

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 11

TO: Valley Clean Energy Alliance Board of Directors

FROM: Chad Rinde, Asst. Chief Financial Officer, Yolo County
Mitch Sears, Interim General Manager, VCEA
Shawn Marshall, LEAN Energy US

SUBJECT: Approval of Credit and Banking Services Vendor and Authorization of Contract Negotiations

DATE: December 14, 2017

RECOMMENDATIONS:

1. Adopt a resolution:
 - a. Approving selection of River City Bank as the credit and banking services vendor for VCEA program launch and operations;
 - b. Authorizing the VCEA Interim General Manager, in consultation with VCEA Legal Counsel, to negotiate a contract with River City Bank for credit and banking services, including for banking and deposit (deposit of public funds) services; and
 - c. Authorizing the VCEA Board Chair to approve and execute the contract.

2. Authorize the Interim General Manager to execute a letter of intent and enter into negotiations for final contracts with River City Bank for VCEA credit facilities. Financing documents will be submitted to the Board for final approval.

BACKGROUND & DISCUSSION

At the Board's direction, staff released an RFP for banking and credit services for Valley Clean Energy Alliance that closed on April 27, 2017. Three responsive proposals were received and an initial evaluation panel was formed in order to evaluate the respondents.

An evaluation panel was initially formed in May, 2017 consisting of County and City Staffs and Finance Representatives as well as a Consultant Representative. Initial evaluations were completed, and two respondents, River City Bank and Five Star Bank were determined to meet the technical qualifications required. The third respondent did not demonstrate sufficient experience and understanding of Community

Choice Aggregation programs and the organizations overall level of capitalization, a reflection of bank size and strength, was a risk noted by the evaluation panel.

The process was envisioned originally that the evaluation panel would quickly perform interviews with the finalists to make a recommendation to the VCEA Board. During the process, there were additional considerations that arose with the addition of the City of Woodland to the agency and emergence of the potential contract with SMUD for energy and other administrative services – including financial provisions that might affect the scope of banking services required by VCEA. Based on these factors the selection was temporarily put on hold.

At the request of the Interim General Manager, the respondents that met the technical qualifications (River City Bank and Five Star Bank), were given an opportunity to re-submit cost proposals and term sheets by November 30, 2017 so they could reflect current market and interest rate changes since their initial April, 2017 responses. The Banks were interviewed on December 5, 2017 by a VCEA panel consisting of the Interim General Manager, VCEA Treasurer, VCEA consultant LEAN Energy, and SMUD financial staff.

Banking Services

For banking services, both proposals met VCEA's banking service requirements and the pricing for banking services were competitive. Both Banks are 100% FDIC insured and collateralized accounts for governmental agencies to comply with California government code and have strong commitments to high ethical standards and community involvement. However, staff is recommending River City Bank based on the following key factors where it stood apart:

- River City has extensive experience providing deposit and treasury services to several CCA's including Marin Clean Energy (MCE), Silicon Valley Clean Energy (SVCE), Sonoma Clean Power (SCP) and Monterey Bay Clean Power (MBCP).
- River City is considered to be a regional bank and had the largest amount of assets of approximately \$2 Billion as compared to Five Star Bank of approximately \$850 million.
- River City as a regional bank has branches in both Davis and Woodland.

With full consensus, the interview panel agreed on recommending River City Bank for VCEA's banking and deposit services based on competitive pricing, strong reputation and experience providing services to the CCA sector in California, and their local presence in Yolo County.

Credit Services

For credit services, VCEA received proposals from River City Bank and Five Star Bank. For this particular service, one of the critical criteria is providing VCEA with the necessary working capital needs and financial flexibility to during the run-up to launch and revenue generation. While each of the member agencies has provided significant financial support in the form of a \$500,000 loan from each member agency for a total of \$1.5 million in startup capital, VCEA is evaluating whether the costs of start-up including staffing, marketing and compliance will exceed this amount. To this end, VCEA sought through the RFP, a credit

facility that could be utilized if needed for Start-up Costs as well to fund Power Purchases and Other Capital Costs. River City Bank proposed an initial \$1 million line of credit if needed for Start-up Costs and an additional line of credit up to \$10 million for Power Purchases and Capital Costs. Five Star Bank proposed one line of credit that would cover both needs of VCEA. Each line of credit was offered with a variable rate and the ability to select whether VCEA desires to convert the variable rate line of credit into a fixed-rate loan post-launch. There were a variety of differences in price, collateral and guaranty requirements, and covenants in the different credit facilities offered. River City Bank's proposal provides the lowest cost of financing of the proposals offered and had flexibility on the structure of terms including guarantee and collateral requirements.

