



CITY MANAGER'S OFFICE
CITY HALL
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255
TELEPHONE: (408) 777-3212 www.cupertino.org

CITY COUNCIL STAFF REPORT

Meeting: December 6, 2016

Subject

Enter into a subordination agreement with River City Bank and Joint Powers Authority members of the Silicon Valley Clean Energy Authority.

Recommended Action

Authorize the City Manager to execute the subordination agreement with River City Bank and Joint Powers Authority members of the Silicon Valley Clean Energy Authority.

Background

On December 1, 2015, the City of Cupertino joined the Silicon Valley Clean Energy Authority (SVCEA) to fulfill one of its goals identified in the City's Climate Action Plan to reduce targeted emissions by 2020. The SVCEA is a Joint Powers Authority organized to study, promote, conduct, operate and manage clean energy and energy-related climate change programs. The SVCEA will operate a Community Choice Energy (CCE) program to procure or generate electrical power on behalf of its participating communities. SVCEA's members include the cities of Campbell, Gilroy, Los Altos, Los Altos Hill, Los Gatos, Monte Sereno, Morgan Hill, Mountain View, Saratoga, Sunnyvale, and the unincorporated areas of the County of Santa Clara. As a member of the SVCEA, the City has contributed \$520,000 toward initial costs.

SVCEA identified the need for up to \$2.0 million in a non-revolving line of credit (NRLOC) for prelaunch operations and up to \$18.0 million a revolving line of credit (RLOC) to fund reserves and negative cash flow associated with power supply acquisition. On May 25, 2016, a Request for Proposal (RFP) was issued by the City Mountain View with the assistance from SVCEA consultants, the City of Sunnyvale, the City of Cupertino and the County of Santa Clara (County) for credit and banking services on behalf of SVCEA. Five proposals were received on July 5. A committee consisting of the SVCEA CEO, consultants and representatives from the City of Mountain View, and Sunnyvale, Cupertino and Morgan Hill (Committee) reviewed and evaluated the proposals and selected River City Bank (RCB) as the credit provider.

Selecting RCB was a unanimous recommendation by the Committee based on the RCB credit proposal. On November 9, 2016, the SVCEA approved the RCB proposal that included the form of the subordination agreement and:

1. Up to \$18.0 million LOC with no guarantee required
2. Competitive rates
3. Knowledge and expertise in the CCE industry

Description

RCB's terms demonstrate its commitment to the success of SVCEA and will provide credit services as follows:

- RLOC - Up to \$18.0 million, with no guarantee or collateral requirement, to fund lockbox collateral pre-launch and provide working capital after launch.
- NRLOC - Up to \$2.0 million, requires a full guarantee or collateral and is provided for working capital prior to launch.

To our knowledge, RLOC to a CCE entity without a guarantee is unprecedented to date. From the RLOC, a Debt Service Reserve Account will be funded in an amount not less than \$1.9 million as security for the payment and performance by SVCEA. The RLOC is for a term of one year, and could be converted to a term loan of up to five years. Interest is based on a variable rate tied to the one month LIBOR rate and is payable monthly, no principal payment is required until termination.

The NRLOC requires 100% guarantee, which is being provided by the cities of Sunnyvale, Mountain View and Gilroy (chartered cities) and the County, proportionate to their voting shares. The NRLOC is for a term of one year and may be requested to be extended for up to three months. Interest is based on a variable rate tied to the one month LIBOR rate and is payable monthly, no principal payment is required until termination.

Both credit facilities are required to be repaid prior to any payments being made on initial costs contributed by the joint powers authority member agencies. This requirement is fulfilled through execution of the attached subordination agreement with River City Bank and joint powers authority members of the Silicon Valley Clean Energy Authority. Although the subordination agreement applies to each member city individually, all members must execute a subordination agreement of its initial costs, or the SCVEA will not fulfill its terms of the RCB's financing agreement.

Fiscal Impact

Cupertino does not anticipate any fiscal impact based on the financial projections of SVCEA. SVCEA reported to its board that it anticipates repayment of both the RLOC and the NRLOC within 12 months of launch. SVCEA has four years to repay initial costs contributed by the joint power authority members. Repayment of initial costs is still projected to meet this timeframe.

Prepared by: Lisa Taitano, Finance Manager

Reviewed by: Kristina Alfaro, Administrative Services Director

Approved for Submission by: David Brandt, City Manager

Attachments:

A: Subordination Agreement