

Authorization of Issuance of Commercial Paper Notes for San Jose Clean Energy Operations

*Joint City of San José Council and
San Jose Financing Authority Board*

Presenters:

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SJCE's Existing Credit Facility with Barclays

- Line of Credit (up to \$30 million) expires on November 26, 2021
- Standby Letter of Credit (up to \$65 million) expires on November 27, 2023
- Combined facilities subject to a joint limit up to \$80 million.
- SJCE had expected to use the Barclays Line of Credit for the small cash shortfall projected in the Spring,
- Larger need which is projected to exceed the size of the Barclays credit facility
- Mechanics of drawing on the Line of Credit are impractical given current situation
- City's Commercial paper is more cost effective and more flexible alternative

Energy Market Volatility

- Delayed PG&E rate increase
 - Impact on SJCE \$9 million – delayed to CY2022
- Bad debt expense
 - Due to COVID-19, non-payments have increased bad debt 3x-5x from pre-March 2020 levels, currently at \$9.6 million and growing
- Disruptions causing high market prices
 - Extreme Weather
 - Nuclear plants operational issues
 - Drought of 2021 limited supply of hydro-electric generation
- Increased collateral requirements by energy suppliers
- Forward curve show prices stabilizing in 2022-23

Projected Cash Flow Needs

- Projected cash shortfall of \$14.7 million for balance of FY 2020-21
 - Excludes \$20 million restricted reserve maintained as required pursuant to Barclays Agreement
- Projected \$54.2 million shortfall in FY 2021-22 (including capitalized fees and interest)
- Base case shortfall projections assume:
 - PG&E generation rates for 2022 per PG&E's June Energy Resource Recovery Account (ERRA) filing
 - No state or federal relief to SJCE for COVID customer delinquencies
 - No reduction in the PCIA in 2022 and a small PCIA reduction in 2023
 - SJCE believes these assumptions are conservative

SJCE Borrowing Options

- SJCE, Finance, Budget, CAO worked together evaluating options to meet cash flow borrowing needs
- Borrowing options available on short notice are:
 - Draw on Barclay's Bank Line of Credit at variable rate of LIBOR + 2.90% borrowing rate (limit of \$30 million)
 - Utilizing San Jose Financing Authority Commercial Paper at variable borrowing rate currently 0.67%
- Staff recommends CP borrowing
 - \$15 million by June 30, 2021
 - Additional needs will depend on financial performance of SJCE but projected to total \$54.6 million in FY 2021-22
 - Current model projects \$69.6 million of borrowing.
 - Fees and interest on total amount borrowed estimated at \$3.7 million from between FY 2022 through FY 2025.

City's Commercial Paper Program

- Inexpensive/flexible interim borrowing tool for departments
- Financing Authority can issue up to \$125 million of Commercial Paper (CP) Notes
- Each Note may be outstanding up to 270 days.
- Program is secured by direct-pay Letters of Credit (LOCs)
 - State Street and U.S. Bank – each \$62.5 million
 - Facilities expire in February 2022
 - Renewal, replacement or expansion prior to expiration date
- Based on the City's strong credit, the short nature of the borrowing and the highly-rated bank LOCs:
 - Current all-in costs of CP are under 0.70%
 - Will vary over time

Second Amendment to Revolving Credit Agreement with Barclays – Key Terms

- Permits City to make loans up to \$100 million to SJCE including CP (previously limited to \$10 million for SJCE start-up costs)
- City loans subordinate to obligations to Barclays
- Prohibits loan repayments until
 - Minimum of \$50 million in cash (inclusive of \$20 million in restricted operating reserve) as of last day of 4 out of 5 previous months (including the most recent month); and,
 - Debt service coverage ratio of 1.25 to 1 (previously 2 to 1) after a loan repayment
- Modifies and amends Debt Service Coverage Ratio and Aggregate Annual Debt Requirement

SJCE Projected Repayment of CP

- SJCE repayments are expected to start FY 2023-24
- Repayment could begin in FY 2022-23 depending on:
 - Summer 2021 power supply costs
 - PCIA in 2022
- Repayment is constrained by the amended terms of the revolving credit agreement
 - SJCE is required to have \$50 million in cash (inclusive of \$20 million currently in restricted operating reserve) before repayment can begin

Utilization of CSJFA Commercial Paper

Commercial Paper Notes Outstanding

(as of June 18, 2021)

| | <u>Amount</u> |
|-------------------------------------|----------------|
| CP Program Issuance Capacity | \$125.0 |
| Existing Program Issued/Authorized | <u>(100.1)</u> |
| Current Utilized Capacity | \$ 24.9 |
| Planned/Proposed Changes to Program | |
| Redemption & Issuance | \$ 0.3 |
| Deauthorization | 7.8 |
| Lease Revenue Bonds - Fire Training | 21.9 |
| South Hall Site Redemption | <u>42.4</u> |
| Additional Capacity | \$ 72.4 |
| Total Projected Capacity | <u>\$ 97.3</u> |

City Council Recommendation

- Authorize the issuance by the City of San José Financing Authority of Lease Revenue Commercial Paper Notes to finance the purchase of power and other operating costs of San José Clean Energy (“SJCE”) in an amount not to exceed \$95.0 million;
- Authorize the City Manager and the Director of Finance to negotiate, execute and deliver a Second Amendment to the Revolving Credit Agreement with Barclays Bank PLC amending certain terms and provisions of the Revolving Credit Agreement in connection with the issuance of CP Notes secured by General Fund lease payments to finance the purchase of power and other operating costs of SJCE.
- Approving 2020-2021 Funding Sources Resolution and Appropriation Ordinance amendments in the San Jose Clean Energy Fund

Financing Authority Board Recommendation

- Authorize the issuance of Commercial Paper Notes to finance the purchase of power and other operating costs of SJCE in an amount not to exceed \$95.0 million.

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