

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 7

TO: Valley Clean Energy Alliance Board of Directors

FROM: Taro Echiburu, Community Services Director, Yolo County
Regina Espinoza, Sustainability Manager, Yolo County
Mitch Sears, Sustainability Manager, City of Davis
Shawn Marshall, LEAN Energy US

SUBJECT: VCEA Implementation Budget, Fiscal Management and Agency Financing

DATE: January 17, 2017

RECOMMENDATIONS:

1. Approve budget allocations of the City of Davis and Yolo County financial contributions for VCEA program implementation (Attachment A: Implementation Budget);
2. Direct County finance staff to establish a 'VCEA Fund' within the County Treasury, and develop a VCEA chart of accounts within County INFOR system to track external/hard costs (as per implementation budget) and internal/staff and soft costs incurred by County and City staff working on behalf of VCEA;
3. Authorize interim program staff, Mitch Sears from the City of Davis and Taro Echiburu from Yolo County, as authorized officials to approve payments and costs of the VCEA as per Board approved contracts and budget; and
4. Direct staff to develop and issue an RFP for VCEA Banking and Credit Services

BACKGROUND & DISCUSSION:

A. Program Implementation Budget/Allocation of City and County Contributions

During the 2016-17 City of Davis and Yolo County budget hearings, each Agency allocated \$500,000 to support VCEA start-up activities. These funds are offered as loans to VCEA to be repaid with interest at each respective agency's pooled municipal treasury rates from early VCEA revenues once the Agency and its Community Choice Energy program is operational and revenue positive.

At its meeting in October 2016, the CCA subcommittee approved the allocation of VCEA implementation expenses as outlined in Attachment A. These expenses cover only the identified external/hard costs associated with the next stages of VCEA start up. They do not cover internal staff time or other soft costs incurred by the City or County on behalf of VCEA. Nor do they cover the pre-launch expenses associated with power procurement, related security deposits, and any additional costs for customer noticing. These costs will be covered by a line of credit to be provided by a third party lender as discussed below.

The VCEA Board is asked to approve the previously reviewed implementation budget (Attachment A), which will be integrated into the County's chart of accounts as reflected in Attachment B. Integration into the County's chart of accounts will allow both revenues and expenses to be tracked throughout the start-up period, and budget reports will be generated and shared with the Board at regular intervals. The implementation budget will serve as VCEA's operating budget through June 30, 2017 at which time a more detailed operating budget will be presented for FY 2017-2018 beginning July 1, 2017.

B. Fiscal Management Services Provided by the County

In accordance with the Cooperative Administrative Agreement that the VCEA Board approved at its December 13, 2016 meeting, County finance staff has agreed to assist with the following fiscal management services until such time the VCEA Board authorizes its Executive Officer or other VCEA finance staff to assume financial management responsibilities for the Agency.

- 1) Establish a VCEA Fund and chart of accounts within County accounting system and coordinate with interim VCEA staff for the transfer of City/County contributions
- 2) Cut warrants and pay authorized invoices
- 3) Track expenses and produce monthly financial statements for Board review
- 4) Assist with development of initial proforma and longer-term Agency operating budgets (to be approved in June for FY 2017-2018)
- 5) Assist with development of Banking and Credit Services RFP and credit negotiations
- 6) Assist with requirements for an anticipated credit guarantee to be provided jointly by the City of Davis and County of Yolo as described below
- 7) Assist in supporting an independent audit when time appropriate

County staff is seeking Board approval for interim Agency staff, Mitch Sears and Taro Echiburu, to have authority to authorize VCEA expenditures and payments as per Board approved contracts and within the spending limits outlined in section 3.4 of the JPA Agreement until permanent staff are hired.

Planning for Agency Financing

Financing for new, multi-jurisdictional CCE programs generally falls into three capital categories:

- 1) Start-Up Capital – Loan to VCEA already provided by City of Davis and Yolo County for planning and implementation
- 2) Initial Line of Credit – For power contract(s) and early operations
- 3) Working Capital/Term Debt – for longer term operations, power projects, etc.

Start-Up Capital: As noted above, \$1,000,000 in start-up capital for VCEA planning and implementation expenses has been provided by the City of Davis and County of Yolo as a loan to the Agency until such time that VCEA is operational and the loan can be repaid as articulated in the JPA Agreement.

