File#: 17-0496**, Item#: 10.**

A. RESOLUTION NO. 2017-215 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE ISSUANCE OF THE CHULA VISTA MUNICIPAL FINANCING AUTHORITY'S LEASE REVENUE BONDS, SERIES 2017A [NEW CLEAN RENEWABLE ENERGY BONDS (FEDERALLY TAXABLE) AND LEASE REVENUE BONDS SERIES 2017B (TAX-EXEMPT)]; AND AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT WITH RESPECT TO THE OFFERING AND SALE OF THE BONDS AND THE EXECUTION OF DOCUMENTS AND THE TAKING OF RELATED ACTIONS NECESSARY TO ISSUE SUCH BONDS

B. RESOLUTION NO. 2017-003 OF THE BOARD OF DIRECTORS OF THE CHULA VISTA MUNICIPAL FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF THE AUTHORITY'S LEASE REVENUE BONDS SERIES 2017A [NEW CLEAN RENEWABLE ENERGY BONDS (FEDERALLY TAXABLE) AND LEASE REVENUE BONDS SERIES 2017B (TAX-EXEMPT)] AND AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT WITH RESPECT TO THE OFFERING AND SALE OF THE BONDS AND THE EXECUTION OF DOCUMENTS AND THE TAKING OF RELATED ACTIONS NECESSARY TO ISSUE SUCH BONDS

RECOMMENDED ACTION
Council conduct the public hearing and adopt resolution A. Municipal Financing Authority adopt resolution B.

SUMMARY
The City applied for and received an allocation from the IRS to issue New Clean Renewable Energy Bonds (CREBs) to finance the acquisition and installation of the solar photovoltaic installations (Equipment) at various facilities throughout the City. The Equipment is expected to generate 4.1 million KWh of energy. This action will approve the issuance of Bonds by the Chula Vista Municipal Financing Authority ("Authority") to fund approximately $13 million of costs to acquire and install the Equipment.

ENVIRONMENTAL REVIEW

Environmental Notice
The Project qualifies for a Class 3 Categorical Exemption pursuant to Section 15303 (New Construction or Conversion of Small Structures) of the California Environmental Quality Act State Guidelines.

Environmental Determination
The Director of Development Services has reviewed the proposed project for compliance with the California Environmental Quality Act (CEQA) and has determined that the project qualifies for a Class

3 Categorical Exemption pursuant to Section 15303 (New Construction or Conversion of Small Structures) of the State CEQA Guidelines. Thus, no further environmental review is required.

BOARD/COMMISSION RECOMMENDATION
N/A

DISCUSSION
On September 26, 2017, the City Council approved an agreement with Johnson Controls to install solar photovoltaic panels at 12 sites throughout the City. The City applied for and received an allocation from the IRS to issue New Clean Renewable Energy Bonds (CREBs) to finance the acquisition and installation of the Equipment.

The equipment and installation cost for each of the 12 sites is shown below.

Site	Size (kW)	Productio (kWh)	Equipment Cost
Police Station		817,609	$ 2,130,107
Civic Center		1,062,636	3,627,653
Main Library		577,505	1,825,467
Public Works Facility		588,466	1,833,740
South Library		282,920	873,112
Loma Verde Aquatic Center		180,620	523,215
Parkway Aquatic Center & Gymnasium		123,974	385,483
Montevalle Rec Center		175,787	587,077
Boys & Girls Club		99,057	330,101
Mount San Miguel Park		97,448	297,685
Animal Care		91,838	280,394
Salt Creek Recreation Center		70,610	207,025
Total		**4,168,47(**	**$12,901,05**

*Production includes battery capacity

CREBs Financing

CREBs are issued as taxable bonds, and the City is eligible to receive an interest subsidy from the federal government (Subsidy), currently equal to a 2.64% interest rate. If the CREBs taxable interest rate is 4.30%, for example, the City's net effective interest rate would be 1.66%.

The scope of four of the sites was modified after the CREBs allocation was received, and there are approximately $1.1 million of equipment costs that are in excess of the CREBs allocation. The difference will be financed with a small series of traditional tax-exempt bonds.

The required financing amount is estimated to total $13.3 million per the table below.

