

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 17

TO: Valley Clean Energy Alliance Board of Directors

FROM: Lisa Limcaco, Finance and Operations Director, VCEA
Mitch Sears, Interim General Manager, VCEA

SUBJECT: Update of River City Bank Credit Agreement and Debt restructure analysis

DATE: September 12, 2019

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 authorize the Board Chair to approve and execute the Credit Agreement. The availability of the Revolving Line of Credit (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.

DISCUSSION:

Bank update

Staff has been in discussions with River City Bank regarding renewal of the Revolving Line of Credit at November 15, 2019. Based on VCE's current financial position and the Board approved FYE June 30, 2020 budget, River City Bank has agreed to terminate the Subordination Agreements with the member jurisdictions on the initial \$500,000 loaned by each member to VCE. In addition, River City Bank is currently working on credit approval for the renewal of the \$11 million RLOC which will be brought to the Board at the October 11, 2019 Board meeting.

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

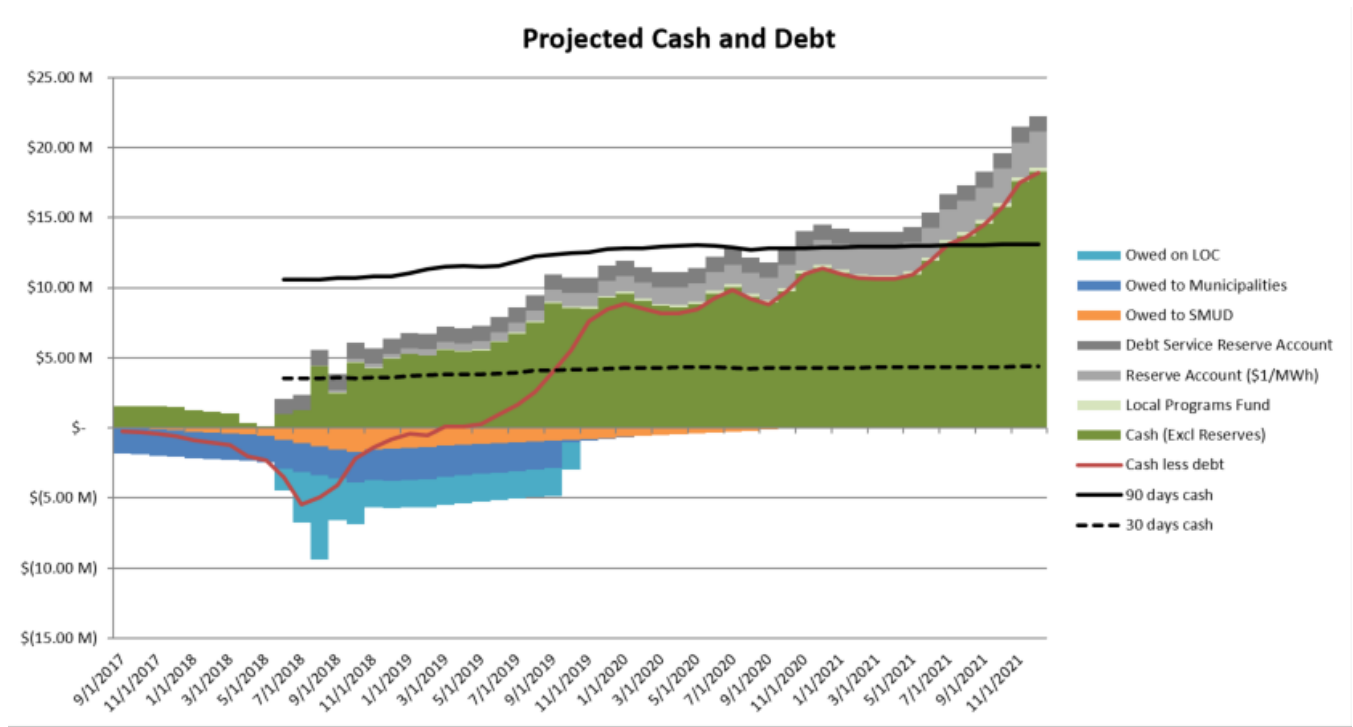
The following is a summary of the financial impacts of the two options on VCE's financial position (amounts in 000's):

	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	\$ 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