Line of Credit/Credit Guarantee: Once the Agency is formed and moving toward operations, it will need to establish an independent, long-term banking and credit relationship to move from initial start-up into full operations. A line of credit obtained from a third-party lender will cover pre-revenue, negative cash flow in the early stages of program launch and operations and, importantly, provides the capital necessary to sign contracts in the wholesale power market. VCEA cannot launch and begin serving customers until those contracts are signed and executed.

The amount of early working capital that is needed will be dependent on VCEA's early staffing and Agency expenses, and the size and cost of the initial energy contract(s). Lines of credit can range from a low of \$3M to a high of \$10M or more depending on the program size at initial launch. The amount of credit required by VCEA will be clarified in March/April 2017 once the pro forma operating budget is updated with new market pricing and revenue assumptions.

The agency line of credit is usually established ~ 4- 6 months prior to program launch, is short-term (e.g., a 1-2 year line of credit), and will require a credit guarantee to cover some portion of the loan. It is anticipated that this credit backing, analogous to a co-sign on a mortgage loan, will be jointly provided by both the City of Davis and County of Yolo and will remain in place until revenues commence and the Agency is operationally stable, ~ 12 months post launch. The specifics of the credit guarantee will be part of the banking and credit services solicitation outlined below, but it is possible that the City and County may be asked to authorize between \$2-4M in credit support which is provided through a letter of credit or cash collateral. This authorization will likely include a requirement for approval from the City and County's governing body to authorize the credit guarantee.

Working Capital/Term Debt: Once the program is revenue-positive, fully independent, and operationally mature, VCEA will want to consider longer-term debt, lines of credit and perhaps bond financing to support an expanded portfolio of energy contracts, local energy programs, and local power development.

Typically, this type of longer-term debt is used to refinance early working capital and, because it is supported by Agency revenues, does not have a credit guaranty requirement. This type of debt is generally offered at a stable, fixed rate that can be repaid over time and may be accompanied by a separate line of credit to serve as backing for power contracts. Existing CCE programs have found it important to focus on building early program reserves in order to secure better credit terms and receive a credit rating which is required for bond financing.

Financing Next Steps: Once the operating proforma in the technical study is updated with new market pricing and revenue projections (March), staff will prepare and issue a Request for Proposals (RFP) for Banking and Credit Services. This approach has been used successfully by a few recent CCAs including Silicon Valley Clean Energy and Monterey Bay Community Power. Assuming the RFP is ready to go out in early April, staff would anticipate negotiating terms and selecting a banking partner no later than late May/early June. As noted previously, established credit will be required in order to sign wholesale power contracts, the terms of which must be known in order to set rates.

During the time that VCEA is seeking its initial line of credit, it will also want to consider other banking services such as deposit accounts, secured account (“lockbox”) services and the like. If these services are provided by the lender as a bundled package with the loan, interest rates and terms are generally more favorable.

Finally, it should be noted that VCEA may grow and have significant capital requirements as the program matures in the future. Thus, it is important to make sure its banking partner is large enough to finance its program over the long term. Banks need to live within their loan-deposit caps, so it is essential to understand the bank’s credit capacity for the program’s long-term capital needs.

Attachments:

- A. Proposed VCEA Implementation Budget
- B. Proposed VCEA Chart of Accounts

**Valley Clean Energy Authority
Proposed Implementation Budget**

Program Planning, Strategy and Project Management	
LEAN Energy US - Project Advisors	\$70,000
Subcommittee and Board Meeting Expenses	\$5,000
TOTAL:	\$75,000
JPA Formation	
JPA Agreement/Legal Services	\$25,000
Executive/staff salaries	\$100,000
Start up administrative costs (office rent, equipment, insurance, etc.)	\$50,000
TOTAL:	\$175,000
Technical and Energy Services	
Implementation Plan	\$35,000
Operating Budget/Proforma	\$5,000
Power Supply RFP, vendor selection and contract negotiations	\$100,000
Rate Design/Rate Setting	\$60,000
Assistance with NEM/FIT programs, registrations and compliance	\$50,000
TOTAL:	\$250,000
Communications/Customer Enrollment*	
Logo/Branding/Subbrands	\$20,000
Website	\$30,000
Collateral Design/Video	\$40,000
Paid Media	\$100,000
Community Outreach/Tabling	\$10,000
Customer Notifications (4 @ \$1.00 each)	\$200,000
TOTAL:	\$400,000
Finance/Legal	
Banking and Credit Services - RFP, Selection, Negotiation and Paperwork	\$25,000
Power Supply Contract - Legal Services	\$50,000
TOTAL:	\$75,000
Regulatory/Legislative	
Participation in Regulatory Proceedings/Legal	\$15,000
Monitoring and Reporting	\$10,000
TOTAL:	\$25,000
TOTAL:	\$1,000,000

