

STAFF REPORT
City of Lancaster

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Date: December 10, 2024

To: Mayor Parris and City Council Members

From: Jason Caudle, Chief Executive Officer, Lancaster Energy
Chenin Dow, Assistant Director

Subject: **Memorandum of Agreement between ARCHES H2 LLC and the City of Lancaster**

Recommendations:

1. Authorize the City Manager or his designee to negotiate, finalize, and execute a Memorandum of Agreement between ARCHES H2 LLC and the City of Lancaster in a form approved by the City Attorney.
2. Appropriate \$3,000,000 from General Fund to Account No. 10100000.1200, Loans Receivable.
3. Authorize the City Manager, or his designee, to finalize and execute any related documents in a form approved by the City Attorney.

G.C. Section 84308: No

Fiscal Impact:

\$3,000,000 in loan funds, to be repaid within four years of execution of the agreement with interest equal to the average of the monthly effective yields of the Local Agency Investment Fund (LAIF).

Background:

As part of the City of Lancaster’s efforts to catalyze the adoption of hydrogen energy, the City joined California’s Alliance for Renewable Clean Hydrogen Energy (ARCHES) as the organization’s first municipal member. In late 2023, ARCHES was awarded up to \$1.2 billion under the United States Department of Energy’s Regional Clean Hydrogen Hubs (H2Hubs) program.

Today, the City of Lancaster has the opportunity to partner with ARCHES to further both parties’ efforts to develop and deploy hydrogen energy, which is widely recognized for its

immense potential to help solve the climate crisis.

ARCHES will receive its grant funding over time. However, both ARCHES and Lancaster, together with the City of Industry via the proposed First Public Hydrogen Authority (FPH₂), are seeking to begin operations immediately.

Through the proposed Memorandum of Agreement, the City of Lancaster would loan \$3,000,000 to ARCHES H2 LLC. These funds will serve as operating capital, enabling ARCHES to advance its renewable energy efforts while awaiting disbursement of the awarded grant funds.

The loan terms require ARCHES to pay interest in an amount equal to the average of the monthly effective yields of the LAIF, which are currently approximately 4.5%. The loan term is four years. There is no prepayment penalty and the loan will be secured by a promissory note.

In return for providing loan funds, ARCHES will agree to allocate and spend grant funds received with FPH₂ and/or FPH₂ members on a first-priority basis. This will include funding and/or the purchase of transit equipment, port operation equipment, logistics equipment, fueling facilities, and/or fuel subsidies.

To facilitate these expenditures, the City of Lancaster and FPH₂ will create a strategy for the initial procurement and/or development of hydrogen. This strategy may include soliciting FPH₂'s members to purchase hydrogen, procurement of large-scale hydrogen for FPH₂ members, providing for the delivery of hydrogen to FPH₂ members, and any other action needed to create a viable hydrogen ecosystem for ARCHES' use of the award.

Attachment:

- Memorandum of Agreement between ARCHES H2 LLC and the City of Lancaster