expense VCE would incur under option 2 due to conversion of the RLOC to a Term loan and repayment over 5 years. The Term loan interest rate

[1] VCE staff, in a separate Board staff report for this October 10, 2019 meeting, is recommending Board approval to change the Net Energy Metering (NEM) policy. If approved, the changes would result in an approximately $2.0 to $4.0 million one-year lag on cash collection of net revenues from NEM customers. This would in turn result in a one-year delay in achieving 90-day cash reserves. It will push the time to reach the Board's goal to achieve a 90 days cash reserve to:

- July 2022 for Option 1
- July 2021 for Option 2

based on the current 3-year Treasury rates would be locked in for the 5-year term at approximately 3.50%. The total estimated interest payments over the 5-year term would be approximately $173,000.

The largest impact on VCE's financial position between the two options is on the unrestricted cash. The $1,976,610 repayment of the RLOC by November 2019 reduces VCE's unrestricted cash and delays VCE's ability to obtain a 90-day cash reserve. Under option 1, VCE is projected to obtain 90-day cash reserves around July 2022 compared to option 2 VCE is projected to obtain 90-day cash reserves around July 2021.

The following is a summary of the financial impacts of both options:

Option 1:

- Debt free as of November 2019
- $11 M RLOC available for power purchases
- Provide a 2% dividend to customers in 2020 and 1% in 2021
- Obtain 90-day cash reserves by July 2022 (see Footnote 1)
- Unrestricted cash at 6/30/2021 - $8,819 M (reduced by $2M from table due to Footnote 1)
- Net Position at 6/30/2021 - $20,044 M

Option 2:

- $1,976,610 - 5 Year Term Loan with an ~ 3.5% fixed interest rate
- $11 M RLOC – of which ~$9.1 M (reduced by outstanding Term loan balance) available for power purchases
- Provide a 2% dividend to customers in 2020 and 1% in 2021
- Obtain 90-day cash reserves by July 2021 (see Footnote 1)
- Unrestricted cash at 6/30/2021 - $10,110 M (reduced by $2M from table due to Footnote 1)
- Net Position at 6/30/2021 - $19,951 M

Based on the above summary, staff recommends that VCE select option 2 for its debt restructure of its existing RLOC balance. The benefits of this recommendation center around increased financial flexibility to navigate a variety of uncertainties and upcoming goals, including:

- Negotiate Long-term Renewable Power purchase agreements which may require specific debt/cash covenants
- Achieve 90-days cash reserves more quickly than if the RLOC is fully paid off now
- Increased ability to pay customer dividends earlier
- Enhanced ability to manage cash flow and cost of NEM annual billings in year one as described in the revised NEM policy (if adopted)
- Maintain greater financial flexibility to address potential impacts associated with ongoing uncertainty of PG&E's Power Charge Indifference Adjustment (PCIA) and electric generation rates
- Improve VCE's ability to obtain credit rating targets sooner due to higher cash reserves

Staff believes the termination of the RCB's subordination agreements with the member jurisdictions, conversion of the RLOC balance to a 5-year term loan, and renewal of the RLOC provides VCE the optimum flexibility and minimization of risk.

CONCLUSION:

Based on the River City Bank update and debt structure analysis, staff recommends the following:

1. Convert the existing $1,976,610 RLOC balance to a 5-year term loan
2. Adopt a resolution that approves the River City Bank renewal terms for the existing RLOC and authorizes the VCE Interim General Manager, in consultation with VCE Legal Counsel, to negotiate the Credit Agreement with River City Bank based on the renewal terms. The final Credit Agreement will be submitted to the Board for final approval at the November 14, 2019 Board meeting.

Attachment:

1. River City Bank's Term Sheet for renewal of the existing RLOC

10/3/2019

Valley Clean Energy Alliance
Attn: Mitch Sears, Interim General Manager
23 Russell Boulevard
Davis, CA 95616

Re: Renewal Terms for the Existing Revolving Line of Credit for Valley Clean Energy Alliance.

Dear Mitch,

River City Bank ("Bank") is pleased to provide this term sheet for a revolving line of credit ("RLOC"), as outlined below.

