



MINUTES

HERCULES CITY COUNCIL AND REDEVELOPMENT AGENCY

Joint City Council Finance Sub-committee

and

Ad Hoc Citizens Advisory Finance Committee (CFAC)

April 19, 2011

City Hall Council Chambers Room

111 Civic Drive, Hercules, CA 94547-1771

Members Present

Myrna DeVera, Vice-Mayor,

John Delgado, Council Member, (joined meeting at 6:00 pm)

Hector Rubio, Chair, Virgilio DeLaVega, Vice-Chair

Frank Batara, William Wilkins

Gabriel Naguit (absent)

Staff Present

Fred Deltorchio, Liz Warmerdam, Erwin Blancaflor,

John Stiers, Frank Fox, Nancy Deng, Janelyn Bayona

Guests Present

Dan Romero, Gerard Boulanger, Mike Bowermaster,

Sherry McCoy, Laila Kearney, Tom Lochner,

(additional members of the public were present,

but no sign up sheet was passed around)

Meeting Called to Order: 4:10 PM

1. Citywide Sidewalk Replacement Program (Blancaflor).

Erwin Blancaflor announced the completion of this fiscal year's sidewalk replacement program. The project replaced 5,342 square feet of sidewalks and 118 linear feet of curb and gutter at 63 locations scattered across the city. The actual quantities exceed the original estimated quantities and require \$7,266 of additional funding to pay for the change orders. The project repaired 60% of the damaged and uplifted sidewalks, curbs and gutters listed in the City's hazard abatement program. The remaining areas that require repair will be advertised for bid in the coming year. Public discussion followed requesting that the City issue guidelines specifying that trees should be planted beyond a minimum distance from sidewalks, to minimize the potential for tree roots from uplifting sidewalks and curbs and gutters.

Funding for the program is provided through the voter approved Measure J funds. Note that the resolution indicates Measure C, which should be changed to reflect the new funding mechanism.

The committee recommends approval of the additional \$7,266 to cover the costs of repairing the additional areas.

2. Cash Balances (Warmerdam)

Liz Warmerdam brought forth the cash balances as of 03-31-2011, summary of activities and cash and investments report. Liz reported that the \$22.2 million cash balance does not all belong to the City; the 700 series funds (700-707), amounting to \$6.5 million, belongs to WCCIWMA and are pooled with City funds only to receive a higher interest rate due to the larger amounts invested. Also, the \$8.3 million balance in the General Fund is much lower because it has absorbed the negative balances from the Redevelopment Agency funds. Discussion ensued on how to reduce the negative balances to zero. MRG recommends that Fund #401 - Fiscal Neutrality be retained as a reserve for the General Fund.

Discussion continued on the Development Impact Fee (DIF) funds #241 through #261 and their limited availability because they can only be spent on capital projects, and may be already encumbered for specific services. In addition, the DIF funds are tightly regulated and can only be spent on activities for which they were collected. As a result, funds #243 and #261 are the only ones that can be applied towards the Intermodal Transit Station project.

The committee pointed out that funds #302 and #381 have the same titles, but #381 carries a large negative balance. Funds #301 and #380 also have a similar conflict in title and a large negative balance. Finance department will investigate on whether these identically named funds can be combined and eliminate the negative balances.

3. Real Estate Negotiations (Frank Fox and John Stiers).

Frank Fox presented a list of 16 properties that are owned by the City or the Redevelopment Agency, or the City is a party to a lease agreement. Eight residential properties are vacant and listed for sale through 3 brokers. Proceeds from the sale of the residential properties will return to the Affordable Housing Funds. Proceeds from the sale of properties that are owned by the City will go back to the General Fund. Not included on the list are 10 additional residential properties that are occupied and the renters are current with their payments.

The City received an unsolicited offer for the Yellow Freight property of \$1.3 million, which is lower than the \$2.0 million purchase price. The offer is not acceptable, but clearly shows that the property has increased in value due to the newly signed tenant and lease. The committee recommends that the property be listed for sale and see if it can generate more interest from investors.

The RDA is a party to 3 lease agreements: Hercules Fitness, Powder Keg and Sala Restaurant. Of the 3, the Hercules Fitness lease generates substantial losses to the General Fund and Frank Fox is renegotiating the lease agreement among the property owner, Hercules Fitness, and the City.

Sycamore North has received substantial interest from 50 potential investors. No offers were received, but Frank Fox has set a May 5th deadline to receive offers.

