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Item 6
Bank Credit Agreement Update

Wednesday, August 25, 2021

Summary

- CPA's current one-year, $37 million Credit Agreement with River City Bank (RCB) expires on March 31, 2022
- Staff has explored a larger credit facility to support an investment grade credit rating and provide additional liquidity. Staff contacted Barclay's, RCB and JPMorgan Chase (JPM) about increasing its credit facility
- Staff seek input from the Finance Committee on the terms of a proposed $80 million credit facility with JPM that would replace the Credit Agreement with RCB and be used to support the issuance of letters of credit and working capital needs
- Staff plan to recommend approval of a $80 million Credit Agreement with JPM to the Board at its September 2nd, 2021 meeting and today seeks Finance Committee's input

Background

- CPA uses its Credit Agreement with RCB to provide letters of credit and to borrow funds to provide working capital

- Maintenance of a credit facility is important to;

  - Demonstrate financial strength to market participants

  - Provide additional liquidity and support the days liquidity on hand target described in CPA's Reserve Policy

  - Support an eventual investment grade credit rating

- Staff noted in its February 24, 2021 report to the Finance Committee; "A credit facility supporting an investment grade rating will likely need to offer $60-80 million borrowing capacity, not include an 'adverse material clause' and be provided by an investment grade bank or equivalent"

Proposed Terms

	RCB Agreement	Proposed JP Morgan Agreement
Amount	$37 million	$80 million
Expiry	3/31/2022	10/31/2023
Borrowing Rate (1)	1.60%	1.90%
Letter of Credit Fee	1.5% per annum	1.65% per annum
Loan Fee	.15% of Amount	None
Non utilization fee	.1% of unused Amount	.45% of unused Amount
Annual cost before borrowing and LC Fees	$92,500	$360,000

(1) Borrowing rate over the index rate

- Legal Fees (one time): $37,500
- Total FY 2021/22 interest costs associated with the proposed Agreement including interest and fees are $390,000. Staff plans to include interest costs associated with the proposed Agreement in a Budget Amendment that would be presented to the Board for approval later this fiscal year.

Proposed Agreement

- Staff recommends the proposed agreement for the following reasons;
  - $43 million increase in the size of the facility will add 21 days to the Days Cash on Hand ratio as described in CPA's Reserve Policy. CPA had 46 Days Cash on Hand as of March 31, 2021
  - JP Morgan is investment grade rated (S&P AA, Moody's A2)
  - The increased credit facility will improve perception of CPA's financial strength by market participants
  - The proposed agreement has an "adverse material" clause. However, JP Morgan has agreed to revisit the provision once CPA receives feedback from credit rating agencies, likely in Q3 2022
  - There are no fees or penalties for early termination of the agreement after the midpoint of the proposed term (September 2022), providing CPA with more flexibility to renegotiate terms as needed

Thank You. Questions…?

Selected Terms and Definitions

Permitted use of loan proceeds:

(i) to provide cash collateral to secure the Borrower's obligations under PPAs,

(ii) to repay in whole or in part any LC Disbursement,

(iii) for general corporate purposes,

(iv) for capital expenditures related to the development or acquisition of new assets related to the Enterprise subject to prior written approval by the Lender, which such approval shall not be unreasonably be withheld, or

(v) to repay (1) the Existing Debt in favor of the County of Los Angeles, provided that no more than $30,000,000 of Loan proceeds may be applied for such purpose, and (2) to repay the Existing Debt in favor of River City Bank with proceeds of the Loan made pursuant to the Initial Borrowing.

Credit Agreement Page 49

Selected Terms and Definitions

"Debt Service Coverage Ratio" means, for any fiscal quarter of the Borrower, the quotient obtained by dividing Net Revenues by Annual Debt Service, in each case as determined for the four consecutive fiscal quarter periods ended on the last date of such fiscal quarter. The Debt Service Coverage Ratio shall be tested both on a rolling last four consecutive fiscal quarter basis and on a projected following four consecutive fiscal quarter basis, in each case as of the last day of each fiscal quarter. Credit Agreement Page 9

Debt Service Coverage. The Borrower shall not permit the Debt Service Coverage Ratio to be less than 1.10 for any fiscal quarter of the Borrower, commencing with the fiscal quarter ended September 30, 2021; provided, however, in the event the Debt Service Coverage Ratio for any fiscal quarter is less than 1.10 but the Days Liquidity on Hand for such fiscal quarter equals or exceeds 50 days, then the Borrower shall not be considered to have breached this Section 5.1(q); provided, further, however, that the Borrower may only rely on the cure contained in the preceding proviso twice during any Fiscal Year. Credit Agreement Page 47

Selected Terms and Definitions

Material Adverse Change means any material or adverse change in the business, operations, properties, assets, liability, condition (financial or otherwise) or prospects of the Borrower which, in the reasonable determination of the Lender, is reasonably likely to materially adversely affect Borrower's ability to perform Borrower's Obligations hereunder. Credit Agreement Page 14

Rates. The Borrower shall fix, establish, maintain and collect rates and charges for electric power and energy and other services, facilities and commodities sold, furnished or supplied by the Borrower (collectively, *"generation rates"*), which shall provide the Borrower with Revenues in each Fiscal Year sufficient to pay budgeted Operating Costs and Annual Debt Service for such Fiscal Year and, to the extent not paid from other available moneys, any and all amounts the Borrower is obligated to pay or set aside from Revenues by Applicable Law or contract in such Fiscal Year. Credit Agreement Page 46

Selected Terms and Definitions

Budget. The Borrower shall include in each annual budget of the Borrower all amounts reasonably anticipated to be necessary to pay all Operating Costs and Annual Debt Service, including debt service on all Secured Debt and Unsecured Debt, for the Fiscal Year to which such budget applies and to comply with the Financial Reserve Policy and the Fiscal Stabilization Fund Policy. Credit Agreement Page 47

[Events of Default] the Borrower defaults in the due performance or observance of any of the covenants set forth in Section 5.1(a) Accounting and Reports, 5.1(c) Compliance with Basic Documents; Operation and Maintenance of Enterprise, 5.1(d) Defaults, 5.1(g) Notices, 5.1(k) Maintenance of Insurance, 5.1(1) Preservation of Security, 5.1(m) Rates, 5.1(q) Debt Service Coverage, 5.1(r) Policies or 5.2 hereof; Credit Agreement Page 52/53