

APPROVAL OF DOCUMENTS FOR THE ISSUANCE OF CCCFA CLEAN ENERGY PROJECT REVENUE BONDS

City Council
October 8, 2024
Item 3.3



Presenters:

Drew Corbett, Acting Director of Finance

Qianyu Sun, Deputy Director of Finance, Debt and Treasury Management

Zach Struyk, Acting Director of Energy

BACKGROUND

- In November 2023, City Council authorized to enroll the City as a member of the CCCFA (California Community Choice Financing Authority) and evaluate the feasibility of energy prepay.
 - CCCFA approved the City's associate membership on May 23, 2024.
 - Since 2021, CCAs have completed 12 prepaid energy transactions, in more than \$11.3 billion tax-exempt bonds by CCCFA as the conduit issuer.
- SJCE supports the City's transition to clean energy and provides residents and business local control over electricity prices, resources and services.
- SJCE uses a portfolio risk-management approach, seeking low-cost supply and portfolio diversification in technologies, production profiles, project sizes and locations, counterparties, contract length and timing of market purchases.
- As of June 30, 2024, SJCE had a total of 117 power purchase agreements with a notional value of approximately \$3.57 billion to provide energy to customers for the remainder of calendar year 2024 and through 2047.



CLEAN ENERGY PROJECT

- Prepayment for 30-year supply of energy under a Prepaid Energy Sales Agreement to be entered into by Morgan Stanley Energy Structuring (MSES) and CCCFA
- Sale and delivery of the Prepaid Energy by CCCFA to the City, at a discount, pursuant to a Power Supply Contract.
- The City will assign a portion of rights and obligations under power purchase agreement(s) to Morgan Stanley Capital Group (MSCG), (or MSES if MSCG is the PPA seller), per limited assignment agreements.
- The payment obligations of MSES under the Prepaid Energy Sales Agreement will be unconditionally guaranteed by Morgan Stanley (rated “A1” by Moody’s, “A-” by S&P and “A+” by Fitch).

