



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Treasurer-Tax Collector
Department No.: 065
For Agenda Of: 5/17/2011
Placement: Departmental
Estimated Tme: 20 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors, in its own capacity and as
Board of Directors, Laguna County Sanitation District

FROM: Department Harry E. Hagen, CPA, CPFO, Treasurer-Tax Collector *H.E. Hagen*
Director(s) Scott D. McGolpin, Public Works Director *SMC*

Contact Info: Kim Tesoro, CPA, CPFO, Investment & Debt Officer, 568-2153
Mark Paul, Deputy Director, Public Works, 568-3016

SUBJECT: 2011 Laguna County Sanitation District Qualified Energy Conservation Bond

County Counsel Concurrence

As to form: Yes

Other Concurrence: Debt Advisory Committee

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

- A. That the Board of Supervisors and the Board of Directors approve a private placement financing with Wells Fargo Bank, National Association using Qualified Energy Conservation Bonds in an amount not to exceed \$4,170,000, payable over 15 years for the acquisition of a photovoltaic solar energy project;
- B. That the Board of Supervisors adopt a resolution approving the execution and delivery of an installment sale agreement with the Laguna County Sanitation District and a contract of purchase with Wells Fargo Bank, National Association; and authorizing certain other actions in connection with the financing of a photovoltaic solar energy project;
- C. That the Board of Directors adopt a resolution approving the execution and delivery of an installment sale agreement with the County of Santa Barbara and a contract of purchase with Wells Fargo Bank, National Association; and authorizing certain other actions in connection with the financing of a photovoltaic solar energy project;
- D. That the Board of Supervisors and the Board of Directors approve and authorize their respective Chairs to execute a contract in the amount of \$35,000 appointing Orrick, Herrington & Sutcliffe as Special Counsel to perform legal services as special counsel incident to the execution and delivery of a 2011 Installment Sale Agreement;

- E. That the Board of Supervisors and the Board of Directors authorize the Chair or Vice Chair to abandon the execution of the Installment Sale Agreement and the Contract of Purchase if the Treasurer reports that market conditions have become financially unfavorable;
- F. That the Board of Supervisors and the Board of Directors determine that the above actions are government funding mechanisms and/or fiscal activities that are not a project under the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(4) of the CEQA Guidelines.

Summary Text:

The Board of Directors, Laguna County Sanitation District approved that Public Works proceed with the use of solar power to reduce operational costs. The Board of Directors also directed that options for financing these projects be developed and a recommendation be brought back for consideration. The Debt Advisory Committee has considered the options and recommends the use of Qualified Energy Conservation Bonds (QECCBs). The proposed issuance will not exceed \$4,170,000.

Background:

The Laguna County Sanitation District operates a wastewater reclamation plant serving the Orcutt and southern Santa Maria area. Water is treated to disinfected tertiary recycled water levels; some water goes through salt reduction using reverse osmosis. The treated water is then discharged by irrigation. These operations are large consumers of electricity, which is a fair portion of the annual operating budget with annual costs ranging between \$360,000 and \$420,000 based on a power demand between 3.0 and 3.5 million kWh annually. In 2009, the solar power industry began reaching out to water and wastewater agencies as ideal candidates for solar power. Laguna County Sanitation District is particularly well situated for solar power generation with available south facing land adjacent to the plant not immediately visible to the public.

On February 1, 2011, the Board of Directors approved the project and entered into an energy service contract for final design, construction and startup of the system. The project is comprised of the installation of approximately 4,000 photovoltaic modules mounted on racks supported on driven steel piles along with associated inverters, control panels and other electrical equipment located on fallow land adjacent to the plant. The system will be connected to the two plant meters via underground conduit placed in existing dirt roads.

Pursuant to state CEQA requirements and the county's CEQA guidelines, a Mitigated Negative Declaration was prepared to evaluate the environmental impacts of the proposed solar energy facility. With the exception of potential biological impacts, the project is not expected to result in any significant environmental impacts.

