



MEMORANDUM

DATE: October 22, 2010

TO: Mayor Kris Valstad and City Council Members
City Employees
Members of the public

FROM: Charlie Long, Interim City Manager

SUBJECT: City Manager's Weekly Report

Weekly report: This is the first edition of the Weekly Report, one of our efforts to better inform the Council, city employees and the public about City and Redevelopment Agency activities and issues. I welcome feedback on the report. I would like to hear about issues that people would like to see addressed. Contact me at clong@ci.hercules.ca.us or you can call me 510-799-8206. The report will be posted to the website every Friday. If you would like to receive the report by email, please sign up for eNotice on our website.

Council focus for my activities: I know that this may be redundant for some people, but below is the list of issues that the Council asked that I focus on when they hired me on October 12.

- *Affordable Housing:* Conduct a complete review of the affordable housing program and begin the process of soliciting bids for qualified firms to run Hercules' affordable housing programs.
- *Consultant contracts:* Review every consultant contract and determine which should be terminated or replaced.
- *Management audit:* Conduct a full management audit to determine the strengths and weaknesses of the city management and make recommendations to improve operations and the financial position of the City/Agency.
- *Projects:* Evaluate all projects and assign a competent negotiating team to each one so projects important to the community can proceed.

- *Communications:* Implement programs to improve communications with the public.

I started work on October 18 and my first week has been a blur of meetings and briefings filled with lots of information on these and other issues. Information is the key ingredient for making sound decisions so I am asking for help from anyone who can provide me information on these issues. Please help me address these issues.

Council/Agency meeting format: In an effort to improve public access to issues, I am asking the Council to experiment with a different format for the City Council meetings. Up to now, the meeting has been structured so the City Council has its meeting followed sequentially by a separate meeting of the Redevelopment Agency. This format has meant that many items of interest to the public occur late in the evening and, consequently, public participation is reduced. I am suggesting that we try two things: First, make the meetings of the Council and Agency a joint meeting so that the order in which items are listed on the agenda is based on their interest to the public, regardless of whether they are City or Agency items. Second, put the reports by the Council and City Manager at the end of the meeting after all the other public issues have been addressed. This format is used by many jurisdictions, and I believe it will allow greater public access to issues. If the new format doesn't work, we can go back.

Organizational assessment: In this first week, the Senior Managers and I have reached several conclusions about things that we see are needed to improve the organization's culture and performance. Trust, communication and collaboration are all issues that we have discussed and which we are committed to improve. Organizational change is hard and requires persistence and continuity. I will be discussing these issues in more depth with the Council over the next several months.

City employee survey: As part of the organizational assessment, I asked Katrina Thomas-Dycus, the City's Human Resources Manager, to create a questionnaire for city employees so they can provide information about working conditions and organizational norms. Katrina will be posting the questionnaire on Survey Monkey this Friday and I am asking all city employees to log in to the link and participate in the survey. The results will be shared with city employees. The Senior Managers and I will be evaluating the data that is collected as part of our work program to improve the culture of the organization.

Hercules Municipal Utility: I met earlier this week with Mike Sakamoto, who is the contract manger of the Hercules Municipal Utility. I asked Mike to put together a scope of work for the management of this operation to move in-house over the next several months. I am talking to the Senior Management group about the best way of managing this function using existing staff.

Bayfront Project: I spent two hours this week with Jim Anderson of Anderson Pacific, the developer of the Bayfront project listening to his concerns and getting up to speed for addressing his and the community’s issues. Jim Anderson has requested a public private partnership to address the financial viability of the project and assistance with other issues. The project is coupled with the Intermodal Transit Project that is a \$70 million City project that will bring train, ferry and bus service to the waterfront.

The increased property valuation that this project brings to Hercules is over \$450 million as the table below shows:

Type of development	Total Sq Ft	Estimated Valuation at \$250/square feet
Apartments: 1,107 units	1,107,000	\$276,750,000
Townhomes/condominiums: 285 units	375,000	\$93,750,000
Office	115,000	\$28,750,000
Retail	90,000	\$22,500,000
Flex Space	134,000	\$33,500,000
TOTAL	1,821,000	\$455,250,000

This project is in a redevelopment project area so increases in property value will result in tax increment revenues to the Redevelopment Agency that can be used in a public private partnership to assist the project in obtaining public benefits.

