

**VALLEY CLEAN ENERGY ALLIANCE****Staff Report – Item 16**

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To: Board of Directors

From: Mitch Sears, Interim General Manager  
Edward Burnham, Director of Finance & Internal Operations

Subject: Line of Credit Agreement with the River City Bank

Date: March 10, 2022

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**RECOMMENDATIONS**

1. Adopt a resolution approving terms for an Amended and Restated Credit Agreement with River City Bank, including a revolving line of credit not to exceed \$11,000,000 and term loan for approximately \$1.1M.
2. Authorize the Interim General Manager to conduct any final negotiations and implement the approval, sign all necessary documents, and ratify past actions related to the two-year Amended and Restated Credit Agreement with River City Bank.

**BACKGROUND AND ANALYSIS**

At its December 14, 2017 meeting, the Board adopted a resolution to select River City Bank (RCB), 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 RCB 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 RCB.

At the May 10, 2018 Board meeting, the Board approved the Credit Agreement with RCB and authorized the Board Chair to approve and execute the Credit Agreement. The availability of the RLOC was set to expire 1 year from the execution of the agreement (May 15, 2019) and received a series of extensions.

At its September 10, 2020 meeting, the Board adopted Resolution 2020-026 that approved the Amended and Restated Credit Agreement (RLOC Agreement) and draft Modification of Term Note from RCB. The Resolution authorized the Interim General Manager to conduct any final negotiations and sign all necessary related documents resulting in the execution of RLOC Agreement.

On July 8, 2021, the Board approved a short-term extension of the Amended and Restated Credit Agreement (RLOC Agreement) and Term Note from RCB. The short-term extension ran through December 31, 2021. Due to the cancellation of the VCE December Board meeting, the Interim General Manager executed amendments

to extend the RLOC agreement through February 28, 2022, to allow for time to adopt VCE's 2022 customer rates and 2022 budget incorporating the final PG&E 2022 PCIA and rates. These extensions were ratified by the Board on January 27, 2022 (agenda Item 16).

As discussed at previous Board meetings, a combination of pandemic impacts, rising PCIA, and volatile short-term power market prices have required VCE to implement cost mitigation measures and draw on reserves over the past 18 months to stabilize customer rates. As outlined on February 10, 2022, Board item 15 (2022 rate setting) and Item 16 (2022 budget adoption), favorable movement in projected PCIA rates and PG&E generation rates for 2022 have improved VCE's financial outlook for 2022. However, due to a CPUC delay in approving PG&E's 2022 rates and PCIA until March 1, supplemental financial assistance is needed to address short-term cash requirements.

VCE staff have been in discussions with its financial, member, and business operations partners over the past several months to address these short-term cash requirements. Specifically, staff has worked with these partners to achieve the goal of an average of 30-days cash over the first half of 2022. As noted in the 2022 budget adoption on February 10, 2022, financial projections using the most up-to-date information on 2022 PCIA and PG&E rates shows VCE in a healthy financial position by the end of 2022 (forecasted net position of \$17M by the end of 2022).

#### Current Revolving Line of Credit with RCB

The current RLOC Agreement has a limit of \$5,000,000 available for cash advances and/or letters of credit and an additional \$2,000,000 credit facility available for Letters of Credit, for a total RLOC of \$7,000,000. Since August 2018, VCE has not drawn cash on the RLOC and currently has a \$147,000 letter of credit outstanding for the PG&E Financial Security Requirement required by CPUC regulations for all CCAs. As a condition of receiving the current RLOC renewal described above, the Term Loan Note was modified to mature on September 1, 2021 (Attachment 2 - Modification of Term Note) - this was earlier than the original 5-year term. Note: A final payment of approximately \$1.1 million was due on March 1, 2022 to pay off the Term Loan but was subsequently extended by RCB to mid-April to allow for the time needed to consider the current amended and restated financial agreement.

