TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: JUNE 4, 2007 CMR: 259:07

SUBJECT: APPROVAL OF A RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $1,500,000 OF CLEAN RENEWABLE ENERGY TAX CREDIT BONDS AND RELATED ACTIONS TO FINANCE PHOTOVOLTAIC SOLAR PANEL PROJECT COSTS

RECOMMENDATION:
Staff recommends that the City Council approve the attached resolution (Attachment A), to:

1) Authorize the issuance and sale of $1,500,000 of Clean Renewable Energy Bonds (CREBs) to finance a City photovoltaic solar panel project; and
2) Authorize the City Manager or his designee to approve the Indenture of Trust, Preliminary Placement Memorandum, and Placement Agreement; and authorize official actions related thereto.

BACKGROUND
Clean Renewable Energy Bonds (CREBs) are interest-free financing instruments. In lieu of receiving interest, lenders receive a tax credit against federal income taxes. They can be used for wind, closed- and open-loop biomass, geothermal, solar energy, small irrigation power, landfill gas, and other qualifying facilities. Congress authorized up to $800 million of these bonds with the passage of the Energy Tax Incentives Act of 2005. The City applied for an allocation of CREBs in late April 2006 (CMR 240:06), and in November 2006 received a $1.5 million CREBs allocation from the Internal Revenue Service.

The CREBs allocation was granted to the City specifically for use on the Photovoltaic Solar Panel Project (PE-05001). This project, already in progress, will place solar panels at the Baylands Interpretive Center, Cubberley Community Center, and Municipal Service Center. Of the $1.5 million received, $1.38 million will be spent on the project and $0.12 million is anticipated to be spent on bond issuance expenses. The project expenses to date have been funded by the Electric Fund’s public benefit monies.

On January 16, 2007, Council approved a “Resolution of the Council of the City of Palo Alto Declaring Intention to Reimburse Photovoltaic Solar Panel Project Expenditures from Clean Renewable Energy Bonds to be Issued by the City,” enabling the proceeds of the CREBs to be used to reimburse the Electric Fund for costs already incurred on the project.
DISCUSSION  
Staff is returning to Council for authorization to issue $1,500,000 in CREBs, to approve the required financial documents, and to take all necessary actions related to the sale of the CREBs. The CREBs must be issued on or before December 31, 2007, but it is expected they will be issued by the end of July.

Due to the unique nature of these tax credit bonds, their small size, and the lack of familiarity with CREBs in the investment community (CREBs are newly created and unique debt obligations), they are not good candidates for a competitive bid scenario. Instead, they will be marketed and sold via a placement agent, using a negotiated sales process. This is a departure from the City’s practice of seeking competitive bids on its bond issues. The firm of Stone and Youngberg (S&Y), which has in the past served as the City’s financial advisor on bond sales, will act as the placement agent for the City and facilitate the sale of the CREBs on a private placement basis. It has been the City’s standard practice to separate the advisor function from the underwriting or bond placement function. However, due to the distinctive nature and small amount of the CREBs issue, as well as S&Y’s considerable experience performing this function, S&Y was selected as placement agent for this transaction.

Documents Submitted for Council Approval  
The Council must approve the attached Resolution before the CREBs can be issued. By approving this resolution, the City Council authorizes various City officials to sign and execute documents related to the bond issuance. The Resolution also appoints Stone & Youngberg placement agent to arrange for the private placement (or sale) of the CREBs, and approves the following documents:

- Indenture of Trust
- Private Placement Memorandum
- Placement Agreement

RESOURCE IMPACT  
The principal on the CREBs would be repaid with public benefit funds that are required to be set aside at 2.85% of revenue in the Electric Fund. The maturity data of the CREBs is set by the IRS at time of sale, but is expected to be from 14 to 16 years, with level amortization required. The CREBs program allows the Electric Fund to earn interest on the principal that would otherwise be used in a “pay-as-you-go” manner for the project. Assuming a likely 15-year amortization period and an annual payment amount of $100,000, with a 5% rate of return on the Electric Fund, the Fund would earn $0.43 million in present value dollars. This value will be partially offset by the costs of issuance estimated at $.12 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.
TIME LINE
June 5, 2007   Print and distribute Placement Memorandum to potential purchasers
June/July, 2007   Market CREBs
TBD   Executive Private Placement Agreement
TBD   Pre-close and close bond issue. Deliver bond proceeds

ENVIRONMENTAL REVIEW
The adoption of the attached resolution and documents does not constitute a project under the California Environmental Quality Act; therefore, no environmental assessment is required.

PREPARED BY: ____________________________
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CITY MANAGER APPROVAL: ____________________________
EMILY HARRISON
Assistant City Manager

ATTACHMENTS
Attachment A: Resolution of the Council of the City of Palo Alto Authorizing the Issuance and Sale of $1,500,000 of Electric Utility Clean Renewable Energy Tax Credit Bonds, Approving Indenture of Trust and Preliminary Placement Memorandum, and Authorizing Official Actions Related Thereto

   Exhibit A Indenture of Trust by and between the City of Palo Alto and U.S. Bank National Association as Trustee
   Exhibit B Placement Agreement
   Exhibit C Preliminary Placement Memorandum

Attachment B: Estimated Project Costs and Sources and Uses of Funds
Attachment C: CMR 102:07