



CITY COUNCIL AGENDA REPORT

TO: Mayor Clauzel and Members of the City Council

FROM: Fernando Ulloa, City Manager

BY: Mike Willett, Public Works Director, Public Works

MEETING DATE: March 17, 2026

ITEM NO: {{section.number}}.{{item.number}}

SUBJECT: Public Hearing to Consider: 1) Approving Energy Efficiency and Renewable Energy Project with Alliance Building Solutions (ABS), LLC; 2) Directing Staff to Prepare and Release a Statement of Work for Comprehensive Energy Analysis and Facilities Capital Improvement Program; or 3) Taking No Action.

RECOMMENDATION

Staff recommends that the City Council consider one of the following actions:

Option 1– Approve Energy Services Project, Resolutions, and Associated Agreements with Alliance Building Solutions, LLC

1. Adopt Resolution No. 2026-XX awarding an Energy Services Contract to Alliance Building Solutions, LLC (ABS) for energy efficiency and renewable energy improvements at various City of Patterson (City) facilities and authorizing the City Manager or designee to:
 - a. Execute an Energy Services & Installation Agreement in an amount not to exceed \$4,794,785.
 - b. Execute a Measurement & Verification (M&V) Agreement.
 - c. Make required findings that all statutory requirements under California Government Code Sections 4217.10–4217.18, including a public hearing, have been satisfied.
2. Approve Resolution No. 2026-XX authorizing the City Manager or their designee to execute and deliver a Lease Purchase Agreement in an amount not to exceed \$4,824,685.00 with a not-to-exceed interest rate of 4.88%, an Escrow Agreement, and an Equipment Schedule.

Option 2– Direct Preparation of Statement of Work

Direct staff to prepare and release a Statement of Work to evaluate potential energy and infrastructure projects and return to Council with findings, alternatives, and financing options.

Option 3– Take No Action

Take no action and provide no further directions to staff regarding energy efficiency or renewable energy improvements at this time.

BACKGROUND

Government Code Section 4217 Authority

California Government Code section 4217.10 et seq., enacted in 1984 in response to the energy crisis, allows public agencies to enter into energy services contracts without traditional competitive bidding when specific statutory findings are met. The statute permits public agencies to combine design and construction under a single contract and finance improvements through projected energy cost savings.

Under section 4217.12 and 4217.13, public agencies must:

1. Provide a minimum of two-week public notice of a regularly scheduled public hearing prior to contract approval; and
2. Determine that anticipated cost savings will be sufficient to offset the cost of implementing the energy conservation measures over the life of the project.

This performance contracting model allows agencies to fund capital upgrades through future operational savings rather than requiring upfront capital appropriations.

Project Initiation

As part of the City’s ongoing efforts to reduce energy consumption, address aging infrastructure, and mitigate rising utility costs, staff initiated an evaluation of energy use across City facilities. In December 2024, the City engaged ABS, an Energy Services Company (ESCO), to conduct a comprehensive no-cost feasibility study. The study included:

- Site assessments
- Equipment inventories
- Utility consumption analysis
- Solar production modeling
- Financial projections

A public hearing was scheduled on December 16, 2025 and continued to January 20, 2026. At that time, staff recommended postponing the award to allow for additional due diligence and financial review. Since that hearing, staff have engaged the City’s Financial Advisors, Bond Counsel and Legal Counsel to conduct a comprehensive review of the proposed scope, financing structure and contractual protections.

Following the postponement, staff initiated additional review of the proposed scope, financing structure and contractual protections. However, due to timing constraints, staff has not had adequate time to fully vet the project or conduct a comprehensive discovery of energy consumption

and utility costs across all City facilities. As a result, the baseline energy usage assumptions proposed by ABS and utilized in the savings analysis have not been independently validated by staff.

As this item represents final Council consideration and potential approval of the Energy Services Contract pursuant to Government Code section 4217.10 et seq., Council should be aware that while agreement terms and financial safeguards have been strengthened, additional independent validation of baseline data and long-term savings projections provided by ABS has not been completed by staff prior to the public hearing on March 17, 2026.

ANALYSIS

Due Diligence and Project Refinement

Since January 20, 2026, staff have worked closely with ABS to:

- Refine scope and pricing
- Strengthening contractual language
- Clarify financing terms
- Incorporate performance guarantees

Councilmembers Roque and Mora met with ABS to better understand project components and expected benefits. Staff also engaged independent solar power vendors and Turlock Irrigation District to verify existing solar system performance and energy production/savings. However, due to limited timing, the process was only initiated for the WQCF facility located on Poplar. For a thorough process to be completed, Council's discretion to direct staff to undergo a formal RFP process would be necessary.

