



## **CITY OF SALINAS COUNCIL STAFF REPORT**

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**DATE:** August 15, 2017

**DEPARTMENT:** FINANCE

**FROM:** Matt N. Pressey, CPA, Finance Director

**TITLE:** CREDIT GUARANTY FOR MONTEREY BAY COMMUNITY POWER

RECOMMENDED MOTION:

A motion to approve a Resolution regarding a memorandum of agreement between the County of Monterey and the Monterey County cities regarding a credit guaranty for Monterey Bay Community Power.

RECOMMENDATION:

Approve a Resolution regarding a memorandum of agreement between the County of Monterey and the Monterey County cities regarding a credit guaranty for Monterey Bay Community Power.

EXECUTIVE SUMMARY:

On March 21, 2017, the City Council approved a resolution establishing the Monterey Bay Community Power (MBCP) Authority and approving the City of Salinas as a founding member of the Authority and adopted an Ordinance authorizing the implementation of a Community Choice Energy program in the City of Salinas.

MBCP requires start-up and initial working capital in the amount of \$3 million. MBCP is negotiating with River City Bank (RCB) for a non-revolving line of credit (“loan”) of up to \$3 million for these purposes. Section 5.3.4 of the JPA Agreement provides that there will be a shared responsibility by all members to provide credit support (Credit Guaranty) to the third party lender for such start-up and initial working capital. The JPA Agreement further provides that the Credit Guarantee shall be distributed on a per seat basis, with shared seat members dividing the Credit Guarantee among the cities sharing those seats.

DISCUSSION:

While all member jurisdictions will provide a form of credit support, not all 19 participating jurisdictions will provide their share of the Credit Guarantee directly to the bank. The three participating counties will share the initial Credit Guarantee, providing for their respective member cities, contingent on interagency reimbursement agreements.

On May 3, 2017, the MBCP Policy and Operations Boards of Directors authorized next steps for establishing credit and banking services with RCB. The Counties of Monterey, San Benito, and Santa Cruz have agreed to provide a Credit Guarantee to RCB in a total amount of \$3 million. The Counties of Monterey, San Benito and Santa Cruz will provide their pro-rata share of the Credit Guarantee to River City Bank, as follows:

- Monterey County: \$1,363,636 (45.45%)
- San Benito County: \$545,455 (18.18%)
- Santa Cruz County: \$1,090,909 (36.36%)

The dollar amounts shown above are estimates based on the total credit guarantee of \$3 million. However, the actual dollar amount could exceed or be less than these estimates because the dollar amount will be contingent on the amount of credit advanced to MBCP, the interest accrued, and River City Bank's expenses.

Although the County of Monterey is providing the Credit Guarantee to RCB up front on behalf of the County and the Monterey County Cities, each of the city members will remain responsible for their proportional share of the guarantee. The City of Salinas' principal amount of the Credit Guarantee is equal to 9.09%, or up to an estimated \$272,727 plus interest and reasonable enforcement costs. The attached Memorandum of Agreement is between the County of Monterey and Monterey County Cities regarding the credit guaranty for Monterey Bay Community Power. The purpose of the Cities Agreement is to commit each of the participating cities to provide their proportional share of the credit guarantee by reimbursing the County if RCB collects upon the Credit Guaranty. The Cities Agreement will become effective when fully executed by the County of Monterey and all Monterey County member cities.

The MBCP Authority staff has requested the approval and execution of these agreements by all applicable parties in the month of August.

Per the terms of the Cities Agreement, if MBCP defaults on payment of the non-revolving line of credit and RCB collects upon the Non-Revolving Credit Guaranty, the County will collect each city's monetary obligation based upon their pro-rata share, as seen in Exhibit C of the Cities Agreement. The dollar amounts shown in Exhibit C are estimates based on the total credit guarantee of \$3 million. The actual amount will be determined by the amount actually advanced to the MBCP Authority, as well as interest and enforcement costs accrued at the time of default, which could exceed or be less than the dollar amounts shown in Exhibit C.

Under the Cities Agreement, participating cities shall reimburse the County by depositing funds equal to their share within 30 days of written notice by the County. Additionally, the agreement authorizes the County to secure payment from each city by withholding property taxes collected on behalf of each City in the event and to the extent that reimbursement has not been paid directly. This method of reimbursement was modeled after the 2009 Next Generation Radio System Agreement between the County and Monterey County cities. The Cities Agreement will only become effective on the date that the County and all participating cities have approved and executed the agreement and will remain effective until the guaranty is released by RCB.

CEQA CONSIDERATION:

**Not a Project.** The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378).

STRATEGIC PLAN INITIATIVE:

The staff recommendation supports the Council Goals of Economic Diversity and Prosperity.

FISCAL AND SUSTAINABILITY IMPACT:

If MBCP fails to generate sufficient revenue to repay the loan from RCB, within 30 days of written notice the County of Monterey would be required to pay up to \$1,363,636, plus a proportional share of any accrued interest and enforcement costs. Per the terms of the Cities Agreement, each of the participating Monterey County cities would reimburse the County of Monterey their pro-rata share of the guarantee. The City of Salinas' principal share of the Credit Guaranty is up to \$272,727. This actual amount could exceed that estimate with accrued interest and reasonable enforcement costs, or be less if the outstanding balance at the time of default of MBCP is less than \$3 million. The total estimated amount of the City of Salinas' risk will be categorized as a "Contingent Liability" and will not require funds to be sequestered.

ATTACHMENTS:

Resolution  
Cities Agreement