TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER  DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: JANUARY 16, 2007  CMR: 102:07

SUBJECT: ADOPTION OF A RESOLUTION OF INTENTION TO REIMBURSE PHOTOVOLTAIC SOLAR PANEL PROJECT (PE-05001) EXPENDITURES FROM CLEAN RENEWABLE ENERGY BONDS

RECOMMENDATION
Staff recommends that Council adopt the attached resolution of intention to reimburse photovoltaic solar panel project costs from Clean Renewable Energy Bonds.

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....” 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. In late April 2006, the City sent the Internal Revenue Service (IRS) an application for the CREBs.

DISCUSSION
The City of Palo Alto recently received approval from the Internal Revenue Service on its application for $1.50 million in (CREBs). These bonds were approved specifically for use on the Photovoltaic Solar Panel Project (PE-05001). This project will place solar panels at the Baylands Interpretive Center, Cubberley Community Center, and Municipal Service Center. Of the $1.50 million, $1.43 million will be spent on the project and $0.07 million is anticipated to be spent on bond issuance expenses.

In order to reimburse the Electric Utility for funds expended on the project, Council must approve the attached “Resolution Declaring Intention to Reimburse Expenditures from The Proceeds of Bonds to Be Issued by The City.” Staff is in the process of determining the most cost-effective manner in which to issue the CREBs. There may be an opportunity to issue them through a Joint Powers Authority whereby issuance costs are spread among several CREBs issuers and thereby reduced. Information on this option should be available in the next few months. Another alternative is for the City to issue these bonds directly. If the City directly issues bonds, it may be necessary to perform a negotiated settlement via a bond underwriter.
This is a departure from the City’s practice of seeking competitive bids on its bond issues and is a consequence of the small size of the CREBs bond issue and the lack of familiarity with them in the investment community.

Staff will return to Council in the near future with a recommendation on how to proceed and a request for approval to issue bonds. The CREBs must be issued on or before December 31, 2007.

**RESOURCE IMPACT**
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. 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 currently 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).

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ATTACHMENT:  
Attachment 1: Resolution