

# CITY OF PALM DESERT STAFF REPORT

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MEETING DATE: July 11, 2024

PREPARED BY: Chris Escobedo, Assistant City Manager

REQUEST: STUDY SESSION: IMPERIAL IRRIGATION DISTRICT'S ENERGY  
INFRASTRUCTURE PARTNERSHIP

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## **RECOMMENDATION:**

Provide direction to staff on whether to participate in Imperial Irrigation District's energy infrastructure partnership agreement.

## **BACKGROUND/ANALYSIS:**

In 2023, City staff worked with Imperial Irrigation District (IID) to secure a will-serve letter for an affordable housing development in the north sphere, as well as for the City's fourth fire station (Fire Station 102), which is currently in design. During that process, staff learned of IID's energy infrastructure challenges specific to the portion of Palm Desert they serve in the north sphere. The rest of Palm Desert is served by Southern California Edison. Without new substation(s) and distribution lines to serve the north sphere, IID will not issue any additional will-serve letters for new and planned development.

Since 2023, the discussions have evolved from each jurisdiction or developer needing to pay for their own substations, which range from \$25 Million to \$30 Million each and Palm Desert needing two to serve the north sphere. Now, the discussions include multiple parties entering a potential partnership for one large substation and paying for their respective, and lower cost, energy needs.

To get to this point, staff has engaged in the following activities:

- Retained NV5, which is a technical engineering and consulting firm, to analyze and project the IID service area energy demand at build-out,
- Held several meetings with IID staff to verify this information, work through solutions to Palm Desert's needs, and work through IID's energy infrastructure standards,
- Held three property owner feedback and input meetings,
- Conducted financial forecasts and explored financing options,
- Met with other impacted agencies and developers including the City of Rancho Mirage and the Berger Foundation, and
- Worked with IID to develop the energy infrastructure partnership solution.

## **NV5 Technical Analysis**

In 2023, the staff initiated a comprehensive study with NV5 on the requirements and energy load analysis for build-out of the north sphere. NV5 worked alongside IID's infrastructure team to factor in the requirements, distribution, and site locations for substations. Additionally, NV5 received information on land development plans from the City's Development Services

Department and communicated with various property owners in the north sphere who need energy. At build-out, NV5 concluded that 15 Megawatts (MW) would be needed to energize the north sphere.

**Project Scope**

The 15 MW need, factored into the proposed substation would be located just north of the I-10 freeway on Cook Street, which has existing energy conduit and serves as the most efficient routing point for all parties. It is for a 2-50 MVA substation bank, which includes engineering, procurement, and construction of the 2-50 MVA, 92/13.2kV power transformer associated equipment including transmission and supporting infrastructure. Each entity would be requested to pay in for their share, and IID would then commence ordering of equipment, design, and construction.

<b>High Level Total Substation Cost</b>	
Substation	\$20.76 Million
Distribution Gateways	\$4.00 Million
Transmission Line Upgrade 2-92 kV	\$2.53 Million
<b>Total</b>	<b>\$27.29 Million</b>

**Property Owner Feedback and Input Meetings**

During the first round of property owner meetings in 2023, before the partnership solutions were identified, the property owners expressed their disinterest due to the high cost of the infrastructure. During this last round in April of 2024 when the energy partnership was presented, the property owners expressed strong support for it, recognizing the lower cost and ability to pay over 30 years. Additional property owner input meetings are needed should the City Council express interest in pursuing the partnership option.

**Multi-Party Project Agreement**

The energy infrastructure partnership would have 8 entities pay their proportional share of the substation. The table below provided by IID shows the entities being asked to participate, their energy demand, and their respective cost share.

