



Silicon Valley Clean Energy Finance and Administration Committee Meeting

Tuesday, October 3, 2023
2:00 pm

George Tyson, Chair
Town of Los Altos Hills

Tina Walla, Vice Chair
City of Saratoga

Elliot Scozzola
City of Campbell

Sheila Mohan
City of Cupertino

Zach Hilton
City of Gilroy

Sally Meadows
City of Los Altos

Rob Rennie
Town of Los Gatos

Evelyn Chua
City of Milpitas

Bryan Mekechuk
City of Monte Sereno

Yvonne Martinez Beltran
City of Morgan Hill

Margaret Abe-Koga
City of Mountain View

Larry Klein
City of Sunnyvale

Otto Lee
County of Santa Clara

Silicon Valley Clean Energy Office
333 W. El Camino Real, Suite 330
Sunnyvale, CA

Teleconference Meeting Information:

<https://svcleanenergy-org.zoom.us/j/82736269077>

Or by Telephone (Audio only):
US: +1 669 219-2599
Webinar ID: 827 3626 9077

Members of the public may observe this meeting electronically by accessing the meeting via instructions above. Public Comments can be sent in advance of the meeting to Board Clerk Andrea Pizano at Andrea.Pizano@svcleanenergy.org and will be distributed to the Finance and Administration Committee. The public will also have an opportunity to provide comments during the meeting. Members of the public using Zoom may comment during public comment or the applicable agenda item by using the Raise Hand feature and you will be recognized by the Chair. Those using the telephone (audio only) feature should press star 9 on your phones to initiate the "Raise Hand" function in Zoom. You will then be announced, unmuted, and your time to speak will begin.

The public may provide comments on any matter listed on the Agenda. Speakers are customarily limited to 3 minutes each, however, the Committee Chair may increase or decrease the time allotted to each speaker based on the number of speakers, the length of the agenda and the complexity of the subject matter. Speaking time will not be decreased to less than one minute.

If you are an individual with a disability and need a reasonable modification or accommodation pursuant to the Americans with Disabilities Act ("ADA") please contact Board Clerk Andrea Pizano at Andrea.Pizano@svcleanenergy.org prior to the meeting for assistance.

AGENDA

Call to Order

Roll Call

Public Comment on Matters Not Listed on the Agenda

The public may provide comments on any matter not listed on the Agenda provided that it is within the subject matter jurisdiction of SVCE. Speakers are customarily

svcleanenergy.org

333 W El Camino Real
Suite 330
Sunnyvale, CA 94087



limited to 3 minutes each, however, the Committee Chair may increase or decrease the time allotted to each speaker based on the number of speakers, the length of the agenda and the complexity of the subject matter. Speaking time will not be decreased to less than one minute.

George Tyson, Chair
Town of Los Altos Hills

Tina Walia, Vice Chair
City of Saratoga

Elliot Scozzola
City of Campbell

Sheila Mohan
City of Cupertino

Zach Hilton
City of Gilroy

Sally Meadows
City of Los Altos

Rob Rennie
Town of Los Gatos

Evelyn Chua
City of Milpitas

Bryan Mekechuk
City of Monte Sereno

Yvonne Martinez Beltran
City of Morgan Hill

Margaret Abe-Koga
City of Mountain View

Larry Klein
City of Sunnyvale

Otto Lee
County of Santa Clara

Consent Calendar (Action)

- 1) Approve Minutes of the August 1, 2023 Finance and Administration Committee Meeting

Regular Calendar

- 2) Recommend the SVCE Board of Directors Authorize the CEO to Execute Agreements with Firms Providing Services to Enable SVCE to Execute its Third Prepay and to Execute the Power Supply Contract with the California Community Choice Financing Authority and Related Supporting Agreements (Action)

Committee/Staff Remarks

Adjourn

svcleanenergy.org

333 W El Camino Real
Suite 330
Sunnyvale, CA 94087



**Silicon Valley Clean Energy
Finance and Administration Committee Meeting**

Tuesday, August 1, 2023
1:00 p.m.

Silicon Valley Clean Energy Office
333 W. El Camino Real, Suite 330
Sunnyvale, CA

DRAFT MEETING MINUTES

Call to Order

Chair Wei called the meeting to order at 1:01 p.m.

