MINUTES

HERCULES CITY COUNCIL AND REDEVELOPMENT AGENCY

Joint City Council Finance Sub-committee

and

Ad Hoc Citizens Advisory Finance Committee (CFAC)

September 20, 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 de la Vega, Vice-Chair

Gabriel Naguiz, Bill Shea, Stanley Tom, Committee Members

Staff Present

Liz Warmerdam, David Baum,

Pedro Jimenez, John MacGuire

Guests Present

Ken Morrison, Mike Bowermaster, Gerard Boulanger

Meeting Called to Order: 6:15 PM

1. **After School Childcare Program RFP and Responses (Jimenez)**

   Two providers responded to the Parks and Recreation's RFP to outsource the childcare program at Hanna Ranch, Ohlone and Lupine elementary schools. Champion, an affiliate of Kindercare, and YMCA both offered licensed programs using City owned facilities at the three sites. Both companies are well established in the Bay Area and have many years of experience providing childcare services.

Pedro Jimenez distributed a comparison chart outlining the costs and expenses of both proposals and the existing City program. Jimenez explained that the YMCA proposal has two options; (1) pay rent to the City for use of the facilities, at a rate of $55,000 to $66,000 per year or (2) share a percentage of revenues collected generating income of $55,000 to $72,000. The program and fee structure would be similar to that currently offered by the City where parents have the option of 3 or 5-days of childcare. The rates would be about $6.00 per hour.

The Champions proposal offers a structure similar to the City's current program with rates at about $6.00 per hour, and the vendor would pay a percentage of the revenues collected generating income of $42,000 to $56,000. Parks and Recreation estimates that the City's current program will generate $600,000 in revenues this year.

Committee members asked about the utility expenses. Under both proposals, fixed costs of utilities and routine maintenance would be borne by the City, with the vendor providing janitorial services.Utility expenses are approximately $8,000 to $9,000 annually per site. Discussion continued on whether the revenue sharing would be based on gross or net revenues as it was not clear in the proposals.

Jimenez clarified that the childcare program is estimated to generate about a $70,000 surplus that is used to subsidize the Senior Center, Library, and Teen Center. This amount exceeds the income anticipated from both vendor programs. Although projections for the 1st quarter are running lower than budgeted due to a drop in enrollment which can be attributed to the high unemployment rate and the higher fees charged this year.

The committee asked Jimenez to develop a more refined cost analysis to show the incremental impact of the fixed and variable costs, and whether outsourcing will decrease employee costs of the City. Stanley Tom offered to provide a template that the City can use to generate the analysis.

2. **Animal Control Services (MacGuire)**

John MacGuire noted that animal control services are provided by Contra Costa County for all cities within the county and the 1st quarter payment of $32,780 is past due; it was due in August 2011. The County bills cities on a per capita basis, not per event or type of service rendered. Hercules has between 900 and 1000 calls per year, which translates to approximately $130 to $145 per call.

Cities are paying 64% of the cost of the program, but contain 84% of the population, which means that the County may increase the per capita amount to match the population growth within the Cities. The committee asked if the County provides animal control services to other agencies like the Parks District and Caltrans, and if so, are they paying their fair share.

City of Antioch considered running its own program and commissioned a study on whether it should start the program. MacGuire was still analyzing the study and would provide more information at another time.

Payment request will go to the City Council, but staff will request that county animal control representatives speak to the council and clarify some of the questions brought up by the committee.

3. **Duck Pond Park and City's Corporation Yard**

Duck Pond Park will be completed this month; ribbon cutting and opening of the park is expected to occur near October 15, 2011. The project is under budget with a savings of approximately $376,000 below its $1.9 million budget. Unspent funds will return to the Development Impact Fund. Staff presented a proposal to expand the project scope and use some of the budgeted funds to landscape the front of the Corporation Yard and improve its visibility from the park.

Several landscaping proposals ranging from $25,000 to $32,000 were discussed, but the improvements would occur on the portion that faces the park only, the other sides would remain the same. Committee felt that these solutions were insufficient and did not improve the view from the Frog Pad Park, nor from the adjacent residential neighborhood. A more comprehensive approach would be required to visually improve the fence line of the Corporation Yard.

Discussion continued on what options were available for the Queen Anne building now that its intended restoration and relocation inside Duck Pond Park were no longer available. Ideas included tearing it down; offering it for a nominal sum to anyone that would move it to a new location and restore it; make minimal cosmetic improvements such as a new coat of paint, new fence, and new perimeter skirt to conceal the raised blocks. Committee developed no consensus on what to do, and suggested the item go to the City Council for discussion and to determine a new course of action for the Queen Anne building.

4. **Redevelopment Pay-to-Play ABX1 26 & 27 (Warmerdam & Baum)**

In continuation of the RDA discussion, David Baum distributed two additional scenarios, 3A and 4A, which assume that the County Assessor would begin to upwardly reassess property values over the nearterm. Scenario 3A projects an increase of 10%, 5% and 5% from 2015 through 2018, while scenario 3B projects more modest rates of 7%, 3% and 3%.

The cash flows for each scenario were developed using a Net Present Value methodology to account for the time value of money at a 5% rate. Additionally Baum distributed a cash flow impact worksheet comparing the options to continue operating the RDA or to dissolve it.

Should the City decide to opt-in and continue operating the RDA, the summary sheet shows a net loss of negative $23.8 million as a result of the required Community Remittance payments.

Dissolution of the RDA would result in the elimination of the SERAF payments and all Community Remittance payments, and the City would no longer be obligated to fund the shortfall in bond payments on the RDA debt. However, properties transferred to the City and not sold to a third party may be clawed back to settle RDA debts. This point makes it clear that the City will need a strategic approach to sell the properties prior to the end of the year. Also, the affordable housing properties purchased under the loss mitigation program and business loans made by the RDA would revert to the successor agency.

The committee asked if the City wants the responsibility of operating the successor agency, and a number of questions arose:

- What liabilities and risks would be assumed by the successor?
- Who will staff and resource the agency? And at whose cost?
- Will the successor be responsible for the shortfall in bond payments?

The committee discussed the downside of dissolving the RDA since limited tools would be available to develop the waterfront and other vacant parcels. Bond purchasers do not view bond repayments based on revenue projections or Mellow-Roos fees, as favorably as they do repayments based on Tax Increment funds.

The cash flow projections in all six scenarios showed the RDA operating at a loss over most of its existence, and having a negative impact on the General Fund. The differencesbetween the opt-in option and the dissolve scenario argue in favor of dissolving the RDA.

Sidebar Discussion

The committee requested financial reports for the 1st Quarter to determine the cash position of the City, and to compare the budget to actual revenues and expenditures.Warmerdam and Baum explained that the finance department is short staffed and is hosting two auditing teams from OUM and the State Controller’s office, whose requests for information are taking up most of the finance department’s time. At present, finance hasclosed the accounting books through the month of July and is behind schedule.

The committee asked how the finance department can accelerate the process to close the books for August and September so that critical budget–to-actual reports can be generated.

Meeting ended at 9:05 pm

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