**Thousand Palms, Palm Desert, & Rancho Mirage  
 New Substation Contribution by Cities, County and Developers**

Project	New Proposed Substation 2-50 MVA Transformers			New Proposed Substation 2-50 MVA Transformers		
	kVA	Customer Cost	%	kVA	Customer Cost	%
Majestic Realty Thousand Palms Warehouse	17,300	\$ 5,902,936	21.63%	14,000	\$ 4,776,943	17.50%
Palm Creek	5,850	\$ 1,996,080	7.31%	5,850	\$ 1,996,080	7.31%
Classic Club Development (Early Phase & Partial Phase 1)	-	-	-	-	-	-
Classic Club Development (Hospitality, Restaurant, Retail, Recreation)	26,000	\$ 8,871,465	32.50%	26,000	\$ 8,871,465	32.50%
BoHo Development	301	\$ 102,704	0.38%	301	\$ 102,704	0.38%
Available Capacity for Future Growth (County)	549	\$ 187,324	0.69%	3,849	\$ 1,313,318	4.81%
Sagecroft Hotel	403	\$ 137,508	0.50%	403	\$ 137,508	0.50%
City of Palm Desert (Zone 2) - East of Cook St.	4,597	\$ 1,568,543	5.75%	4,597	\$ 1,568,543	5.75%
City of Palm Desert (Zone 1 - 10MW)	10,000	\$ 3,412,102	12.50%	10,000	\$ 3,412,102	12.50%
Aegis Builders (Phase 1)	-	-	-	-	-	-
City of Rancho Mirage	-	-	-	-	-	-
<b>Totals</b>	<b>80,000</b>	<b>\$ 27,296,816</b>	<b>100.00%</b>	<b>80,000</b>	<b>\$ 27,296,816</b>	<b>100.00%</b>

North of I-10 Freeway  
50,000 kVA

South of I-10 Freeway  
30,000 kVA

The red box outlined shows Palm Desert’s energy demand at build-out and cost share. Included in Palm Desert’s amount is the energy needs for the build-out of California State University, San Bernardino – Palm Desert Campus. While they cannot financially participate, the staff has negotiated other benefits with them including use of the CSU property for flood infrastructure, wind fence improvements, and joint use of sports fields. The total amount estimated for Palm Desert is \$5 Million (\$1.65 Million for CSUSB-PD) for the substation and IID has identified up to an additional \$2 Million to pay for transmission lines. The transmission lines would be the developer’s proportionate cost as is done now with current IID development practice.

**Financing Plan**

At the request of the property owners, the City may form a Benefit Assessment District or Community Facilities District and issue bonds to finance the amount necessary for the infrastructure needs to energize the area. This mechanism would provide a financing option for them to cover their share of the costs. Each property owner would pay their respective amount (either up front or over a 30-year period). Where necessary, and in order to ensure timelines are met, the City may enter into reimbursement agreements with the property owners. This would allow the City to be reimbursed for each private party’s energy amount through bond proceeds, and in turn they would be guaranteed will-serve letters for energy from IID.

**Future Build-Out Impact to the General Fund**

Staff engaged Keyser Marston Associates (KMA) to analyze city revenue projections at build-out for this area being served by IID, based on three build-out scenarios with the most aggressive scenario being one with hotel development in this area. KMA’s analysis projects that the City stands to receive approximately \$1.3 Million (least aggressive scenario) to \$2 Million (most aggressive scenario) annually in TOT, Property Taxes, and Sales and Use Taxes upon full build-out of the area.

**Timeline**

IID has outlined the following timeline in order to understand the interest of the parties and identify the key milestones including:

- July 11, 2024 – Identify long lead equipment and funding requirements,
- July 31, 2024 – Finalize pre-arrangement with governmental participants,
- August 15, 2024 – Long lead equipment funding, which is mainly for the transformers taking the longest time to procure,
- September 11, 2024 – Finalize multi-party party agreement, which staff would bring back to the City Council
- Substation in service 24-30 months from the signed date of the multi-party project agreement.

Staff is seeking Council's feedback on this partnership and will have a presentation to walk through its components. Staff will return to the meeting in August to request formal City Council action.

**Legal Review:**

This report has been reviewed by the City Attorney's office and Bond Counsel.

**FINANCIAL IMPACT:**

Based on the total estimated cost of \$27.29Million for the 15MW Substation partnership, the City would be required to front approximately \$5 Million for the Palm Desert property owners share of costs in order to facilitate the project collaboratively and expeditiously. With the approval of a Community Facilities District by the Palm Desert property owners in need of service, preliminary analyses indicate that the City could recoup approximately 80-90% of the \$5 Million through reimbursement from bond proceeds, that would be issued on behalf of the CFD property owners. Debt service for the CFD bonds would be paid annually through a mello-roos special tax collected on the property owners' property tax bill. The max impact/risk the General Fund is the \$5 Million payment to ensure the project is funded and commenced quickly. KMA has projected anywhere from \$1.3 Million to \$2.2 Million in annual revenue to the General Fund after build-out of the associated development area.