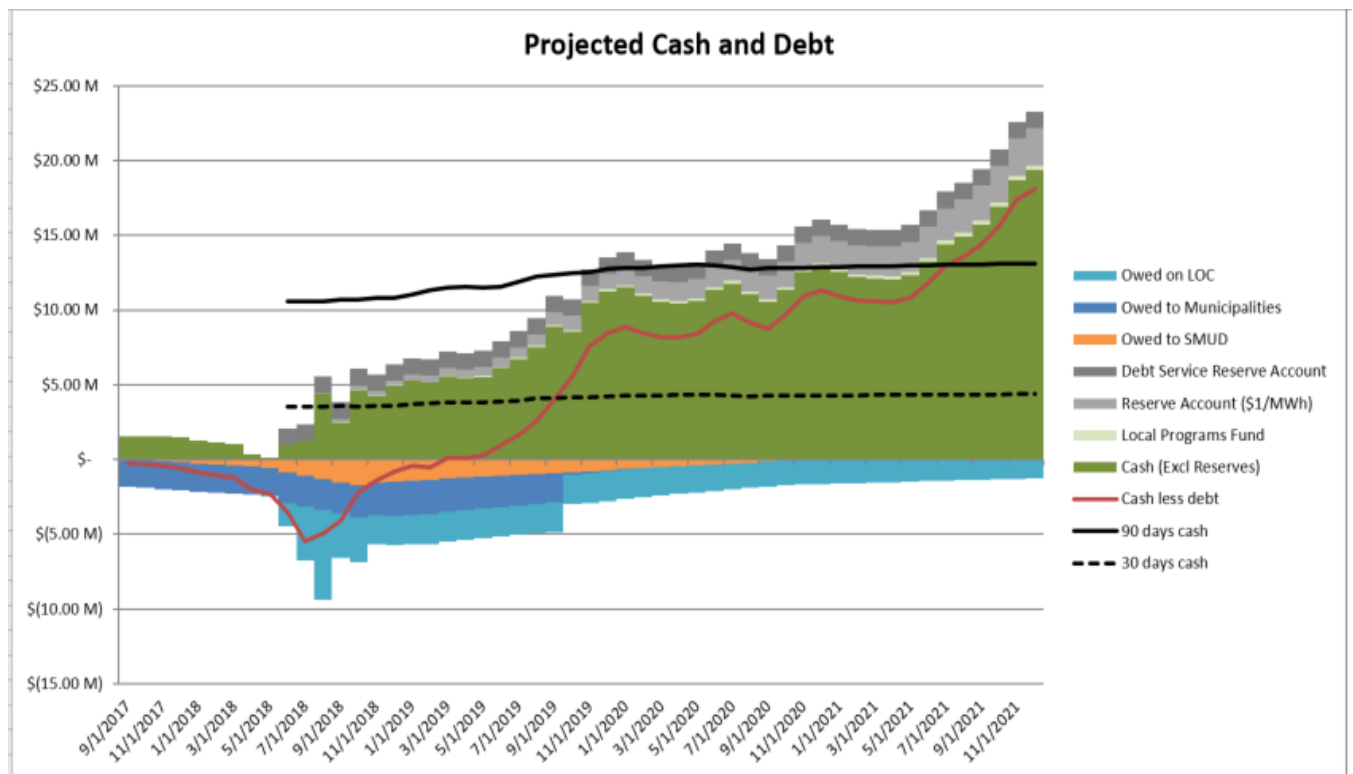
The only financial impact on VCE's net margin is the interest expense VCE would incur under option 2 due to conversion of the RLOC to a Term loan and repayment over 5 years. The Term loan interest rate based on the current 3-year Treasury rates would be locked in for the 5-year term at approximately 3.50%.

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 cash reserve (90 day cash reserve target approved by VCE Board in 2017). As noted in the graphs below, under option 1 VCE is projected to obtain 90 cash reserves around July 2021 compared to option 2 VCE is projected to obtain 90 cash reserves around July 2020.

VCE's Projected Cash and Debt based on Option 1:



VCE's Projected Cash and Debt based on Option 2:



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 2021
- Unrestricted cash at 6/30/2021 - \$10,819
- Net Position at 6/30/2021 - \$20,044

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 2020
- Unrestricted cash at 6/30/2021 - \$12,110
- Net Position at 6/30/2021 - \$19,951

Conclusion

No action requested of the Board at this time. Staff believes the termination of the RCB's subordination agreements with the member jurisdictions and renewal of the RLOC provides VCE the flexibility to determine its repayment of debt in the current fiscal year. Based on Board feedback and direction, staff will return with a final recommendation on repayment of VCE's current debt structure.