

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**
Meeting Date: September 22, 2010

***Request for Resolution to Transfer Qualified Energy Conservation Bond (QECB)
Reallocation***

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Summary. Rancho California Water District (“RCWD”) requests approval of a Resolution to consent to a transfer of the California Debt Limit Allocation Committee’s (“CDLAC”) reallocation of Qualified Energy Conservation Bonds (“QECBs”) from CAEATFA to the RCWD in the amount of \$11,500,000.

Background. In April of this year, Rancho California Water District requested CAEATFA to make an application to CDLAC for a reallocation of the QECBs in the amount of \$11,500,000 (the “RCWD QECB Allocation”). The application submitted by CAEATFA to CDLAC listed CAEATFA as both the Applicant and Issuer, and the RCWD as the Project Sponsor. At the time it was not known whether bonds would be issued through a public sale or private placement.

On May 26, 2010, CDLAC approved a resolution placing RCWD on a waiting list for the RCWD QECB Allocation (“CDLAC Allocation Resolution”). As provided for in that approval, any waived allocation received by CDLAC on or before August 14, 2010, must be transferred to the projects on the waiting list. CDLAC received a reverted allocation and notified the RCWD on August 12, 2010 that it will receive the full RCWD QECB Allocation. Section 1 of the CDLAC Allocation Resolution states that the “Allocation may be used only by the Applicant”.

Currently RCWD is in the final stages of a \$130 million public sale of revenue bonds to finance various capital expansion projects and has secured an additional award of \$10.2 million of QECBs from Riverside County. Thus, transferring the RCWD QECB Allocation from CAEATFA to RCWD would allow RCWD to leverage limited staff resources and combine the RCWD QECB Allocation with the financing, marketing, and RCWD Board approval processes currently underway. Such consent also provides RCWD needed time to fully vet an expansion of its solar generation options using its full allocation of QECBs. The RCWD sought and accepted a private placement proposal from Bank of America, N.A. (the “Bank”) to finance the RCWD’s QECB Program, as the Bank had financed other similar programs for public entities in California and other States in the past few years. The RCWD and the Bank are currently negotiating terms and conditions.

As the RCWD QECB Allocation was granted to CAEATFA, and the CDLAC Allocation Resolution limits the use of the RCWD QECB Allocation solely to CAEATFA, the RCWD QECB Allocation will need to be transferred to the RCWD to complete the financing in the form described as an installment sale agreement, where RCWD would be the issuer of the QECBs. Any transfer of the RCWD QECB Allocation from CAEATFA to the RCWB would need to be approved by CDLAC. CDLAC has agreed to amend the CDLAC Allocation Resolution to

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provide for a direct allocation of the QECB award to the RCWD, subject to approval by the CDLAC Board on September 22, 2010.

Staff Recommendation. Staff recommends approval of the Resolution to consent to a transfer of CDLAC's reallocation of QECB's from CAEATFA to the Rancho California Water District for an amount not to exceed \$11,500,000.

**RESOLUTION CONSENTING TO THE TRANSFER OF ALLOCATION FOR A
QUALIFIED ENERGY CONSERVATION PROJECT TO
THE RANCHO CALIFORNIA WATER DISTRICT**

September 22, 2010

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (“Authority”), a public instrumentality, is authorized and empowered by the provisions of the California Alternative Energy and Advanced Transportation Financing Authority Act (“Act”) to issue bonds for the purpose of providing Financial Assistance to Participating Parties in connection with the acquisition and construction of Renewable Energy Projects (as such terms are defined in the Act); and

WHEREAS, Rancho California Water District (the “RCWD”), requested the Authority to assist in financing facilities for the qualified energy conservation solar project described on the attached Exhibit A (the “Facilities”); and

WHEREAS, the Authority adopted a Resolution of Official Intent to Issue Bonds to finance the Facilities on April 6, 2010, and submitted an application to the California Debt Limit Allocation Committee (“CDLAC”), requesting CDLAC to reallocate \$11,500,000 of the American Recovery and Reinvestment Act of 2009 Qualified Energy Conservation Bonds (the “RCWD QECB Allocation”) to the Facilities; and

WHEREAS, on May 26, 2010, CDLAC established a mechanism to provide—subject to certain CDLAC procedures—up to the full amount of the RCWD QECB Allocation to the RCWD in the event new QECB allocation became available, occurring on or before August 14, 2010, (the “Waiting List Mechanism”); and

WHEREAS, CDLAC notified the District on August 12, 2010, that subject to said Waiting List Mechanism, the District will receive the full RCWD QECB Allocation; and

WHEREAS, CDLAC adopted Resolution No. ARRA-22, reallocating a portion of the QECB Allocation to the Authority for the Facilities in the amount of \$11,500,000; and

WHEREAS, the RCWD has determined to finance the Facilities through a financing structure which provides the lowest cost of funds to the RCWD for the Facilities, and has also determined that the lowest cost of funds to finance the Facilities will be achieved if the obligations issued to finance the Facilities are issued as “Qualified Energy Conservation Bonds” (“QECBs”) under Section 54D of the Internal Revenue Code of 1986 (the “Tax Code”), as amended, added to the Tax Code by the American Recovery and Reinvestment Act of 2009; and

WHEREAS, the RCWD has determined that the optimal structure for the financing of the Facilities through an issuance of QECBs is through an installment sale agreement entered into by the RCWD, as obligor (a “QECB Lease Financing”) to be privately placed with the Bank or an affiliated banking institution; and

WHEREAS, in order for the QECB Lease Financing to be completed as a QECB under the Tax Code, the RCWD QECB Allocation must be transferred from the Authority to the RCWD; and

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority as follows:

Section 1. The Authority finds and determines that the foregoing recitals are true and correct.

Section 2. The Authority hereby transfers the CAEATFA Allocation to the RCWD.

Section 3. This Resolution shall take effect immediately upon its passage and remain in full force and effect thereafter.