#### Proposed Revolving Line of Credit with RCB

Since late Fall 2021 Staff has been in discussions with RCB regarding the proposed \$11M line of credit with RCB. With access to a \$2.5M VCE/SMUD restricted power purchase reserve account and the \$5M line of credit recently finalized with the County of Yolo, VCE will meet its short-term and long-term cash reserve goals for 2022. Note: high revenue months in the second half of 2022 allow VCE to pay off the County line of credit and build back reserves of ~\$17M. The principal terms of the proposed line with RCB are listed below and included in the attached term sheet (Attachment 2).

The proposed amended and restated agreement includes the following modifications to the current financial agreement:

- Cash Facility - \$2M increase in cash from \$5M to \$7M
- Letter of Credit Facility - \$4M increase from \$7M to \$11M
- Renewal Period – 2-year agreement increased from short-term and annual extension

The increases are consistent with the original agreement before they were amended during the COVID-19 pandemic.

#### River City Bank Terms – Revolving Line of Credit

The following key terms are summarized from the attached term sheet from RCB. Except as noted below, the key terms are carried over from the existing financial agreements with RCB.

- Type of Financing: Commercial Revolving Line of Credit
- Maximum Amount: 11,000,000, with a \$7,000,000 limit for cash advances
- Maturity: March 1, 2024
- Interest Rate: Variable rate, Floating at the one (1) month U.S. Treasury Bill Yield + 2.00%, subject to a 2.00% floor (unchanged)
- Fees:
  - 0.50% of the total RLOC commitment, payable upon loan closing
  - 5,000, payable upon loan closing, provided that Borrower approves the use of Bank's standard form documents
  - 0.10% of the average unused RLOC amount per annum, payable annually upon each anniversary of the RLOC

#### River City Bank Terms – Term Loan

- Type of Financing: Term Loan
- Amount: \$ 1,120,079.13 (*outstanding principal as of 2/3/2022*)
- Maturity: Two (2) years 3/1/2024
- Interest Rate: Fixed 3.57%

#### Collateral/Pledged Assets

- Perfected security interest in 1st lien position via a UCC filing and security agreement in each of the following:
  - Debt Service Reserve Account (“DSRA”) maintained at \$1,100,000.
  - A security agreement that covers (i) the right of set-off to all of Borrower’s deposit accounts not otherwise encumbered by outside liens, and (ii) a pledge on Borrower revenues not otherwise encumbered by outside liens. Accounts encumbered by outside liens include the SMUD lockbox/revenue account #x3324 and the SMUD reserve account #x5192.
  - A UCC-1 perfected blanket lien filing covering all Accounts, Revenues, Resource Adequacy Contracts, and the Debt Service Reserve Account.
- No junior liens will be permitted on any Collateral

#### **CONCLUSION**

Staff believes that the cash requirements and the reduced but continued uncertainty related to the PCIA fee, resource adequacy costs, and PG&E bundled rates for 2023 justify the renewal and increased line of credit with River City Bank. This agreement allows VCE to build reserves by December 31, 2022, of approximately 80 to 90 days cash. Additionally, credit support from both the County and River City Bank will allow VCE to optimize borrowing costs and provide additional assurance of rate stabilization.

Staff recommends that the Board adopt the attached resolution approving the Amended and Restated Credit Agreement with RCB and authorizing the Interim General Manager to conduct

any final negotiations and sign all necessary documents on behalf of VCE to execute agreements for the revolving line of credit not to exceed \$11,000,000 and term loan (existing) with the River City Bank. The resolution also approves the use of Nixon Peabody as special counsel and ratifies past actions of staff related to the Credit Agreement. The proposed terms are described in the attached term sheet.

**Attachments**

1. River City Bank Term Sheet
2. Resolution authorizing the Interim General Manager to execute Credit Agreement with the River City Bank



February 3, 2022

Valley Clean Energy Alliance  
Attn: Mitch Sears, Interim General Manager  
604 2nd Street  
Davis, CA 95616

**Re: (i) Renewal & Increase in the Amount of the Existing Revolving Line of Credit for Working Capital and Liquidity Needs, and  
(ii) Extension of the Repayment Schedule and Maturity Date of the Existing Term Loan Facility**

Dear Valley Clean Energy Alliance team:

River City Bank (“Bank”) is pleased to provide this term sheet for the (i) Revolving Line of Credit renewal and increase, and (ii) Term Loan maturity date extension, as outlined below.