- Engaged independent vendors to verify solar system performance.
- Consulted with the Turlock Irrigation District (TID) regarding system alignment and net energy considerations.
- Evaluated the ongoing 2013 Chevron Energy Efficiency and Solar Project (“2013 Chevron Project”), which is under repayment through 2029, to ensure no duplication of improvements.

During review of the existing 2013 Chevron Project, ABS incorporated the Water Quality Control Facility solar arrays into its overall savings analysis. Upon staff’s independent review of those assumptions, the City identified that a portion of the projected energy savings associated with those arrays was already contractually attributed to the Chevron project, which remains under repayment through April 2029.

Under the initial ABS financial structure, projected savings associated with the Water Quality Control Facility solar arrays were structured in a manner that overlaps with savings currently attributed to the City’s existing 2013 Chevron Project. This results in a “double counting” of savings within the ABS financial model, effectively allowing ABS to benefit from savings that remain committed to repayment of the 2013 Chevron Project obligation.

This overlap between the proposed agreement with ABS and the 2013 Chevron Project will continue until April 2029, when the City completes repayment of the Chevron project. Beginning in Year 4 of the ABS financing term (post-April 2029), the full value of those solar savings would

be realized solely under the ABS project. This condition was identified through the City’s due diligence review and is disclosed for Council consideration as part of this final approval action.

The performance-based energy savings guarantee, which ABS has included in its proposals from the beginning, requires ABS to reimburse the City for any verified shortfall in projected savings in accordance with the Measurement and Verification (M&V) methodology. More information on the M&V Agreement is below.

Scope of Work

The proposed ABS project is designed to help the City to proactively address infrastructure that would otherwise require funding through future Capital Improvement Program (CIP) allocations. By bundling improvements under a design-build delivery model, the City benefits from economies of scale, reduced procurement time, and minimized administrative burden. The proposed ABS contracts provide a firm-fixed price with a no-change order policy, which ABS asserts will shift performance and financial risk to ABS.

The following table includes the breakdown by facility for Solar Improvements/Energy Efficiency Upgrades, not including issuance costs:

City Facility	Improvements	Solar System Improvements	Energy Efficiency Improvements	O&M Annual Costs	Facility Total(s)
Aquatic Center (W. Las Palmas)	HVAC control upgrades	\$0	\$15,108	\$1,600	\$16,708
New Corporation Yard (Baldwin)	LED lighting retrofit, Split condenser replacements, HVAC control upgrades	\$0	\$208,037	\$750	\$208,787
City Hall (Plaza Circle)	HVAC replacements, Boiler and hot water pump replacements, LED lighting retrofit; HVAC control upgrades, New solar panel system, Roof replacement	\$114,299	\$824,265	\$400	\$938,964
Fire Station No. 1 (W. Las Palmas)	HVAC replacement, LED lighting retrofit, HVAC control upgrades, New solar panel system; Roof replacement	\$104,286	\$170,581	\$600	\$275,467
Fire Station No. 2 (Keystone)	HVAC replacement, LED lighting retrofit; Split condenser replacements, HVAC control upgrades, New solar panel system	\$183,610	\$190,480	\$350	\$374,440
Old Corp Yard (S. 4th Street)	LED lighting retrofit; New solar panel system	\$64,045	\$2,767	\$250	\$67,062
Senior Center (W. Las Palmas)	LED lighting retrofit; HVAC control upgrades	\$0	\$69,552	\$1,800	\$71,352
Well Sites #8, #9, #11	New solar panel systems	\$1,845,270	\$0	\$2,600	\$1,847,870
WQCF (North and South)	Upgrade existing solar arrays with 2026 central string inverters	\$968,731	\$33,753	\$6,650	\$1,009,134

Total (s)	\$3,280,241	\$1,514,543	\$15,000	\$4,809,784*
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*The Facilities Total includes \$15,000 O&M costs.

Investment Tax Credit (ITC)

The federal ITC is a financial incentive designed to encourage investment in renewable energy systems, such as solar photovoltaic (PV) installations. The ITC allows a percentage of the total eligible project cost to be claimed as a credit, effectively reducing the overall cost of the solar installation. For municipal projects completed through third-party financing, the value of the credit is typically passed back to the City through the project's financial structure.