	CREBs Series	**Tax-Exempt Series**	**Total**
Equipment Cost	$11,772,48	$1,128,57	$12,901,05
Capitalized Interes	90,000	42,000	132,000
Costs of Issuance	207,518	59,423	266,941
Net Bond Issue	**$12,070,000**	**$1,230,000**	**$13,300,00**

Energy Savings

Certain assumptions were used to project energy savings resulting from installation of the Equipment, including a degradation in the efficiency of the Equipment by one-half percent by year, an average 4% increase in the cost of electricity, a separate calculated cost per Kwh of SDG&E electricity at each site based on an analysis prepared by Johnson Controls and related to specific power usage at each site and inflation in the operating and maintenance agreement with Johnson Controls at 3% annually.

The Equipment is anticipated to be completely installed and operating within 12 months for most sites, and sooner for some sites. There will be some energy savings in FY 2018-19 to offset the first net debt service payment on the CREBs scheduled to occur in December 2018. These energy savings would also offset the first year up-front O&M costs, as well as the other up-front expenses not paid from the CREBs bond proceeds, such as the deposit to the costs of issuance.

Comparison of Energy Savings with CREBs Financing Costs

To determine that there are no expected net City costs to the financing, installation and operation of the Equipment, the following chart compares the projected energy savings from the new Equipment with the financing and other costs to operate the Equipment.

The debt service will be paid in full after 30 years, but the equipment will continue to generate electricity and provide energy cost savings for up to 40 years, although the efficiency of the solar panels will continue to incrementally degrade over time. Further, replacement of the electrical current invertors and the batteries will likely be required at least once over the 40-year expected useful life.

FY	Kwh Generated	$ Solar Savings	O&M	City Costs	Battery Rebate	Net Energy Savings	Net Debt Service	Difference
2018-2019	2,257,634	$ 397,603	$ (60,105)	$ (5,000)	$ 154,425	$ 486,922	$ 210,397	$ 276,525
2019-2020	3,762,724	678,350	(61,909)	-	-	616,442	341,147	275,295
2020-2021	3,743,910	702,250	(63,766)	-	-	638,484	337,646	300,838
2021-2022	3,725,191	726,976	(65,679)	-	-	661,297	333,611	327,686
2022-2023	3,706,565	752,556	(67,649)	-	-	684,907	348,884	336,023
2023-2024	3,688,032	779,020	(69,679)	-	-	709,341	393,718	315,624
2024-2025	3,669,592	806,397	(71,769)	-	-	734,628	408,875	325,753
2025-2026	3,651,244	834,717	(73,922)	-	-	760,795	423,212	337,583
2026-2027	3,632,988	864,013	(76,140)	-	-	787,873	441,627	346,246
2027-2028	3,614,823	894,317	(78,424)	-	-	815,893	459,695	356,198
2028-2029	3,596,749	925,663	(80,777)	-	-	844,886	477,318	367,568
2029-2030	3,578,765	958,085	(83,200)	-	-	874,885	495,124	379,762
2030-2031	3,560,871	991,621	(85,696)	-	-	905,925	515,946	389,978
2031-2032	3,543,067	1,026,306	(88,267)	-	-	938,039	541,204	396,835
2032-2033	3,525,351	1,062,179	(90,915)	-	-	971,265	561,004	410,261
2033-2034	3,507,725	1,099,281	(93,642)	-	-	1,005,638	584,862	420,777
2034-2035	3,490,186	1,137,651	(96,452)	-	-	1,041,199	612,771	428,428
2035-2036	3,472,735	1,177,331	(99,345)	-	-	1,077,986	635,267	442,719
2036-2037	3,455,371	1,218,366	(102,326)	-	-	1,116,041	662,215	453,826
2037-2038	3,438,095	1,260,800	(105,395)	-	-	1,155,405	688,644	466,761
2038-2039	3,420,904	1,304,679	(108,557)	-	-	1,196,122	694,391	501,731
2039-2040	3,403,800	1,350,052	(111,814)	-	-	1,238,238	704,212	534,026
2040-2041	3,386,781	1,396,966	(115,168)	-	-	1,281,798	708,806	572,992
2041-2042	3,369,847	1,445,474	(118,623)	-	-	1,326,851	713,148	613,703
2042-2043	3,352,997	1,495,627	(122,182)	-	-	1,373,445	717,237	656,208
2043-2044	3,336,232	1,547,480	(125,847)	-	-	1,421,632	783,038	638,595
2044-2045	3,319,551	1,601,087	(129,623)	-	-	1,471,465	782,210	689,254
2045-2046	3,302,953	1,656,508	(133,512)	-	-	1,522,996	775,539	747,458
2046-2047	3,286,439	1,712,518	(137,517)	-	-	1,575,001	773,289	801,712
2047-2048	3,270,007	1,770,418	(141,642)	-	-	1,628,776	770,416	858,360
2048-2049	3,253,657	1,830,270	(145,892)	-	-	1,684,379	771,809	912,570
		$ 35,404,561	$ (3,005,433)	$ (5,000)	$ 154,425	$ 32,548,552	$ 17,667,258	$ 14,881,295