**Borrower:** Valley Clean Energy Alliance (“VCE”)

**Loan Type:** (1) Commercial Revolving Line of Credit (“RLOC”)  
(2) Term Loan

**Purpose:** To provide working capital to meet liquidity needs, and credit enhancements in the form of Standby Letters of Credit (“SBLC”).

**Loan Amount:** RLOC: \$11,000,000, with a \$7,000,000 sublimit for cash advances.  
Term Loan: \$1,120,079.13 (*outstanding principal as of 2/3/2022*)

**Instruments:** Cash advances up to a limit of \$7,000,000.  
SBLCs may be issued up to the \$11,000,000 RLOC Loan Amount.

**Collateral:** Perfected security interest in 1<sup>st</sup> lien position via a UCC filing and security agreement in each of the following:

- Debt Service Reserve Account (“DSRA”) maintained at \$1,100,000.
- A security agreement that covers (i) the right of set off to all of Borrower’s deposit accounts not otherwise encumbered by outside liens, and (ii) a pledge on Borrower revenues not otherwise encumbered by outside liens. Accounts encumbered by outside liens include the SMUD lockbox/revenue account #x3324 and the SMUD reserve account #x5192.
- A UCC-1 perfected blanket lien filing covering all Accounts, Revenues, Resource Adequacy Contracts, and the Debt Service Reserve Account.

No junior liens will be permitted on any Collateral.

- Term:** RLOC: Two (2) years from current 3/1/2022 expiration (*est. 3/1/2024*)
- Term Loan: Two (2) years from current 3/1/2022 maturity (*est. 3/1/2024*)
- Letters of Credit: 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. If the RLOC is terminated prior to the expiration date or upon RLOC expiration, Borrower will provide cash collateral equal to 110% of the face amount for any and all outstanding SBLCs.
- Interest Rate:** RLOC and outstanding SBLCs: Floating at the one (1) month U.S. Treasury Bill Yield + 2.00%, subject to a 2.00% floor (*unchanged*).
- As of close of business on 2/3/2022, the 1-month U.S. Treasury Bill Yield was 0.03%, indicating an all-in 2.03% rate.
- Term Loan: Fixed at 3.57% for the loan term (*unchanged*).
- Bank calculates interest on an actual/360 day basis.
- Repayment:** RLOC: Interest-only payments due monthly, with all outstanding principal and interest due on RLOC expiration.
- 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 the Bank in full within 3 days.
- Term Loan: 24 equal monthly principal and interest payments, fully amortized over the Term Loan term. Any remaining principal and interest will be due on maturity.
- Prepayment Premium:** No prepayment premium for the RLOC, SBLCs, or Term Loan.
- Loan Fee:** 0.50% of the total RLOC commitment, payable upon loan closing.
- Documentation Fee:** \$5,000, payable upon loan closing, provided that Borrower approves the use of Bank's standard form documents.
- Bank reserves the right to increase the Documentation Fee or engage outside legal counsel, at Borrower's sole cost and expense, if Borrower requires extensive negotiation of Bank's standard loan documents, or if Bank reasonably determines that the use of custom loan documents and/or outside legal counsel is appropriate in view of the nature and complexity of the legal and documentation issues involved.
- Non-Utilization Fee:** 0.10% of the average unused RLOC amount per annum, payable annually upon each anniversary of the RLOC.

**Letter of Credit Fees:** Borrower shall pay to Lender fees upon the issuance, amendment, or any other activity with respect to any Letter of Credit (including the transfer or cancellation of any Letter of Credit), including an issuance fee based on the face amount thereof over the applicable expiration period, a documentation fee, and any reasonable and customary out-of-pocket costs and expenses incurred by Lender in connection with such activity. Borrower acknowledges and agrees that the fees will be determined by Lender at the time of issuance or other activity with respect to each Letter of Credit based on the then-current fee schedule of Lender and its correspondent banks, which are subject to change from time to time.