Sycamore South, aka Sycamore Crossings, received a letter of intent from Safeway to build a supermarket on the site. Frank Fox pointed out that the property has a deed restriction that severely limits the size of a grocery store or pharmacy on the site. An attorney has been retained and is working on removing the deed restriction since American Stores Inc., which no longer exists, placed it.

John Stiers discussed his professional background and prior business dealings with Frank Fox as real estate professionals; both worked on a transaction over 20-years ago on the east coast and have not had any other contact with each other until Mr. Stier forwarded the job description to Mr. Fox, who was then interviewed for his current position.

John Stier related his experiences moving dirt from the Bio-Rad properties and from Duck Pond Park and later finding soil being dumped on Parcel C by Ghilotti Brothers who had a \$2.1 million contract with Caltrans to remove excess soil from the I-80 freeway-widening project. Dirt was dumped on the site every night for weeks with residents complaining about the noise from the heavy machinery operating during the night. Stiers demanded that Ghilotti stop dumping on Parcel C, but was told that they had authority from the City to proceed. Neither Ghilotti nor then city manager Nelson Oliva could produce emails, letters, contracts, or other written authorization allowing Ghilotti to tip dirt at that location. No analytical documents have been produced attesting that the soil is clean and not contaminated. According to Stiers, Nelson Oliva wanted the soil for future re-grading of Willow Avenue and the New Town Center parcels as needed for the Red Barn projects.

John Stier authorized a quantity survey and found that approximately 175,000 cubic yards of soil was dumped on Parcel C making the parcel unsuitable for

development. Furthermore, Stier approached Ghilotti to remove the soil. Ghilotti informed him they would require a payment of \$1-\$3 million from the City to remove the soil. John Stier has since received an offer from Intrepid to purchase up to 225,000 cubic yards of soil for \$138,000 and remove it as needed over a period of 2 years.

The committee recommends that the City attorney send a demand letter to Ghilotti to remove the dumped soil, and pursue legal action as necessary to have the dirt removed. Also, the committee recommends that the soil be tested to determine if there is any contamination prior to selling it to another party. Findings should be brought back to the City Council for further discussion and action.

John Stier provided some background on how the Bio-Rad and Redevelopment Agency transaction for the Venture Capital buildings was structured. John also discussed the on-going preliminary negotiations between Costco and the Schott family for the Hilltown parcel.

Hilltown needs \$3.4 million in work to prepare the site for development including removal of the storage tanks, cleanup of contaminated soils, relocating utilities, rebuilding fuel transfer station for the existing fuel pipelines, and re-grading the land into a level parcel. The City approved removal of the storage tanks some time ago, and that work is nearing completion. Approximately 16-acres could be available at the top of the hill and another 6 acres at the bottom. Costco is seeking a clean rough graded site to build a 135,000 – 150,000 sq. ft. store and gas station in return for \$800,000 in sales taxes, plus utility taxes. The Schott family would consider purchasing the Victoria Crescent parcel from the City, if Costco builds its store on Hilltown. Closed door sessions are planned to consider purchase price and sharing of cleanup costs. Costco requests a Letter of Intent either from the Schott family, or the City to continue with site selection and is willing to perform community outreach and present their proposal to the public.

Costco is also willing to build on Parcel C, if the excess soil on the land is removed. Costco selected Hercules as its first choice to build a store, but will build in Oakland if unable to secure a site in Hercules.

4. Combined Annual Financial Report (Liz Warmerdam and Nancy Deng)

Liz Warmerdam announced that the CAFR document is not ready for distribution. Although the financial statements are complete, the executive summary, Management's Discussion and Analysis report and financial notes are not finalized. Also, the Finance department needs to address a list of deficiencies as noted by the auditor.

Nancy Deng discussed the year-to-year changes in fund balances for revenues and expenses. It was noted that a sizeable drop of \$35 million occurred in the Redevelopment Agency account. This was a result of bond proceeds being spent on the Sycamore North project.

The City has used the same auditor for over 3 years. The committee discussed the merits of using the same auditor year-after-year without seeking additional proposals and recommends that the Finance Department to seek proposals for the next audit from professional firms within the Bay Area.

Committee member de la Vega noted that the city budget (after backing out the fund transfers) showed that expenses exceeded revenues and was in deficit. Further review showed that the prior year budget was also in deficit. Council member DeVera requested that staff determine how many years the City budget had been in deficit and was continually spending its reserves.