The Net Debt Service shown above is net of the Subsidy, and includes both the CREBs series of bonds and the tax-exempt series of bonds. The Subsidy is subject to sequestration by the federal government. Currently, the Subsidy is reduced by 6.6% of the original maximum subsidy provided for in the CREBs legislation, and that is the rate used in the analysis for the 30 years that the CREBs will be outstanding. The Subsidy reduction was as high as 7.9% of the maximum allowed subsidy in the first year of sequestration. Therefore, the Subsidy amount can change if sequestration changes. For example, recent proposed tax legislation by both the House of Representatives and the Senate could have the indirect effect of eliminating or reducing the Subsidy due to higher sequestration requirements. However, the Bonds contain a provision that if the reduction exceeds 25%, the City would have the ability to optionally redeem the Bonds in whole or in part on any date thereafter without a penalty.

There should be sufficient contingent net energy savings to cover any sequestration impacts up to 25%, as well as any fluctuations in actual results compared to projected results based on energy rates.

Lease Revenue Bonds

Staff is recommending financing the Equipment through the issuance of a series of federally taxable New Clean Renewable Energy Bonds by the Authority, with a second series of tax-exempt bonds for a small portion of the Equipment cost that cannot be financed with the CREBs. The City will lease property from the Authority, and the City's lease payments will secure the Authority Bonds, as described further below.

This financing structure is similar to the Lease Revenue Bonds and Certificates of Participation financings that the City has used for capital financing in the past. The City Council formed the Chula Vista Municipal Financing Authority in 2014 to assist in lease financing such as this financing.

Based on current interest rates, the City's Financial Advisor, Harrell & Company Advisors, is estimating an effective interest rate for the taxable CREBs maturing in 30 years of 4.3%, based on the City's current bond ratings of AA- by Standard & Poor's. Net of the 2.64% Subsidy, the effective financing cost is anticipated to be 1.66%. The tax-exempt series of bonds (referred to as "Series B Bonds") will mature in 10 years, with an expected effective interest rate of 2%. Therefore, the total effective net borrowing costs are expected to be less than 1.8%

The financing requires a lease of assets from the Authority to the City (Lease). The City's lease payments to the Authority are used as a revenue stream to secure repayment of the Bonds. The leased assets recommended for securing the City's lease payment (and thus the Bonds) will be the main Civic Center Library and Harvest Park. The resolutions authorize the City Manager and the Director of Finance to select alternative assets if there a legal issue or a rating agency issue with either of the designated assets.

Final costs will be determined when the Bonds are sold, which is anticipated in early December. The closing and delivery of funds is expected to also occur in December.

City staff selected Brandis Tallman LLC to serve as underwriter for this transaction, due to their experience with issuance of CREBs.

Public Hearing

The City Council must conduct a public hearing as a precondition to this issuance of the Bonds by the Authority and to designate the Lease as a facility financing contract under the Government Code. Approval of the financing will then require adoption of resolutions by the City Council and by the Authority Board after the public hearing.