Roll Call

Present:

Chair Hung Wei, Cupertino
Director Elliot Scozzola, Campbell
Director Margaret Abe-Koga, Mountain View (arrived at 1:17 p.m.)
Director Walia, Saratoga

Absent:

Vice Chair Sally Meadows, Los Altos

Public Comment on Matters Not Listed on the Agenda

No speakers.

Consent Calendar

Chair Wei opened public comment.
No speakers.
Chair Wei closed public comment.

MOTION: Director Walia moved and Director Scozzola seconded the motion to approve the Consent Calendar.

The motion carried unanimously by verbal roll call vote with Vice Chair Meadows and Director Abe-Koga absent.

- 1) Approve Minutes of the May 12, 2023, Finance and Administration Committee Meeting**



Regular Calendar

2) CEO Update (Discussion)

CEO Girish Balachandran announced SVCE received an upgrade in investment grade rating from Moody's Investors Service, noting updating reserve levels and PPA portfolio strategy were contributors to the upgrade.

Chair Wei opened public comment.

No speakers.

Chair Wei closed public comment.

3) Recommend Approval of the FY 2023-24 Proposed Operating Budget and Affirmation of the Current Reserve Policy Target Levels (Action)

Director Abe-Koga arrived during Item 3.

Amrit Singh, CFO and Director of Finance and Administration, presented a recommendation to the committee to support and recommend the proposed fiscal year 2023-2024 budget and reserve policy target levels.

The main areas of discussion outlined in the presentation were to review key highlights, the proposed budget forecast, revenue forecast uncertainty, power supply cost comparison to FY 23 Mid-Year Budget, and other operating expenses.

CFO Singh reviewed the key highlights which included:

- The projection that it would be a potentially positive financial year, though results were highly uncertain due to the impact of energy price volatility on revenue;
- A recommendation to continue the 4% customer discount until the new 2024 PF&E rates are in effect, to be revisited in December once there is more certainty on PG&E rates;
- The addition of nine full-time positions, adjustment of employee compensation for the cost of living and merit, and a delayed decision on additional funding for programs or set aside for a building fund; and
- A recommendation to change the target days cash on hand from 285 to 300.

Staff responded to questions from the committee on the transfer amount charges, programs, staffing, and an office building purchase and the current office lease.

Committee members provided comments on early education programs, and supported staff to continue assessing opportunities for purchasing an SVCE office building and to return to the committee and the Board with any attractive opportunities.

Chair Wei opened public comment.

Vice Chair Meadows commented on the clarification made by CFO Singh on rates, and that the proposed budget was realistically conservative.

Chair Wei closed public comment.

MOTION: Director Abe-Koga moved and Director Scozzola seconded the motion to recommend the SVCE Board of Directors approve the proposed FY 2023-24 Operating Budget, and to change the reserve policy to increase days cash on hand from a target of 285 days cash on hand to 300 days cash on hand.



The motion carried by verbal roll call vote with Vice Chair Meadows absent.

Committee/Staff Remarks

No comments.

CEO Balachandran noted the next meeting of the committee would be after the budget approval in September.

Adjournment

Chair Wei adjourned the meeting at 2:05 p.m.

ATTEST:

Andrea Pizano, Board Secretary



Staff Report – Item 2

Item 2: Recommend the SVCE Board of Directors Authorize the CEO to Execute Agreements with Firms Providing Services to Enable SVCE to Execute its Third Prepay and to Execute the Power Supply Contract with the California Community Choice Financing Authority and Related Supporting Agreements

From: Girish Balachandran, CEO

Prepared by: Amrit Singh, CFO and Director of Administrative Services

Date: 10/3/2023

RECOMMENDATION

1. Staff requests the Finance and Administration Committee recommend that the Board of Directors authorize the CEO to execute agreements with the firms listed below for the services they will provide to enable SVCE to complete its third energy prepayment transaction.

- PFM Financial Advisors LLC & PFM Swap Advisors - \$155,000
- Chapman & Cutler (Disclosure/Issuer's Counsel) - \$175,000
- Ballard Spahr (Bond and Tax Counsel) - \$250,000
- Moody's Investor Service Inc (Credit Rating) - \$272,500

These payments, except for Moody's Credit Rating fee, will be contingent on executing the Prepay transaction. To avoid the risk of stranding Moody's fees, SVCE will initiate Moody's service later when there is more certainty on successfully executing the transaction. Like the first two Prepay transactions, Morgan Stanley, the Prepay Seller, will split Moody's rating agency fee if the Prepay transaction is not executed by no fault of Morgan Stanley or SVCE.

