MINUTES

HERCULES CITY COUNCIL AND REDEVELOPMENT AGENCY

Joint City Council Finance Sub-committee

and

Ad Hoc Citizens Advisory Finance Committee (CFAC)

June 23, 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 de la Vega, Frank Batara,
William Wilkins, Gabriel Naguit

Staff Present

Liz Warmerdam, Kathleen VonAchen, Fred Deltorchio
Bill Goswick, Pedro Jimenez, John McGuire, Dennis Tagashira

Guests Present

(Please insert names from sign-up sheet)

Meeting Called to Order: 6:00 PM

1. **Continuation of Budget Workshop (Warmerdam & VonAchen)**

Committee reviewed revenues, expenditures and balances of the following funds: Special Revenues (Grants), Capital Projects, Debt Service, Enterprise, and RDA.

Grants: City has received $2.0 million in grants for the restoration of the Chelsea Wetlands, which is located adjacent to Pinole Creek and the Pinole wastewater treatment plant. The project is fully funded from the grant proceeds and no funds are required from the City to complete the project. An additional $950,000 in grants is committed from various agencies for the ITC project.

ITC expenditures continue to rise; the city has received invoices from HDR and other consultants that exceed the $451,000 appropriated by the Council to finalize the CEQA reports. The reports are not finalized, but the consultants have requested additional time and money to complete them. Committee members expressed frustration in the consultant's inability to complete the reports within the previously promised time frame.

Development Impact Funds (DIF): These funds are paid by developers to offset the impact of their projects on city infrastructure and services; i.e., Police, Fire, Parks, and Traffic; therefore, these funds are restricted and can only be spent on that specific type of service. Liz noted that Traffic DIF funds were used to pay for the $451,000 on the ITC reports, and may be the only source available if additional funds are needed to finalize the CEQA reports.

Capital Projects Funds: Four funds consisting of 2 City funds which are nearly depleted and have a balance of $31,000 and 2 RDA funds which are deeply in the red with projected balances of negative $21.4 million and negative $15.8 million.

Redevelopment Agencies throughout the State may be phased out by the Governor's actions. Warmerdam mentioned that a successor agency, Community Facility District (CFD) might become more prominent as the RDA is phased out. Finance department is awaiting the results of the legislative action to determine a course of action for the City.

Discussion began on the SunTrust lease with a payment of $205,000 annually. John McGuire explained that the lease is for an energy efficient system purchased for the Swim Center. Unfortunately, the co-generation unit is problematic and does not operate consistently resulting in multiple service calls. Committee requested that the documents for this lease be added to a future agenda for discussion on possible termination of the lease.

Kathleen VonAchen distributed Statement of Revenues and Expenditures for the RDA, which has an operating fund balance of negative $14.5 million, and is unable to make the CERAF payments of $6.3 million to the State of California. Payment terms are under negotiation with the State. Additional payments of $1.7 million per the OPA agreement to Catellus will increase the balance to negative $16.4 million. The RDA fund continues to slide deeper into negative balances under the weight of its bond debt and decreased revenue stream.

Kathleen distributed Statement of Revenues and Expenditures for the HMU, which has projected revenues of $2.84 million and operating expenses of $3.02 million, resulting in an operating loss of negative $182,000. This loss is magnified by the HMU's debt service of $500,000.

John Stier announced that HMU residential rates are higher than PG&E, but their commercial rates are lower than PG&E. Commercial customers have the ability to switch providers, which residential customers are unable to do due to limited infrastructure. HMU can only become sustainable if it increases commercial customers in the North Shore Business Park.

The HMU is an enterprise and will not receive an infusion of funds in FY 2011-2012 from the General Fund. HMU is not a sustainable enterprise in its current form and is dependent on annual fund transfers from the General Fund. The committee recommends that the City look into selling the HMU or shutting down operations, if it's unable to become self-sufficient. Stiers mentioned that a new manager was hired to evaluate the HMU's operations and determine a selling price.

Sewer Fund: A $2 increase is scheduled to take effect in FY2011-2012 for the mandated capital improvements to the Pinole wastewater treatment plan. The sewer fund is well run and maintains an operational surplus, plus a healthy fund balance to pay for the required capital improvements.

Meeting adjourned at 11:00 pm.

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