Because the Bonds are being sold through the Authority, the City, as the jurisdiction where the Equipment being financed will be located, is required to hold a public hearing before the Authority may approve a resolution authorizing the sale of the Bonds. After the public hearing, the City Council must find that there will be significant public benefit to the City from the issuance and sale of Bonds by the Authority for the purpose of financing the improvements.

“Significant public benefit” includes a demonstrable savings in effective interest rate, bond preparation, bond underwriting, or bond issuance costs. Combining the financing of the twelve separate CREBs-approved components into one financing by the Authority will reduce overall issuance costs through economies of scale, and the increased size of the financing (compared with separate smaller financings) will result in more interested investors, which can reduce the effective interest rate on the financing. Further, the use of Lease Revenue Bonds, rather than Certificates of Participation, will also broaden investor appeal and result in a lower effective interest rate.

After the public hearing, in order to designate the Lease as a facility financing contract the City Council must find that the terms of the Lease are in the best interest of the City and that the funds for the lease payments due under the Lease are projected to be available from revenues that otherwise would have been used for purchase of electrical energy required by the City in the absence of the Equipment. The findings will be based on the projections in the table above showing the comparison of energy savings with the financing and operation costs.

Authorization and Sale

In order to authorize the issuance of the Bonds and provide for the lease payments to secure them, the City Council and the Authority Board have been presented with resolutions for their consideration. The resolutions approve the form of the following documents in connection with the financing:

1. Indenture between Authority and U.S. Bank (as Trustee);
2. Lease Agreement between the City and the Authority;
3. Site Lease between the City and the Authority;
4. Continuing Disclosure Agreement;
5. Assignment Agreement between the Authority and the Trustee;
6. Bond Purchase Agreement between the City, the Authority and Brandis Tallman LLC; and
7. Preliminary Official Statement

The City and Authority resolutions also approve the distribution of the Preliminary Official Statement relating to the Bonds, and authorize the execution of the Bond Purchase Agreement by the Authorized Officers designated in the resolutions, as well as provide certain sale parameters. These parameters are: (1) the par amount of the CREBs cannot exceed $15 million and the par amount of the Series B Bonds cannot exceed $2 million, (2) true interest cost cannot exceed 6% (prior to the Subsidy) for the CREBs and 4% for the Series B Bonds (3) the underwriter’s discount cannot exceed 0.6% of the par amount of the Bonds.

The Preliminary Official Statement was prepared by staff and the municipal advisor, with input from the City’s bond counsel and disclosure counsel. In accordance with the City’s bond disclosure policies, the City Council’s review of the description of the City and the City’s Financial Information contained in the Preliminary Official Statement is requested. Any changes requested by Council should be communicated to the Director of Finance prior to the printing of the Preliminary Official Statement in advance of the sale of the Bonds on or about November 29, 2017. Any changes requested by the City Council will be incorporated into the Preliminary Official Statement as appropriate prior to its distribution to prospective investors.

The financing team assembled for this financing includes the following firms:

- Stradling, Yocca, Carlson & Rauth will act as the City's Bond and Disclosure Counsel.
- Harrell & Company Advisors will serve as the City's Municipal Advisor.
- Brandis Tallman LLC will serve as the City's Investment Banker providing Underwriting Services.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100,et seq.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The CREBs bond issuance augments Operational Excellence and Economic Vitality by enhancing the City's efforts toward Smart Cities design and continuing its goals to be as energy efficient as possible.

CURRENT YEAR FISCAL IMPACT

The estimated costs of issuance associated with this financing for the underwriting, will be contingent the bonds and are payable from the bond proceeds. Total costs of issuance are estimated to be $267,000. There will be no net debt service due in Fiscal Year 2017-18.

ONGOING FISCAL IMPACT

The total annual net lease payments (net of the Subsidy) are expected to range from $340,000 in the early years, growing to $770,000 by Fiscal Year 2048-49. The lease payments are expected to be offset by energy savings.

ATTACHMENTS

1. Indenture
2. Lease Agreement
3. Site Lease
4. Continuing Disclosure Agreement
5. Assignment Agreement
6. Bond Purchase Agreement
7. Preliminary Official Statement
8. Public Hearing Notice

Staff Contact: David Bilby, MSBA CPFO, Director of Finance and Treasurer