



MINUTES

HERCULES CITY COUNCIL AND REDEVELOPMENT AGENCY

Joint City Council Finance Sub-committee

and

Ad Hoc Citizens Advisory Finance Committee (CFAC)

September 6, 2011

City Hall Council Chambers Room

111 Civic Drive, Hercules, CA 94547-1771

Members Present

John Delgado, Vice-Mayor, William Wilkins, Council Member,
Hector Rubio, Chair, Virgilio de la Vega, Vice-Chair
Gabriel Naguiz, Bill Shea, Stanley Tom, Committee Members

Staff Present

Liz Warmerdam, David Baum,
John Stier, Frank Fox

Guests Present

Ken Morrison, Mike Bowermaster, Gerard Boulanger,
Eric Williams, Laila Kearny

Meeting Called to Order: 6:08 PM

1. Redevelopment Pay-to-Play ABX1 26 & 27 (Warmerdam & Baum)

Liz Warmerdam gave a synopsis of the legislation and explained that it is On-Hold due to legal challenges against it. Adjudication of the case is not expected until January 2012. In the meantime, all RDA agencies are "In-Suspension" and unable to enter into any agreements.

Should the City decide to opt-in and continue operating the RDA, it will have to file a Statement of Indebtedness with the State of California [as usual](#) itemizing the extent of its debts; pay the past due \$6.5 million SERAF payment; and pay an annual Community Remittance fee to the State of \$1.4 million the first year, and every year thereafter steadily increasing from ~~\$350,000 to \$900,000~~ based on the volume of work performed by the RDA. In addition, the City will retain possession of the three properties transferred from the RDA to the City, whose present value is approximately \$25 million; the sale of which are intended to finance the Intermodal Transit Center and waterfront development [and potentially to repay debt](#).

Should the City opt-out, the RDA would be dissolved and a successor agency will be created to settle all debts of the RDA. The City may create this successor agency or allow the State to select one whose sole purpose would be to pay down the RDA debt. The three properties transferred to the City may be nullified and clawed back by the successor agency and sold to pay down the remaining debt. This would adversely affect the waterfront development project, as a major source of funding would be lost.

In order to determine whether the City should opt-in or opt-out, Warmerdam and Baum prepared a cash-flow summary analysis with four scenarios showing revenues and expenditures through year 2054 - the remaining life of the RDA. Each scenario was developed using various assumptions, as follows:

Scenario 1: Most conservative analysis with negative 2% growth in first year, flat 0% growth in the following year, and positive 2% growth thereafter. No new developments within the City.

Scenario 2: Conservative analysis assuming 2% growth every year. No new development within the City.

Scenario 3: Most optimistic analysis; assuming a very aggressive, full build-out of all vacant lands over a 10-15 year time period as per the 2009 projections; plus 2% annual growth.

Scenario 4: Moderately optimistic analysis; assumes a moderate pace of new construction over a 15-year time period; plus 2% annual growth.

Discussion ensued on the methodology used, whether Net Present Values or Cumulative Values of future revenues were used to arrive at the figures. Also whether the negative \$16.6 million cash balance in the RDA account, should be considered a sunk cost and excluded in this analysis since the borrowed funds have already been spent and unlikely to be repaid.

The committee had a number of questions, but the answers remain unknown until the case gets resolved in court; as follows:

- If the properties were clawed back, would the City remain listed as a creditor and receive payment on its outstanding loans?
- What RDA liabilities would remain with the City?
- Will the SERAF debt be cancelled, if the RDA is dissolved?
- Will the City be liable for any shortfall in funds to pay RDA debts?
- If the RDA is dissolved, must the Affordable Housing program be continued?
- What becomes of the funds in the Affordable Housing side of the RDA?
- If the Affordable Housing program must be continued, will the City have to make annual remittance payments?

The committee felt that insufficient information was available to make a sound decision. Although the cash flow projections in all four scenarios showed the RDA operating at a loss, and having a negative impact on the General Fund due to the remittance payments that must be paid annually to the State. The cash flow projections might vary greatly due to the unknown answers to the above questions.

2. Update on SERAF Payment and Sycamore North Project (Warmerdam & Baum)

Two Fridays ago, Warmerdam and Baum met with State Senator Desaulnier to discuss the \$6.5 million SERAF payment due the State, and request relief with the possibility of establishing a payment plan. Desaulnier was supportive of the City's financial position and agreed to introduce legislation to restructure the debt.

Warmerdam and Baum also traveled to Sacramento and met with CalHFA, the only lender on the Sycamore North project, to restructure the loan, delay the \$3.25 million payment now due, and convert Sycamore North to a market-rate development in lieu of an affordable housing project. CalHFA ~~was supportive of~~ understood the rationale for ~~converting the development to all market-rate units~~ and was concerned with the stipulation about ~~that their loan is repaid in full, plus a share in the surplus funds generated by the conversion.~~

Also, they contacted the bond underwriters for an opinion on whether the change of use for Sycamore North will create a taxable event for the bondholders. The underwriters felt that this would not be a taxable event because the City would not be making a profit on the conversion or sale of the building.

John Stier and Frank Fox listed Sycamore North for sale as a market rate building and requesting offers for either 100% market rate, or 85% market rate with 15% affordable units. The City received a number of inquiries from interested buyers. Two separate parties visited the site, brought their real estate teams, and inspected the properties top to bottom as part of their due diligence. Offers are due within the next 2 weeks.

Meeting Adjourned: 8:45 pm

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