



Agenda Report

21-496

Agenda Date: 7/13/2021

REPORT TO COUNCIL

SUBJECT

Action on a Resolution Declaring Silicon Valley Power's Intention to Issue Tax Exempt Revenue Bonds for Reimbursement of Expenditures from Several Capital Improvement Projects

COUNCIL PILLAR

Promote Sustainability and Environmental Protection

Deliver and Enhance High Quality Efficient Services and Infrastructure

BACKGROUND

At the April 20, 2021 City Council meeting, staff presented Silicon Valley Power's (SVP) Quarterly Update with a focus on SVP's estimated near-term and long-term load growth, growth plan, load limitations, and new major capital projects to replace end of life facilities and to accommodate the projected load growth. The electric load has increased by more than 20% over the last decade and continued increases in demand are expected over the next decade. To support this increase and maintain the existing load, several large capital improvement projects have been identified. These projects include replacing two receiving stations and constructing a battery storage system that will be used to manage SVP's peak demand to avoid over-stress on the distribution and transmission grid and maximize the use of renewable and greenhouse gas (GHG) free energy.

The two receiving stations are Scott Receiving Station (SRS) and Kifer Receiving Station (KRS). These receiving stations step down (transform) power from the high voltage transmission system to the primary distribution system and serve as the entry point of power into the electrical system. SRS was initially constructed in 1968 and KRS was built in 1975. While SVP has performed regular maintenance on these assets, both receiving stations are approaching the end of their useful life and are scheduled to be replaced. Replacement of these receiving stations are needed to maintain system reliability for existing customers and increase system capacity allowing for future growth.

The two receiving station projects were included as part of the recently approved Council budget and the Battery Storage project will be presented for Council consideration in an August/September timeframe. Staff has completed the full vendor selection process for the Battery Storage project and is in final negotiations with the selected vendor.

DISCUSSION

To prepare for the projects described above staff has performed system studies and identified that it is optimal to replace and implement these projects no later than 2025. These projects are conceptually estimated to cost \$185 million. Initial design work is beginning in FY 2021/22 for the receiving stations and an RFP for the Battery Storage project was issued at the end of 2020 and is in final negotiations with the selected vendor. These projects are significant and will require several years to design, construct, and commission.

Staff has reviewed several strategies to fund these projects and recommends consideration of debt financing a portion of these costs as a possible strategy. Currently, the interest rates in the market are historically low which is favorable for the City. Pursuing funding at this time would have minimal impact to customer rates and ensures that SVP can maintain adequate liquidity to meet existing bond covenants.

It will take several months to complete steps necessary to issue debt and several projects included in the Electric Utility Capital Fund may be or have been awarded. In order to avoid delays on these projects and maximize the ability to recover project costs from bonds issued in the future, staff recommends that the Council adopt the attached resolution. Approval of a resolution will allow the City to seek reimbursement from bond proceeds for project costs that occur before debt financing is complete.

It is important to be clear that this action does not approve the use of debt financing. The purpose of this action is to allow the City the ability to reimburse expenditures for the three large upcoming projects for expenditures during FY 2021/22 (if the City ultimately selects debt financing to fund the projects). The use of debt financing would be a separate action the City would take after additional items are completed including:

- Completing the System Expansion Plan
- Completing additional project details
 - Detailed schedules for the projects
 - Detailed estimates for the projects
- Additional budget and reserve Analysis

Debt financing is one of the options, and staff will continue to work with a financial advisor to review and consider a financing strategy (e.g., commercial paper, loans, tax-exempt bonds, etc.) to determine the best approach for future City Council consideration.

ENVIRONMENTAL REVIEW

The actions being considered do not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378 (b)(4) in that it is a fiscal activity that does not involve commitment to a specific project which may result in potential significant impact on the environment.

FISCAL IMPACT

Adoption of this resolution will permit SVP to reimburse Capital Improvement expenses from proceeds of bonds to be issued in the future. If this resolution is not approved, SVP will need to pay for project expenses from fund balance that would impact liquidity and risk a decrease to existing bond ratings. Alternatively, SVP would need to delay these projects until debt financing is completed. Delaying these projects may result in additional costs especially related to escalation of construction costs in the region.

Initial funding in FY 2021/22 for the multi-year projects is provided in the KRS Rebuild and Replacement and SRS Rebuild and Replacement projects in the Electric Utility Capital Fund included as part of the FY 2021/22 Adopted Budget using CIP fund balance, customer service revenue, and Public Benefits revenue. The bond funding process will start at the end of 2021 and be ready to

meet FY 2022/23 needs. During the upcoming biennial CIP budget process for FY 2022/23 & 2023/24, the amount of debt financing will be identified and submitted as part of SVP's budget proposal, including reimbursements for FY 2021/22 expenses that are currently not funded from debt financing.

COORDINATION

This report has been coordinated with the Finance Department and the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Adopt a resolution declaring Silicon Valley Power's intention to reimburse expenditures for several Capital Improvement Projects within the Electric Utility Capital Fund from the proceeds of tax-exempt revenue bonds.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution