



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: 9/6/2011
Placement: Departmental
Estimated Tme: 15 minutes
Continued Item: No
If Yes, date from:
Vote Required: 4/5

TO: Board of Supervisors
FROM: Department Harry E. Hagen, CPA, CPFO, CPFIM, Treasurer-Tax Collector
Director(s)
Contact Info: Kim Tesoro, CPA, CPFO, Investment & Debt Officer, 568-2153
**SUBJECT: General Services Photovoltaic Solar Energy Project Financing and 2001
Certificates of Participation Refunding**

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: Debt Advisory Committee

As to form: Yes

Recommended Actions: That the Board of Supervisors:

- a. Approve a lease-leaseback financing with Wells Fargo Bank, National Association for the purpose of 1) the acquisition of a photovoltaic solar energy project utilizing the Qualified Energy Conservation Bond (QECB) subsidy, and 2) refunding the 2001 Certificates of Participation (COPs) in a total financing amount not to exceed \$22,500,000;
- b. Adopt a resolution authorizing the execution and delivery of a lease, a sublease, an assignment agreement, a contract of purchase and an escrow agreement; and authorizing certain other actions in connection with a lease financing;
- c. Approve and authorize the Chair to execute a contract, in the amount of \$35,000 for the QECB and \$45,000 for the refunding, appointing Orrick, Herrington & Sutcliffe to perform legal services as bond counsel incident to the execution and delivery of the 2011 Sublease;
- d. Direct the County Treasurer-Tax Collector, County Auditor-Controller, County Counsel, and General Services to proceed with all necessary actions required to proceed with the QECB financing and the refunding of the 2001 Certificates of Participation;
- e. Authorize the Treasurer-Tax Collector to abandon the financing if market conditions have become financially unfavorable;
- f. Approve the attached budget revision; and

- g. 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 Supervisors approved the installation of a one megawatt photovoltaic system on the Calle Real Campus in Santa Barbara to reduce dependence on the national electrical grid, reduce the County's carbon footprint and, over time, reduce electrical costs. In April 2011, the Debt Advisory Committee (DAC) considered the financing options and recommended the use of Qualified Energy Conservation Bonds (QECBs). The proposed QECB subsidy portion of the financing will not exceed \$5,250,000.

Additionally, in August 2011, the DAC voted to recommend the refunding of the 2001 Certificates of Participation (COPs) to benefit from historically low interest rates. Preliminary information compiled by Wells Fargo Bank, N.A. indicates a net present value savings of over \$1,500,000. The proposed tax-exempt portion of the financing will not exceed \$17,250,000.

Background:

On June 7, 2011, the Board of Supervisors approved the Calle Real photovoltaic solar project and entered into an energy services agreement for final design, construction and startup of the system. The project involves the installation of approximately 4,500 solar panels on a hillside site behind the existing County Jail in Santa Barbara. The project will generate approximately one megawatt of electricity to help power the County Jail facility and other nearby County facilities.

Pursuant to state CEQA requirements and the county's CEQA guidelines, a Draft Mitigated Negative Declaration was prepared to evaluate the environmental impacts of the proposed solar energy facility and notifications were mailed to the surrounding neighbors and the appropriate agencies. After receiving public comments, a Final Mitigated Negative Declaration was completed and certified by the County Planning & Development Department on April 5, 2011. The recommended mitigation measures will be implemented on the photovoltaic solar project.

Funding mechanisms reviewed for the project included long term power purchases and various debt service alternatives for system ownership. These alternatives were presented to the DAC on April 25, 2011. The recommended funding mechanism includes rebates available from the California Public Utilities Commission (CPUC) through Southern California Edison Electric of \$1,700,000 and the use of QECBs. The amount of financing sought is \$5,250,000 to cover the costs of design, environmental documentation, studies, procurement and installation, and bond issuance costs. On August 12, 2011 the DAC approved the direct purchase financing with Wells Fargo Bank, National Association.

QECBs 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 QECBs 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 QECBs are required to be spent within 3 years.

The 2001 COPs financed the following projects: Clerk-Recorder Building (Naomi Schwartz building), Casa Nueva, Mental Health Building, Juvenile Hall Expansion, Juvenile Court, District Attorney Facility, Court Seismic Deficiencies and Jail Air Conditioning System. The 2001 COPs had a par amount of \$31,425,000, average annual debt service of \$2,500,000 and an all-in true interest cost of 4.48%.

Performance Measure:

Implementation of the photovoltaic solar facility will reduce the County's dependence on the national grid, reduce the County's carbon footprint and reduce the County's electrical utility costs over time.

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:

An issuance of QECBs in an amount not to exceed \$5,250,000 for a 15 year term is proposed for approval. The interest rate will be fixed at pricing and based on a spread to the 10-year Treasury on such date. Based on current market rates, the average coupon rate is estimated to be 4.31%. After accounting for the approximately 70% subsidy, the effective rate would be approximately 1.21%. Total gross debt service payments are approximately \$7,150,000 with an average annual gross debt service of \$471,000. The total interest subsidy is approximately \$1,370,000 which results in an average annual net debt service of \$381,000. The annual debt service payment will be made by the Utilities Internal Service Fund from electric utility cost savings and rebates from Southern California Edison Electric.

The 2001 COPs were issued in December 2001 in the amount of \$31,425,000 and currently have \$22,540,000 in outstanding principal proposed to be refunded. The Flood Control District and Resource Recovery have requested to pay off their share of the debt, \$784,000 and \$668,000 respectively, for the Naomi Schwartz building. The average coupon rate of the refunded bonds would drop from 5.19% to 2.2% resulting in estimated savings of \$1,600,000 over the next 10 years or a net present value savings of \$1,500,000. The annual savings for Fiscal Year 2011-12 is estimated to be \$120,000.

All numbers in the fiscal analysis section are current estimates and will be fixed at pricing.

Special Instructions:

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

Attachments:

1. Resolution of the Board of Supervisors authorizing the execution and delivery of a lease, a sublease, an assignment agreement, a contract of purchase and an escrow agreement; and authorizing certain other actions in connection with a lease financing
2. Lease
3. Sublease
4. Assignment Agreement
5. Contract of Purchase
6. Escrow Agreement
7. Agreement for Bond Counsel Services
8. CDLAC Resolution
9. Sources and Uses of Funds (Estimated)
10. Budget Revision
11. Presentation

Authored by:

Kim Tesoro, Investment & Debt Officer, x2153