The project includes pursuing a federal Investment Tax Credit (ITC) under the Inflation Reduction Act, estimated at \$785,914 related to solar installations. Because municipalities do not pay federal income taxes, the ITC would be received as a direct payment from the federal government upon successful application and qualification. However, the ITC is not guaranteed. Eligibility depends on:

- Procurement compliance
- Construction completion timelines
- Federal filing requirements

In order to maintain compliance with Generally Accepted Accounting Principles (GAAP) and California's Proposition 218 mandates, credits would be returned proportionally to each originating fund based on each fund's share of eligible projects costs. Estimated allocation of ITC proceeds:

Fund	Facilities	ITC Allocation
General Fund	City Hall, Fire Station No. 1, Old Corporation Yard	\$96,094
Public Safety CFD Fund	Fire Station No. 2	\$62,427
Water Enterprise Fund	Wells #8, #9, #11	\$627,392
Total(s)		\$785,913

ABS does **not** guarantee receipt of the ITC because some of the requirements are beyond their control.

Measurement & Verification (M&V) and Savings Guarantee

As part of the Energy Efficiency and Renewable Energy Project with ABS, the City will implement a performance-based energy savings guarantee supported by an annual M&V process.

Guaranteed Project Savings

- ABS guarantees that the City will realize total annual project savings comprising utility savings, operational savings, capital cost avoidance, rebates, and the Solar Investment Tax Credit (ITC) sufficient to cover annual lease payments under the project financing.
- These savings are based on current IRS rules and regulations, ABS is not liable for any future amendments or changes to these rules, which could impact the savings actually received by the City in the future.
- The City is solely responsible for any applications required to claim the Solar ITC.

Effective Date

The M&V and savings guarantee become effective on the date of final acceptance of the Energy Efficiency and Renewable Energy Program and upon receipt of final payment for the associated Installation Agreement.

- Project savings verified during construction will be applied to the first year's guaranteed savings.

Annual M&V Reporting

- ABS will complete and deliver an annual M&V Report within 120 days of the anniversary of final acceptance and annually thereafter.
- If the annual report shows that the guaranteed project savings are achieved or exceeded, ABS has fulfilled its guarantee, and the City shall accept the report.
- If savings fall short, ABS will:
 - Repair, replace, or substitute Energy Efficiency Measures (EEMs) not performing to the required level.
 - Re-perform M&V for the affected EEMs.
 - Amend or supplement the M&V Report.
- If, after corrective action, verified savings are still below the guaranteed amount, ABS will reimburse the City for the shortfall.
- The City may incur costs under the M&V Agreement related to emergency services. If the City requests emergency services from ABS and ABS's inspection does not reveal any defect for which ABS is liable under the M&V Agreement, the City will be charged at ABS current emergency charge rates. The rate will be \$750/hour in year 1 of the M&V Agreement and escalates 5% annually thereafter.

Excess Savings

- Any savings above the guaranteed amount in a given year may be applied to prior or future year shortfalls.
- The guarantee only remains in effect if the City extends each term of the M&V Agreement; The initial term is three (3) years, and the City must notify ABS at the end of the initial term and each subsequent one (1) year term to request extensions; Failure to request an extension at least thirty (30) days prior to the end of the a term will result in automatic cancellation of the agreement and termination of the savings guarantee. Once terminated, the M&V Agreement cannot be renewed, and the savings guarantee is lost.

Guaranteed Savings by Year

The Guaranteed Savings table below reflects the lease payments that were previously included in the cash flow analysis used to generate level annual level of cash flow. Under the Measurement

and Verification (M&V) Agreement, the guaranteed savings are typically structured to match the annual lease payments. However, based on guidance from the City’s Financial Advisor and staff, the first two years of lease payments were increased to avoid negative amortization. To maintain consistency, the original lease payment amounts were incorporated into the M&V Agreement as the guaranteed savings, and the agreement language was adjusted accordingly to preserve the guaranteed savings level.

Year	Guaranteed Savings (\$)	
1	203,390	11
2	212,286	12
3	286,632	13
4	358,523	14
5	372,530	15
6	387,050	16
7	402,107	17
8	417,718	18
9	433,908	19
10	450,694	20
		Total
		\$9,089,265

This M&V framework provides accountability and financial protection for the City, ensuring that the ABS project delivers verified energy and operational savings over the useful life of the installed equipment.