Staff requests the Finance and Administration Committee recommend that the Board of Directors approve engagement with Morgan Stanley as the Prepay Supplier with the following fee structure¹:

Bond underwriting fee of \$5/bond plus underwriter expenses not to exceed \$0.50/bond. The dollar amount of this fee will depend on the total dollar value of the bonds. For example, for the issuance of \$1 billion in bonds, with a face value of \$1,000 a bond, the underwriting fee would be \$5 million.

The combined fees for services provided by the firms identified above shall not exceed 1% of the bond proceeds amount, including other ancillary services such as green bond verification, bond trustee and counsel fees, an investment advisor fee, and other miscellaneous costs such as printing.

¹ CCCFA will execute a Bond Purchase Agreement with Morgan Stanley at the time of the sale of bonds, which will document these fees and bond pricing results. The other charges (Energy Service Revenue and swap fee) will be implemented later along with other Prepay transactional documents.

Agenda Item: 2**Agenda Date: 10/3/2023**

2. Staff requests the Finance and Administration Committee recommend that the Board of Directors authorize the CEO to execute the Power Supply Contract with the California Community Choice Financing Authority² (CCCFA) and execute or approve³ the related supporting agreements to enable SVCE to enter an approximately 30-year energy prepayment transaction. These contracts and agreements are in substantially negotiated form, and staff will request the Board authorize the CEO to make any minor clarifying modifications necessary that do not change the intent or deteriorate the economics of the transaction.

The Board's authorization will be subject to the following parameters.

- The Bonds, issued by CCCFA, will not be guaranteed obligations of SVCE but will be limited obligations of CCCFA payable solely from the revenues and other amounts pledged under the Indenture as the Trust Estate, including amounts owed by SVCE under the Power Supply Contract.
- The aggregate principal amount of the Bonds shall not exceed \$1,500,000,000.
- The energy savings to SVCE under the Power Supply Contract for the initial Bond Reset Period, including the Annual Refund (defined in the Power Supply Contract), shall be at least 8 percent.⁴
- The energy Service Revenue fee in the transaction shall not exceed \$1.10 per MWh.
- The commodity swap counterparty fee in the transaction shall not exceed \$0.50 MWh.
- If any floating rate bonds are issued, Morgan Stanley shall charge no more than six basis points on the interest rate swap spread to mid-market.

The bond proceeds will pay all the transaction costs, and the Board-designated savings target will be net of these costs.

BACKGROUND

SVCE and East Bay Community Energy (EBCE) spent over two years creating the structure of the Power Prepay transaction with Morgan Stanley as the Prepay Bank Supplier (see timeline in Attachment 1). Using the established structure, SVCE successfully executed its first Prepay in September 2021 for a deal on average covering 50 MW or about 11% of SVCE's load. This transaction saves SVCE about 10% of the energy cost of the initial transaction assigned into the Prepay, about \$1.9 million per year during the initial bond pricing period of ten years.

Using the same structure as the first Prepay, SVCE, in January 2023, successfully executed its second Power Prepay structure. The second Prepay covers on average, about 55 MW or about 12% of SVCE's load and provides a substantial savings of approximately \$4.7 million per year during the initial bond pricing period of 6.5 years.

Staff would like to leverage the two years of work put into this structure by replicating it for another Prepay with the same counterparties as the first and second Prepay transactions. The Prepay structure is enhanced for the 3rd transaction to account for deviations in assigned energy volumes from the contracted volumes to settle on an annual as opposed to monthly basis, which better accommodates the assignment of intermittent renewable transactions.

Staff is contemplating the third Prepay to cover about 12 to 20 percent of SVCE's load. The large range is requested to take advantage of attractive market opportunities if there is sufficient market interest in the transaction with savings that exceed the 8 percent threshold stated earlier.

² SVCE and the other initial founding member CCAs created the CCCFA, a separate legal entity that can issue tax-exempt municipal bonds.

³ The CCCFA will be a counterparty to many of these agreements.

⁴ The 8 percent saving is relative to a fixed price for energy deliveries under the power supply contract that will be established at the time of the pricing of the bonds using available energy market prices and other information that will be reviewed and approved by SVCE's financial advisor, PFM Financial Advisors LLC.

