



MINUTES

HERCULES CITY COUNCIL AND REDEVELOPMENT AGENCY

Joint City Council Finance Sub-committee

and

Ad Hoc Citizens Advisory Finance Committee (CFAC)

May 3, 2011

City Hall Council Chambers Room

111 Civic Drive, Hercules, CA 94547-1771

Members Present

Myrna DeVera, Vice-Mayor, John Delgado, Council Member,

Hector Rubio, Chair, Virgilio DeLaVega, Vice-Chair

Frank Batara, William Wilkins, Gabriel Naguit

Staff Present

Liz Warmerdam, John Stier, Pedro Jimenez,

Guests Present

Dan Romero, Gerard Boulanger, Eric Williams

Laila Kearney, Tom Lochner

Meeting Called to Order: 6:10 PM

1. Yellow Freight (Stier)

Appraisal by Smyers Appraisal, dated May 20, 2009, indicated a \$1.2 million value for the property and improvements. Intent of purchase was to offer this site to Caltrans in exchange for their current site on Willow Avenue. This was part of the City's strategy to assemble the parcels for the New Town Center improvements along Willow Avenue. The strategy included condemning the properties owned by West Coast Drilling and Coroni. The Yellow Freight property

was not included in the City's attempt to annex the lands near the Carbon Plant on Highway 4.

Authorization to purchase for \$2.0 million was done in closed session. Resolution to purchase was approved by the City Council. Redevelopment funds were used to purchase the property. Recently, the property was transferred from the RDA to the City, along with other properties, to satisfy the RDA debts owed to the City.

Property has received 2 unsolicited offers for \$1.3 and 1.45 million.

Findings and Recommendations:

Purchase was problematic and possibly not legal because the property is not within the Redevelopment district and not within the City limits. The property is located in Rodeo, CA.

Council to discuss and possibly authorize staff to officially market the property in closed session.

Negotiate for higher selling price and negotiate for buyer to pay for the selling expenses.

Sell the property and use proceeds to pay down RDA bond debt to lessen the debt service (P&I) costs to the General Fund.

Property may be sold as "Government Surplus Property" which requires a 90 day period to process, or

Setup an Economic Development Agency as successor to the RDA. This will cancel all contracts between RDA and the City, and may prevent the State from claiming the assets held by the RDA.

2. Update on Wastewater (Stier)

John Stier presented the financials for two scenarios: moving to WCC or staying with Pinole. Wastewater generates surplus cash from operations and has a \$5.6 million reserve. Discussion ensued on projected revenues and expenses, plus annual increases of approximately 3% per year. Using excess cash from operations and the reserve fund can fund the Pinole scenario. It remains cash flow positive during the life of the project. WCSD scenario must be funded with bond debt and requires a large increase in user charges to cover the debt service beginning in 2017.

Stier recommends that wastewater maintain a \$10 million reserve fund to cover the costs of replacing equipment that fail unexpectedly, such as the Digester that needed replacement a few years back. After its failure, the replacement cost was estimated at \$6 million, but ended up costing approximately \$10 million.

Discussion continued about updating the Joint Operating Agreement between

Pinole and Hercules to give Hercules more input in the budget process. Council member De Vera had suggested to the Pinole Wastewater subcommittee to continue with the operational issues of the plant, but explore the option of having the two cities create a Joint Powers Agreement that will operate as a business enterprise and govern all other issues.

3. Budget Discussions – Parks and Recreation (Pedro Jimenez).

Pedro Jimenez discussed all the programs offered by the City. All programs are fee based and generate \$1.9 million in revenues with a net cost to the City of \$1.1 million. His budget is working on eliminating this net cost for FY 2011-2012. Staff reductions have occurred and vacant positions will not be filled to reduce expenses. Suspension of the City Events will further reduce expenses. A problem with the current budget was that revenue projections were too optimistic. Sizeable decrease in participation occurred due to the economic conditions and the 25% fee increases imposed last year.

Expense reductions would include reducing the library funding to 5 hours from the current 10 hours. This will result in closing the library on Sunday; but will allow the full time librarian to remain in Hercules during the weekdays. This action will provide a savings of \$38,000. The senior center will remain open, but the hours of the senior center supervisor will be decreased to a 32 hour work week and will seek volunteers to run the center one day a week.

Aquatics program will have fee increases for swim lessons and other summer programs. Childcare programs will downsize from 3-4 classrooms to 2 classrooms at Ohlone, Lupine and Hanna Ranch, thus decreasing the number of part-time staff hired.

Jimenez discussed conversations with Champion/Kindercare and YMCA on whether they are interested in taking over the childcare programs in Hercules. Both entities would consider it, but requested that the City issue an RFP outlining all the requirements so they can make comprehensive offers.

Recreational classes bring much revenue to the City. All instructors are independent contractors and not City employees. The City collects the program fees and splits the proceeds with the instructors per their agreement. In many cases the split is 55% to the instructor and 45% to the City.

Recommendations:

Committee requested that Parks & Rec's analyze how many users are served with each program and determine "a cost per beneficiary" and see how many people are actually served. Also, include how many users are City residents or non-residents. This analysis will help determine if the needs of City residents are being met, and if not the program can be revamped or eliminated.

Committee also recommended that Parks & Rec's reach out to neighboring communities that have similar programs and compare their "Best Practices" to see how well it works for them and whether it makes sense for us to adopt them.

4. Budget Discussions - HMU (John Stier)

John Stier presented updated financials for the HMU, which has been on a holding pattern since the construction of the substation was cancelled. The scenario assumes no expansion and no increase in revenues. HMU has fixed costs for 2 skilled employees, which are the minimum needed to run the operation; both are underutilized due to the low number of customers served by the utility. Stier mentioned that HMU has had an adversarial relationship with PG&E and he finds the operation to be mismanaged. Stier asked that the City issue a Request For Qualifications and begin a search for new HMU management.

PG&E indicated to Stier that their substation has the capacity to service any additional power needs should HMU acquire new customers. It currently has a 3.4 megawatt agreement with PG&E. HMU purchases 100% Green power through Sempra Energy and faces a \$70,000 increase from last year in its purchase of Green Credits. 100% Green power is not mandated by the State, but is a choice of the utility. HMU rates have increased steadily and are currently higher than PG&E.

Discussion ensued on whether PG&E is interested in purchasing HMU from the City. Stier stated that HMU's transformers and switches are not compatible with PG&E's equipment and all would have to be replaced to limit any potential liability. This condition makes HMU's value to PG&E to decrease substantially. Questions arose about HMU's bond debt and whether the purchaser would assume it, or would the obligation remain with the City. It was agreed that most likely the City would retain the obligation, but the purchase price would have to be sufficient to pay off the bond debt. It is unknown whether this is possible.

Stier requested that the ad-hoc committee further analyze his financials and give him feedback.

Meeting Adjourned: 10:00 pm

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