

# STAFF REPORT

## City of Lancaster

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Date: October 26, 2010

To: Mayor Parris and City Council Members

From: Jason Caudle, Deputy City Manager

Subject: **Power Purchase Agreements with Lancaster School District, Eastside School District, and Antelope Valley Fair**

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### **Recommendation:**

Authorize the City Manager to negotiate and approve Power Purchase Agreements (PPA) with Lancaster School District, Eastside School District, and the Antelope Valley Fair (Partners), and to present for Council approval at the next City Council meeting the necessary financing documents to construct the projects.

### **Fiscal Impact:**

In approving these PPA's, the City Council is committing to build, maintain, and finance a \$33 million solar facility on the respective partner's property. In exchange, the Partners will purchase the electricity that is generated from the facility. The revenue will exceed the cost of construction, and the partner's energy costs will be substantially reduced. Over the term of the 25-year Project, the City will conservatively generate \$12 million in revenue to operate and maintain the system, as well as upgrade and expand the City's solar energy program. It has been estimated that the partners will save \$43.7 million over the life of the contract.

### **Background:**

As the City progresses down the path of harvesting the energy that naturally lands on Lancaster, a number of energy projects and programs have been implemented. The City has entered into a Power Purchase Agreement (PPA) with SolarCity to produce clean green energy for City facilities. As a result 90% of the energy used at these facilities will be from solar energy. In addition, the City has evaluated and is in the process of retrofitting City facilities to become more energy efficient. This has been accomplished through a no cost contract with Johnson Controls. The City has also partnered with SolarCity to provide an efficient mechanism for residents, and businesses to place solar panels on their properties.

Not only has the City focused on cost saving, and 'Greening' measures, we have begun looking at our local energy resource as a potential revenue stream for the City and a cost saving venture for others. Along this line, the City has taken steps to form the Lancaster Municipal Utility (LMU). Through this entity, we have been able to strike partnerships with solar developers to construct and sell solar energy on the open market. The Council approved a lease with Morgan Solar to be the first of these business ventures. Additional projects are in the design and business development phase. The project you are asked to approve tonight is the institutional Lease/PPA program with the Lancaster School District, Eastside School District, and the Antelope Valley Fair.

In approving these PPA's, the City Council is committing to build, maintain, and finance a \$33 million solar facility on the respective partner's property. In exchange, the Partners will purchase the electricity, based on a negotiated rate, which is generated from the facility with an annual 3.5% escalator. Upon completion, the City's revenue will exceed the costs of construction, and the partner's energy costs will be substantially reduced. Over the term of the 25-year Project, the City will conservatively generate \$12 million in revenue to operate and maintain the system as well as upgrade and expand the City's solar program. It has been estimated that the partners would save \$43.7 million over the life of the contract. These savings are based on a 5% Edison escalator, which is based on historical increases over a 20-year period. Compared to the 3.5% escalator that is included in the City's PPA.

In addition to these estimated revenues and savings, there are many benefits to this project. First and foremost, the schools will receive a predictable electricity cost over the 25-year period. Their rates will not fluctuate with the market, but rather stay the same with a predictable escalation. The PPA also allows for the Partners to purchase their system from the City if money becomes available. This allows the school to purchase the system, thus transferring the costs from the operating budget to the capital budget. The project serves two roles; not only do the panels deliver electricity; they produce shade for the parking areas, and in some cases, produce shade for structures for walk ways and common space.

The City anticipates funding this project with taxable Build America Bonds (BABs). These BABs are a non-traditional funding source created as part of the Federal Government's Stimulus programs. The bonds are sold as taxable bonds, with a federal subsidy returned to the local entity to lower the cost of money to a level consistent with traditional tax-exempt financing. The bonds are backed by a combination of Sewer and General Fund assets, with the revenues from the PPA used as the source of repayment. There are risks associated with this project that are minimized through the financing and the PPA. The greatest risk is non-payment by the Partners. However, the amount of savings received by the partners and the contractual requirements of the PPA reduce this risk substantially.

This is the first of a long list of potential LMU projects which will continue to strengthen our position in the energy market and generate revenue, and addition capitol for further solar development. Staff also feels that this is the catalyst to a very successful and lucrative Municipal Utility.