Agenda Item: 2**Agenda Date: 10/3/2023**

Since our first transaction was executed, MCE and Pioneer have successfully executed their first Prepay transaction. Clean Power Alliance (CPA) has executed two Prepays. EBCE has executed its third Prepay using the approach staff recommends for SVCE's third transaction. Several other CCAs are currently pursuing a prepay transaction. The bond par value of CCA transactions executed through the California Community Choice Financing Authority (CCCFA) is just over \$7 Billion.

The goal of the prepayment transaction is to reduce the cost of power purchases on quantities delivered under the prepay structure with minimal risk to SVCE. The Prepay structure enables publicly owned utilities, including CCAs, to reduce their energy costs by financing the acquisition of long-term energy supplies with tax-exempt bonds. Attachment 3 provides an overview of the Prepay structure; this was shared with the Board and the Finance and Administration Committee before executing the first two Prepay transactions.

STRATEGIC PLAN

Entering a Prepayment transaction will further Goals #2, #3, and #15 of the SVCE Strategic Plan.

Goal #2: Acquire clean and reliable electricity in a cost-effective, equitable, and sustainable manner.

Goal #3: Manage and optimize power supply resources to meet affordability, GHG reduction, and reliability objectives.

Goal #15: Commit to maintaining a strong financial position.

ANALYSIS & DISCUSSION

SVCE has worked with these key parties for the first two Prepay Transactions for the role defined in the table below, except for Ballard Spahr, whom SVCE worked with for the second Prepay transaction. For the first Prepay Transaction, SVCE and EBCE conducted competitive solicitations that resulted in selecting PFM Financial Advisors LLC, Chapman and Cutler, and Morgan Stanley. Moody's Investor Service Inc. was chosen because they have the most experience rating Prepay Bonds of all the rating agencies. These parties discounted their service fees for the second and third Prepay, as shown in the table below.

Firms	Role	First Prepay	Second Prepay	Proposed for Third Prepay
PFM Financial Advisors LLC / PFM Swap Advisors	Municipal Advisor: Advises prepay buyer in negotiations, required by the Municipal Securities Rulemaking Board (MSRB), and on commodity and interest rate swaps.	\$250,000	\$175,000	\$155,000
Chapman & Cutler	Disclosure and Issuer's Counsel: Provides legal counsel and prepares official statement and prospectus	\$310,000	\$200,000	\$175,000
Ballard Spahr*	Bond and Tax Counsel: Represent bondholders and provide tax opinion on the transaction	N/A*	\$300,000	\$250,000
Moody's Investor Service Inc	Rating Agency: Provides the credit rating for the bonds	\$315,000	\$232,500	\$272,500
Total		\$1,300,000	\$907,500	\$852,500

For the first Prepay, SVCE worked with Orrick, Herrington & Sutcliffe as the bond and tax counsel for \$425,000. Because of a potential conflict of interest, SVCE did not work with this firm for the second transaction and, for the same reason, will not do so for this transaction. Ballard Spahr was selected in consultation with our financial advisor, PFM. Ballard Spahr has significant experience in Prepay transactions. PFM had contacted a few niche firms that provide Prepay Bond and Tax Counsel services. After a discussion

Agenda Item: 2**Agenda Date: 10/3/2023**

with PFM, staff agreed with PFM's recommendation of Ballard Spahr based on the competitiveness of their offer and their ability to leverage the work from SVCE's first Prepay transaction.

For this second Prepay transaction, the Prepay Supplier, Morgan Stanley, has proposed charging the same fee as the first two transactions.

When the Board approves the Prepay transaction, the transaction will include a commodity swap agreement with a Swap counterparty. SVCE expects the swap counterparty fee not to exceed \$0.50 MWh.

The transaction will entail other nominal costs within the CEO's execution authority. These include:

- Trustee (Bank of New York) ~\$35,000
- Trustee Counsel (Bank of New York Counsel) ~\$35,000
- Investment Advisor ~\$35,000
- Green Bond Second Party Opinion (Kestrel Verifiers) ~\$25,000
- Printing and other costs ~\$15,000

When the Board later approves the Prepay transaction and the terms for execution, the designated savings will be net of all these transaction costs.

