



**DATE:** December 6, 2016

**CATEGORY:** Consent

**DEPT.:** Finance and Administrative Services/City Manager's Office

**TITLE:** **Execute a Subordination Agreement to Provide Financing for Silicon Valley Clean Energy Authority (SVCEA)**

### **RECOMMENDATION**

Authorize the City Manager to execute a subordination agreement with River City Bank in conjunction with the Credit Agreement to provide financing for the Silicon Valley Clean Energy Authority.

### **BACKGROUND**

On January 12, 2016, the Mountain View City Council unanimously approved the actions required to form and participate in the Silicon Valley Clean Energy Authority (SVCEA) which serves as the governing body for Silicon Valley Clean Energy (SVCE). The SVCEA will operate a Community Choice Energy (CCE) program to pool the electricity demand within the 12 participating jurisdictions to directly procure or generate electrical power supplies on behalf of their residents and businesses.

The January 12, 2016 report to Council (Attachment 1) detailed the next steps for forming the SVCEA and the early operational steps to develop and launch a CCE program. The report discussed that SVCEA would require operating capital and significant credit capacity for its initial power supply purchases until sufficient ratepayer revenues are received.

As an initial founding partner, the City contributed \$170,000 toward initial studies and on January 12, 2016, another up to \$450,000 was authorized for additional working capital of SVCE. This included a \$100,000 contingency. To date, a total of \$520,000 has been contributed by the City toward the initial cost of SVCE. The Joint Powers Authority (JPA) agreement states these contributions will be repaid within four years of the effective date of the JPA, or March 31, 2020.

## **ANALYSIS**

Mountain View led a team from the cities of Sunnyvale, Cupertino, Morgan Hill, the County of Santa Clara (County), SVCE Chief Executive Officer, and SVCE consultants to develop a Request for Proposals (RFP) and evaluate the financing options for the SVCE. SVCE has identified the need for up to \$2.0 million in a Non-Revolving Line of Credit (NRLOC) for prelaunch operations and up to an \$18.0 million Revolving Line of Credit (RLOC) to fund reserves and negative cash flow associated with power supply acquisition.

Initially, it was anticipated that the member agencies may need to provide some form of limited guarantee to a bank, as has been the case for all other CCEs. After reviewing the proposals, the credit terms provided by River City Bank (RCB) are such that guarantees from the member agencies for the up to \$18 million RLOC for power financing will not be required. This is the first known credit offered without a guarantee to a CCE and is a very favorable result. However, a guarantee is required for the up to \$2 million NRLOC for additional start-up costs prior to launch. The agencies of Sunnyvale, Mountain View, Gilroy (charter cities) and the County have agreed to provide this guarantee, approved by the Council on September 13, 2016, (Attachment 2). Additionally, a Memorandum of Understanding (MOU) between the four guarantee agencies and SVCEA will be executed providing that if the guarantee is drawn upon, the guarantee agencies would be repaid prior to any reimbursement for the initial costs by member agencies.

The initial cost contributions by the 12 agencies total \$2.7 million and the Credit Agreement with RCB requires all 12 agencies to agree to subordinate their original initial cost contributions to RCB. Both RCB credit facilities are projected to be repaid by SVCE within 12 months of operations.

The SVCEA Board approved RCB for banking services in September and approved the Credit Agreement and related documents at its November 9, 2016 meeting ( Attachment 3). In order to meet SVCE's timeline for program launch, it is necessary for all member agencies to take action by mid-January.

### **General Project Next Steps**

In February, SVCE staff will develop and seek Board approval of SVCE's first strategic plan. The plan will outline the goals, strategies, and tactics to chart SVCE's course for the next five years. In January, SVCE staff will present and seek approval of rates for the first two years of operations.

Notifying the customers (one segment at a time) of their options will start in January and will be done monthly through November except for March, June, and September.

In early December 2016, SVCE staff will negotiate contracts with several power suppliers to provide electricity for SVCE residents and businesses for all of 2017 and 2018 and portions of the SVCE's electricity demand in 2019 through 2021.

More information, and updates, can be found on the SVCE website: [www.svcleanenergy.org](http://www.svcleanenergy.org).

### **FISCAL IMPACT**

The City is at risk for up to \$520,000, the funding of initial cost for the start-up of SVCE. The subordination agreement requires RCB to be repaid prior to any payments made to the member agencies for their initial cost contributions. SVCE financial projections anticipate RCB to be repaid within 12 months of operations and the agencies should be repaid in full no later than 2020.

### **ALTERNATIVES**

1. Do not execute the subordination agreement.
2. Provide other direction.

**PUBLIC NOTICING** – Agenda posting and copy to the SVCEA.

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- Attachments:
1. [January 12, 2016 Council Report](#)
  2. [September 13, 2016 Council Report](#)
  3. [SVCE November 9, 2016 Staff Report – Item 4](#)