County of Santa Cruz

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Carlos J. Palacios, County Administrative Officer

Meeting Date: November 7, 2017

Date: October 25, 2017

To: The Board of Supervisors

From: Carlos J. Palacios, County Administrative Officer

Subject: Approve Issuance of Clean Renewal Energy Bonds

On June 27, 2017, your Board approved a Power Purchase Agreement and Site Lease Agreement (PPA) with Solar Star Santa Cruz, LLC, a financing vehicle for SunPower Corporation (SunPower). The PPA provided for installation of solar photovoltaic panels at eight sites throughout the County. The PPA also provided that the County would apply for an allocation from the Internal Revenue Service (IRS) to issue New Clean Renewable Energy Bonds (CREBs) to finance the acquisition and installation of the solar photovoltaic installations (Equipment) in lieu of SunPower financing those expenditures through the PPA. The County applied for and received an allocation to issue CREBs in July 2017. Staff has reviewed the CREBs financing cost compared to the PPA payments and has determined that CREBs are a more cost-effective financing method for the Equipment.

If the CREBs are issued in lieu of funding the Equipment acquisition and installation through the PPA, new agreements with SunPower are required to pay for the acquisition and installation (the "EPC Contract"), the performance guarantee (the "PeGu Contract"), and the ongoing operation and maintenance by SunPower (the "O&M Contract"). These costs were originally included in the PPA. The EPC Contract includes the 1.9% SEED fee approved by the Board in April 2016. These contracts will be brought before your Board upon final negotiation of costs.

The EPC cost for each of the 8 sites is shown below.

Site	Size (kW)	Production (kWh)	Equipment Cost(1)	SEED Fee - 1.9% of Total	Total EPC Price
1080 Emeline Ave	539	851,763	$1,682,831	$31,974	$1,714,805
1400 Emeline Ave	585	878,547	1,962,733	37,292	2,000,025
Main County Bldg	267	377,403	662,950	12,596	675,546
Mens Detention Center	226	359,010	634,631	12,058	646,689
Public Safety Center	423	670,159	1,633,796	31,042	1,664,838
Animal Shelter	73	108,352	259,504	4,931	264,435
Simpkins Swim Center	78	119,951	408,888	7,769	416,657
Brommer Yard	61	95,263	363,488	6,906	370,394
Total	**2,252**	**3,460,448**	**$7,608,821**	**$144,568**	**$7,753,389**

(1) Includes change order contingecy of $109,006

CREBs Financing

CREBs are issued as taxable bonds, and the County is eligible to receive an interest subsidy from the federal government (Subsidy), currently equal to a 2.70% interest rate. If the CREBs taxable interest rate is 3.5%, for example, the County's net effective interest rate would be 0.80%.

The required financing amount is estimated to total $7.9 million.

EPC Cost	$7,753,389.00
Costs of Issuance	197,761.00
	$7,951,150.00
County Deposit to Costs	(51,150.00)
Net Bond Issue	$7,900,000.00

The IRS only allows 2% of the CREBs proceeds to be used to pay costs of issuance, so a deposit by the County for the excess of those costs ($40,000) is required. In addition, the CREBs approved amount for Brommer Yard was $11,150 less than the EPC cost when updated to increase the size of the Equipment, so an additional deposit will be required to fund the Brommer Yard EPC cost in excess of the CREBs approval.

The debt service payable for the CREBs is calculated net of the Subsidy. This net amount, plus the new PeGu Contract and O&M Contract costs, together with any other upfront out-of-pocket expenses, was compared to PPA payments. Based on this comparison, the CREBs are estimated to reduce the funding cost for the Equipment to the County General Fund by over $3 million over 25 years, with a present value of over $1.2 million.

Energy Savings

Certain assumptions were used to project energy savings resulting from installation of the Equipment, including a degradation in the efficiency of the Equipment by one-quarter percent by year, an average 4% increase in the cost of electricity, a separate calculated cost per Kwh of PG&E electricity at each site based on an analysis prepared by Optony related to specific power usage at each site, and inflation in the O&M Contract and PeGu Contract at 2.5% annually.

The Equipment is anticipated to be completely installed and operating by April 2018 for all sites, and sooner for some sites. There will be some energy savings in FY 2017-18 to offset the first net debt service payment on the CREBs scheduled to occur in June 2018. These energy savings would also offset the first year up-front O&M Contract and PeGu Contract payment, as well as the other up-front expenses not paid from the CREBs bond proceeds.

