

# CITY OF PALM DESERT STAFF REPORT

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MEETING DATE: January 8, 2026

PREPARED BY: Chris Escobedo, City Manager

SUBJECT: APPROVE FUNDING AND RESERVATION AGREEMENT FOR THE COOK STREET ENERGY SUBSTATION WITH IMPERIAL IRRIGATION DISTRICT

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## **RECOMMENDATION:**

1. Approve the Funding and Reservation Agreement for the Cook Street energy substation with Imperial Irrigation District.
2. Authorize the City Manager to execute the Agreement, subject to revisions approved by all other parties and approved by the City Manager in consultation with the City Attorney.
3. Appropriate \$4,700,000 million to Capital Bond Proceeds Project Account No. 4514258-4400100 from available Fund Balance.
4. Direct the City Manager to commence the process to form a Community Facilities District for the North Sphere Electric Substation necessary for the property owners to commence payment of their share of energy demand.

## **BACKGROUND/ANALYSIS:**

In 2022, 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 will be operational in the Spring of 2026. During that process, staff learned of IID's energy infrastructure challenges specific to the portion of Palm Desert they serve in the north sphere (Attachment 1). 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-each ranging from \$25 million to \$30 million , with Palm Desert needing two to serve the north sphere-to multiple parties negotiating a partnership for a single large substation and paying their respective shares based on energy needs, which is the most cost-effective method to anticipate future development demand.

With prior City Council action in 2025 identifying the North Sphere as a priority for current and future development, staff has undertaken the following activities to advance this objective:

- Retained NV5, a technical engineering and consultant firm, to analyze and project the IID service area energy demand at buildout,
- 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 several 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, County of Riverside, and the Berger Foundation, and
- Worked with IID to develop the proposed energy infrastructure partnership solution.

### **NV5 Technical Analysis**

In 2023, staff initiated a comprehensive study with NV5 on the requirements and energy load analysis for the 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 power the north sphere, which included the build-out of the California State University, San Bernardino, Palm Desert Campus (CSUSB-PDC).

### **Update Since City Council Last Approval**

In July of 2024, the City Council held a study session on this matter and directed staff to proceed with a partnership framework to construct an energy substation to energize the North Sphere. Subsequently, in September of 2024, the City Council authorized participation in a funding commitment for the development of the substation. This action enabled the ordering of long-lead items necessary to build a substation and provided the impetus to develop the formal agreement presented through this item.

Additionally, the substation site details have been finalized, and staff has learned that the CSUSB-PDC no longer requires energy through this partnership and instead can receive energy through an existing agreement between IID, CSUSB-PDC, and Southern California Edison, which means the new energy demand is 10 MW instead of the previous 15 MW. Given the additional time to work through this agreement, the cost of materials also increased.

The following key tasks have been completed to advance this partnership:

- Purchase order for one power transformer, which is a long lead item,
- Commencement of environmental compliance items,
- Land acquisition commenced for the substation,
- Established distribution feeder routes, and
- Development of the proposed agreement and funding plan.

### **Project Scope**

The 10 MW need was factored into the proposed substation, which would be located north of the I-10 freeway on Cook Street, which has an existing energy conduit and serves as the most efficient routing point for all parties. It is for one 28 Megavolt-amperes one 50 MVA transformers, which includes engineering, procurement, and equipment for the construction of the substation, transmission extensions, and preparation for a third substation for future capacity needs. Each entity is requested to pay for its share, and IID will order the remaining equipment and complete design, and construction.

### **High Level Substation Cost**

The total project is estimated at \$42,620,500. The energy infrastructure partnership would have seven (7) entities pay their proportional share of the substation. This includes the cost of the substation, distribution gateways, transmission line in and out, land and site improvements for the substation. IID

is contributing to the cost of the substation, which is reflected in the table below as well as the cost share for all participating parties.