Recommendation

Based on the received proposals and through vetting by an interview panel, staff recommends that the VCEA Board authorize the Interim General Manager to move ahead with River City Bank to provide banking and deposit services. In addition, staff are also recommending that the Board authorize the Interim General Manager to execute a letter of intent and enter into negotiations for final contracts with River City Bank for VCEA credit facilities. Any financing/credit services must be approved by the Board pursuant to the Joint Powers Agreement, so final financing documents will be submitted to the Board for approval at a later meeting.



November 30, 2017

Mitch Sears
Interim General Manager

Re: Refreshed Proposal for Commercial Loan Financing to Valley Clean Energy Alliance (“VCEA”)

Dear Mr. Sears:

In response to the Request for Proposals #PPWSRFPMC1702 for Credit and Banking Services issued March 29, 2017, River City Bank (“Bank” or “Lender”) is pleased to provide you this expression of interest term sheet for up to \$11,000,000 in total credit facilities, as outlined below.

Please note that all aspects of this Term Sheet related to pricing are confidential and are not to be shared with the public. A redacted Tem Sheet may be requested from Lender if the need arises.

Credit Facility #1 – Seed Capital Funding for Start-Up Costs

- Borrower:** Valley Clean Energy Alliance (“VCEA”)
- Loan Type:** Non-Revolving Line of Credit (“NRLOC”) with option to convert outstanding advances to an amortizing Term Loan at Expiration.
- Line Amount:** Up to \$1,000,000. Final amount will be determined based on credit need.
- Collateral/Guarantor:** The Borrower will have the following options:
- i. Any one or all of the JPA members, or other credit worthy parties (subject to Bank’s approval), are required to guarantee the loan on a joint and several basis.
 - ii. Provide cash collateral for an amount equal to 100% of the Loan Amount. Bank will have a perfected security interest in the funds held at the Bank in a restricted account. The funds will earn interest at an equal rate to the Bank’s Public Funds Money Market Account, currently at 0.87% Annual Percentage Yield.
 - iii. A combination of guarantees and cash collateral can also be considered at levels acceptable to Lender.
- Purpose:** Provide seed capital to fund negative cash flow during pre-revenue

collection phase.

Expiration/Maturity:

The availability period on the NRLOC will expire 1 year from the initial availability period; the outstanding balance at that time can be converted to an amortizing term loan which matures in up to 5 years from the conversion date.

Interest Rate:

RLOC: Floating at the 1 Month LIBOR (1.35% as of 11/29/2017), plus 1.25% (for an all-in rate of 2.60% as of 11/30/2017), with an interest rate floor of 1.25%.

Term Loan Options (please indicate choice):

Fixed Rate

2.0% spread over the 3 year Treasury Constant Maturity Rate (1.86% as of 11/29/17) at the time of conversion to the term loan.

Variable Rate

1 MO LIBOR + 1.75%, floating

The Bank calculates interest on an Actual/360 day basis.

Prepayment Premium:

None

Loan Fee:

0.25% of the Line Amount, payable upon loan closing.

Documentation Fee:

\$2,500, payable upon loan closing.

Legal Costs:

Actual legal cost charged by Bank's outside legal counsel for review of loan documents.

Repayment:

NRLOC: Interest payable monthly on outstanding line balances with an option to convert unpaid principal to an amortizing term loan upon expiration of the NRLOC

Term Repayment: Up to sixty (60) equal principal payments, plus interest, due monthly on a fully amortizing basis.

**Credit Facility #2 – Power Purchases
and Other Capital Costs**

Borrower: Valley Clean Energy Alliance (“VCEA”)

Loan Type: Revolving Line of Credit (“RLOC”), with option to convert outstanding advances to an amortizing Term Loan at Expiration.

Line Amount: Up to \$10,000,000, inclusive of the amount necessary to fund the Debt Service Reserve Account required by Bank for the RLOC. Final amount will be determined based on credit need after energy contracts have been finalized and JPA members determined. Specific amounts will be made available in accordance with service rollout phases once determined.