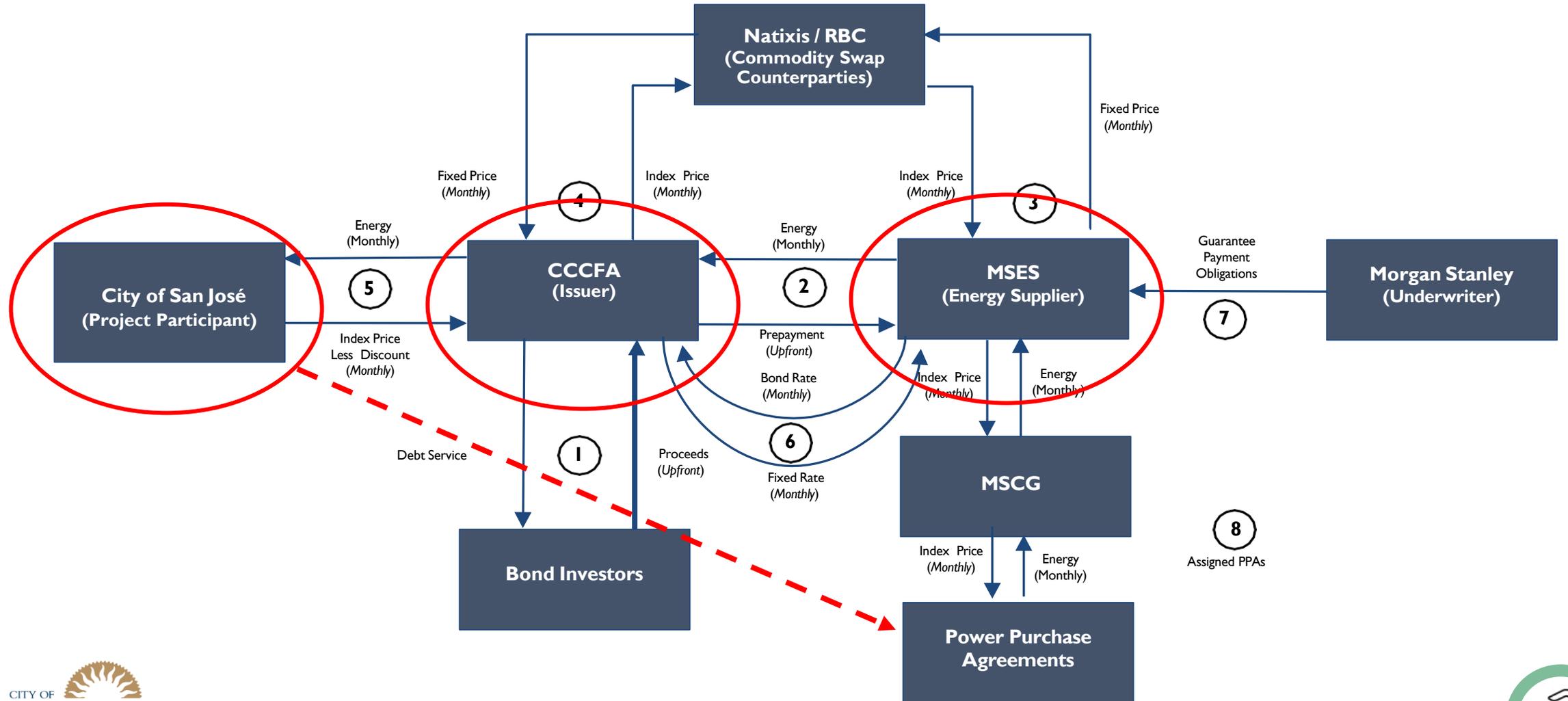


PROJECT FINANCING

- CCCFA will issue 30-year tax exempt bonds in the not-to-exceed principal amount of \$1.25 billion
- Bonds will subject to mandatory tender following the Initial Term (approximately 6 - 8 years after issuance), and will be remarketed several times after the Initial Term
- Minimum 8% of annual savings (about \$3-6 million) over the cost of prepaid quantities of energy to be delivered under the Power Supply Contract during the Initial Term
- Minimum annual discount for reset periods after the Initial Term is expected to be approximately \$5/MWh
- Bondholders have no recourse to the City



FINANCING STRUCTURE



RISKS AND MITIGATION

Volumetric Risk

PPA seller fails to provide required energy volume to sustain the transaction

- Assign a portion of the PPA contract
- Substitute or assign additional PPAs
- MSES is required to deliver base energy to back stop under-generating PPA suppliers

Market Risk

Repricing fails to generate the minimum discount

- Prepaid Energy Sales Agreement terminates
- The previously assigned rights under assigned PPAs will revert to the City

Counterparty Risk

Banking or swap counterparty experiences distress and fails to honor obligations

- 2 swap counterparties in the transaction, Natixis and RBC
- Morgan Stanley is highly rated “A1” by Moody’s, “A-” by S&P and “A+” by Fitch

If the energy prepayment transaction terminates for any reason, Morgan Stanley is obligated to make a termination payment to CCCFA to redeem bonds. The City will forego savings for the future years (**revert to status quo**). Staff time, consultant and legal fees and other expenses will become sunk costs as to any unrealized savings.



GREEN BONDS DESIGNATION

- Bonds will be designated as green bonds, per International Capital Market Association Green Bond Principles
- Kestrel has determined that Bonds are in alignment with low carbon transition and advance the UN Sustainable Development Goals
- SJCE reports annually on power content and greenhouse gas emissions associated with energy supplied to customers
- Kestrel will provide at least one post-issuance report to confirm allocation of proceeds and impacts of bond-financed activities



DOCUMENTS FOR COUNCIL APPROVAL

Document

Contents

Appendix A	Contain certain information regarding the City and SJCE, for inclusion in the Preliminary Official Statement and Official Statement for the Bonds.
Power Supply Contract	Contract between CCCFA and the City to provide for the sale and delivery of prepaid quantities of Emissions Performance Standards (EPS) compliant energy.
PPA Payment Custodial Agreement	Agreement among the CCCFA, City, MSCG, MSES and U.S. Bank Trust Company, National Association relating to payments to be made to third party energy supplier for assigned Power Purchase Agreements.
Letter Agreement	Agreement among the MSES, MSCG, City and the CCCFA specifying the terms of assigning long term Power Purchase Agreements that the City has with a third-party energy supplier.
Prepaid Energy Project Administration Agreement	Agreement by and between CCCFA and the City to provide for the administration of certain operational matters during the term of the Bonds relating to certain rights and obligations of CCCFA under the Trust Indenture, the Prepaid Energy Sales Agreement, the Re-Pricing Agreement and other related documents.