Participant	Participation Allocation	Total
Rancho Mirage	13.14103%	\$5,613,766.03
Palm Desert	13.14103%	\$5,613,766.03
County of Riverside	13.14103%	\$5,613,766.03
Berger Foundation	23.65385%	\$10,104,778.85
Palm Creek Ranch	7.68750%	\$3,284,053.13
Majestic Realty	11.23558%	\$4,799,769.95
IID	18.00000%	\$7,590,600.00
	100.00000%	\$42,620,500.00

### **Property Owner Feedback and Input Meetings**

During the first round of property owner meetings in 2023, before the partnership solutions were identified, they expressed their disinterest due to the high cost of the infrastructure. During feedback meetings 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. As this project has progressed since last year, additional property owner update meetings have taken place with continued support. In December of 2025, staff held two property owner meetings where they continued to express support for this solution.

### **Financing Plan**

The City has retained Willdan, a Special Tax Consultant, Del Rio Advisors, the City's Municipal Advisor, and Nossamon LLP, bond counsel to assist with the formation of the Community Facilities District (CFD) and subsequent debt issuance. This will provide the structure necessary to finance the public improvements on behalf of the property owners and allow for repayment in full or over time through an annual assessment of the property owners to repay the costs associated with their energy infrastructure needs.

Reimbursement agreements between the City and property owners will allow the City to be reimbursed for individual infrastructure costs from bond proceeds. In turn, the property owners would be guaranteed will-serve letters for energy from IID and be able to commence the City's planning and entitlement process for their parcels within 18 months.

### **Financial Analysis and Future Build-Out Benefit to the General Fund**

Through this action, the City will commence the process to create a Community Facilities District and issue bonds for Palm Desert's share of building the substation. Each Palm Desert property owner would pay their respective amount (either up front or over a 30-year period). This would allow the City to be reimbursed for each private parties' energy amount, separate agreements would be entered into with each private party, and in turn they will be guaranteed will-serve letters for energy from IID.

To determine feasibility of the project, 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

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projects that the City stands to receive an increase of 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.

**Stabilized City Revenues - Annual**

Revenue Source	Scenario 1	Scenario 2	Scenario 3
TOT Revenue	\$730,700	\$0	\$0
City Property Tax Revenue	\$368,800	\$359,200	\$350,300
Real Property Transfer Tax	\$41,600	\$40,500	\$39,500
Property Tax In-lieu of VLF	\$435,900	\$424,600	\$414,100
Sales Tax	\$642,600	\$637,300	\$489,300
Use Tax	\$64,300	\$63,700	\$48,900
<b>Annual Estimated Revenues</b>	<b>\$2,283,900</b>	<b>\$1,525,300</b>	<b>\$1,342,100</b>

**Timeline & Agreement**

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

- Nov 18, 2024 – IID Board Approval of the proposed agreement (IID Board Approved),
- Jan 15, 2025 – All parties participating enter approved agreements,
- Jan 2025– City commences CFD creation/agreements with property owners for reimbursement
- Early 2027 – Substation construction begins, and
- Summer 2028 – Substation goes in-service.

This agreement establishes a cost-sharing partnership between the Imperial Irrigation District (IID), the City of Palm Desert, the City of Rancho Mirage, Riverside County, the Berger Foundation, and participating developers to fund and construct the Cook Street (Thousand Palms) electrical substation. The substation is necessary to provide new electrical capacity to support planned development, City facilities, and regional growth in the North Sphere, where IID cannot issue additional will-serve letters without new infrastructure.

Under the agreement, Palm Desert commits to funding its pro rata share of the substation’s construction costs through a series of milestone payments, in exchange for a guaranteed reservation of electrical capacity for a 20-year period following completion. IID will contribute 18 percent of total construction costs and retain a 20 percent capacity reserve for system reliability. IID will own, operate, and maintain the facility upon completion.

The agreement secures long-term electrical capacity critical to housing, economic development, and municipal projects, while allocating construction risk, operational responsibility, and future system reliability to IID. Failure to participate would leave the City without access to new electrical capacity necessary to advance planned development in the project area.