The initial term of the bonds is expected to be about 5-10 years. SVCE will not execute the transaction unless, at a minimum, we can achieve an energy savings discount of at least 8 percent during the initial bond period. The actual discount will depend on the spread between taxable and tax-exempt rates. At the end of the initial term, the bonds will be refinanced, and the terms of the discount will be set per a Repricing Agreement. Closer to the time of the pricing of the Bonds, the Repricing Agreement will specify a minimum energy savings threshold for the future reset periods, which is currently anticipated to be about 4 percent. As the transaction progresses, the remaining shorter tenor will place downward pressure on future discounts.

The risks to SVCE are minimal as the debt will not be recourse to SVCE. If, for any reason, the structure falls apart, the energy contract(s) assigned to the Prepay will revert to SVCE, and the loss to SVCE will be the staff time spent on the project and the future savings expected to be generated by the prepayment transaction. The initial consultant and attorney fees are all contingent upon the execution of the transaction and will be financed from the bond proceeds.

The transaction is expected to cover 12 to 20 percent of our load, depending on the bond offering size. Combined with the first two Prepays, on average, the total load coverage is expected to be around 35 to 45 percent. As was discussed when seeking approval of the first Prepay transaction, SVCE can easily execute transactions to cover about 50 to 60 percent of the load, after which staff will need to conduct further portfolio optimization analyses.

FISCAL IMPACT

Like the first two Prepay transactions, this third transaction can also bring significant savings to SVCE's power procurement portfolio at minimal risks to SVCE. A savings of eight to ten percent for the initial bond term could amount to ~\$5 million per year or more, depending on the actual size of the transaction and the market economics when the transaction is executed.

ATTACHMENTS

1. Timeline of SVCE's First Prepay Transaction
2. Summary of the Details of the First Two Prepay Transactions and Cost Breakdown
3. Overview of the Prepay Structure

Attachment 1.

First Prepay Timeline

June-2019	SVCE presents Prepay Structure Overview Presentation (developed by Goldman Sachs) to the Finance and Admin Committee
Aug-2019	SVCE presents a brief verbal update on the prepay process to the Finance and Admin Committee
Sept-2019	SVCE and PFM Financial Advisors provide an update on the upcoming RFP process to the Finance and Admin Committee
Nov-2019	SVCE provides Prepay RFP Overview to Executive Committee <ul style="list-style-type: none"> - PFM issues RFP to select Prepay Bank Supplier on behalf of EBCE and SVCE on Nov 12th - RFP Proposals were due December 5th
Jan-2020	SVCE presents Prepay Structure Overview to the Finance and Admin Committee
Spring-2020	SVCE and EBCE conduct RFP evaluations to select Prepay Bank Supplier
July-2020	SVCE and EBCE select Morgan Stanley as a Prepay Bank Supplier
Aug-2020	SVCE provides a Prepay Status Report to the Finance and Admin Committee
Sept-2020	SVCE provides the Board with a Prepay Overview on preparing for a Prepay Transaction SVCE provides a Prepay Status Report to the Finance and Admin Committee
Oct-2020	SVCE Board Authorizes CEO to enter legal service agreements to finalize Prepayment Transaction (Orrick, Herrington & Sutcliffe and Chapman & Cutler LLP)
Nov-2020	SVCE provides a Prepay Status Report to the Finance and Admin Committee
Mar-2021	SVCE provides a Prepay Status Report to the Finance and Admin Committee SVCE provides a Prepay Status Report to the Executive Committee
April-2021	SVCE Board Approves Participation in the California Community Choice Financing Authority Joint Powers Authority
Aug-2021	The Finance and Admin Committee reviews the Prepay Transaction and votes to recommend Board approval. The Board authorizes execution of the first Prepay Transaction subject to parameters including that bonds are not obligations of SVCE, size of the bonds, and minimum savings target.
Sept-2021	Sept 9, 2021, bonds priced
Jan-2022	Power delivery under Prepay begins.

Attachment 2.

Summary of the Details of the First Prepay Transaction

Aggregate Principal Bond Amount	\$1,234,720,000 (SVCE and EBCE combined)
Total Bond Proceeds	\$1,475,895,642.5 (SVCE and EBCE combined)
Municipal Bond Rating	A1
Green Certification	Designated Green Bonds by Kestrel Verifiers
Initial Bond Pricing Period	<ul style="list-style-type: none"> 10 years. After the initial period, bonds will be repriced per the negotiated repricing agreement, and a new discount will be established based on the prevailing market conditions⁵.
Final Bond Maturity Date	<ul style="list-style-type: none"> February 1, 2052.
Discount Achieved	<ul style="list-style-type: none"> \$4.38 per MWh, about 10% of the energy cost of SVCE's 3-year transaction initially assigned into the Prepay. ~\$1.9 million per year for SVCE during the initial bond pricing period of ten years.
Energy Volume Supported by Bond Proceeds	109 MW, of which SVCE's share is 50 MW (about 11% of load) and EBCE's share is 59 MW for approximately the first ten years of the transaction; after that, the same proportional volume split will be maintained between SVCE and EBCE.

