



AGENDA REPORT

Meeting Date: December 21, 2010
Item Number: F-17
To: Honorable Mayor & City Council
From: Alan Schneider, Director of Project Administration
David Lightner, Deputy City Manager
Subject: AUTHORIZATION TO THE CITY MANAGER FOR APPROVAL OF AN AGREEMENT BETWEEN THE CITY OF BEVERLY HILLS AND CITY NATIONAL BANK FOR LEASE OF SOLAR EQUIPMENT

RECOMMENDATION

Staff recommends that the City Council "move to authorize the City Manager to approve a solar equipment lease with City National Bank for the solar photovoltaic system".

INTRODUCTION

At the November 30, 2010 formal City Council meeting, the City Manager was authorized to execute an agreement with Sun Light & Power for the design, construction and installation of a solar photovoltaic system at the Police Facility, Civic Center parking garage and Library. The City Council's authorization included delegation to the City Manager to finalize a financing plan that best meets the City's requirements. An acceptable grant rider clause was not able to be negotiated with the formerly proposed New Resource Bank. However, in negotiations with City National Bank it appears that a lease including all of the financing plan elements the City sought can be agreed upon without jeopardizing the tax grant application. Because of the proposed change in vendor, the City Council is asked to broaden its authorization to the City Manager so that the financing can be completed with City National Bank.

DISCUSSION

The approved agreement with Sun Light & Power will provide for solar photovoltaic arrays on three City buildings (Police Facility, Civic Center parking garage and Library) connected to the power center for the Library/IT facility.

The proposed agreement with City National Bank would address the financing of this project through a solar equipment lease with essentially the same structure as the originally proposed lease. This lease would qualify for the Federal Tax Grant and rebates through the California Solar Initiative (CSI). The tax grant and rebates add significant value in the economics of the project for the City. The proposed equipment lease would provide lower lease payments than New Resource Bank over the eight year term of the lease, resulting in a marginally better Net Present Value (approximately \$220,000 more) of savings over the life of the system. A purchase buy-out of the lease would be required in year 9 or sooner, as contemplated in the original financing.

FISCAL IMPACT

The solar equipment lease of \$2,282,876 is to be structured such that the lease payments are equal to or nominally more than the utility savings generated by the solar energy. Under a projected utility escalation rate of 5% annually, the utility savings plus the solar rebate (under the California Solar Initiative program) and operating expenses equals the lease payment, thereby resulting in a \$0 cash flow until the early buy-out (at year 5 or year 8). Should the utility rate escalate at a lower percentage, the energy savings would be less and consequently, a negative cash flow would occur. However, it is unlikely that rates would increase at less than 3% per year based on history and at that level of escalation the system cost would range from \$10,000 to \$50,000 during the initial 8 years over the 25 year life of the system. Even in this scenario, the cumulative cost/savings over the life of the system results in a net savings.

As noted, the initial lease period would result in zero or nominal cost to the City. Several City financing options would be available to cover the early buyout if the City elects to purchase early after a minimum of 5 years of leasing. This action would implement the City Council's November 30, 2010 direction with a better overall financing plan.



Scott G. Miller

Finance Approval

David Lightner



Approved By