*Assumes 4 notices to 50,000 customers in Davis and unincorporated County

Budget does not include reimbursable expenses for City and County support staff and internal costs incurred on beh:

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**Valley Clean Energy Alliance
2016-17 Budget by Account**

Account	Account Description	Budget
Revenues		
405050	LTD Proceeds-Loans Payable	\$1,000,000
Total Revenues		\$1,000,000
Expenditures		
Salaries & Employee Benefits		
500100	Regular Employees	\$67,000
500400	Other Employee Benefits	\$33,000
Total Salaries & Employee Benefits		\$100,000
Services & Supplies		
501020	Communications	\$170,000
501053	Insurance-Other	\$10,000
501110	Office Expense	\$5,000
501152	Prof & Spec Svc-Info Tech Svc	\$30,000
501154	Prof & Spec Svc-Fscl Agnt Fees	\$25,000
501156	Prof & Spec Svc-Legal Svc	\$100,000
501165	Prof & Spec Svc-Other	\$320,000
501180	Publications & Legal Notices	\$200,000
501191	Rents & Leases-Buildg & Imprv	\$20,000
501210	Minor Equipment	\$20,000
Total Services & Supplies		\$900,000
Total Expenditures		\$1,000,000

Budget does not include reimbursable expenses for City and County support staff and internal costs incurred on behalf of VCE

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Valley Clean Energy Authority Proposed Implementation Budget		Account Reference
Program Planning, Strategy and Project Management		
LEAN Energy US - Project Advisors	\$70,000	501165
Subcommittee and Board Meeting Expenses	\$5,000	501110
TOTAL:	\$75,000	
JPA Formation		
JPA Agreement/Legal Services	\$25,000	501156
Executive/staff salaries	\$100,000	See right
Start up administrative costs (office rent, equipment, insurance, etc.)	\$50,000	See right
TOTAL:	\$175,000	
Technical and Energy Services		
Implementation Plan	\$35,000	501165
Operating Budget/Proforma	\$5,000	501165
Power Supply RFP, vendor selection and contract negotiations	\$100,000	501165
Rate Design/Rate Setting	\$60,000	501165
Assistance with NEM/FIT programs, registrations and compliance	\$50,000	501165
TOTAL:	\$250,000	
Communications/Customer Enrollment*		
Logo/Branding/Subbrands	\$20,000	501020
Website	\$30,000	501152
Collateral Design/Video	\$40,000	501020
Paid Media	\$100,000	501020
Community Outreach/Tabling	\$10,000	501020
Customer Notifications (4 @ \$1.00 each)	\$200,000	501180
TOTAL:	\$400,000	
Finance/Legal		
Banking and Credit Services - RFP, Selection, Negotiation and Paperwork	\$25,000	501154
Power Supply Contract - Legal Services	\$50,000	501156
TOTAL:	\$75,000	
Regulatory/Legislative		
Participation in Regulatory Proceedings/Legal	\$15,000	501156
Monitoring and Reporting	\$10,000	501156
TOTAL:	\$25,000	
TOTAL:	\$1,000,000	

*Assumes 4 notices to 50,000 customers in Davis and unincorporated County

Budget does not include reimbursable expenses for City and County support staff and internal costs incurred on beh:

<u>Executive Staff/Salaries</u>	
500100	\$67,000
500400	\$33,000
Total	\$100,000

<u>Start Up Administrative Costs</u>	
501191	\$20,000
501210	\$20,000
501053	\$10,000
Total	\$50,000

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