



## SUMMARY REPORT

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**Agenda Date:** 10/3/2023

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**To:** Board of Supervisors

**Department or Agency Name(s):** County Administrator, Sonoma Public Infrastructure, Auditor, Controller, Treasurer, Tax Collector

**Staff Name and Phone Number:** Barbara Lee, (707) 565-2510

**Vote Requirement:** Majority

**Supervisory District(s):** Third

**Title:**

Financing package for Energy Upgrades at the Santa Rosa Veterans Memorial Building

**Recommended Action:**

Adopt a resolution authorizing the Master Equipment Lease Agreement with Bank of America Public Capital Corp (BofA) and delegating authority with regard thereto for leasing and financing of energy conservation measures at the Santa Rosa Veterans Memorial Building and other potential projects under the Sustainable Solutions Turnkey program with PG&E. (Third District)

**Executive Summary:**

On August 22, 2023, your Board approved a suite of energy efficiency and resiliency upgrades to the Santa Rosa Veterans Memorial Building (Building) and directed staff to negotiate final financing for the otherwise unfunded portion of the suite of upgrades. Working with the County of Sonoma's Municipal Advisor, KNN Public Finance, LLC (KNN), and the County's Bond Counsel, Jones Hall, staff evaluated financing packages from two lenders and selected a tax-exempt equipment lease purchase (TELP) master agreement offered by BofA as having the most favorable terms for the County.

The financing is for 20 years at a rate of 4.49% interest and may be paid off early with a 2% penalty. In addition, a one-time partial pre-payment is already anticipated upon receipt of incentive rebates and will be allowed at 1% penalty. BofA later presented, and staff now includes in today's recommendation, the option of a "master lease agreement" which would make a total pool of funds available for future Sustainable Solutions Turnkey (SST) energy conservation projects, including the subject Santa Rosa Veterans Memorial Building project.

There is no cost to the master lease agreement, and the County is not committed to utilize any additional capacity under it. Any future projects recommended for additional funding would still require Board approval, and the County would be able to consider alternate financing mechanisms at that time, including the use of available fund balance to pay for projects directly rather than borrowing. The existence of the master lease agreement would allow for potential savings on administrative costs should your Board choose to use it for future projects.

During the upcoming budget process, staff will look at identifying one-time funds that may be utilized to offset the costs of debt service on this and potential future projects. Among the items that will be discussed are the

potential impacts of the proposed partial prepayment, as well as potential benefits of setting aside one-time funding for future projects or for prepayment as opposed to engaging in debt financing. An update will come at Spring Budget Workshops.

**Discussion:**

The County of Sonoma engaged the Pacific Gas and Electric Company (PG&E) Sustainable Solutions Turnkey (SST) program through a Master Services Agreement in July of 2021 to evaluate County buildings and propose a scope of work for equipment and other retrofits that improves energy efficiency and provides resiliency upgrades to meet the County's Strategic Plan goals of making County facilities carbon free and resilient. In February of 2022, your Board approved \$1,771,230 from the Climate Resilience Fund (CRF) for energy and resiliency upgrades to the Santa Rosa Veterans Memorial Building (Veterans Building), based on a preliminary evaluation of facility needs. Investment-grade energy audits performed through the SST program led to a re-scoping of the upgrades, and your Board approved the rescoped project on August 22, 2023.

The approved project will implement the following upgrades:

- Carport Solar Photovoltaic (PV) Array 110.7 kW;
- Battery Energy Storage System (BESS) & Microgrid to provide emergency backup power, peak load shifting to save electricity demand charges, and improved electric grid stability;
- HVAC replacement and decarbonization/electrification, including replacing the aged natural gas hot water boiler serving auditorium with an electric heat pump, and adding 3 mini-split heat pumps to high occupancy front offices;
- Comprehensive LED lighting retrofit;
- Building Management System (BMS) upgrade with direct digital controls for HVAC, lighting, solar PV, BESS and emergency generator systems; proposed BMS meets specifications for future building management systems for all County facilities;
- Optimizing time of energy use at the Central Mechanical Plant (CMP) with current time-of-use tariffs, with ongoing monitoring, verification, and adjustment.

