



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Administrative Services

Meeting Date: December 16, 2024

Report #:2411-3805

TITLE

Adoption of a Resolution of Intention to Reimburse Expenditures for the Grid Modernization and Related Projects of the Electric Utility System Infrastructure from the Proceeds of Tax-Exempt Utility Revenue Bonds.

RECOMMENDATION

Staff recommends that the City Council adopt the attached resolution of intention to reimburse expenditures for the grid modernization and related projects from the proceeds of tax-exempt (Electric) Utility Revenue Bonds.

BACKGROUND

On June 17, 2024, Council adopted the Electric Fund's capital budgets for FY 2025 and conceptually approved a capital expenditure plan for FY 2026 through FY 2029. This plan included, in concept, issuing debt to fund the Electric Grid Modernization for Community-Wide Electrification Project (CIP Project No. EL-24000), or Grid Modernization project. The Grid Modernization project is estimated to take 7 to 10 years and cost up to \$306 million, depending upon the approach and material costs.

The Grid Modernization Project was developed to enhance the distribution system's grid resiliency and reliability in a manner that will continue to accelerate the City's clean energy and decarbonization goals. Palo Alto's grid must be modernized to reach the capacity required to electrify all homes and cars. The modernized system will be designed to fully accommodate energy received from local generation such as rooftop solar and battery storage, an important element in decarbonization goals. There will be an upgrade to the distribution system to incorporate local generation, allow two-way power flow, meet projected capacity needs, enhance voltage regulation and system protection requirements, and provide a high level of resiliency and reliability.

The Project's three main objectives are:

- Increase capacity on the Electric Grid to allow for the addition of new electrical load from the electrification of heating load, electric vehicles, and battery storage.

- Enhance system reliability and resiliency by installing advanced distribution network protection schemes.
- Implement distribution system control technologies to allow for high levels of solar penetration, battery storage, distributed energy resources, and electric vehicles.

To meet the expected increase in demands, this Project will increase network capacity. Capacity increases will include the following work:

- Converting 4kV systems to 12kV.
- Installing more distribution transformers with greater capacity.
- Rebuilding secondary networks by increasing the conductor size and creating more secondary networks.
- Replacing four distribution substation transformers at two substations with larger transformers having greater capacity.

ANALYSIS

Work on Grid Modernization project work has already begun. Staff anticipates selling the first series of the (Electric) Utility Revenue Bonds towards the end of the 2025 calendar year. Due to the long project duration and federal law requirement on the spending time limit on tax-exempt bond spending, multiple bond issuance will be needed over the next decade. The proposed resolution allows the City's Utility enterprise fund to use bond proceeds to reimburse itself for certain pre-construction and construction costs related to the Grid Modernization project but incurred before the bonds are issued. The reimbursement of these expenditures would restore the Electric Fund's reserve(s) for these expenditures. Staff recommends that Council approve the attached resolution (Attachment A). This does not authorize any issuance of debt or financial obligation to the City.

Though the project work has begun, the bond issuance is being delayed by a year to leverage the projects cash reserves and minimize financing cost. Current forecasts anticipate in the upcoming year declining interest rate environment due to the Federal Open Market Committee's (FOMC) expected federal funds interest rate cuts, which will impact the borrowing interest rate on these tax-exempt bonds.

FISCAL/RESOURCE IMPACT

It is estimated that the principal amount of the first series utility revenue tax-exempt bonds to be issued to be in the range of \$70 million to \$100 million. The amount of this bond issuance that will be able to be reimbursed under this resolution is subject to the amount of work that has and will be done in the coming year. Once the bonds are issued, subject to authorization by the City Council, then all future expenditures for this project will be reimbursed under the bond issuance authority. All financial transactions associated with issuance of debt will require Council action later and authorization of this resolution does not obligate the Council to issue debt in the future should plans change.

STAKEHOLDER ENGAGEMENT

Staff works internally (e.g., Utility, City Attorney's Office, and Administrative Services) and with external parties (Financial Advisor, Bond and Disclosure Counsels, Paying Agent, etc.) to prepare this resolution and to eventually issue the bonds.

ENVIRONMENTAL REVIEW

Council action on this item is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines because the adoption of a reimbursement resolution is a government fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. CEQA Guidelines section 15378(b)(4).

In addition, Council's approval of the grid modernization project(s) does not require additional environmental review under CEQA Guidelines section 15183, because the grid modernization project, an element of the Council-approved S/CAP, is consistent with the Environmental Impact Report (EIR) Addendum to the City of Palo Alto Comprehensive Plan Final Environmental Impact Report Council approved on June 5, 2023¹.

ATTACHMENTS

Attachment A: Resolution of the City of Palo Alto Declaring Intention to Reimburse Expenditures from the Proceeds of Tax-Exempt Debt

APPROVED BY:

Lauren Lai, Administrative Services Director

¹ Environmental Impact Report, item # 14:
<https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=12530>