DISCUSSION ON THE ENERGY PERFORMANCE CONTRACT (MCKINSTRY)

Eric Howes, Community Services Director, reminded the Council that staff had been directed to complete additional research following the June 9, 2016 work session to address the Council’s questions regarding escalation rates for energy consumption. Mr. Howes shared a visual presentation and emphasized escalation rates were important to the process and indicated not only would he review the rates included in McKinstry’s original proposal, but he would explain how possibly changing those would impact the entire project.

He emphasized McKinstry’s guarantee was on the energy savings, kilowatts for electricity and decatherms for natural gas and explained the escalation rates had a lot to do with the yearly projected savings and the length of the loan. He pointed out the estimated energy savings were based on using its recommended equipment; however, because rates potentially increase from year to year, those increases would need to be accounted for to accurately determine the savings. He explained how a lower escalation rate would lengthen the term of the loan but it would be a more conservative approach to the life of the loan. Adam Lenhard, City Manager, pointed out
those details mattered because the dollar savings would pay the debt; therefore, if the rate was estimated too high there would then be a gap that the energy savings wouldn’t cover and funds would need to be recognized from another source.

Mr. Howes reported McKinstry had used the Department of Energy figures as well as the City’s usage in the calculations for its projections. He shared information reflecting Utah historical rates and natural gas rates as well as Clearfield City rates from 2012 to 2016 and the electric increases. He pointed out it was difficult to project future usage and rates specific to energy costs and emphasized it was a best guess scenario. He reported the final calculation was 4.5 percent for natural gas and 2.68 percent for electrical.

Mr. Howes shared an illustration reflecting McKinstry’s projected escalation figures and others with slight modifications. He reported the total interest for the life of a loan using the highest escalation rate would be almost $398,000 and the loan period would be 11 years, 7 months. He also provided escalation figures for decreasing rates down to one percent which would extend the loan period to a maximum 13 years, 2 months and increase the interest by approximately $35,000. He suggested the Council would need to determine which escalation rate it was most comfortable with if it decided to move forward with the project. He also shared energy costs comparing the proposed new equipment and those of the old equipment.

He reported the Council had three options for consideration:
- Option 1 – move forward with the proposed scope of work replacing the HVAC system at the Aquatic Center and using the energy savings to pay for the project.
- Option 2 – move forward removing the HVAC system from the project and completing the lighting portion of the project only.
- Option 3 – do nothing.

Mr. Howes reviewed the pros and cons associated with each of the options explaining the significance of the escalation rates and asked if there were any questions. He suggested the Council consider two questions:
- Was the Council comfortable in moving forward, and if so,
- Which option was it prepared to direct staff to pursue?

Councilmember Phipps inquired if there would be resale value associated with the old HVAC system. Mr. Howes responded there might be some scrap metal value. Councilmember Benson inquired if funds had been set aside to pay for damage already caused by humidity at the Aquatic Center. Mr. Howes mentioned nothing had been appropriated for that specific use but clarified funds were appropriated every budget year for facility maintenance. Mr. Lenhard pointed out the 20 year anniversary for the Aquatic Center would take place in nine years and suggested a substantial capital improvement project might be needed to keep the facility working efficiently. A discussion took place regarding the need for replacement and escalation rate regarding the projected financing.

Mayor Shepherd suggested directing staff to proceed using the one percent escalation rate. Rich Knapp, Finance Manager, pointed out the cost savings compared to the old system. Mr. Lenhard
pointed out the current cost to borrow was extremely low. The consensus of the Council was to move forward and it directed staff to move forward with the one percent escalation rate.

Mr. Howes announced the Council would be considering approval of the contract during the policy session following the work session. He explained the contract consisted of numerous pages and Stuart Williams, City Attorney, had not yet reviewed it in its entirety. He requested the Council approve the contract, with the understanding that if there were concerns which couldn’t be negotiated by staff, it would come before the Council a second time for approval. He emphasized if it was fairly straightforward staff would just proceed. Mr. Knapp pointed out the City would likely need to front some of the funding until the bond proceeds were in place. He indicated bonding would require an approved Resolution from the Council.

Councilmember Bush asked if the project would take place in September. Mr. Howes responded equipment would need to be ordered and delivered and once they were in possession of the City, work could begin and estimated installation would take approximately two weeks. Councilmember Phipps asked when the street light portion of the project would take place. Mr. Howes stated Rocky Mountain Power was still conducting its audit of the street lights so the overall project would need to be coordinated with them.

DJ Hubler, McKinstry, suggested the City keep its refrigerant from the old HVAC system and explained that process.

PRESENTATION AND DISCUSSION ON BETTER CITY ECONOMIC DEVELOPMENT PROPOSAL

Mayor Shepherd announced Better City Economic Development had submitted a proposal for the redevelopment of Lakeside Square and the area currently known as the Clearfield Mobile Home Park.

Adam Lenhard, City Manager, distributed a handout prepared by Better City which reflected a conceptual site plan, cost of project, and the proposed tax increment. He distributed a second handout identifying key points of the development and questions for consideration by the Council.

Mr. Lenhard pointed out a feasibility study would need to be completed which would cost $30,000. He continued an implementation fee of $3,500/mo. for 12 months which equaled $42,000 was presented as part of the proposal. He explained the fee would be used for them to represent the City in trying to find a partner or developer for the project.

Mr. Lenhard reviewed the other remaining key points with the Council speaking specifically about tax increment, success fee, and additional predevelopment costs. He summarized the entire cost to the City was approximately $100,000.

Councilmember Young suggested the City talk to other clients given the projected cost to the City. Councilmember Phipps believed the proposed costs merely covered Better City’s actual costs associated with the business model and pointed out its vested interest in the project.
Councilmember Benson asked what would become of the residents currently living at the mobile home park should the project materialize. Mr. Lenhard responded there were very specific State Statutes the City would need to follow if it ever moved forward with closing a mobile home park. He mentioned there were approximately 20 residents currently living in the park.

Mr. Lenhard asked the Council if it would be willing to approve the conceptual land uses and if those uses were realistic specific to the high density residential component. Councilmember Phipps expressed his opinion it could be the risk or opportunity the Council had previously spoken about in doing something bold to promote downtown development. Councilmember Benson clarified the number of 100 residential units and Mr. Lenhard responded the housing component would most likely be high density and could be even more than that and a discussion took place relative to zoning. Councilmember Bush stated he would like to hear Better City’s proposal.

Mayor Shepherd believed it was the consensus of the Council to move forward and directed staff to invite them to a work session to further discuss the proposal.

The meeting adjourned at 6:49 p.m.

APPROVED AND ADOPTED
This 26th day of July, 2016

/s/Mark R. Shepherd, Mayor

ATTEST:

/s/Nancy R. Dean, City Recorder

I hereby certify that the foregoing represents a true, accurate, and complete record of the Clearfield City Council meeting held Tuesday, June 28, 2016.

/s/Nancy R. Dean, City Recorder