The construction and related county management costs of this energy upgrade project total \$3,546,720, of which \$1,771,230 is funded through the CRF. Your Board directed staff to secure financing for the remaining project costs of \$1,827,331 (\$1,775,490 in project costs and \$51,841 in capitalized interest). Staff also reserved \$588,410 in incentives that will be reimbursed to the County over several years after the project is completed.

In conjunction with KNN and Jones Hall, staff reviewed financing packages from BofA and Hannon Armstrong Sustainable Infrastructure (HASI). Both packages were TELP agreements over a 20 year-period. The most favorable terms were offered by BofA, including a lower interest rate of 4.49%, and a lower pre-payment cost of 2% of the outstanding balance if paid off early and in full. BofA has also acknowledged that the County anticipates making a partial pre-payment of approximately \$588,000 with incentive rebates that will be refunded to the County over the first few years of operation of the project; the exact amount and timing will depend on when rebates are received, and BofA will permit pre-payment to occur at a premium of 101% of the amount being pre-paid. Staff recommends approval of this financing package.

On advice of KNN and Jones Hall, staff also recommends BofA's master lease agreement, rather than a project-specific lease agreement. The master lease agreement would allow the County to utilize funds for qualifying

energy upgrade equipment purchases up to a ceiling of \$7 million - but does not obligate the County to use the funds and there is no cost associated with the unfunded amount. The master agreement and financing terms would apply to the currently planned measures at the Santa Rosa Veterans Building and to any additional projects that might be authorized later. Under the SST program, the County is currently evaluating potential energy upgrade projects at over 60 other County facilities. Staff will present recommendations on those projects to your Board in December. By establishing a master agreement, the County would save per transaction financing costs on any additional energy upgrade projects your Board later approves.

Under the terms of the recommended master lease agreement, BofA will deposit an amount of funds to pay for the cost of the equipment being installed at the subject County location under the SST program. With those funds, PG&E and its contractors will get paid for the energy conservation measure equipment installed and work performed. County then would repay those funds (plus interest) to BofA pursuant to a lease arrangement and periodic payments, whereby County gets beneficial use and ownership of the needed equipment during the repayment period. In that the master lease in essence provides for the borrowing of funds to finance initial purchase and installation of the needed equipment subject to later, long-term repayment, the master lease arrangement constitutes borrowing activity under applicable law.

Under the master lease agreement, no projects may be financed unless and until your Board approves the project(s) and the use of the master lease agreement as a funding instrument. This could be done in a single action by your Board at a future date, which would also reduce administrative costs of project financing. The interest rate for any future funding under the master lease agreement will be set based on market conditions at the time, but will be based on the 10-Year BSBY SWAP at 79%, plus a spread of 1.263%. If your Board approves the master lease agreement at this time, the only project currently approved for financing through this agreement is the energy upgrades to the Santa Rosa Veterans Memorial Building. The total cost as to the Santa Rosa Veterans Memorial Building with this financing package is estimated to be: \$4,143,816, of which the financing cost is: \$945,526 at a rate of 4.49% over 20 years. In addition, costs for related services from KNN and Jones Hall, as the County's municipal financial advisors and special bond counsel, with regard to the financing are \$25,000 and \$10,000, respectively, as well as up to \$3,000 for associated expenses.

Pursuant to Government Code § 53635.7, your Board is required to discuss, consider, and deliberate upon, as a separate item of business on the agenda, all borrowings of \$100,000 or more. Accordingly, this item has been scheduled on your Board's regular, public meeting agenda.

In addition, applicable law requires that certain information regarding borrowing be obtained and disclosed prior to authorization of debt. Said information is contained in the recommended Resolution that accompanies this Report.

**Strategic Plan:**

This item directly supports the County's Five-year Strategic Plan and is aligned with the following pillar, goal, and objective.

