



**CITY OF SANTA CLARITA
AGENDA REPORT**

NEW BUSINESS

CITY MANAGER APPROVAL:

Ken Stripling

DATE: May 23, 2017

SUBJECT: PURCHASE OF STREETLIGHT SYSTEM FROM SOUTHERN CALIFORNIA EDISON

DEPARTMENT: Neighborhood Services

PRESENTER: Kevin Tonoian

RECOMMENDED ACTION

City Council:

1. Approve a Purchase and Sale Agreement and a Light Pole License Agreement with Southern California Edison (SCE) for the acquisition of SCE-owned streetlights in Santa Clarita in the amount of \$9,573,728.
2. Adopt a resolution declaring the intent of the City to reimburse certain expenditures from tax-exempt obligations in connection with the acquisition, installation and conversion of certain streetlight improvements.
3. Authorize the City Manager or designee to execute all contracts and associated documents, contingent upon the appropriation of funds by the City Council in the annual budget for such Fiscal Year, and execute all documents subject to City Attorney approval.

BACKGROUND

In 2012, Southern California Edison (SCE) changed their longstanding policy to allow the purchase of streetlights by local governments. Recognizing the opportunity for significant cost savings, the City of Santa Clarita (City) filed paperwork in July of 2015 to have SCE perform a valuation and appraisal of the streetlight system.

To date, four cities (Lancaster, Huntington Beach, Monterey Park, and Rialto) have completed the purchase of their systems, while Palmdale and Rancho Cucamonga have executed their Purchase and Sale Agreement with SCE and are awaiting final approval from the California Public Utilities Commission (CPUC). In March of 2017, the Simi Valley City Council approved

purchase of their streetlight system. Other communities looking to acquire their streetlights from SCE include: West Hollywood, Rosemead, Santa Ana, Upland, Signal Hill, Fullerton, Tustin, La Verne, and Claremont.

SCE maintains responsibility for powering, maintaining, and replacing streetlights while the City funds the annual cost through our Streetlight Maintenance District. Some exceptions where the City already own streetlights include intersections with traffic signals, lights located on bridges, and the decorative streetlights on Main Street.

In June of 2016, SCE presented the City with a non-negotiable purchase price of \$9,573,728 for the acquisition of 16,125 streetlight poles. As some poles include multiple lights, the total number of actual streetlights proposed for purchase equals 16,210. On May 5, 2017, a draft Purchase and Sale Agreement was transmitted by SCE to the City and is attached. SCE's acquisition rules dictate that the City is only acquiring the lights and the poles. As part of the acquisition, SCE will retain the electrical infrastructure (i.e. all electrical wiring above and below ground) to support the lights. Any damage to the conduits or interruption of electrical service to the streetlights that occur below the streetlight poles access cover remains the responsibility of SCE.

The advantages of acquiring the City's streetlights include:

- Reduction in the City's utility bills for streetlights
- Reduction in energy consumption by the City
- Reduction in streetlight maintenance costs
- Reduction in the generation of greenhouse gases by approximately 61%
- Expedited turn-around time for replacement of burned out lights and damaged streetlights poles

The City currently pays for electricity and maintenance under the tariff rate for the SCE-owned streetlights. The cost for a typical 100-watt High Pressure Sodium (HPS) streetlight under the SCE-owned rate is \$12.81 per month. Upon assuming ownership, the City will only pay the cost of electricity under the current tariff rate for an agency-owned streetlight. The cost for a typical 100-watt HPS streetlight under the agency-owned rate is \$6.53 per month. Additional savings will be realized through the conversion of the lighting fixtures from HPS to Light Emitting Diode (LED). The CPUC maintains a tariff rate for agency-owned lights utilizing energy-efficient LED technology. Transitioning to this tariff rate will reduce the typical cost of electrical service per individual streetlight to an average of \$3.96 per month.

The City will realize additional saving for the maintenance of the streetlight system through conversion to LED. HPS lights have an expected life of six years or 24,000 hours, while LED lights are rated to operate for up to 23 years or 100,000 hours. While staff is basing the LED replacement forecast on a more conservative life expectancy of 15 years, the extended life of LED lights will reduce system maintenance costs.

Upon the completion of the sale and transfer from SCE, the City will commence the conversion of the streetlights from HPS to LED to ensure all available cost and energy savings occur as immediately as possible.

As part of the analysis conducted, a financial forecast evaluating four different options was prepared. Options considered include SCE retain ownership of the streetlight system, SCE retain ownership and retrofit to LED, City ownership and conversion to LED and either insource or outsource ongoing operation and maintenance.

The chart below identifies the projected thirty-year cost and savings for all evaluated options.