Funding mechanisms reviewed included long term power purchases and various debt service alternatives for system ownership. These alternatives were presented to the Debt Advisory Committee (DAC) on August 13, 2010. The recommended funding mechanism includes rebates available from the California Public Utilities Commission (CPUC) through Pacific Gas & Electric Company (PG&E) and the use of QECCBs. The amount of financing sought is \$4,170,000 to cover the costs of design, environmental documentation, studies, procurement and installation, and bond issuance costs. On March 31, 2011 the DAC approved the private placement financing with Wells Fargo Bank, National Association.

QECCBs are similar to the Recovery Zone Economic Development Bonds (RZEDBs) that the County issued last year for the Emergency Operations Center and Public Defender remodel projects, however,

the QECCBs may only be used for qualified energy conservation projects. They are taxable bonds that entitle the issuer to receive a direct subsidy payment from the US Treasury equal to the lesser of (i) the taxable rate of the bonds or (ii) 70% of the Tax Credit Rate on every semi-annual interest payment date. Like the RZEDBs, the proceeds of QECCBs are required to be spent within 3 years.

The representations and certifications of the County and District have been reviewed by County Counsel and the District. The representations are important because the Installment Agreement provides that the County or District will be in default if any representation or warranty made under this Agreement shall prove to be incorrect, false or misleading in any material respect when made. In the event of such default, the Purchaser may, by notice in writing to the District, declare the entire principal amount of the unpaid 2011 Installment Payments and the accrued interest thereon to be due and payable immediately.

Performance Measure:

Implementation of the PV solar facility will reduce operational costs for electricity.

Fiscal and Facilities Impacts:

Annual debt service is required to be appropriated annually in the County's budget by the covenants of the issuance. Debt service will be paid semi-annually commencing in the 2011-2012 fiscal year.

Fiscal Analysis:

The project has been sized at 1 MW to maximize the rebates and will generate approximately 60% of the plant's power needs and offset approximately 80% of the plant's electrical costs (the existing cogeneration system provide much of the remaining power needs). Power from the solar facility would be generated during daylight hours, of which, 67% would correspond to peak and partial peak periods when PG&E rates are the highest. There will be times when power would still be purchased from PG&E but this would generally occur during lower rate periods. In addition, some solar power would be generated that will exceed demand resulting in cost credit on the electric bill. Electricity demand and cost will be controlled through net metering with PG&E on a revised tariff schedule that takes advantage of credit values. Based on financing, depreciation, escalation in electrical costs, maintenance and replacement of equipment, it is anticipated that the project would save approximately \$12 million over a 30 year period with debt service being retired after 15 years.

An issuance of QECCBs in an amount not to exceed \$4,170,000 for a 15 year term is proposed for approval. The interest rate will be fixed at closing and based on a spread to the 10-year Treasury. Based on current market rates, the bond rate is estimated to be 5.41%. After accounting for the approximately 70% subsidy, the effective rate would be 1.81%. Total gross debt service payments are approximately \$6,000,000 with an average annual gross debt service of \$401,000. The total interest subsidy is approximately \$1,200,000 which results in an annual net debt service of \$319,000. The annual debt service payment will be made by the District from existing revenues currently used to pay for electrical costs resulting in no impact to sewer service rates.

Special Instructions:

Please return two full sets of signed resolutions and one signed Agreement for Special Counsel Services to Kim Tesoro in the Treasurer-Tax Collector's office. The Treasurer's office will forward these documents to Special Counsel for inclusion with the closing documents.

Attachments:

1. Resolution of the Board of Supervisors approving the execution and delivery of an installment sale agreement with the Laguna County Sanitation District and a contract of purchase with Wells Fargo Bank, National Association; and authorizing certain other actions in connection with the financing of a photovoltaic solar energy project
2. Resolution of the Board of Directors of the Laguna County Sanitation District approving the execution and delivery of an installment sale agreement with the County of Santa Barbara and a contract of purchase with Wells Fargo Bank, National Association; and authorizing certain other actions in connection with the financing of a photovoltaic solar energy project
3. Installment Sale Agreement
4. Contract of Purchase
5. Agreement for Special Counsel Services
6. Summary of Terms and Conditions
7. Sources and Uses of Funds (Estimated)

Authored by:

Mark Paul, Deputy Director, Public Works, x3016
Kim Tesoro, Investment & Debt Officer, x2153