**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, Bank will prepare a needs list summarizing such items.

**Additional Requirements**

- **Financial Covenants.** Financial covenants and corresponding covenant limits will be mutually agreed upon by Borrower and Lender during underwriting, upon Lender's receipt of Borrower's finalized income, balance sheet, and cash flow projections for the coming fiscal years.

Existing financial covenants include a minimum Change in Net Position, minimum Adjusted Tangible Unrestricted Net Position, and maximum total Liabilities / Tangible Unrestricted Net Position.

- **Rate Covenant (NEW).** Borrower shall collect rates and charges from rate payers for energy distribution sufficient to cover all power supply costs, operating expenses, and debt service each fiscal year.
- **Legal Opinion (EXISTING – Section 9.1(c)(iv)).** Borrower's counsel shall provide a legal opinion on the enforceability of the credit agreement and formation of Borrower in form and substance acceptable to Bank.
- **Debt Service Reserve Account (EXISTING – Section 7.1 and 10.3).** Borrower shall ensure that the DSRA remains pledged and assigned to Lender as collateral, with a balance of not less than \$1,100,000 at all times.
- **Deposit Account (EXISTING – Section 10.4).** 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.

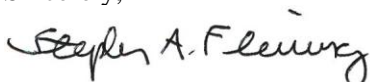
- **Yolo County Debt Subordination.** The \$5,000,000 line of credit provided by Yolo County to Valley Clean Energy must be subordinated (in form and substance satisfactory to Lender) to Lender's RLOC and Term Loan at all times.
- **No Additional Indebtedness** (*EXISTING – Section 10.19*). Besides the Credit, the aforementioned Yolo County indebtedness, and obligations arising in the ordinary course of business which are not delinquent, Borrower shall not incur additional indebtedness in excess of \$500,000.00 without the prior written consent of Bank.
- **30 Day Out of Debt** (*NEW*). Borrower to maintain a zero balance on the RLOC for a period of at least thirty (30) consecutive days during each 12 month period of the Term.
- **Insurance Coverage** (*EXISTING*). Borrower will be required to maintain the following insurance, naming River City Bank as additional insured:
  - Business property insurance for all inventory and equipment, in the minimum amount of the replacement value
  - General liability insurance, in the minimum amount of \$1,000,000
- **Ongoing Reporting.** During the Term, Borrower will be required to provide:
  - Borrower CPA Audited financial statements, inclusive of a balance sheet, year-to-date income statement, aged list of accounts receivables and accounts payable, annually.
  - Borrower company-prepared financial statements, inclusive of a balance sheet, year-to-date income statement, aged list of accounts receivables and accounts payable, monthly.
  - (*NEW*) - Borrower pro forma financial model for the coming fiscal year, inclusive of a balance sheet and income statement, and cash flow, due annually upon Lender's request.

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 below, and submit this signed term sheet to Bank.

Sincerely,



Stephen Fleming  
President & CEO



Rosa Cucicea  
SVP & Clean Energy Division Manager



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**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  
Its: Interim General Manager

\_\_\_\_\_  
Date



**VALLEY CLEAN ENERGY ALLIANCE**

**RESOLUTION NO. 2022-\_\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE VALLEY CLEAN ENERGY ALLIANCE  
AUTHORIZING THE EXTENSION AND EXPANSION OF ITS REVOLVING LINE OF CREDIT AND A  
NEW TERM LOAN WITH RIVER CITY BANK**

**WHEREAS**, Valley Clean Energy Alliance (“VCE”) was formed as a community choice aggregation agency (“CCA”) on November 16, 2016, under the Joint Exercise of Power Act, California Government Code sections 6500 et seq., among the County of Yolo, and the Cities of Davis and Woodland, to reduce greenhouse gas emissions, provide electricity, carry out programs to reduce energy consumption, develop local jobs in renewable energy, and promote energy security and rate stability in all of the member jurisdictions;