DOCUMENTS FOR COUNCIL APPROVAL

Document

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Appendix A

Contain certain information regarding the City and SJCE, for inclusion in the Preliminary Official Statement and Official Statement for the Bonds.

Power Supply Contract

Contract between CCCFA and the City to provide for the sale and delivery of prepaid quantities of Emissions Performance Standards compliant energy.

PPA (Payment Custodial Agreement)

Agreement among the CCCFA, City, MSCG, MSES and U.S. Bank Trust Company, National Association relating to payments to be made to third party energy supplier for assigned Power Purchase Agreements.

Letter Agreement

Agreement among the MSES, MSCG, City and the CCCFA specifying the terms of assigning long term Power Purchase Agreements that the City has with a third-party energy supplier.

Prepaid Energy Project Administration Agreement

Agreement by and between CCCFA and the City to provide for the administration of certain operational matters during the term of the Bonds relating to certain rights and obligations of CCCFA under the Trust Indenture, the Prepaid Energy Sales Agreement, the Re-Pricing Agreement and other related documents.



GOOD FAITH ESTIMATE AS OF 8/28/2024

- Conduit Issuance of \$1.1 billion
- True Interest Cost 3.96%
- Financing Expense \$7.3 million
- Project Fund \$1.0 billion
- Total estimate of principal and interest not paid with bond proceeds \$1.4 billion to the Mandatory Purchase Date

Source of Funds	
Par Amount	\$ 1,000,905,000
Premium	80,902,601
Total Sources	\$ 1,081,807,601
Use of Funds	
Project Fund Deposit:	
Acquisition of Clean Energy Project	\$ 1,025,074,098
Other Funds Deposits:	
Capitalized Interest Fund	49,476,012
Delivery Date Expenses	
Cost of Issuance	2,022,529
Underwriter's Discount	5,237,962
Total Uses	\$ 1,081,807,601



KEY FINANCING TEAM MEMBERS

Issuer	California Community Choice Financing Authority
Municipal Advisors	PFM Financial Advisors LLC Public Resources Advisory Group
Bond Counsel	Orrick, Herrington & Sutcliffe LLP
Disclosure Counsel	Anzel Galvan LLP
Underwriter	Morgan Stanley & Co LLC
Trustee	U.S. Bank Trust Company, National Association
Green Bonds Reviewer	Kestrel



ESTIMATED FINANCING SCHEDULE

- October 8, 2024: City Council Meeting
- October 23, 2024: Rating from Moody's
- October 24, 2024: CCCFA Board Meeting
- October 31, 2024: Bond Pricing
- November 14, 2024: Bond Closing

OCT						
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SECURITIES LAW

- Securities Act of 1933 requires disclosure of financial and other significant information and prohibits fraud in the sale of securities, including municipal bonds.
- Section 10(b) of Securities and Exchange Act of 1934 prohibits fraud in the purchase or sale of securities.
- SEC Rule 10(b)(5) prohibits
 - Making of any untrue statement of material fact; and
 - Omitting to state a material fact in the offer or sale of securities.



AN ELECTED OFFICIAL'S RESPONSIBILITY

After review of Appendix A, the following elements should be considered:

- Have identified material risks and events been brought to the attention of staff, bond counsel, and other professionals?
- Have such risks and events been disclosed, and if not, what is the rationale for the non-disclosure?

If any Councilmember has any personal knowledge that any of the material information in Appendix A is false or misleading, the Councilmember must raise these issues prior to approval of the distribution of the document to potential investors.



CITY COUNCIL RECOMMENDATIONS

1. Adopt a resolution to approve, in connection with the issuance and sale of the California Community Choice Financing Authority Clean Energy Project Revenue Bonds (Green Bonds) (the “Bonds”) in the not-to-exceed principal amount of \$1,250,000,000 to finance the acquisition of a long-term supply of electricity on a prepaid basis for the City of San José, in substantially final forms, Appendix A to the Official Statement, a Power Supply Contract, a Custodial Agreement, a Letter Agreement, and a Prepaid Energy Project Administration Agreement; and

2. Authorize the City Manager and other authorized officers of the City, to execute and deliver these documents and any other related documents in connection therewith.

