



MAYOR & COUNCIL COMMUNICATION

January 27, 2009

Subject: Approval to Issue Clean Renewable Energy Bonds (CREBS) - (City-Wide) (Continued from the meeting of 1/6/09) Page: 1 of 2

Issue – The City has been authorized by the Internal Revenue Service (IRS) to issue and sell \$7,742,250 of Clean Renewable Energy Bonds (CREBs). The CREBs are to be used to acquire solar energy facilities to be located at the seven City-owned properties identified below. The issuance of the CREBS provides a low-cost financing mechanism for these projects.

Recommendation – It is recommended that Mayor and Council approve and adopt the attached ordinance, which authorizes the issuance and sale of the CREBS.

Background – As previously briefed to Mayor and Council at study session on July 8th, 2008, the CREBs, in effect, represent a subsidy to governmental entities, such as the City, for investments in renewable energy projects, including solar energy facilities. The subsidy is designed to parallel the tax credits that are available to private entities for investments in renewable energy projects. CREBs are “tax credit bonds” on which most of the interest is paid by the Federal Government in the form of tax credits for the investors. The financial market may also require a small supplemental interest amount to be paid. The principal and any supplemental interest are paid back by the City over the term of the bonds.

Project Descriptions – The following seven City-owned properties were specified in the request to the IRS for authority to issue and sell the CREBs:

#	Site Name	Address	CREBS Allocation Original	Total project cost	kWh/ year	Carbon equivalent Tons
1	El Pueblo Activity Center (Bldg. 9)	101 W. Irvington	\$968,750	\$765,804	159,181	153
2	Public Safety Training Academy (PSTA)	10001 S. Wilmot	\$1,272,000	\$3,199,430	969,177	930
3	El Rio Center	1390 W. Speedway	\$1,056,000	\$261,598	39,025	37
4	Parks Store	850 S. Randolph	\$1,176,000	\$400,349	77,023	74
5	Information Technologies (IT)	481 W. Paseo Redondo	\$1,056,000	\$312,699	56,483	54
6	Hayden-Udall CAP Plant	4401 S. Tucson Estates Parkway	\$1,176,000	\$1,807,634	448,351	430
7	Sweetwater Reclaimed Plant	2550 W. Sweetwater	\$1,037,500	\$848,385	226,141	217
	Totals		\$7,742,250	\$7,595,899	1,975,381	1,896

SPG Solar is the retained contractor for the project. SPG Solar is a private company founded in 2001. SPG Solar installed over 1,000 grid-connected photovoltaic systems and is currently building a 500 kW solar energy project at the Gatorade plant in Tolleson, Arizona.

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Legal Considerations – The adoption of an Ordinance is required to authorize the sale of the CREBs. In order to meet state law requirements, the payment of debt service on the CREBs will be subject to annual appropriation.

Financial Considerations – The issuance and sale of the CREBS has no impact to core City services or general fund departments. The financing mechanism will consist of a lease-purchase agreement with a 12-year term, and an approximate interest rate of 1.15% but not to exceed 2%.

Some benefits to consider are as follows:

- ◆ 10-20 local installation jobs
- ◆ New long term local solar business
- ◆ Increases COT solar by 850 KW, from 220 KW to 1070 KW
- ◆ 1.15% interest vs market rate of about 5%
- ◆ After 12 years, reduced COT electric costs
- ◆ Over 25 years \$1+ million Water Department savings
- ◆ Over 25 years \$2+ million Internal Service Fund savings

If Mayor and Council do not approve the CREBS

- ◆ The City must meet FY 2009 obligation of DOE Solar City Grant = \$200,000 to \$300,000
- ◆ Must pay contractor for design work = \$180,000 maximum

The first debt service payment will be due in December 2009 and will come from avoided electric utilities costs (approximately 31%), Renewable Energy Standard Tariff (REST) rebates from Tucson Electric Power (approximately 47%), and available Internal Service Fund resources (approximately 22%).

The amount will be repaid over a term and at credit rates which are determined periodically by the U.S. Secretary of the Treasury. Per communication with the investor bank, the current interest rate is 1.15% and the term of the bonds has been sent by the U.S. Treasury at 12 years. However; since the rates and terms could be changed by the federal government, the parameters set out in the attached ordinance are that the term will not be longer than 20 years, with a supplemental interest rate not to exceed 2%.

Respectfully submitted,



Mike Letcher
Deputy City Manager

Attachment: Frequently Asked Questions
Ordinance