



Agenda Report

Fullerton City Council

MEETING DATE: OCTOBER 19, 2021

TO: CITY COUNCIL / SUCCESSOR AGENCY

FROM: STEVE DANLEY, ACTING CITY MANAGER

PREPARED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: ENERGY EFFICIENCY PROJECT FINANCING

SUMMARY

Request for City Council authorization to grant the City Manager or Director of Administrative Services authority to select a lender for financing the energy efficiency projects approved by City Council on September 21, 2021; negotiate financing terms and execute, deliver, implement and carry out the terms of the executed Financing Agreements.

RECOMMENDATION

1. Adopt Resolution No. 2021-XX.

RESOLUTION NO. 2021-XX - A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, AUTHORIZING THE SELECTION OF A LENDER; AUTHORIZING THE PREPARATION, NEGOTIATION, EXECUTION AND DELIVERY OF AN EQUIPMENT LEASE AGREEMENT TO FINANCE CERTAIN ENERGY EFFICIENCY EQUIPMENT AND IMPROVEMENTS AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH
2. Authorize necessary appropriation and budget adjustments for debt service payments and project costs.

BUDGET POLICY PRIORITY STATEMENT

This item matches the following Budget Policy Priority Statements:

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

FISCAL IMPACT

The aggregate principal amount of lease payments for the selected energy projects shall not exceed \$10 million and the interest rate component of the lease payments shall not exceed a true interest cost of 3 percent (except in the case of any increase due to a late payment or default). Staff anticipates annual energy savings to substantially offset the project and financing costs over the life of the project. The General Fund will incur costs in years where savings do not fully support debt service payments. However, once the City has paid off the debt, the City will continue to benefit from ongoing energy savings throughout the useful life of the equipment. Based on estimates provided by NORESO, LLC, staff anticipates the City will achieve total net savings of approximately \$2 million over the 25-year life of the project.

DISCUSSION

On September 21, 2021, City Council approved an agreement with NORESO, LLC for infrastructure energy modernization projects at various City owned facilities and properties and instructed the Director of Administrative Services to obtain project financing.

The Administrative Services Department formed the City's financing team comprised of City staff, Urban Futures, Inc. as municipal advisor and Stradling Yocca Carlson & Rauth (SCYR) as bond counsel. Staff developed a Request for Proposal (RFP) and issued to multiple lenders on October 1, 2021. The City received lender proposals on October 13, 2021.

Due to supply chain disruptions resulting from the COVID-19 pandemic, the costs of goods and construction faces significant inflationary pressure. The City's agreement with NORESO, LLC includes fixed pricing for the project valid through October 31, 2021. It behooves the City to execute the agreement with NORESO prior to this date to lock in current project bid prices. Before officially executing the NORESO agreement and making the initial payment due to NORESO, the City should have project financing substantially completed to ensure it has financing available to pay for the energy projects. In order to meet these deadlines, and because City Council next meets on November 2, 2021, staff requests City Council provide the City Manager or Director of Administrative Services the authority to:

- Select a financing vendor based on RFP responses.
- Negotiate the terms of the Financing Agreements.
- Execute and deliver the final Financing Agreements.
- Implement and carry out the terms of the executed Financing Agreements.

Due to time constraints, staff will not have the legal financial documents in a substantially complete form for City Council review and approval on October 19, 2021. As discussed previously and outlined in the resolution, staff requests City Council approve financing and provide general authority to the City Manager or Director of Administrative Services. City Council would grant this authority but only within certain not-to-exceed parameters

of the resolution, which sets a maximum par amount of \$10 million and maximum true interest cost of 3 percent.

This authorization will enable the City to execute the NORESKO, LLC agreement by October 31, 2021, thereby mitigating likely project cost increases.

Based on current market conditions and information provided by NORESKO, LLC, staff anticipates the principal amount of the lease payments to total \$9.1 million with a final maturity of November 1, 2040 and an estimated true interest cost of 2.60 percent. Staff expects estimated annual net debt service to range from approximately \$525,000 to \$798,000, with total debt service of \$11.97 million through the final maturity of the lease payments. The City will pay the lease payments from the General Fund with expected offsets from annual energy savings, based on estimates provided by NORESKO, LLC.

In accordance with California Government Code Section 5852.1, Exhibit A of the attached resolution provides the good faith estimates for financing A and the following table provides a summary. The good faith estimates are based on current market conditions and the City's financing plan and differ from the resolution parameters, which set "not-to-exceed" amounts (\$10 million par and true interest cost of 3.0 percent). The not-to-exceed parameters set the maximum authorization granted by City Council to the City Manager or Director of Administrative Services. The good faith estimates reflect debt service that is structured proportionally to the savings estimates provided by NORESKO, with principal payments beginning in 2023 and one year of assumed capitalized interest. Capitalized interest refers to interest funded from the Financing proceeds and is typically used to pay debt service during construction (Attachment 1 - Presentation Slide 5). The City is currently evaluating the financing structure and will make a determination as to the final structure within the not-to-exceed parameters established by the resolution. The Net Proceeds Amount presented in the table is equivalent to the estimated total financing amount needed presented on September 21, 2021.

<i>Energy Efficiency Financing Summary*</i>	
Par Amount	\$9,130,000
True Interest Cost	2.60%
Issuance Costs	\$75,000
Net Proceeds Amount	\$8,827,237
Total Payments	\$11,972,281

*Reflects Good Faith Estimates; Preliminary, subject to change.

Attachments:

- Attachment 1 – Presentation
- Attachment 2 – RESOLUTION NO. 2021-XX