

Council Agenda: 12/13/2022

Item: 3.4

File: 22-1842

San José Clean Energy Revolving Credit Agreement

Presenters:

Julia H. Cooper, Director of Finance

Lori Mitchell, Director of Community Energy



WHY DOES SJCE NEED A NEW CREDIT FACILITY?

- Collateral for medium-term power purchase agreements
- Collateral to mitigate risk factors resulting from the volatility in power supply markets
- CPUC regulatory requirements
 - CCAs are required to post a Financial Security Requirement (FSR) with investor-owned utilities operating in their service territory, the default Provider of Last Resort
 - Due to pending regulation, the FSR may increase significantly beyond SJCE's current access to letters of credit for collateral



SJCE CURRENT ACCESS TO CREDIT

Facilities	Bank	Expiration Date	Facility Amount	Outstanding
COMMERCIAL PAPER				
City of San José Financing Authority	U.S. Bank	3/24/2025	\$95,000,000	\$60,000,000
REVOLVING CREDIT FACILITY				
San José Clean Energy	Barclays Bank PLC	11/27/2023	\$65,000,000	\$10,193,920
		TOTAL	\$160,000,000	\$70,193,920



PROCUREMENT PROCESS

- Request for Proposals was issued on October 7, 2022
- 24 financial institutions were noticed, with JPMorgan submitting the only proposal
- Due diligence call occurred between the City and JPMorgan on November 14
- Notice of Intent to Award issued on November 17
- Multiple discussions subsequently held between City and JPMorgan on covenants and key business terms of the agreement



KEY TERMS OF THE AGREEMENT

- Revolving Credit Facility up to \$250 million for a five-year term, with three sub-facilities:
 - \$50 million line of credit for general corporate purposes
 - \$100 million letter of credit for a term of 2 years
 - \$100 million letter of credit for a term of 5 years
- Obligations under the Credit Facility will be **secured solely by SJCE's net revenues** (i.e., NOT the General Fund)
- Current Barclays agreement will be terminated with the execution of the JPMorgan credit agreement



JPMORGAN FEE STRUCTURE

- Maximum fees are estimated not to exceed \$2.5 million per annum.
- 1% letter of credit (LOC) fees for outstanding LOCs
- Undrawn fees and applicable interest rates for loans are as follows:

Commitment Utilization	Undrawn Fee	Applicable Rate	
		Term Benchmark Borrowing	ABR Borrowing
≥ 25%	0.57%	Adjusted Term SOFR ¹ + 1.425%	ABR ² + 0.425%
< 25%	0.60%	Adjusted Term SOFR + 1.500%	ABR + 0.500%

1. SOFR is the secured overnight financing rate published by New York Federal Reserve Bank.
2. ABR stands for alternate base rate, which is benchmarked against the prime rate or the New York Federal Reserve Bank rate.



RECOMMENDATION

- Adopt a resolution authoring the City Manager, the Director of Finance, the Assistant Director of Finance, and their authorized designees to negotiate, execute, and deliver a revolving credit agreement with JPMorgan Chase Bank, N.A., to issue revolving loans and letters of credit up to \$250,000,000
- Adopt 2022-23 Appropriation Ordinance amendments