Option 1	Option 2	Option 3	Option 4
Status Quo	Do Not Purchase, SCE LED Conversion	Purchase, LED, In-House Maint.	Purchase, LED, Outsource Maint.
Cost for Each Option:			
\$109,412,771	\$100,235,487	\$93,831,741	\$86,949,560
Savings			
	\$9,177,284	\$15,581,030	\$22,463,211

The purchase of the streetlight system from SCE and conversion to (LED) technology will result in annual operational savings of \$748,773. This is a savings of \$22.5 million over the first 30 years. The estimated one-time costs associated with purchasing SCE’s streetlight system are shown below:

- \$9,573,728 – Cost to acquire SCE's Streetlight System
- \$5,600,000 – Estimated LED conversion cost

During the past year, an evaluation team has been working to analyze the financial and operational feasibility of acquiring the SCE-owned streetlights. If the City acquires the streetlight system from SCE, future pole replacement and annual maintenance of the lighting system will become the City’s responsibility. The evaluation included a fiscal analysis prepared by Utility Cost Management, a structural evaluation of 1,330 of the streetlights offered for sale, analysis of LED lighting options, and a review of the City’s streetlight “knock-down” experience during the last two calendar years.

The findings of the structural evaluation found the overall condition of the light poles to be in very good shape. The estimated remaining life of the streetlight poles range from 30 to 80 plus years, depending on the pole type. As part of its financial analysis, staff has forecasted approximately \$130,000 for the annual proactive replacement of the poles.

In addition, the City would be responsible for the replacement of damaged or destroyed streetlights. Over the last two calendar years, an average of 108 streetlight poles were destroyed as a result of traffic-related accidents. The City would carry insurance to cover these costs. As part of the financial analysis, an annual premium of \$69,000 for streetlight knockdowns is assumed, with the City responsible for a \$1,000 deductible for each streetlight damaged in an accident. This is significantly less than the estimated full replacement cost of \$6,483 per marbelite pole.

The financial analysis included what the streetlight maintenance would entail should the City bring this responsibility in-house, or elect to outsource such services. The evaluation found that the costs of an in-house streetlight maintenance system would be at least \$6.88 million greater than the cost to outsource these services to a third-party vendor over a 30 year period.

The use of third-party vendors to oversee ongoing maintenance of streetlights and retrofit LED fixtures is a common approach. The cities of Huntington Beach, Simi Valley, Monterey Park, and Rancho Cucamonga have elected to pursue this route. These cities have also chosen to use turnkey vendors to prepare audits of their existing street lights to confirm the existence of all poles identified for sale, inventory all street lights, and process all paperwork to complete the sale of the system. The cost for contracting with a third-party vendor is factored into the estimated cost of converting all streetlights to LED. Staff is evaluating options for how to secure these services and will return to the City Council with a recommendation for awarding this contract.

Timeline and Next Steps

As a part of the Purchase and Sale Agreement (Agreement), the City and SCE will do a physical inventory and audit of each streetlight. At the conclusion of the inventory, and once a final count has been determined, the City and SCE will “true up” the number of streetlights to be transferred. Any number less than the 16,125 included in the Agreement will result in a credit to the City, and any number more than the 16,125 will result in the City paying an additional cost per streetlight to SCE. The “true up” cost will be based on the average price per streetlight for each type of streetlight (wood, concrete, steel, or fiberglass).

As provided in the Agreement, the transfer of the streetlights from SCE to the City will take place over several months. In the event the City Council approves the Agreement, SCE will forward the executed Agreement to the CPUC for approval.

It is anticipated that the time needed for the CPUC to approve the Agreement is four to six months. Sixty days after the CPUC approves the Agreement, SCE will transfer all streetlight poles reconciled and identified by both the City and SCE. Any remaining unreconciled pole assets will be the subject of a “true up” and transferred upon purchase by the City.

Finally, staff is evaluating options to finance the acquisition of the streetlight system and conversion to LED technology. Funding to support the debt service will be derived from realized operational savings to the Streetlight Maintenance District. Staff will return to the City Council prior to the completion of the transaction with SCE with a recommended financing option. The recommended City Resolution would allow the City to be reimbursed for any acquisition cost incurred prior to issuance of permanent financing. It does not obligate the City to make any expenditure or proceed with the Project or obligate the City to issue any Obligations.

ALTERNATIVE ACTION

1. Do not move forward with the acquisition of the SCE-owned streetlights.
2. Other action as determined by the City Council.

FISCAL IMPACT

None at this time. Approval of the recommended actions allows the City to enter into a Purchase and Sale Agreement with SCE for the acquisition of SCE-owned streetlights located within the City of Santa Clarita. Staff will return to the City Council with recommended financing options for consideration and approval.

ATTACHMENTS

Reimbursement Resolution

City of Santa Clarita Purchase and Sales Agreement 5.8.17 With Attachments (available in the City Clerk's Reading File)