Financing

To fund the improvements identified in the project scope, the City will enter a 20-year tax-exempt, non-appropriation lease purchase agreement with Metro Futures, Inc. (MFI). The repayment structure is designed so that realized energy and operational savings, reflected in reduced electricity and operations costs, will be used to pay down the loan. These costs are currently supported by multiple funding sources, the majority of which are within the Enterprise Funds (Water and Sewer) and the General Fund. Key terms of the financing include:

Term	Detail
Financing Amount	\$4,824,685
Interest Rate	4.88% fixed
Term	20 years (40 semi-annual payments)
Total Payments	\$8,163,912.92
Security	City retains title to all equipment; MFI holds a first-priority lien via UCC-1 filing
Payment Structure	Semi-annual payments in arrears
Prepayment	The Lessee can prepay the lease in full on any scheduled lease payment date where there is an applicable concluding payment. The Lessee will pay the then-scheduled lease payment and the applicable concluding payment. The concluding payment of principal has the prepay provision as follows:

	Years 1-4 Non-Callable Years 5-6 103% Years 7-8 102% Years 9-10 101% Year 11-20 100%
Use of Proceeds	Installation of energy efficiency measures, renewable energy systems, and related project equipment
Legal and Tax Compliance	City will engage legal counsel and tax counsel to confirm valid formation, financing structure, and tax-exempt status. All costs are included in financing.
Insurance	City will provide property and liability coverage, with MFI listed as Loss Payee and Certificate Holder
CDIAC Filing	MFI will submit debt issuance reports to the California Debt and Investment Advisory Commission (CDIAC) at no additional cost (not exceeding \$5,000)
Rate Lock	Interest rate can be locked once Council approval and firm funding date are confirmed

The lease structure allows annual payments to be appropriated within the City’s budget, with energy and operational savings projected to offset costs. The City will receive an amortization schedule detailing semi-annual principal and interest components over the life of the lease.

Environmental Review

The project qualifies for a categorical exemption under CEQA Guidelines Sections 15301 (Existing Facilities) and 15303 (New Construction or Conversion of Small Structures), as the work consists primarily of equipment replacement and solar installation at existing facilities.

Legal Review

All agreements, resolutions, and financing documents have been reviewed and approved as to form by:

- City Attorney (White Brenner)
- Bond Counsel (Jones Hall)
- Financial Advisor (Del Rio Advisors)

Public Hearing

Notice of the Public Hearing was published in the City’s local newspaper on February 26, 2026, satisfying the 14-day notice requirement under Government Code Sections 4217.12 and 4217.13.

FISCAL IMPACT

Option 1– Approving Energy Services Project and Associated Agreements

Total project cost, including issuance, is \$4,824,685.00. The proposed financing will require the City to make annual lease payments of approximately \$235,445 to \$575,904 over the 20-year term, totaling \$8,163,912.92. These payments are structured to be covered by projected energy, operational, and capital cost savings, along with rebates and the potential federal Solar Investment Tax Credit (ITC). Again, the ITC incentive is not guaranteed. Under the M&V Agreement, the

savings are calculated to include the ITC regardless of whether the City actually receives the ITC.

Per the Sources and Uses of Funds for the Lease Purchase Agreement, the costs of issuance total \$29,900. Total cost is as follows:

Sources:	
COPF Financing	\$4,824,685
Total Sources	\$4,824,685
Uses:	
Project Cost	\$4,794,785
Cost of Issuance:	
Metro Futures	\$5,000
Financial Advisor	\$2,400
Placement Agent	\$2,500
Bond Counsel	\$20,000
Total Cost of Issuance	\$29,900
Total Uses	\$4,824,685

Option 2– Direct Preparation of Statement of Work

No major capital expenditure would occur at this time. Future fiscal impacts would depend on proposals received and Council direction.

Option 3 – Take No Action

No Fiscal Impact.

EXHIBITS

All exhibits, presentation, project scope, agreements, and any other related documents were posted on the City of Patterson website prior to the scheduled Public Hearing set for Tuesday, March 17, 2026 @ 7:00 p.m. at the City Council Chambers.

- 1) Exhibit A - Resolution No. 2026-_____ Authorizing Contract with ABS
- 2) Exhibit B - Resolution No. 2026-_____ Authorizing the City to Enter into a Lease Purchase Agreement
- 3) Exhibit C - ABS, City Installation Agreement
- 4) Exhibit D - Lease Purchase Agreement Tax-Exempt (BQ)
- 5) Exhibit E - ABS - City of Patterson MV Agreement
- 6) Exhibit F – Feasibility Study
- 7) Exhibit G - Project Cost and Savings Breakdown
- 8) Exhibit H - Energy Project Scope Matrix
- 9) Exhibit I - City of Patterson Energy Schedule
- 10) Exhibit J - City of Patterson Solar Schedule
- 11) Exhibit K - Financing Proposal & Amortization Schedule
- 12) Exhibit L - Cash Flow - City of Patterson
- 13) Exhibit M - ITC Tax Rebate Allocation Memo
- 14) Exhibit N - Energy Project Council Presentation
- 15) Exhibit O - ABS References
- 16) Exhibit P - Notice of Public Hearing-Proof of Publication

