

STAFF REPORT
City of Lancaster

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Date: May 13, 2014

To: Mayor Parris and Council Members

From: Jason Caudle, Deputy City Manager
Heather Swan, Sr. Projects Coordinator

Subject: **Purchase and Sale Agreement with Southern California Edison for the acquisition of the City of Lancaster's streetlights**

Recommendation:

Authorize the City Manager and City Attorney to negotiate the final terms of the Purchase and Sale Agreement with Southern California Edison (SCE) for the acquisition of the City of Lancaster's 17,856 LS-1 streetlights for an amount not to exceed \$12,200,000 (acquisition and transaction costs), execute all required documents, and make any non-substantive changes necessary to complete the transaction.

Fiscal Impact:

The acquisition will save an estimated \$1,500,000 per year. This savings will be used to fund the acquisition financing and maintenance. City staff is evaluating various financing options and will bring a separate recommendation to City Council once the sale and acquisition has been approved by the California Public Utilities Commission as detailed below.

Background:

Historically, the City has reviewed developments and approved streetlight installations which were then commissioned and turned over to SCE to own and operate, on the City's behalf, under the LS-1 Street Light Tariff (SCE owned and maintained with unmetered energy service), which currently ranges from \$9.00 - \$11.00 per pole per month. Beginning in 2007 the City began to more specifically evaluate the cost of streetlights under the LS-1 Tariff and began conditioning new developments to turn the streetlights over to the City for operations and maintenance instead of SCE. This resulted in the LS-3 Street Light Tariff (City owned and maintained with metered energy service) which allowed the streetlights to be metered and the City only pay SCE for the actual cost of energy which averaged approximately \$2.00 per pole per month. Unfortunately, even with the transition to LS-3 for new developments, the assessments collected for the Lancaster Lighting Maintenance District (LLMD) fall short of the annual expenses of the district and require subsidization of almost \$600,000 per year.

In 2007, in an attempt to better align the revenues and expenses of the LLMD, the City held an election, which proposed to replace the existing lighting maintenance district with a revised citywide district and allocate assessments equitably across all 43,382 parcels at the time. The ballot measure was unsuccessful in obtaining the required majority and the original district remained in place with a significant funding shortfall.

As staff began to learn more about the impact of streetlight tariffs, other cities across Southern California also became increasingly interested in acquiring their streetlights in order to lower their costs and provide more efficient maintenance. In 2009 the City commissioned a feasibility study by Bartle Wells Associates to assess the value of the streetlight system and the possibility of acquiring the asset from SCE. The study revealed that SCE was not interested in the disposition of streetlights and any acquisition would have to proceed through condemnation.

In early 2011, faced with significant financial pressure to cut costs, the City approached SCE with a unique proposal to partner in several areas in order to provide budgetary relief. The City proposed taking over the maintenance portion of the LS-1 lights, becoming a research and development testing ground for SCE for new technologies such as LED lights and streetlight dimming, and entering into renewable energy generating contracts with SCE where the revenue generated would help offset the budget imbalance. Again, the City was met with disinterest from SCE regarding the disposition of the streetlights.

In early 2012, City staff and SCE again began exploring the possibility of the City acquiring the streetlights from SCE. Throughout 2012 City staff met with SCE staff to determine the process by which the valuation and sale must take place in order to be compliant with the California Public Utilities Commission (CPUC). In October 2012 the City paid SCE \$10,000 to begin an initial streetlight pole field inventory in order to determine a preliminary not-to-exceed purchase price, better understand the magnitude of the acquisition and begin evaluating feasibility and cost savings.

Since the City's acquisition was poised to be the first one in SCE territory, City staff worked closely with SCE and CPUC staff to finalize a methodology for the valuation and process for the disposition of the asset. Because SCE is regulated by the CPUC, all dispositions of assets must be approved through the CPUC's Code Section 851 application process and in July 2013 City staff along with SCE met with the CPUC staff who handle all 851 applications.

In January 2014 SCE finalized a complete system audit and presented a not-to-exceed purchase price of \$12.2 million for 17,856 streetlights. This valuation was determined using Replacement Cost New Less Depreciation methodology which has historically been the approach to valuation assessment for other streetlight transfers. City staff has worked with SCE to evaluate this approach and is currently utilizing Bartle Wells Associates to reconfirm the valuation.

The Purchase and Sale Agreement with SCE is an attachment required by the CPUC Section 851 application process and sets forth the terms and conditions of the sale of the streetlights. If approved, the Purchase and Sale Agreement would complete the Section 851 application, which would then be submitted to the CPUC for review. Approval from the CPUC is anticipated to take anywhere from 9 to 12 months. The streetlights would then transition from the existing LS-1 tariff, which currently ranges from \$9.00 - \$11.00 per pole per month, to the LS-2 tariff (City owned and maintained with unmetered energy service), which currently ranges from \$2.00 - \$4.00. Once approved City staff would work with SCE to transition over the asset to the City's ownership as quickly as possible so savings could begin to be realized immediately.

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Attachment:

DRAFT Purchase and Sale Agreement (in substantial form)