Guarantor: None

Purpose: Provide capital to fund the following:

- i) Power purchases to be made by VCEA in times of seasonal differences in cash flow after operations commence due to lower billing rates in the winter months;
- ii) VCEA’s obligation to provide reserve funds in support of its power purchase agreements. Draws for such purposes are to be deposited in and remain in the prospective energy supplier’s Lockbox account to be held at the Bank.

Expiration/Maturity: Availability on the line of credit will expire 1 year from execution of the loan documentation; the outstanding balance at that time can be converted to an amortizing term loan which matures in up to 5 years from the conversion date.

Advances:

Pre-Launch: Advances for purposes of providing reserve funds for lockbox power purchase agreements will be available beginning upon execution of power purchase agreements, but not more than 4 months in advance of the anticipated commencement of operations for VCEA.

Post-Launch: Advances for all other power purchase purposes will be available upon phase 1 launch, estimated to be during the spring of 2018.

All advance requests will be subject to Borrower submitting documentation to the Bank evidencing compliance with the permitted uses as described in the “Purpose” section of this term sheet.

Repayment:

RLOC: Interest payable monthly, on line outstandings, with option to convert unpaid principal to an amortizing term loan upon expiration of the RLOC;

Term Repayment: Up to sixty (60) equal principal payments, plus interest, due monthly on a fully amortizing basis.

Interest Rate: plus **RLOC:** Floating at the 1 Month LIBOR (1.35% as of 11/29/17/2017), 1.75% (for an all-in rate of 3.1% as of 4/20/17), with an interest rate floor of 1.75%.

Term Loan Options (please indicate choice):

Fixed Rate
2.0% spread over the 3 year Treasury Constant Maturity Rate (1.86% as of 11/29/17) at the time of term loan conversion.

Variable Rate
1 MO LIBOR + 1.75%, floating

The Bank calculates interest on an Actual/360 day basis.

Prepayment Premium: None

Loan Fee: 0.25% of the Line Amount, payable upon loan closing.

Documentation Fee: \$2,500, payable upon loan closing

Legal Costs: Actual legal cost charged by Bank's outside legal counsel for review of loan documents.

Debt Service Reserve: As a condition precedent to closing, VCEA will be required to establish a Debt Service Reserve Account ("DSRA") at the Bank, which can be funded from proceeds of the RLOC, in an amount equal to six months of debt service based on a 5 year term-out of the Line Amount (~\$1,100,000 if the RLOC amount is \$10,000,000) at an assumed 4.00% interest rate. The Bank will have a perfected security interest in 1st lien position on the DSRA.

Conditions for all Credit Facilities:

This offer is contingent on the satisfactory review of VCEA's financial model, procurement strategy, supply contracts, marketing plan, selection of management team, and other things.

1. Interim Financials. Borrower to provide Bank within:
 - i. 15 days after each month-end, and
 - ii. 30 days after the close of each quarter an unaudited balance sheet and income statement of Borrower for the period then ended, prepared in accordance with GAAP and in a form acceptable to lender.
2. Annual Financials. Borrower to provide to Bank within four months after the close of each annual accounting period a copy of the audited balance sheet, income statement, retained earnings and cash flows for the period then ended, prepared in accordance with GAAP and in a form acceptable to lender.
3. Depository Relationship. Borrower agrees to maintain all of its deposit accounts, including the Lockbox account and Debt Service Reserve Accounts, for the duration of the contract, with the Bank. In the event that this condition is not met, as determined by Lender, the

interest rate on the Credit Facilities will immediately increase by adding an additional 2%. This margin shall apply to each succeeding interest rate change that may apply thereafter.

4. Minimum Change in Net Assets. Borrower to adhere to a minimum change in Net Assets requirement on a quarterly basis to be determined and mutually agreed upon once final pro-forma figures have been determined based on procurement strategy and energy costs.
5. Borrower to achieve a minimum 1.25X Debt Service Coverage Ratio (DSCR) on an annual basis, starting at the end of VCEA's first fiscal year end after operations have commenced.

DSCR is calculated as EBIDA (earnings before interest, depreciation, and amortization) for the 12 month period divided by Debt Service for the same period.

6. Borrower to maintain a minimum Tangible Unrestricted Net position at levels and on dates to be agreed.
7. Additional Indebtedness. Borrower will be prohibited from incurring additional indebtedness during the terms of the Credit Facilities. This provision excludes subordinated debt owed to JPA members with terms (such as interest rate, repayment schedule, subordination, etc.) to be acceptable to Bank. Additionally, all indebtedness incurred to date must be subordinated to Bank.