Summary of the Transaction Cost Breakdown (\$000)

Bond and Tax Counsel: Orrick, Herrington & Sutcliffe	425
Credit Rating: Moody's	315
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	310
Municipal Advisor: Public Financial Management	250
Investment Advisor: Public Financial Management Asset Mgmt	42
Trustee: Bank of New York (BNY)	32
Trustee Counsel: BNY Counsel	35
Printing Cost	3
Contingency/Other	10
Total COI	1,422
Morgan Stanley Underwriting	6,341
Total	7,763

⁵ The repricing agreement has a minimum savings requirement of \$2 per MWh.

Summary of the Details of the Second Prepay Transaction

Aggregate Principal Bond Amount	\$841,550,000
Total Bond Proceeds	\$891,418,648.10
Municipal Bond Rating	A1
Green Certification	Designated Green Bonds by Kestrel Verifiers
Initial Bond Pricing Period	<ul style="list-style-type: none"> 6.5 years. After the initial period, bonds will be repriced per the negotiated repricing agreement, and a new discount will be established based on prevailing market conditions.⁶
Final Bond Maturity Date	<ul style="list-style-type: none"> July 1, 2053.
Discount Achieved	<ul style="list-style-type: none"> \$9.77 per MWh, about 10% of the price established for energy deliveries under the power supply contract. ~\$4.7 million per year during the initial bond pricing period of 6.5 years.
Energy Volume Supported by Bond Proceeds	~55 MW (about 12% of load; a slight escalation in the latter half of the transaction)
Power Delivery Start Date	June 1, 2023

Summary of the Transaction Cost Breakdown (\$000)

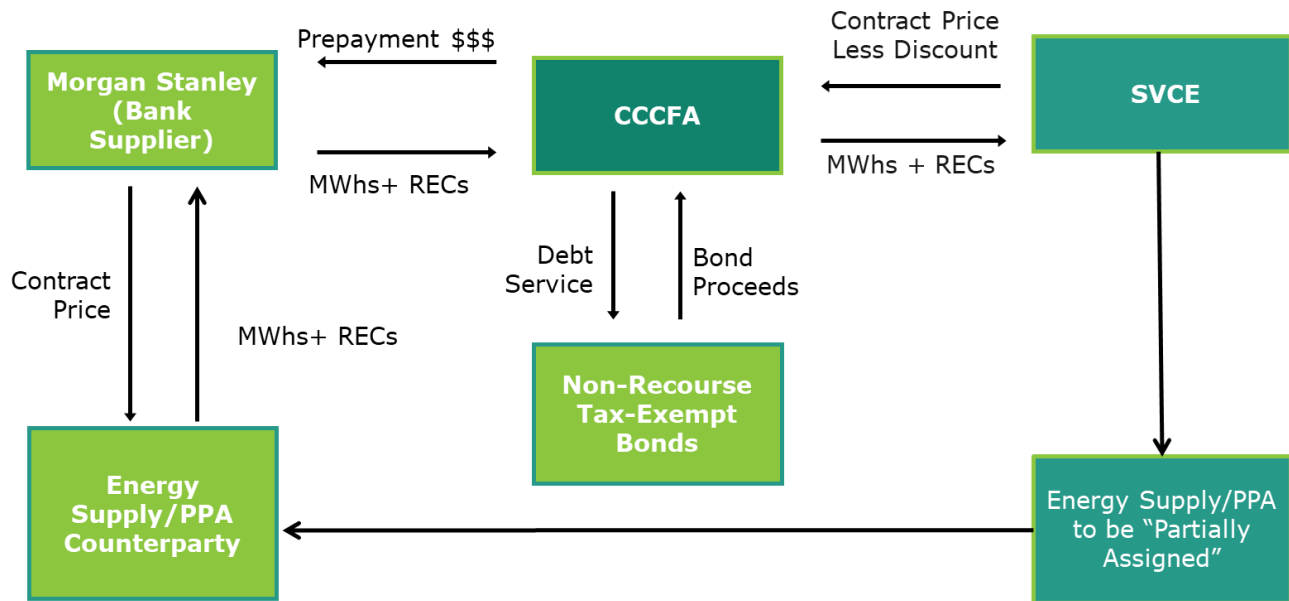
Bond and Tax Counsel: Ballard Spahr	300
Credit Rating: Moody's	232.5
Issuer's Counsel and Disclosure Counsel: Chapman & Cutler LLP	200
Municipal Advisor: PFM Financial Advisors LLC	175
Investment Advisor: PFMAM (US Bank)	35
Trustee: BNY Mellon Corporate Trust	30.9
Trustee Counsel: Ballard Spahr	30
Printing Cost: ImageMaster	3.3
Green Bond Second Party Opinion: Kestrel	22
Contingency/Other	16.8
Total COI	1,045.5
Morgan Stanley Underwriting	4,359.2
Total	5,404.7