Comparison of Energy Savings with CREBs Financing Costs

To determine that there are no expected net County costs to the financing, installation and operation of the Equipment, the following compares the projected energy savings from the new Equipment with the financing and other costs to operate the Equipment.

FY	Kwh Generated	$ Solar Savings	O&M/ PeGu	County Costs	Net Energy Savings	Net Debt Service	Difference
2017-18	1,269,639	$ 256,985	$ (63,125)	$ (51,150)	$ 142,711	$ 24,000	$ 118,711
2018-19	3,460,448	700,422	(64,703)	-	635,719	472,000	163,719
2019-20	3,451,797	726,617	(66,320)	-	660,297	458,000	202,297
2020-21	3,443,167	753,793	(67,978)	-	685,814	485,000	200,814
2021-22	3,434,559	781,985	(69,678)	-	712,307	506,000	206,307
2022-23	3,425,973	811,231	(71,420)	-	739,811	503,000	236,811
2023-24	3,417,408	841,571	(73,205)	-	768,366	504,000	264,366
2024-25	3,408,865	873,046	(75,035)	-	798,010	505,000	293,010
2025-26	3,400,342	905,698	(76,911)	-	828,786	504,000	324,786
2026-27	3,391,842	939,571	(78,834)	-	860,737	506,000	354,737
2027-28	3,383,362	974,711	(80,805)	-	893,906	504,000	389,906
2028-29	3,374,904	1,011,165	(82,825)	-	928,340	505,000	423,340
2029-30	3,366,466	1,048,982	(84,896)	-	964,087	506,000	458,087
2030-31	3,358,050	1,088,214	(87,018)	-	1,001,196	506,000	495,196
2031-32	3,349,655	1,128,914	(89,193)	-	1,039,720	506,000	533,720
2032-33	3,341,281	1,171,135	(91,423)	-	1,079,712	508,000	571,712
2033-34	3,332,928	1,214,935	(93,709)	-	1,121,226	505,000	616,226
2034-35	3,324,595	1,260,374	(96,052)	-	1,164,322	506,000	658,322
2035-36	3,316,284	1,307,512	(98,453)	-	1,209,059	-	1,209,059
2036-37	3,307,993	1,356,413	(100,914)	-	1,255,499	-	1,255,499
2037-38	3,299,723	1,407,143	(103,437)	-	1,303,706	-	1,303,706
2038-39	3,291,474	1,459,770	(106,023)	-	1,353,747	-	1,353,747
2039-40	3,283,245	1,514,365	(108,674)	-	1,405,692	-	1,405,692
2040-41	3,275,037	1,571,002	(111,390)	-	1,459,612	-	1,459,612
2041-42	3,266,850	1,629,758	(114,175)	-	1,515,583	-	1,515,583
2042-43	3,258,682	1,690,711	(117,030)	-	1,573,681	-	1,573,681
		$ 28,426,021	$ (2,273,226)	$ (51,150)	$ 26,101,645	$ 8,513,000	$ 17,588,645

As noted, the Net Debt Service shown above is net of the Subsidy. The Subsidy is subject to sequestration by the federal government. Currently, the subsidy is reduced by 6.6% of the original maximum subsidy provided for in the CREBs legislation, and that is the rate used in the analysis for the 17 years that the CREBs will be outstanding. The Subsidy reduction was as high as 7.9% of the maximum allowed subsidy in the first year of sequestration. Therefore, the Subsidy amount can change if sequestration changes. There should be sufficient contingent net energy savings to cover any sequestration impacts, as well as any fluctuations in actual results compared to projected results based on energy rates.

Lease Revenue Bonds

Staff is recommending financing the Equipment through the issuance of Lease Revenue Bonds (as Direct Pay Subsidy New Clean Renewable Energy Bonds) by the Santa Cruz County Capital Financing Authority (Authority). The County will lease property from the Authority, and the County's lease payments will secure the Authority Bonds, as described further below.

This financing structure is similar to the Lease Revenue Bonds and Certificates of Participation financings that your Board has used for capital financing in the past. Your Board formed the Santa Cruz County Capital Financing Authority in 2014 to assist in lease financing such as this financing.

