



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Adopt a Resolution Authorizing the City Manager to Execute a Loan Guaranty in an Amount Not to Exceed \$1,020,000 with River City Bank and to Execute Other Necessary Documents

BACKGROUND

On December 15, 2015, the Sunnyvale City Council unanimously approved the actions required to form and participate in the Silicon Valley Clean Energy Authority (SVCEA). SVCEA will operate a Community Choice Energy (CCE) program to pool the electricity demand within the twelve participating jurisdictions to directly procure or generate electrical power supplies on behalf of their residents and businesses.

The December 2015 report to Council (RTC No. 15-0952) detailed the next steps for forming 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, and it also described that such financing would likely require some form of limited term guaranty typically provided by one or more member agencies. The report also noted that staff would return to Council with an update and potential action regarding this bridge financing.

On August 9, 2016 Council provided direction to the City Manager to move forward with negotiations with River City Bank to provide a credit guaranty to fund the initial launch of the SVCEA.

EXISTING POLICY

Climate Action Plan, *Provide a Sustainable Energy Portfolio (EP)*, Reduction Measure EP-1.1: Create or join a community choice aggregation (CCA) program to take control of power generation for city residents and businesses

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines sections 15378(b)(4) and (5) in that it is a governmental fiscal, organizational or administrative activity that will not result in direct or indirect changes in the environment.

DISCUSSION

Since formation, SVCEA has convened its Board of Directors, hired a Chief Executive Officer, and made significant progress toward launch of a CCE program. In July, SVCEA submitted its Implementation Plan for certification by the California Public Utilities Commission, and it established a tentative customer rollout approach that seeks a swift implementation of all customers between April and October 2017. Actions in progress related to staffing the organization, procuring energy and

additional support services, and community engagement are all geared toward that launch window.

The City of Mountain View took the lead in evaluating financing options for SVCEA to provide the essential financing that bridges the early operations and electricity purchases until sufficient revenues are received. The financing team, which includes Sunnyvale staff, completed a request for proposal (RFP) for credit and banking services on behalf of SVCEA, and a contract was awarded by the SVCEA Board to River City Bank of Sacramento California.

It was anticipated that the member agencies may need to provide some form of limited guaranty to a bank, or provide direct financing to SVCEA. The credit terms provided by the Bank are such that direct loans from the member agencies are not required; however a short-term (1-2 years) guaranty will be required.

The financing team and SVCEA (represented by its CEO and Attorney) have been engaged in credit negotiations regarding both Non-revolving Line of Credit (NRLOC) of up to \$2 million, and a Revolving Line of Credit (RLOC) of up to \$18 million. The credit terms are very favorable for the SVCEA, and the risk to the member agencies is low. The NRLOC requires a guaranty which will be shared proportionally, based on projected energy demand, by the member agencies of Mountain View, Sunnyvale, Gilroy, and Santa Clara County. The shares are \$480,000, \$1,020,000, \$280,000, and \$220,000 respectively, with Sunnyvale carrying the largest share as it represents the largest demand in the authority. These four agencies have the most legal flexibility to provide the guaranty as charter cities and the County. While other members could participate, additional steps would be required for them to participate, delaying the potential launch of the SVCEA. The RLOC requires no Guaranty and no action by the member agencies is required. The NRLOC requires several documents be executed as follows:

- A Guaranty Agreement with River City Bank to provide Sunnyvale's share of the Guaranty (Attachment 2).
- A Memorandum of Understanding between the SVCEA and the Cities of Mountain View, Sunnyvale, Gilroy and the County of Santa Clara to provide the Guaranty (Attachment 3).
- A Subordination Agreement with River City Bank subordinating the initial contributions made by the member agencies until the NRLOC is retired (Attachment 4).

The Subordination Agreement is needed to ensure that River City Bank is paid before the member agencies are paid back for their initial contributions. Sunnyvale's initial contribution totaled \$530,000. All the member agencies are being required to execute this agreement, and a communication to their respective executives has been distributed.

Staff is recommending Council authorize the City Manager to execute the agreements in substantially the same form as attached.

FISCAL IMPACT

Should SVCEA default on its loan agreement, the City would be required to provide up to \$1,020,000 in funds per the guaranty agreement. This amount could be less if the outstanding balance were less. Each of the guarantors would share proportionally up to their respective totals. In addition, if the SVCEA were in a position that it could not pay its debts, it would likely that the City would also lose its \$530,000 initial contribution. However, default by SVCEA is unlikely, as evidenced by the successful

launch of several other local Community Choice programs. It should also be noted that Council had authorized staff to negotiate a guaranty of up to \$1.3 million, but with the participation of partner agencies, that total was reduced. The agreements are consistent with direction provided by Council to negotiate the provision of a loan guaranty to SVCEA for startup financing.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

RECOMMENDATION

Adopt a Resolution Authorizing the City Manager to Execute a Loan Guaranty in an Amount Not to Exceed \$1,020,000 with River City Bank and to Execute Other Necessary Documents including a Memorandum of Understanding with the Silicon Valley Clean Energy Authority (SVCEA) and an Agreement to Subordinate the Initial Contribution made to the SVCEA.

Prepared by: Timothy J. Kirby, Director of Finance
Reviewed by: Walter C. Rossmann, Assistant City Manager
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution Authorizing the City Manager to Execute a Loan Guaranty for the Silicon Valley Clean Energy Authority and other necessary documents
2. Guaranty Agreement with River City Bank to provide Sunnyvale's share of the Guaranty
3. A Memorandum of Understanding between the SVCEA and the Cities of Mountain View, Sunnyvale, Gilroy and the County of Santa Clara to provide the Guaranty
4. A Subordination Agreement with River City Bank subordinating the initial contributions made by the member agencies until the NRLOC is retired