5. Short-Term Borrowing from Housing Fund to Non-Housing for Debt Service (Liz Warmerdam)

Liz Warmerdam presented two tables showing the tax increment revenues and the debt coverage ratios for the Redevelopment Agency (Table 6) and Housing Fund (Table 7) until year 2043. This document is disclosed to bond holders on

the ability of the agencies to pay the bond service. The ratios must be above 1.0 to meet its payment obligations; in year 2012 housing has a ratio of 1.32 and the RDA a ratio of 0.54 which is inadequate and forcing the General Fund to cover the shortage.

Liz proposed that the RDA borrow a portion of the excess funds in the Housing fund to partially pay its bond service obligations. This action will lower the General Fund's obligation from \$1.5 million to \$750,000. The drawback is the process to borrow funds from Housing is highly regulated and will require public hearings, timely advance notices and can take up to 4 months to complete.

The committee recommends that the Finance department investigate further and set up a timeline for the notices and public hearings as required for borrowing the money and helping pay the debt obligations on the non-housing side.

6. MRG Report (Liz Warmerdam)

Committee members and staff discussed the 29 recommendations from Municipal Resources Group. MRG recommends:

- Proceeds from property sales should be used to retire bond debt; buy back bonds which are selling at a discount and reduce the debt service obligations imposed on the General Fund.
- Renegotiate the terms of the \$4.3 million RDLP loan due in August 2011 and the \$2.1 million HELP loan due in April 2015.
- General Fund has a structural deficit where expenses have exceeded revenues for multiple years. Budget must be brought to balance and increase reserves.
- Prepare cost allocation for staff time spent on functions that cover multiple departments. Set up a cost allocation method to charge other funds for expenses incurred by the General Fund.
- City Council should approve all loans among funds.
- Divest itself of HMU as it is unlikely to become profitable with its small customer base.

- Capital improvement projects should have its own budget process and not be included in the City budget.
- Increase recreational fees to cover their costs.

Committee recommends that an Agenda item be added to the next Ad Hoc Committee meeting to discuss fees, privatizing the various services, and combining or eliminating the recreational programs offered by the Parks & Recreation department.

7. ITC Funding (Liz Warmerdam and Fred Deltorchio)

Fred Deltorchio requested a funding source for the costs to finalize the environmental reports on the waterfront project for the remainder of FY 2010-2011. Costs have risen to \$671,000 and cover expenses for HDR invoices received 3/15/11 and anticipated costs for the remainder of the fiscal year; invoices for Washington lobbyist, WestCAT representative, legal services and document preparation, 3rd party review of deal points, and management services by Charlie Long. The committee discussed whether this expenditure will finalize the environmental process and secures the approvals from CEQA, NEPA, USFWS, etc. Vice-Mayor DeVera suggested that a feasibility study be completed on the viability of the entire project before we discuss the long-term funding (in millions) at another Finance meeting. The last study made was 4 years ago by Anderson Pacific.

Committee recommends:

- The City to complete the environmental process for the waterfront and approve the \$671,000 requisition to be funded from the City fund #261 Development Impact Fees – Traffic Facilities.
- Securing the services of Keyser Marston to perform the 3rd party review of the waterfront deal points.
- Requested that staff research why the city is paying for a WestCAT representative.

- City secure documentation in the form of commitment letters from the various funding sources attesting that \$22 million is available for the Track Realignment, Retaining Wall and Bay Trail phase of the waterfront project.
- City request information on the funding sources, investors and business plan for the private development on the waterfront.

8. Update on the Budget Process and City Restructuring (Fred Deltorchio)

Fred Deltorchio announced that layoff notices were given to 25 employees, 21 on Friday, three (3) on Monday and one (1) today. Each employee was given resources to file for unemployment and continuing their medical coverage. Laid off employees may use “Bumping Rights” as laid out in the union contracts and have until Friday to exercise that right. The “Bumping Right” is defined as an employee has the option to return to a previously held position and replace a lower seniority employee that currently holds that position. The lower seniority employee would in turn be laid-off.

Salary and benefit concessions are being negotiated with managers and remaining employees. A second round of layoffs is anticipated to cover the possible funding gap not filled by these concessions. The goal is to achieve a budget of approximately \$8.0 million. Benefits reductions are expected to be equal across the board and affect all positions. City departments are being reorganized and positions combined to continue city services using the smaller staff size. City hall may be closed on Fridays as part of the work furloughs and reduced work schedules being negotiated.

Liz Warmerdam announced being contacted by Standards & Poor about the bond ratings. Redevelopment bonds were downgraded to CCC (extremely speculative); and the HMU/PFA/Wastewater bonds downgraded to A- rating.

Meeting Adjourned: 11:00 pm

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