Based on current interest rates, the County's Financial Advisor, Harrell & Company Advisors, is estimating an effective interest rate for the taxable CREBs maturing in 17 years of 3.5%, based on the County's current bond ratings of AA by Standard & Poor's. Net of the 2.7% Subsidy, the effective financing cost is anticipated to be 0.8%.

The financing requires a lease of an asset from the Authority to the County. The County's lease payments to the Authority are used as a revenue stream to secure repayment of the Bonds. The leased assets recommended for securing the County's lease payment (and thus the Bonds) will be County Administrative Office and main Court building. Both buildings have a highly essential purpose, a quality that investors are looking for when purchasing lease revenue bonds. This building was also used in 2015 to secure Lease Revenue Bonds.

Final costs will be determined when the Bonds are sold, which is anticipated in mid- November. The closing and delivery of funds is expected to occur in December.

The County's Financial Advisor solicited underwriting proposals from Stifel, Nicolaus & Company, Inc. (Stifel), Raymond James, Hilltop Securities and Brandis Tallman. After evaluation of the proposals submitted, Stifel was selected as underwriter. Based on the recent sale of the County's Taxable Tax Allocation Bonds, Stifel was expected to provide the lowest possible interest rates on the financing.

Public Hearing

Approval of the financing and the new agreements with SunPower requires adoption of resolutions by your Board and by the Authority Board after your Board conducts a public hearing.

Because the Bonds are being sold through the Authority, the County, as the jurisdiction where the facilities being financed are located, is required to hold a public hearing before the Authority may approve a resolution authorizing the sale of the Bonds. After the public hearing, your Board must find that there will be significant public benefit to the County from the issuance and sale of Bonds by the Authority for the purpose of financing the improvements.

"Significant public benefit" includes a demonstrable savings in effective interest rate, bond preparation, bond underwriting, or bond issuance costs. Combining the financing of the eight separate CREBs-approved components into one financing by the Authority will reduce overall issuance costs through economies of scale, and the increased size of the financing (compared with separate smaller financings) will result in more interested investors, which can reduce the effective interest rate on the financing. Further, the use of Lease Revenue Bonds, rather than through Certificates of Participation, will also broaden investor appeal and can result in a lower effective interest rate.

After the public hearing your Board must also find that the anticipated cost to the County for electrical energy from the Equipment or conservation services provided by the SunPower will be less than the anticipated marginal cost to the County of electrical energy that would have been consumed by the County in the absence of those purchases. In addition, the your Board must find that funds for the repayment of the Bonds or the cost of design, construction, and operation of the Equipment, or both, as required by the contract, are projected to be available from revenues resulting from funding that otherwise would have been used for purchase of electrical energy required by the County in the absence of the Equipment. The findings will be based on the projections in the table above showing the comparison of energy savings with the financing and operation costs.

Authorizing Resolutions and Method of Sale

The resolution of the Board of Supervisors approves the parameters of sale and documents required for the issuance of the Bonds. The resolution authorizes the County Administrative Officer to sell the Bonds to Stifel at an interest rate not-to-exceed 5% (prior to the Subsidy) and with an underwriter's discount not-to-exceed 0.5% of the par amount of the Bonds, in a total amount not-to-exceed $8,600,000. This resolution also approves the form of the following documents:

- First Amendment to Site and Facility Lease between the City and the Authority;
- First Amendment to Lease Agreement between the City and the Authority;
- Preliminary Official Statement;
- Bond Purchase Agreement between the County, the Authority and Stifel.

The preliminary official statement was prepared by staff and the Financial Advisor, with input from the County's bond counsel and disclosure counsel. Your Board's review of the sections of the preliminary official statement describing the County and the County's financial information is requested and any modifications communicated to staff.

Other actions required by the Authority appear elsewhere on today's agenda.

IT IS THEREFORE RECOMMENDED that your Board:

1. Open the Public Hearing, hear testimony and objections, if any, and at the conclusion, close the public hearing; and
2. Adopt a Resolution approving the issuance of the CREBs; and
3. Direct the Clerk of the Board to take any related actions.

Submitted by:

Carlos J. Palacios, County Administrative Officer 11/1/2017

Attachments:

a Resolution
b First Amendment to Site Lease
c First Amendment to Lease Agreement
d Preliminary Official Statement (95 pages; online and on file)
Prelim Official Statement excerpt (pages 1-5 of 95) for printed packet
e Bond Purchase Agreement