**WHEREAS**, the City of Winters, located in Yolo County, was added as a member of VCE and a party to the VCE in December of 2019;

**WHEREAS**, pursuant to a Resolution adopted on May 10, 2018, the Board of Directors of VCE (the “Board”) approved the execution of a credit agreement and related documents thereto (collectively and as previously amended and extended, the “Credit Facility”) with River City Bank (“RCB”), pursuant to which RCB agreed to provide credit working capital to meet VCE’s liquidity needs and RCB also agreed to provide certain credit enhancements;

**WHEREAS**, the Credit Facility currently has a limit of \$5,000,000 available for cash advances and/or letters of credit and an additional \$2,000,000 credit facility available for Letters of Credit, for a total maximum amount of \$7,000,000;

**WHEREAS**, RCB is willing to further amend the Credit Facility to lend up to \$11,000,000, with a \$7,000,000 limit for cash advances, pursuant to an amendment (the “Amendment”) and related documents thereto to be prepared by RCB and to extend a term loan to VCE in an amount up to approximately \$1,200,000 (the “Term Loan”), the terms of each of which are set forth in the proposed terms provided by RCB on file with the Board (collectively, the “Amendment Terms”);

**WHEREAS**, the good faith estimates required to be obtained and disclosed with respect to the Amendment Terms in accordance with Government Code Section 5852.1 are set forth in the report accompanying this Resolution; and

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

**Section 1.** The foregoing recitals are true and correct.

**Section 2.** The Board of Directors (the “Board”) of the Valley Clean Energy Alliance (“VCE”) hereby approves the Interim General Manager and his designees as authorized representatives of VCE (each an “Authorized Representative” and collectively, the “Authorized Representatives”) in connection with the negotiation and execution of the Amendment to increase the amount of the commitment available under the Credit Facility as amended by the Amendment (the “Amended Revolving Credit Facility”), including such related amendments deemed necessary or advisable by the Authorized Representative executing the Amendment, and to execute documentation related to the proposed Term Loan (the “Term Loan Documents”), and any ancillary documents relating thereto.

**Section 3.** The Board hereby approves each Authorized Representative, acting singly, to execute and deliver the Amendment, the Term Loan Documents and any related ancillary documents necessary to implement the Amendment Terms and in such form and substance as may be approved by such Authorized Representative, in consultation with Special Counsel (as defined below) and General Counsel to VCE, as in the best interests of VCE, the execution thereof to be conclusive evidence of such approval.

**Section 4.** The Board hereby approves each Authorized Representative, acting singly, to borrow and authorize advances or the issuance of letters of credit from time to time under the Amended Revolving Credit Facility in such amounts as in their judgment should be borrowed and to provide security for the obligations of VCE under the Amended Revolving Credit Facility and the Term Loan Documents, including, without limitation, a pledge of the net revenues of VCE, and to execute and deliver any requests or other documents and agreements as such Authorized Representative may, in his or her discretion, deem reasonably necessary or proper in order to carry into effect the provisions of the Amended Revolving Credit Facility and the Term Loan Documents.

**Section 5.** The Board hereby affirms and ratifies the appointment of Nixon Peabody LLP to act as “Special Counsel” to VCE in connection with the negotiation and execution of the Amended Revolving Credit Facility, the Term Loan Documents and the ancillary documents.

**Section 6.** The Authorized Representatives, the Board Secretary, and the Board Chair and all other appropriate officials of the VCE are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution.

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**Section 7.** The Board hereby approves and ratifies all acts, transactions or agreements undertaken, prior to the adoption of these resolutions by any of the officers of VCE, or their designees, in its name and for its account in connection with the foregoing matters, are hereby ratified, confirmed and adopted by VCE.

**Section 8.** This Resolution shall take effect immediately upon its adoption.

**PASSED, APPROVED AND ADOPTED,** at a regular meeting of the Valley Clean Energy Alliance, held on the \_\_\_ day of \_\_\_\_\_ 2022, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Jesse Loren, VCE Chair

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Alisa M. Lembke, VCE Board Secretary

Attachment:

1. RCB Term Sheet