COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Office of Sustainability

Date: June 16, 2016
Board Meeting Date: June 28, 2016
Special Notice / Hearing: None
Vote Required: 4/5ths

To: Honorable Board of Supervisors

From: Jim Eggemeyer, Director, Office of Sustainability

Subject: Repayment Agreement between the County of San Mateo and the Peninsula Clean Energy Authority

RECOMMENDATION:
Adopt resolutions:

A) Authorizing a loan agreement between the County of San Mateo and the Peninsula Clean Energy Authority in the amount of $6 million to be repaid to County by Peninsula Clean Energy Authority for the purposes of securing a bank loan to address certain working capital needs at variable rates provided in the agreement; and

B) Authorizing an Appropriation Transfer Request in the amount of $1,500,000 from Non-Departmental Excess ERAF reserves to Non-Departmental Loans to Other Funds/Agencies for the purpose of providing advance funds for $1.5 million in collateral to Peninsula Clean Energy.

BACKGROUND:
In December 2015, County staff, on behalf of the Peninsula Clean Energy Authority (PCEA) began to solicit interest from and meet with a number of local and regional banks with the capacity to provide required financing for PCEA.

A loan in an amount not to exceed $12 million was sought in order to establish a reserve fund in support of the power purchase agreements entered into by the PCEA, provide working capital for the pre-revenue collection phase and account for seasonal differences in cash flow, fund deposits required by the California Independent System Operator (ISO) and the California Public Utilities Commission, and provide for other working capital needs.

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On May 10, 2016, your Board authorized the County Manager or his designee to enter into negotiations regarding a deposit of up to $6 million to serve as collateral to allow PCEA to secure the necessary financing.

On May 26, 2016, the PCEA Board was presented and updated on the negotiations of terms to obtain a loan from Barclays Bank, PLC, in an amount not to exceed $12,000,000, which will finance certain costs of purchased power and working capital costs of PCEA's operations.

On May 27, 2016, the Chief Executive Office of PCEA signed a preliminary term sheet with Barclays and the underwriting process began to negotiate the final terms of the loan.

DISCUSSION:
With the selection of Barclays, the collateral requirement under the terms of the loan agreement, in the form of cash and/or securities, amounts to no less than 5/12 of the amount of the loan drawn upon by PCEA. Staff will likely request the full $6 million as there are interest rate reductions equal to 0.55% for every 1/12 of additional collateral that is deposited, thereby saving on interest expenses to PCEA. However, the $6 million will likely be taken in portions, on an as-needed basis.

This collateral will be deposited into an account pledged to Barclays and held by Wilmington Trust, a third party trustee approved by Barclay's. PCEA shall pay interest to the County on the collateral, which shall be the higher of the following two amounts: (1) the amount of interest that would have been earned by the Advance Amount had it been invested in the San Mateo County Pooled Investment Fund starting on the effective date and ending on the repayment date; or (2) the actual interest earned on any Advance Amount used as the Collateral until released by Barclays or any other banking partner pursuant to the terms of any agreements governing the loan and the deposit of collateral.

The interest rate shall be calculated as follows:

$$\text{Principal} \times \text{Quarterly Interest Rate} \times \frac{\text{Number of Days in the Quarter}}{\text{Number of Days in the Year}}$$

Additionally, it is expected that the collateral deposit will be held until PCEA has received and maintained an investment grade rating from Fitch, Moody's, or S&P. The deposit will be structured essentially as a loan, whereby so long as PCEA does not default on its loan repayment obligations, the full amount of the deposit (along with interest) will be returned at the end of the required collateral period.

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PCEA shall repay the County the loan amounts, plus interest, within two years from the date when that portion of the loan amount is received by PCEA or when the Collateral is released by Barclays, whichever is earlier.

As part of the FY 2016-17 Recommended Budget, the County appropriated the collateral loan of $6 million in Non-Departmental Services. Because the loan will close in FY 2015-16 and the need to transfer a portion of the collateral is a requirement of the loan agreement, an Appropriation Transfer Request (ATR) of $1.5 million will need to happen this fiscal year. The appropriation of $1.5 million will be removed from the FY 2016-17 Recommended Budget as a September revision with no net change in reserves.

County Counsel has reviewed and approved the resolution and the agreement as to form.

This action contributes to the outcome of a Collaborative Community by fostering relationships with all cities in the County, facilitating a regional solution to local energy needs, and expanding the available power procurement options for county residents.

<u>FISCAL IMPACT</u>:
Upon approval, a portion of the collateral in the amount of $1.5million will be transferred from Non-Departmental ERAF Reserves to an interest earning account held at Wilmington Trust for the purposes of securing a loan in a not to exceed amount of $12 million from Barclays Bank. The full $6 million of collateral plus interest will be returned to the County as provided in the agreement.