BOARD OF SUPERVISORS
AGENDA LETTER

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

Agenda Number:

Department Name:	Public Works
Department No.:	054
For Agenda Of:	9/28/2010
Placement:	Administrative
Estimated Tme:	
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO: Board of Directors, Laguna County Sanitation District

FROM:

	Department Director(s)	Scott D. McGolpin, P.E., x3010 Public Works Department
	Contact Info:	Mark A. Schleich, P.E., x3610 Deputy Public Works Director
		Mark A. Paul, CPFO, x3010 Deputy Public Works Director

SUBJECT: **Photovoltaic Solar Power Project at the Laguna County Sanitation District Wastewater Reclamation Plant, Fourth Supervisorial District**

County Counsel Concurrence
As to form: N/A

Auditor-Controller Concurrence
As to form: N/A

Other Concurrence: Debt Advisory Committee
As to form: Yes

Recommended Actions:

Adopt a resolution: "In the Matter of Declaring its Official Intent to Apply for Qualified Energy Conservation Bonds (QECB) and Reimburse Certain Expenditures from Proceeds of Indebtedness".

Summary Text:

The Laguna County Sanitation District is pursuing the use of solar power to reduce operational costs. Requests for proposals resulted in competitive alternatives for consideration. Purchasing the photovoltaic (PV) solar system and contracting for installation is the most economic alternative and this action authorizes staff to pursue the most cost effective loan available to finance the project.

The project consists of connecting approximately 4,000 panels adjacent to the reclamation plant and connecting them the two existing electric meters. The 1 MW size maximizes the available rebate, which is expected to offset 60% of the power demand and 80% of the energy bill. The proposed financing amount is $4.5 million, which will cover all costs including installation, studies, administrative, and loan costs. With the Debt Advisory Committee (DAC) recommendation, the District will be applying for an allocation of qualified energy conservation bonds.

Background:

The Laguna County Sanitation District operates a wastewater reclamation plant serving the Orcutt and unincorporated Santa Maria area. Water is treated to disinfected tertiary recycled water levels and discharged by irrigation. Power consumption is a fair portion in the annual operating budget with annual costs ranging between $360,000 and $420,000 annually with 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.

Based on existing power demands, an approximate 1 MW facility fits well with the property and electricity load profile. In addition, a 1 MW facility takes advantage of California Solar Initiative Program rebates available through Pacific Gas & Electric Company from the California Public Utilities Commission. These rebates are provided monthly over the first five years of operation and have been secured for this project. To take advantage of these opportunities, staff let a request for proposals with the help of Kenwood Energy, an energy consultant, to evaluate the opportunities available. Ten proposals were submitted addressing company qualifications, equipment, as well as power supply mechanisms (purchasing power from a private supplier versus owning the constructed system). Interviews were held with three short listed proposers. Further evaluation into experience and cost analysis indicates that the purchase option (owning and operating the system) is the most advantageous alternative from both a net present worth analysis and from a long term (30 year) savings analysis ($5.1 million and $12 million respectively). The next best option was the power purchase agreement ($4.7 million and $10.7 respectively).

Various financing mechanisms were presented to the DAC agenda on August 13, 2010. Staff recommended and the DAC concurred with seeking Qualified Energy Conservation Bond (QECB) financing as the best financing mechanism but recognized that certificates of participation (COPs) or Clean renewable Energy Bond (CREB) financing may work as well. QECBs are qualified tax credit bonds that may be used by local governments to finance energy projects. *The American Recovery and Reinvestment Act of 2009* expanded the allowable bond volume to $3.2 billion. The IRS has provided guidance on how the program will operate and how the bond volume will be allocated and has introduced an option allowing issuers of QECBs to recoup part of the interest they pay on a qualified bond through a direct subsidy from the Department of Treasury.

With tax credit bonds, generally the borrower who issues the bond pays back only the principal of the bond, and the bondholder receives federal tax credits in lieu of the traditional bond interest. The tax credit may be taken quarterly to offset the tax liability of the bondholder. Energy conservation bonds differ from traditional tax-exempt bonds in that the tax credits issued through the program are treated as taxable income for the bondholder.

The bond issuer may make an irrevocable election to receive a direct payment from the Department of Treasury equivalent to the amount of the non-refundable tax credit described above, which would otherwise accrue to the bondholder. The direct payment comes in the form of a refundable tax credit to the issuer in lieu of a tax credit to the bondholder. This option was formerly limited to Build America

Bonds (see 26 USC § 6431, H.R. 2847 and IRS Notice 2010-35 for details). The advantage of either option is that it creates a lower effective interest rate for the issuer because the federal government subsidizes a portion of the interest costs.

The estimated issuance amount will be $4.5 million for the purchase and issuance costs. In order to issue QECBs, Laguna County Sanitation District will need to apply to the state for an allocation. This board letter requests the board adopt a resolution authorizing staff to apply for QECB financing. If negotiations are successful, the department will return to your Board later this fall to award the contract.

Performance Measure:

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

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

Funding Sources	Current FY Cost:	Annualized On-going Cost:	Total One-Time Project Cost
General Fund			
State			
Federal			
Fees			
Other: QECB Loan			$4,500,000
Total	$ -	$ -	$4,500,000

Narrative: Use of the proposed 1 MW solar PV system is projected to reduce operating costs by $100,000 per year for the first seven years and then increasing with realized saving of $12 million over 30 years. The debt service will be funded by savings in electric energy costs. The proposed finance amount of $4.5 million is intended to cover installation, review, administrative, and funding costs.

Staffing Impacts:

Legal Positions:	FTEs:
None	None

Special Instructions:

Direct the Clerk of the Board to forward one (1) copy of the certified minute order and one (1) copy of the resolution to each Martin Wilder in Santa Maria, and Mark Paul and Mark Schleich in Santa Barbara in the Public Works Department.

Attachments:

Resolution: "In the Matter of Declaring its Official Intent to Apply for Qualified Energy Conservation Bonds (QECB) and Reimburse Certain Expenditures from Proceeds of Indebtedness".

Authored by:

Martin Wilder, P.E.
Utilities Manager, x8755

Copy: Mark Paul