**Pillar:** Climate Action and Resiliency

**Goal:** Goal 3: Make all County facilities carbon free, zero waste and resilient

**Objective:** Objective 1: Design or retrofit County facilities to be carbon neutral, zero waste and incorporate resilient construction techniques and materials.

This item approves the financing for the project that will make the Santa Rosa Veterans Memorial Building carbon neutral. It also supports Climate Action and Resiliency Goal 3, Objective 3: Invest in County owned facilities, establishing carbon eliminating microgrid technology and improving energy grid resilience to reduce the impact of power loss during power shutdowns and natural disasters; and Resilient Infrastructure Goal 2, Objective 2: Invest in electric power resiliency projects at County facilities, including Veteran's Buildings, used for evacuation sites, warming/cooling centers, or as alternate work facilities for delivery of critical services.

**Racial Equity:****Was this item identified as an opportunity to apply the Racial Equity Toolkit?**

No

**Prior Board Actions:**

- 8/22/2023 - Energy and Resiliency Upgrades to the Santa Rosa Veterans Memorial Building Using the Pacific Gas and Electric Company's Sustainable Solutions Turnkey Program
- 2/1/2022 - Board Update: Legislative Affairs, Strategic Plan and Climate Action & Resiliency
- 4/20/2021 - Update on the County Participation in PG&E Sustainable Solutions Program Energy Services and Self Generation Programs
- 6/9/2020 - Application for the Self Generation Incentive Program and Payment of the Application Deposit

**FISCAL SUMMARY**

<b>Expenditures</b>	<b>FY23-24 Adopted</b>	<b>FY24-25 Projected</b>	<b>FY25-26 Projected</b>
Budgeted Expenses	\$1,809,230	\$127,186	\$127,186
Additional Appropriation Requested	\$1,775,490	-	-
<b>Total Expenditures</b>	<b>\$3,546,720</b>	<b>\$127,186</b>	<b>\$127,186</b>
<b>Funding Sources</b>			
General Fund/WA GF	\$38,000	\$127,186	\$127,186
State/Federal	-	-	-
Fees/Other (TELP Proceeds)	\$1,775,490	-	-
Use of Fund Balance (Climate Resiliency Fund)	\$1,771,230	-	-
Contingencies	-	-	-
<b>Total Sources</b>	<b>\$3,546,720</b>	<b>\$127,186</b>	<b>\$127,186</b>

**Narrative Explanation of Fiscal Impacts:**

The Capital Projects Division of Sonoma County Public Infrastructure currently has \$1,771,230 in appropriations available for this project in the FY 23/24 Approved budget. The funding source for these appropriations are the County's Climate Resiliency Fund (seeded with PG&E 2017 Settlement) currently held by the County Administrator's Office. Costs for services from the Debt Advisor and Bond Counsel will be absorbed by the departments within existing budget, with review if any additional funding is needed at midyear estimates.

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Proceeds for the SR Veteran's building improvements totaling \$1.78 million from the Bank of America TELP will be held in escrow until eligible expenses are accrued and reimbursements request are submitted. Appropriations for the TELP funds will be incorporated in the Capital Projects budget through future Consolidated Budget Adjustments or the regular budget approval process. Annual debt payment is \$127,186. Funding for principal and interest payments will be determined during the County's normal budget development and approval process beginning in FY 24/25. Payments will be made from General Fund allocations in the Sonoma Public Infrastructure debt service budget and will be partially covered by savings in the utilities budget. Staff will discuss potential options for early payoff, including the use of rebates received as part of the project, and impacts of those payments during the Budget Workshops, or when other potential projects come to the Board. □

**Narrative Explanation of Staffing Impacts (If Required):**

None

**Attachments:**

1. Resolution Authorizing the Master Agreement for the Tax-exempt Equipment Lease Purchase for Energy Upgrades to the Santa Rosa Veterans Memorial Building with Bank of America
2. Master Tax-exempt Equipment Lease Purchase Agreement
3. Form of Escrow Agreement
4. Equipment Schedule No. 1

**Related Items "On File" with the Clerk of the Board:**

N/A