Other Terms/Conditions: Please be advised final loan documents shall contain other and more detailed covenants, representations and warranties, events of default, and other conditions acceptable to Bank.

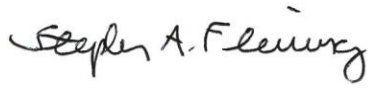
The Bank reserves the right to terminate this expression of interest at any time prior to the Bank's receipt of acknowledgment by the Borrower, but in no case shall this expression of interest be outstanding for more than 180 business days from its origination date. This expression of interest may not be transferred or assigned without prior written consent of the Bank.

Please be advised that the loan is subject to underwriting and final credit approval by the Bank. Notwithstanding any other language of agreement that may appear elsewhere in this non-binding letter of intent, it is expressly understood and agreed that this letter of intent does not and shall not constitute a binding agreement between the parties in any manner, but only reflects proposed terms of a transaction which may become acceptable to the parties when fully documented and signed by all of the appropriate parties to such documentation.

We want to emphasize River City Bank's commitment to flexibility in meeting VCEA's needs. We understand that certain needs may change as the CCE evolves prior to the official launch date and are therefore committed to working with you each step of the way and have the flexibility to structure credit facilities accordingly.

Thank you for considering River City Bank for your financing needs. If you would like us to move forward on the basis proposed, please indicate your acknowledgment by signing below and remit to Bank.

Best regards,



Stephen A. Fleming
President & CEO
(916) 567-2649



Rosa Hilmarisdottir Cucicea
AVP/Relationship Manager
(925) 398-2763

Acknowledged and Accepted:

Valley Clean Energy Alliance

Date

By: _____

Its: _____

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2017- _____

A RESOLUTION OF THE VALLEY CLEAN ENERGY ALLIANCE APPROVING SELECTION OF RIVER CITY BANK AS THE CREDIT AND BANKING SERVICES VENDOR FOR VCEA PROGRAM LAUNCH AND OPERATIONS AND AUTHORIZING THE VCEA INTERIM GENERAL MANAGER, IN CONSULTATION WITH VCEA LEGAL COUNSEL, TO NEGOTIATE A SERVICES CONTRACT WITH RIVER CITY BANK AND AUTHORIZING THE VCEA BOARD CHAIR TO APPROVE AND EXECUTE THE AGREEMENT UNDER THE TERMS SET FORTH HEREIN

WHEREAS, the Valley Clean Energy Alliance (“VCEA”) is a joint powers agency established under the Joint Exercise of Powers Act of the State of California (Government Code Section 6500 et seq.) (“Act”), and pursuant to a Joint Exercise of Powers Agreement Relating to and Creating the Valley Clean Energy Alliance between the County of Yolo (“County”) and the City of Davis (“Davis”) and the City of Woodland (“City”) (the “JPA Agreement”), to collectively study, promote, develop, conduct, operate and manage energy programs; and

WHEREAS, in March 2017 an RFP was released by VCEA seeking proposals to provide credit and banking services; and

WHEREAS, VCEA staff and consultants reviewed and evaluated the RFP responses, updated term sheets, and completed vendor interviews in December 2017; and

WHEREAS, VCEA staff and consultants unanimously recommended River City Bank to provide credit and banking services to VCEA based on their overall combined strength of written proposal, interview, project team, experience, cost proposal, and local presence in Yolo County.

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

1. River City Bank is hereby approved as the Credit and Banking services vendor for VCEA program launch and operations, subject to negotiation and approval of an agreement with River City Bank that is consistent with this Resolution.
2. The VCEA Interim General Manager, in consultation with VCEA Legal Counsel, is hereby authorized to negotiate a services contract with River City Bank for approval and execution by the VCEA Board Chair under the following terms:
 - a. Scope. Project scope, terms, and schedule are consistent with River City’s April 24, 2017 Proposal and November 30, 2017 updated term sheet (Exhibit A). Any significant changes to the scope, terms, or schedule will be brought back to the VCEA Board for consideration.

3. The Chair of the Board is hereby authorized to approve and execute a contract with River City Bank under the terms set forth in this Resolution.

ADOPTED, this _____ day of _____, 2017, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Chair

Secretary

EXHIBIT A - River City Bank Updated Term Sheet – November 30, 2017

EXHIBIT A

CIRCLEPOINT PROPOSAL TO PROVIDE COMMUNITY OUTREACH, MARKETING, AND CUSTOMER
NOTIFICATION SERVICES FOR VCEA