Borrower:	Valley Clean Energy Alliance
Loan Type:	Commercial Revolving Line of Credit ("RLOC"), with option to convert outstanding advances to an amortizing Term Loan at Expiration.
Purpose:	To provide working capital and credit enhancements required for energy purchases in the form of Letters of Credit.
Loan Amount:	$11,000,000 (Note: in the event VCE elects to term out the current ~$2,000,000 balance owed under the existing line of credit, the subject RLOC Loan Amount will be reduced by a like amount).
Collateral:	Perfected security interest in 1st lien position in each of the following: • Debt Service Reserve Account in which Borrower will be required to maintain an amount of $1,100,000, which represents 10% of the Loan Amount. • A security agreement that covers right of set off to all of Borrower's deposit accounts (not otherwise encumbered by liens). No junior liens will be permitted on any Collateral.
Expiration/Maturity:	One year Expiration. Any outstanding balance on the RLOC at Expiration can be converted to an amortizing term loan which matures in up to 5 years from the conversion date. As such, the Maturity Date will be up to six years from the date of RLOC origination. Letters of Credit issued under the RLOC will have a maximum term of one year from the date of issuance, with annual auto renewal options available. Borrower will provide cash collateral equal to 110% of any outstanding Letters of Credit in the event that any are outstanding at the time of RLOC Expiration.

Interest Rate:

Floating at the one (1) Month LIBOR plus 1.75%, subject to a floor rate of 1.75%. Bank calculates interest on an actual/360 day basis.

For the Term Loan option, fixed for the Term at the three (3) year US Treasury note yield plus 2.00%, based on the US Treasury note yield existing as of the close of normal market trading hours per www.treasury.gov on the date that the outstanding balance converts to a Term Loan. Bank calculates interest on an actual/360 day basis.

Repayment:

RLOC: Interest only payments due monthly, with all outstanding principal and interest due at maturity.

Term Loan: Up to 60 equal monthly principal and interest payments, on a fully amortizing basis.

Letters of Credit: In the event of a Letter of Credit draw by a beneficiary, Bank will disperse funds from the RLOC, and Borrower must repay Bank in full within 3 days.

Letter of Credit Fees:

Issuance Fee	2.00% p.a., minimum $400
Documentation Fee (at issuance)	$250 flat
Amendment Fee to increase or extend	2.00% p.a., min. $400

**Note, Letter of Credit fees are subject to change in accordance with market rates.*

Loan Fee:

0.25% of the Loan Amount, payable upon loan closing.

Non-Utilization Fee:

0.15% of the average annual unused amount of the RLOC commitment, payable upon loan maturity.

Documentation Fee & Legal costs:

$500, payable upon loan closing, plus actual legal costs charged by Bank's outside legal counsel (estimated at ~$2,500 based on limited negotiations and changes from existing loan documents).

Bank reserves the right to increase the Documentation Fee if Borrower requires extensive negotiation of standard loan documents.

Costs & Expenses:

Borrower to pay all out-of-pocket costs and expenses, such as third-party search and order fees and any applicable legal fees (collectively, the "Costs & Expenses").

Needs List:

In addition to the conditions set forth in this letter, additional conditions precedent to closing will be those which are usual and customary for transactions of this nature, including but not limited to Bank's receipt, review and satisfaction with all documents, reports, leases, financial statements, guarantor information, and other information reasonably requested by Bank. Subsequent to Bank's receipt of this signed term sheet and Deposit, Bank will prepare a needs list summarizing such items.

<u>**Additional Requirements**</u>

- **Financial Covenants.**
    - **Positive Change in Net Position**. Borrower to achieve a positive change in net position greater than or equal to $1.00, measured quarterly.

    - **Debt Service Coverage Ratio (For Term out Option Only).** Borrower to maintain a minimum Debt Service Coverage Ratio ("DSCR") not at any time less than 1.25x, measured annually at fiscal year-end.

      DSCR is calculated as EBIDA at fiscal year-end divided by Debt Service for the calculated period. "EBIDA" is hereby defined as net position plus depreciation, amortization, and interest expense, for the calculated period. Debt Service is defined as interest expense during the calculated period plus scheduled principal payments during the calculated period.

    - **Unrestricted Tangible Net Position.** Borrower to maintain a minimum effective tangible net position of at least $13,000,000, measured annually at fiscal year-end (beginning with the fiscal year ending 6/30/20).

      Unrestricted Tangible Net Position is defined as total assets less temporary and permanently restricted assets, less intangible assets, less total liabilities.

    - **Total Liabilities to Tangible Unrestricted Net Position.** Borrower to maintain a maximum Total Liabilities divided by Tangible Unrestricted Net Position not at any time greater than 2.00X, measured Quarterly.

- **Deposit Relationship**. Borrower must maintain all of its deposit accounts exclusively with Bank, with automatic monthly loan payments deducted from the account. Failure to adhere to this requirement will result in a 2.00% increase to the Interest Rate so long as this covenant is not satisfied.

- **No Additional Indebtedness**. Aside from obligations arising in the ordinary course of business which are not delinquent, Borrower shall not incur additional indebtedness in excess of $500,000 (provided that such debt be subordinated to Bank) without the prior written consent of Bank.

