



## Staff Report Item 7

**TO:** MBCP Policy Board of Directors

**FROM:** Tom Habashi, CEO

**SUBJECT:** Credit Agreement with River City Bank

**DATE:** September 13, 2017

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### **Recommendation**

It is recommended that the MBCP Policy Board approve the following:

1. Adopt a resolution to approve the Credit Agreement by and between Monterey Bay Community Power, as Borrower and River City Bank, as Lender (Credit Agreement) in substantially final form to provide up to a \$3.0 million Non-Revolving Line of Credit (NRLOC) and up to a \$10.0 million Revolving Line of Credit (RLOC).
2. Approve Agreement By and Among the Monterey Bay Community Power Authority of Monterey, Santa Cruz and San Benito Counties and the Counties of Monterey, Santa Cruz and San Benito (Guarantor Agreement) in substantially final form to require written approval to amend the Credit Agreement from the Guarantors.
3. Authorize the CEO to negotiate and execute both agreements on behalf of MBCP

### **Background**

At the direction of the ad hoc Monterey Bay Community Power (MBCP) financing committee, the County of Santa Cruz prepared and released a request for proposals (RFP) on December 6, 2016 to raise capital in support of MBCP program implementation and early operations as well as establish banking operations. The RFP specified three categories of credit and banking services required for MBCP to move forward: (1) start-up/implementation capital estimated up to \$3.0 million; (2) working capital support power purchase contracts and early operations estimated between \$10 - \$15 million; and (3) banking and deposit services.

On April 18, 2017, the Board of Supervisors for the County of Santa Cruz accepted a status report on credit and banking services for MBCP and referred the proposals to MBCP for their

review and recommendation. At the joint meeting on May 3, 2017, the MBCP Policy and Operations Board of Directors directed staff to begin negotiations with River City Bank (RCB) prepare related interagency documents related to the credit support provided by the counties of Monterey, San Benito, and Santa Cruz.

MBCP received loan approval from RCB on June 16, 2017 for the \$3 million in start-up funding and on August 9, 2017 for the \$10 million RLOC. At this time, each county has authorization to execute the required documents by River City Bank for credit support, the Shared Financial Agreement Among the County Members of Monterey Bay Community Power Authority of Monterey, Santa Cruz and San Benito Counties, and the related inter-agency agreements with each of the participating cities within each county.

RCB was founded in 1973, is headquartered in Sacramento with a main office in Walnut Creek, and has the size and strength to meet the financing needs of MBCP. RCB is experienced in the CCE industry and has served the banking needs of Marin Clean Energy and Silicon Valley Clean Energy Authority. MBCP will be serviced out of the Walnut Creek office.

## **Analysis and Discussion**

### ***Credit Agreement***

In order to establish the NRLOC and RLOC with River City Bank, MBCP must enter into a Credit Agreement. Key terms of the Credit Agreement are provided below:

Non-Revolving Line of Credit – As stated above, the NRLOC provides start-up funding up to \$3.0 million, and requires credit support of 100 percent that will be provided by the counties of Monterey (45.4545%), San Benito (18.1818%), and Santa Cruz (36.3637%) proportionate to voting shares by county in the form of a credit guarantee or cash collateral. The NRLOC is for a term of one year and may be converted to a term loan of up to five years from the conversion date. The interest rate is based on a variable rate tied to 1-month LIBOR plus a margin. Interest is payable monthly with a principal payment required a termination. It is anticipated that interest payments will be made by additional draws on the NRLOC until full repayment (that is, interest will be added to the principal until a total of no more than \$3.0 million has been advanced). A loan fee of 0.25% of the line amount a documentation fee of \$2,500 is payable at closing.

Revolving Line of Credit – The RLOC will provide capital to fund the following:

1. Power purchases to be made by MBCP in times of seasonal differences in cash flow after operations commend due to lower billing rates in the winter months; and
2. Fund for MBCP's obligation to provide reserve funds in support of its power purchase agreements.

The term of the RLOC will be one year and may also be converted to a term loan of up to five years from the conversion date. The interest rate is based on a variable rate tied to 1-month LIBOR plus a margin. Interest is payable monthly with a principal payment

required a termination. Interest payments are due monthly. A loan fee of 0.25% of the line amount a documentation fee of \$2,500 is payable at closing. As a condition to closing, MBCP will be required to establish a Debt Service Reserve Account, which will be funded from proceeds of the RLOC in an amount equal to six months of debt service based on a five-year repayment of the RLOC at an assumed 3.50% interest rate. No separate credit support from the counties of Monterey, San Benito, and Santa Cruz are required for the RLOC.

The NRLOC and RLOC are required to be repaid prior to any payments made on any subordinate debt, including the repayment of initial costs funded by the County of Santa Cruz before the NRLOC is available. Additional costs will be charged by RCB for legal counsel related to the Credit Agreement. The Credit Agreement also requires certain minimum revenue requirements to be met by MBCP in addition to other financial reporting. Based on the financial projects of MBCP, it is anticipated both the NRLOC and RLOC will be repaid within 12 months of launch.

### ***Guarantor Agreement***

The Guarantor Agreement requires that MBCP to receive written approval of any amendments to the Credit Agreement with River City Bank. The term of the agreement will be to the date of the release of the credit guarantee for the NRLOC.

### **Attachments**

Credit Agreement  
Guarantor Agreement  
Resolution