



MINUTES

HERCULES CITY COUNCIL AND REDEVELOPMENT AGENCY

Joint City Council Finance Sub-committee

and

Ad Hoc Citizens Advisory Finance Committee (CFAC)

August 17, 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 DeLaVega, Vice-Chair

Gabriel Naguiz, Bill Shea, Committee Members

Staff Present

Liz Warmerdam, Janielyn Bayona, John McGuire, David Baum,

Art McAuley, John Stier,

Guests Present

Ken Morrison, Mike Bowermaster, Gerard Boulanger, Edward Breslin

Meeting Called to Order: 6:05 PM

1. Introduction of Interim Finance Director (Warmerdam & Baum)

Liz Warmerdam introduced David Baum as the Interim Finance Director; Mr. Baum comes to Hercules with experience as the finance director for the San Jose Redevelopment Agency and as an auditor with Peat Marwick prior to its merger with KMG and forming the firm of KPMG. Among his duties, Mr. Baum

will lead the effort to renegotiate the long-term liabilities of the City of Hercules with the holders of bonds issued by the RDA, PFA and HMU.

2. Selection of Independent Auditors (Warmerdam & Bayona)

Janielyn Bayona presented an update on the selection of OUM & Co. of San Francisco as the new auditor for the City. The contract runs for 3 years, plus the option for 2 additional years. OUM was selected unanimously by the interview committee, which felt that OUM had the best understanding of the City's current financial problems and offered staff experienced with municipal finances. The contract will be presented to the City Council for approval.

3. SunTrust Lease (William Wilkins)

Bill Wilkins presented his findings to the committee. The lease is a finance agreement for the acquisition of energy efficient equipment from Siemens. The equipment was purchased and installed for \$2.1 million and financed through SunTrust Bank in 2007.

The equipment installed at multiple locations including: City Hall, the Swim Center, Foxboro Center, Victoria Greenbelt, and the child care centers at Lupine, Ohlone, and Hanna Ranch. The equipment includes the following:

- Replacement of outdated T8 and T12 fluorescent lamps
- Installing photovoltaic solar panels
- Rebalancing the ventilation system at City Hall
- Installing security cameras, recorders and interfacing software
- Replacement of pumps and filtration system at the Swim Center
- Installing emergency backup generators at the Swim Center and HPD
- Installing 50 kW co-generation power unit with heat exchanger and waste heat recovery system to heat the pools at the Swim Center

The financing mechanism is a 15-year self-amortizing lease with SunTrust bank with an interest rate of 4.73% and semi-annual payments of approximately \$110,000 beginning March 2008. Payments cover both principal and interest.

The City will own the equipment at the end of the lease. The lease terms state that the lease may be terminated in whole, but not in part. Upon termination, all equipment must be returned and may not be replaced with substitute equipment. This clause generated much discussion among the members as to its enforceability. Capital One purchased the agreement from SunTrust Bank and now receives the payments.

Siemens performed a baseline energy audit Siemens performed a baseline energy audit and guaranteed the equipment would provide an energy cost savings of \$76,000 annually. An energy audit is currently being performed by Siemens to determine if the promised savings are being met. Audit is expected to be complete by the end of this month.

John McGuire explained that problems with the cogeneration continue; presently the pool heaters are not operational due to their interface with the cogeneration unit, which appears to be shortening the operational life of the pool equipment.

Discussion ensued on whether the City should hire a third party review the installation and performance of the cogeneration unit and assess its impact on the pool equipment. Also, whether the Siemens warranty covers parts and equipment, plus the severely impacted pool equipment, and if a non-performance clause is available to the City to replace or remove the cogeneration unit.

The committee requested that the City Manager invite Siemens to present the results of the energy audit and to offer remedies should the results be deficient.

4. HMU Contracts and Funding (John Stier)

John Stier introduced Art McAuley the newly appointed manager of the HMU, whose principal task will be to prepare the enterprise for sale. Art McAuley distributed a handout of his preliminary findings noting the status of power purchase agreements, cancellation of 100% renewable energy credits, and noting that the transformers in the residential neighborhoods are installed in underground vaults subject to flooded conditions and corrosive soils due to the

high water table. Specifically the installation is considered to be a “Non-Standard” distribution facility by utility companies and of little value due to the reduced lifespan of the equipment and frequent service needs.

The projections for HMU in FY 2011-2012 show revenues of \$3.2 million and expenses of \$3.8 million generating a loss of (\$633,000).

Art McAuley will focus his due diligence on valuating the assets of the utility, reduce costs, identify interested parties, and begin negotiations to sell HMU.

5. Update on Parcel C (John Stier)

Soil moving operations have begun, but proceeding slowly due to the limited access on the Emeryville site. Soil can only be transported after the Emeryville project has removed sufficient concrete and paving at their location and need clean soil for backfilling their excavation.

6. Clean Water Program (Liz Warmerdam & John McGuire)

The federal government has mandated a number of clean water measures that cities and counties must implement. However, the mandates are not funded and Contra Costa County is requesting a parcel tax to cover the costs of implementing these measures, and proposes a mail-in ballot for the \$19 annual tax for each parcel in West County. John McGuire will need direction from the Council to inform the County on whether the City agrees to place this parcel tax on the ballot.

7. Interviews for New Committee Member (Liz Warmerdam)

The City Council will be interviewing three applicants for the open committee position and to appoint alternate members should another vacancy occur. The interviews are scheduled for Thursday August 18, 2011.

Meeting Adjourned: 8:30 pm

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