⁶ The repricing agreement has a minimum savings requirement of \$4.50 per MWh.

Attachment 3.

Overview of the Prepay Structure

Structural Overview of Power Prepay



Under the existing non-Prepay structure, SVCE has Power Purchase Agreements (PPA) and other carbon-free energy transactions with a counterparty (Energy Supplier). The Energy Supplier provides energy and any associated renewable/carbon-free credits (environmental credits) to SVCE, and SVCE pays the Energy Supplier the contract price. Under the prepayment structure:

1. SVCE assigns its rights to energy under the energy contract equivalent to the prepaid quantity to Morgan Stanley at the contract price. Now, the Energy Supplier will provide the assigned quantity of energy with any associated environmental credits to Morgan Stanley. Morgan Stanley will pay the contract price to the Energy Supplier.
2. SVCE and the other initial founding member CCAs created the California Community Choice Financing Authority (CCCFA), a separate legal entity that can issue tax-exempt municipal bonds.
3. CCCFA issues non-recourse tax-exempt bonds secured by the contractual rights and transaction cashflows under a trust indenture. The bonds are not secured or guaranteed by SVCE or CCCFA. Based on the contractual agreements securing the bonds, the bonds will carry the credit ratings of Morgan Stanley.
4. CCCFA uses the proceeds from the bonds, net of all prepay transaction fees, and pays Morgan Stanley the present value of energy cost and any environmental credits that Morgan Stanley will deliver to CCCFA over the 30-year term of the transaction under a prepaid power agreement.
5. SVCE and CCCFA execute a power supply agreement. Under this agreement, SVCE pays CCCFA the initial contract price less a discount as CCCFA delivers to SVCE the energy and environmental credits it receives from Morgan Stanley.
6. CCCFA uses payments received from SVCE to pay interest and principal payments to the Bondholders.

Under the prepayment structure, SVCE receives the same energy and environmental credits from the Energy Supplier (indirectly via Morgan Stanley and then CCCFA) but for a lower price. The savings or lower price source is primarily the difference between taxable and tax-exempt debt interest rates. Morgan Stanley's

Agenda Item: 2**Agenda Date: 10/3/2023**

capital needs are funded by various means in taxable corporate markets with higher interest rates than tax-exempt debt. As a public agency, CCCFA can issue tax-exempt debt. When CCCFA provides the prepayment to Morgan Stanley for energy that Morgan Stanley will deliver over the term of the transaction, Morgan Stanley is effectively raising capital at a lower cost. On a negotiated basis, Morgan Stanley flows the savings to SVCE by lowering the price SVCE pays for the energy and any environmental credits. By using this prepayment structure, SVCE can reduce the cost of energy purchases delivered under this structure.

The bonds can have an initial term of about 5-10 years, and SVCE will not execute the transactions unless the Board-authorized savings can be realized. At the end of the initial term, the bonds will be refinanced, and the terms of the discount will be set per a Repricing Agreement, which will also specify a minimum discount threshold.

The risks to SVCE are minimal as the debt will not be recourse to SVCE. If the structure falls apart for any reason, the original energy contract will revert to SVCE, and the loss to SVCE will be the staff time invested in the project and the future savings expected to be generated by the prepayment transaction. The initial consultant and attorney fees are all contingent upon the execution of the transaction and will be financed from the bond proceeds.