The County of Riverside and the City of Rancho Mirage have approved this agreement. Approval of this agreement energizes the undeveloped parcels in the North Sphere that are served by IID.

### **CEQA COMPLIANCE**

The proposed actions to (1) approve the Funding and Reservation of Capacity Agreement with Imperial Irrigation District (IID), (2) appropriate funds from the General Fund, and (3) direct staff to commence formation of a Community Facilities District do not constitute a “project” under the California Environmental Quality Act (CEQA). Pursuant to State CEQA Guidelines section 15378(b)(4), the creation of government funding mechanisms, budgetary appropriations, and financing arrangements that do not commit the City to approval of a specific physical project are not subject to CEQA.

Alternatively, the actions are exempt under the common-sense exemption set forth in CEQA Guidelines section 15061(b)(3), as it can be seen with certainty that these actions will not result in a direct or reasonably foreseeable physical change to the environment.

Imperial Irrigation District will serve as the lead agency under CEQA for the proposed substation and related facilities, and construction of the project is expressly conditioned upon completion of all required CEQA review and compliance.

### **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 \$42,620,500 Substation partnership, the City is required to advance the \$5,613,766 for the Palm Desert property owners’ share of costs to facilitate the project collaboratively and expeditiously.

Participant	Participation Allocation	Total
Rancho Mirage	13.14103%	\$5,613,766.03
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Preliminary analyses indicate that upon approval of the CFD and financing plan for the Palm Desert property owners in need of service, the City should recoup nearly all advanced costs through reimbursement from bond proceeds. Debt service for the CFD bonds would be paid annually by the property owners through a special tax collected by Riverside on their property tax bill.

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Staff has identified Capital Bond Proceeds available that can be used for this purpose. Therefore, there is no direct impact to the General Fund with this action. Projections from KMA indicate that upon full development of the associated Palm Desert properties, the General Fund stands to gain revenues ranging from \$1.3 million to \$2.2 million.

<b>Date</b>	<b>Resource</b>	<b>Account</b>	<b>Amount</b>
<b>September 9, 2024 Appropriation</b>	Transfer from GF Reserves	4004258-4400100	\$950,000
<b>January 9, 2026 Appropriation</b>	Capital Bond Proceeds	4514258-4400100	\$4,700,000
<b>Total Amount Requested</b>			<b>\$5,650,000</b>
<b>Less: Expenditures to Date</b>	Legal, Consultants, etc.	4004258-4400100	(14,348)
<b>Less: Anticipated Const Costs</b>	IID	400/4514258-4400100	(5,613,768)
<b>Balance Remaining</b>			<b>\$21,884</b>

Upon the execution of the reimbursement agreements with the property owners, creation of the CFD, and issuance of infrastructure bonds, the City will be able to recapture costs related to this project. The maximum risk to the City is the \$5,613,766 advance necessary to ensure the project is funded and commenced.

**ATTACHMENTS:**

1. Map
2. Thousand Palms Substation – Funding and Reservation of Capacity Agreement

**CONFLICT OF INTEREST AWARENESS CHECKLIST:**

**Site-Specific Property Interest** – Councilmembers should check if they own or lease real property within 1,000 feet of the project site (Gov. Code § 87103(b); FPPC Reg. 18702.2).

**SB 1439 Applicability (Campaign Contributions)** – Applies to licenses, permits, or other entitlements for use, and to contracts or franchise agreements other than competitively bid, labor, or personal employment contracts.

**Applicant(s)/Appellant(s):** \_\_\_\_\_

Councilmembers should review any campaign contributions received within the last 12 months from parties or participants to the proceeding and must not accept contributions over \$500 from those parties for 12 months following the final decision (Gov. Code § 84308).

*Note: These indicators are informational and do not constitute a legal determination. Each Councilmember is responsible for identifying and disclosing any disqualifying interests in accordance with the Political Reform Act and FPPC regulations.*