- **Ongoing Reporting**. During the Term, Borrower will be required to provide:
    - Within 180 days after the close of each annual accounting period, audited financial statements inclusive of a balance sheet, year-to-date income statement, and cash flows for the period then ended, prepared in accordance with GAAP and in a form acceptable to Bank.
    - Within 45 days after the close of each month end, unaudited financial statements inclusive of a balance sheet and year-to-date income statement of Borrower for the period then ended, prepared in accordance with GAAP and in a form acceptable to Bank.

Bank reserves the right to terminate this proposal at any time and this proposal may not be transferred or assigned without prior written consent of Bank.

Please be advised that this letter does not constitute a binding commitment or impose any obligation on Bank, but only reflects proposed terms of a transaction which may become acceptable to the parties. Notwithstanding any other language of agreement that may appear elsewhere in this nonbinding letter of intent, it is expressly understood and agreed that this letter does not and shall not constitute a binding agreement between the parties in any manner, except with respect to: Costs & Expenses. The undertakings and obligations of Bank with respect to the loan will be subject to, among other things: (i) credit analysis and approval in accordance with Bank's underwriting standards; (ii) the preparation, execution and delivery of mutually acceptable loan documentation containing such terms and conditions as are customary for similar credit facilities; (iii) the accuracy of all representations made and information furnished by Borrower to Bank, and (iv) the absence of any information or other matter being disclosed after the date hereof that is inconsistent in a material and adverse manner with any information or other material disclosed to Bank.

Thank you for considering River City Bank for your financing needs. If you would like us to move forward on the basis proposed, please sign and date the term sheet below:

Stephen A. Fleming

Sincerely,
Stephen Fleming
President & CEO

Rosa Cucicea
VP & Clean Energy Division Manager

ACKNOWLEDGED AND ACCEPTED BY

Borrower hereby acknowledges and agrees to the presented loan structure, including to any proposed joint borrowing and/or guaranteeing structure.

Valley Clean Energy Alliance

x____________________________ ____________
By: Mitch Sears Date
Its: Interim General Manager

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2019- _______

A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE (VCEA) APPROVING RIVER CITY BANK RENEWAL TERMS FOR THE EXISTING REVOLVING LINE OF CREDIT AND AUTHORIZING THE VCEA INTERIM GENERAL MANAGER, IN CONSULTATION WITH VCEA LEGAL COUNSEL, TO NEGOTIATE THE CREDIT AGREEMENT WITH RIVER CITY BANK BASED ON THE RENEWAL TERMS SET FORTH HEREIN

WHEREAS, Valley Clean Energy Alliance ("VCEA"), is a public agency formed in January 2017 under the provisions of the Joint Exercise of Powers Act of the State of California, Government Code Section 6500 et. seq., between the County of Yolo and the City of Davis to provide Community Choice Energy (CCE) programs within the member agencies, and in June 2017, the City of Woodland also joined VCEA adding to the overall VCEA service territory;

WHEREAS, VCEA initially received loans from each member agency of $500,000, together with co-operative agreements for member agencies to provide contracted staff and supplies during the implementation period, which will continue to June 2018 when VCEA will begin providing CCE programs; and

WHEREAS, VCEA solicited competitive bids for banking and credit services and selected River City Bank to lend VCEA up to $11 million as a revolving line of credit to fund power purchases as part of administrating CCE programs, which has a term of 12-months at variable rates with an option to extend another 6 months and is convertible to a five-year term loan with a fixed interest rate; and

WHEREAS, on May 10, 2018, the VCEA Board approved the Credit Agreement between VCEA, as borrower, and the River City Bank, as lender; and

WHEREAS, the $11 million revolving line of credit expires on May 15, 2019 and VCEA has an option to extend the line of credit for another 6 months, extending the term to November 15, 2019; and

WHEREAS, VCE extended the revolving line of credit for another 6 months, extending the term to November 15, 2019; and

WHEREAS, VCEA outstanding balance on the revolving line of credit on October 11, 2019 is $1,976,610; and

NOW, THEREFORE, the Board of Directors of the Valley Clean Energy Alliance resolves as follows:

1. Approval of the River City Bank renewal terms for the existing revolving line of credit consistent with October 3, 2019 Term sheet (Exhibit A).

2. The VCEA Interim General Manager, in consultation with VCEA Legal Counsel, is hereby authorized to negotiate the Credit Agreement with River City Bank based on the renewal terms for the existing revolving line of credit consistent with the October 3, 2019 Term sheet (Exhibit A). The final Credit Agreement will be submitted to the Board for final approval.

ADOPTED, this ____________ day of ______________ 2019, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

____
Tom Stallard, VCEA Chair

____
Alisa M. Lembke, VCEA Board Secretary

EXHIBIT A - River City Bank Term Sheet – October 3, 2019