

<b>MEETING DATE:</b> July 18, 2017	<b>ITEM #</b> <span style="font-size: 1.5em;"><b>3-4</b></span>
<b>SUBJECT:</b> CONSIDERATION OF VARIOUS ACTIONS PERTAINING TO THE FINANCING OF CLEAN RENEWAL ENERGY PROJECTS INCLUDING SOLAR PHOTOVOLTAIC INSTALLATIONS AT THREE CITY-OWNED FACILITIES AND THE REPLACEMENT OF ROOFING ON MARYSVILLE FIRE STATION NO. 1	
<b>INITIATED OR REQUESTED BY:</b> <input checked="" type="checkbox"/> Staff <input type="checkbox"/> Council <input type="checkbox"/> Other	<b>PRESENTED FOR:</b> <input checked="" type="checkbox"/> Action <input type="checkbox"/> Direction <input type="checkbox"/> Information
<b>FISCAL IMPACT:</b> <input checked="" type="checkbox"/> Yes      Not to Exceed \$1.3M <input type="checkbox"/> No <input type="checkbox"/> Unknown      _____ <span style="margin-left: 150px;">Adm Svcs Director</span>	<b>BUDGET AUTHORITY:</b> <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> No <input type="checkbox"/> Not Applicable
<b>ORIGINATED:</b> City Manager's Office	<b>ATTACHMENT:</b> <input checked="" type="checkbox"/> Yes      86 pages
<b>PREPARED BY:</b> Walter K. Munchheimer	<b>CONCUR:</b> _____ City Manager

**RECOMMENDED ACTION**

Wulff, Hansen & Co., the City’s financial advisor, will describe the financing process. If Council concurs that it wishes to go forward with the project, staff recommends the following actions:

A. Sitting as the Marysville City Council, adopt Resolution No. 2017-50, a resolution approving the form and authorizing the execution of certain lease financing documents in connection with the financing of a Clean Renewable Energy Project and authorizing and directing certain actions with respect thereto.

B. Sitting as the Marysville Financing Authority Board of Directors, adopt Resolution No. PFA-2017-01, a resolution approving the form and authorizing the execution of certain lease financing documents in connection with the financing of a Clean Renewable Energy Project and authorizing and directing certain actions with respect thereto.

**BACKGROUND**

On March 7, 2017, Council held a public hearing to receive comments on a proposal to enter into an Energy Services Contract with OpTerra Energy Services, Inc. (“OpTerra”), for renewable energy projects involving solar photovoltaic installations at the three City-owned facilities recommended by OpTerra. As a result of that hearing, Council adopted Resolution No. 2017-19 approving entering into the Energy Services Contract, and Resolution No. 2017-20 authorizing commencement of proceedings in connection with the financing of renewable energy and appointing a municipal advisor and others in connection therewith.

Those actions set in motion extensive discussions between the City and OpTerra, and with the financing team consisting of Wulff, Hansen & Co. (Financial Advisor), Quint & Thimmig, LLP (Bond Counsel), Robert M. Haight (Special Counsel) and Brandis Tallman, LLC (Placement Agent). All of the needed reviews and understandings to proceed with the project have now been completed and only require the official actions of both the City Council (on behalf of the City of Marysville) and the Board of Directors (on behalf of the Marysville Financing Authority). (Continued on page 2)

**LEGAL REVIEW**

The City’s Bond Counsel and Special Counsel prepared and reviewed all of the required documents.

(Continued from page 1)

### **ANALYSIS**

At its meeting held on March 7, 2017, City Council approved a project to install solar photovoltaic systems at three City-owned facilities—City Hall parking lot, Marysville Fire Station, and the City Corporation Yard on F Street. OpTerra’s price for that project was quoted to Council at \$994,828. With the associated costs of issuance, a financing for that project would require a bond in an amount of approximately \$1.1 million. At that same meeting, Wulff, Hansen & Co., the City’s Financial Advisor, reviewed a range of likely financing methods, the most advantageous of which involved the award of Clean Renewable Energy Bonds (CREBs) by the Internal Revenue Service. The effect of that would be to reduce the interest cost of the financing by more than half. Fortunately, the IRS subsequently did award the City a CREB for the project, and the attached bond debt service schedule estimates that the CREB subsidy is worth on the order of \$427,500± over the 20-year bond life, against total debt service of \$730,560.

Clean Renewable Energy Bonds have some limitations on the amount of issuance costs that are eligible for CREBs subsidy, so a companion, small taxable bond (the so-called “Taxable Tail”) would also be issued to cover the ineligible CREBS costs, but for a shorter bond term than 20 years. Together, the financings would be accomplished with no added General Fund budget costs, only those currently being paid for PG&E utility costs. Once the bonds are fully amortized, virtually all utility costs will become savings to the General Fund. Under present estimates, those savings will aggregate to more than \$700,000 over the next 25 years.

In the course of our review of the project, it became clear that the City would have to replace the roof on the fire station in the relatively near future. With the solar panels in place, the cost of re-roofing would increase materially over what it would cost to replace the roof before the solar arrays were installed. Incorporating the cost of re-roofing the building now, ahead of the solar installation project, would both save on the roofing cost itself, and potentially also save on the cost of any future borrowing that might be required to replace the roof at a later date. It made good business sense to include the re-roofing costs in the current financing, and take care of that before installing the solar panels. The City sought, and received, a firm proposal of \$69,150 from an area roofing company. To allow for unexpected contingencies, the financing documents before the City and Financing Authority include an amount not to exceed \$100,000 for that purpose. It is the City’s intent to award its own bid for the re-roofing work, rather than assign that to OpTerra. Some coordination of construction schedules will be required with respect to the fire station solar work. The City Building Inspector will supervise that phase of work and coordinate with OpTerra’s construction crews.

The financing arrangement being used for this project is a “lease and lease-back” arrangement, common in such financings. In this case, the City is leasing the City’s Corporation Yard facilities to the Financing Authority which, in turn, is leasing-back that facility to the City. The City then makes annual lease payments to the Authority, which the Authority assigns to the bond buyer as debt service payments. For that reason, there are numerous other documents included with these City/Financing Authority resolutions:

- Site and Facility Lease (10 pages)
- Lease Agreement (43 pages)
- Assignment Agreement (8 pages)
- Letter Agreement for Purchase and Rate Lock (10 pages)

These four documents cannot be executed now, because some of the substantive details will not be known until a buyer has been selected and the actual par amount of the bonds is set. However, the two resolutions to be adopted at this meeting approve the form of those four documents, and authorize them to be executed at the time the bonds are sold. These are important documents for the Council/Authority Board to understand, as they are in the form that will eventually be executed on the City’s/Authority’s behalf by the City Manager/Executive Director.