TO: HONORABLE CITY COUNCIL
ATTENTION: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: JUNE 20, 2006 CMR:240:06
SUBJECT: APPLICATION FOR CLEAN RENEWABLE ENERGY BOND TO FINANCE THE PHOTOVOLTAIC SOLAR PANEL PROJECT AT THE BAYLANDS INTERPRETIVE CENTER, CUBBERLEY COMMUNITY CENTER, AND THE MUNICIPAL SERVICE CENTER

This is an informational report and no Council action is required.

BACKGROUND
With the passage of the Energy Tax Incentives Act of 2005 (the Act), Congress authorized “up to $800 million of tax credit bonds to be issued by qualified issuers to finance certain renewable energy projects….” Of the $800 million, $500 million was allocated to “qualified borrowers that are governmental bodies….” Known as Clean Renewable Energy Bonds (CREBs), these are interest-free financing instruments (in lieu of receiving interest, lenders receive a tax credit against Federal income taxes) that can be used for wind, closed and open-loop biomass, geothermal, solar energy, small irrigation power, landfill gas, and other qualifying facilities.

Applications for these bonds were due to the Internal Revenue Service of the Treasury Department by April 26, 2006.

DISCUSSION
Staff from the Utilities and Administrative Services departments has submitted an application for the CREBs. There was an extremely short time frame between notification and the application’s due date. Although staff believes the CREBs represent a unique funding opportunity, an approved application does not automatically require bond issuance. As in the past, the City Council must approve issuing bonds for a project.

The Electric Fund’s photovoltaic solar panel project, which will place solar panels at the Baylands Interpretive Center, Cubberley Community Center, and Municipal Service Center, fits the profile for a CREBs “qualified project” and was submitted for approval. This project, whose design is nearing completion, was certified by an independent, licensed engineer as meeting the Act’s criteria. Staff’s understanding is that the Act’s funds are to be distributed as widely as possible. This translates into the IRS approving applications for relatively small, feasible...
projects that will yield immediate benefits and that can be easily replicated in the future. Demand for these bonds is expected to be highly competitive.

Should the CREBs application be successful and Council approves issuing bonds, the $2.78 million solar panel project would be funded by a US Department of Energy grant of $1.35 million and CREBs funding of $1.43 million. If the City’s application is unsuccessful, the project will still move forward using $1.43 million from the Electric Fund’s public benefit monies.

As stated, CREBs represent an interest free loan to the City. Issuance costs, preliminarily estimated at $70,000, would be paid through bond proceeds raising the bond issuance from $1.43 million to $1.50 million. Because of the unique characteristics of CREBs, their novelty to the investment community, and the relatively small amount of the borrowing, staff will return with a recommendation to use the City’s financial advisor, Stone and Youngberg, as the underwriter. This is a departure from the City’s customary practice of using Stone and Youngberg solely as financial advisor and performing a competitive bid using other underwriting firms. In this instance, a “negotiated settlement” or direct sale by an underwriter is prudent and will be recommended by staff if the CREB request is approved.

**RESOURCE IMPACT**

A successful application would result, with Council’s approval, in the issuance of $1.5 million in CREBs. The bonds or principal would be repaid with public benefit funds that are required to be set aside at 2.85% of revenue in the Electric Fund. At the end of 2004-05, the public benefits reserve balance was $2.2 million. This interest-free loan allows the Electric Fund to earn interest on the principal that would otherwise be used for the project (the Electric Fund typically relies on a “pay-as-you-go” basis for similarly sized projects). Assuming the payment requirements of the loan, a possible 20-year amortization period, and a 5% interest rate, the Fund would earn $0.56 million in present value dollars. This value would be offset by the costs of issuance estimated at $0.07 million.

**POLICY IMPLICATIONS**

This project is consistent with Council policies, especially with its goal to promote sustainable energy, and with the Utilities Department’s Strategic Plan.

**ENVIRONMENTAL REVIEW**

Application for Clean Renewable Energy Bond authority does not constitute a project for the purposes of the California Environmental Quality Act (CEQA).