

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: September 26, 2024

PREPARED BY: Chris Escobedo, Assistant City Manager

SUBJECT: AUTHORIZE PARTICIPATION AND FUNDING COMMITMENT FOR
IMPERIAL IRRIGATION DISTRICT ENERGY PARTNERSHIP TO
DEVELOP NEW SUBSTATION

RECOMMENDATION:

1. Authorize the City's participation in the Imperial Irrigation District Energy Partnership for the development of a new substation, including a commitment to funding and reservation of energy capacity, and authorize the City Manager to execute all necessary agreements.
2. Appropriate \$950,000 from General Fund reserves and transfer out to Capital Project Budget North Sphere Electric Substation Account 4004258-4400100.

BACKGROUND/ANALYSIS:

In 2022, City staff worked with the 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. In that effort, staff learned of IID's 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.

City staff has worked with IID to identify options for a new substation and distribution line to serve the north sphere through a multi-party project partnership. Absent the additional substation, IID will not issue any additional will-serve letters for new and planned development.

At the July 11, 2024, meeting, the City Council held a study session regarding the IID's energy infrastructure partnership. The study session included:

- Summary of staff's work with NV5, which is a technical engineering and consulting firm utilized to analyze and project the IID-served energy demand at build-out;
- Outreach efforts to the impacted property owners;
- Review of financial forecasts and financing options; and
- Outline of project cost and multi-agency partners.

The City Council directed staff to proceed with the partnership. Staff has conducted additional follow-up since that time, including:

- Met with IID staff to verify the timeframe, which IID indicated is 3 years from the execution of the agreement, however, staff conservatively anticipates 4 years to energize the area.
- Held additional property owner input/feedback sessions.
- Met with the City's legal counsel and financing team.

- Met with the other government partners and proposed a working group comprised of the government entities to fully execute the objectives of the partnership.

Project Scope

The energy needs of the north sphere at build-out are 14.6 Megawatts (MW). This 14.6 MW need has been factored into the proposed substation, which would be located just north of the I-10 freeway on Cook Street. This location has existing energy conduit and serves as the most efficient routing point for all parties. The project involves a 2-50 MVA substation bank, including the engineering, procurement, and construction of the 2-50 MVA, 92/13.2kV power transformer and associated equipment, including transmission and supporting infrastructure. Each entity would be requested to contribute their share, and IID would then commence ordering equipment, as well as initiating the design and construction phases.

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

Multi-Party Project Agreement

The energy infrastructure partnership would have 8 entities contributing their proportional share of the substation costs. 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%
Sagemont 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	15,000	\$ 5,118,153	18.75%	15,000	\$ 5,118,153	18.75%
Totals	80,000	\$ 27,296,816	100.00%	80,000	\$ 27,296,816	100.00%

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 its corresponding cost share, which totals \$5 million. Included in this amount is the energy required for the build-out of the California State University, San Bernardino – Palm Desert Campus (CSUSB-PD). While CSUSB-PD cannot financially participate, City staff has negotiated other benefits with

them, including the use of CSU property for flood infrastructure, wind fence improvements, and possible joint use of sports fields.

The total amount estimated for Palm Desert is \$5 million, of which \$1.65 million is allocated for CSUSB-PD. IID has also identified up to an additional \$2 million to cover transmission lines, which would be the developer's proportionate cost, consistent with current IID development practices.

Financing Plan

The City has retained Willdan, a financial adviser, and bond counsel to assist with the formation of the Community Facilities District (CFD), which will issue bonds and assess the property owners the amount necessary to fund the infrastructure needs. The CFD will allow each private property owner to pay their respective amount either upfront or over a 30-year period. The City will enter into reimbursement agreements with the property owners, allowing the City to be reimbursed for each private party's energy amount through bond proceeds. In turn, these property owners 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 the area being served by IID, based on three build-out scenarios. The most aggressive scenario involves 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 Transient Occupancy Tax (TOT), Property Taxes, and Sales and Use Taxes upon full build-out of the area.

Legal Review:

This report has been reviewed by the City Attorney's office. Additionally, the City Attorney's expert on energy matters reviewed the partnership materials and participation agreement.

FINANCIAL IMPACT:

Based on the total estimated cost of \$27.29 million for the 15MW Substation partnership, the City would be required to front approximately \$5 million for the Palm Desert property owners' share of costs to facilitate the project collaboratively and expeditiously.

With the approval of a CFD 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 issued on behalf of the CFD property owners, upon meeting the necessary property value threshold. 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 maximum risk to the General Fund is the \$5 million payment, necessary to ensure the project is funded and commenced quickly.

KMA has projected annual revenue to the General Fund ranging from \$1.3 million to \$2.2 million after the build-out of the associated development area. The initial appropriation of \$950,000 from General Fund Reserves will be utilized to pay project consultants, related legal fees, as well as the initial deposit assisting in ordering mitigating the long lead items for the substation. Upon the

creation of the CFD and issuance of bonds, funds will be remitted to the City to reimburse costs related to the project.

ATTACHMENT:

1. Letter of Commitment