Preliminarily, we have identified at least the following issues that need to be addressed:

1. Right of way acquisition for the Intermodal Transit Center
2. Schedule of performance for the City and Bayfront to complete the environmental review.
3. Resolution of how open space/recreation obligations will be met.
4. Calculation of the financial gap faced by the project based on validated cost, market and phasing data.
5. Confirmation of private financing, co-investment and public benefits for the project.
6. Amount of public participation for addressing the financial gap.

7. Funding sources and application for ITC project.

I plan to meet again with Jim Anderson next week. I am in the process of assembling our negotiating team based on the final list of issues that Jim and I identify.

Citizen's meeting on Bayfront: I am still in the information gathering phase for the Bayfront project and I need to hear from the community on the issues that they see need to be addressed. Next Monday, October 25 at 6pm I will be hosting a community meeting for the citizens of Hercules at the City Council Chambers, 111 Civic Drive in Hercules. Liz Warmerdam will be assisting with a presentation on the status of the project. *The purpose of the meeting is for me to hear from residents so I can better understand the issues that they see as I take over the negotiations with the developer of Bayfront on a possible public private partnership that provides assistance to the development to achieve public benefits.* There will be lots of opportunity for any interested party to be able to speak and have their concerns heard. My role will be to listen. I will also have a staff member in attendance to take notes that will be posted to the website within 48 hours of the meeting, as promised at the October 12 City Council meeting. I've also asked staff to look into the possibility of taping the meeting.

SRI Survey: The results from the recent SRI Survey regarding the Waterfront project are still being compiled. Consequently, the presentation on the results will be delayed until the next City Council meeting on November 9, 2010.

Deal Standards for Public and Private Partnerships: The Bayfront project is one of several projects that Hercules is contemplating creating a public private partnership as a means of achieving community goals. These types of partnerships have become more common as communities seek higher density mixed use development that creates more of a sense of place and longer term value. But communities need to recognize that, just as with private sector financing, there needs to be some fiduciary principals applied to these types of partnerships to insure that the public participation is fair and defensible. Hercules has no such standards and I would like to suggest that it consider adopting some to insure that its deals are fair. Here are standards that I suggest for consideration.

1. *Competence:* Insure that both the private and public partners have the competence, credentials, and capacity necessary for the project.
2. *Price the benefits:* Connect the public benefits to their costs.
3. *Align interests:* Both parties should have "skin in the game"; that is, just as with a private project, the developer needs to co-invest.

4. *Share success:* Provide a return to each party commensurate with risk and the return hurdle required to attract capital. If the project succeeds in providing a return beyond that needed to attract private capital the public agency needs to share in the windfall.
5. *Have a “holding period” for returning the public investment:* Do not treat public capital as a handout, provide a way for the public agency to get its investment out of the project upon refinance or re-sale. If the project succeeds then the public investment can be returned and reinvested in creating other public benefits.
6. *Have a stop loss for the public agency:* Public agencies should not be put in the position of obligating themselves to open ended liability for project losses or re-investment requirements. This liability is untenable from a public policy viewpoint. There need to be mechanisms such as letters of credit or performance guarantees which insure that the public agency does not end up spending funds on an empty bag.
7. *Validate the market and costs:* Base the deal on valid real estate economics parameters. Insure that the deal reflects current market rates of return and financing terms. Recognize that the private sector has a holding period and insure that the public investment has a commensurate one as well. Deal should be comparable to private sector transaction. Benchmark fees to 3d parties in the market.
8. *Be an open book:* Document all transactions and make them transparent to the public.
9. *Third party verification:* Involve an outside expert in real estate economics to provide third party verification of fairness.
10. *Build in accountability:* Document terms in writing. Monitor performance during implementation. Provide ongoing monitoring, reporting, auditing. Create default conditions and consequences. Follow through with consequences!
11. *Recognize that things will go wrong:* The options for dealing with things going wrong include declaring the project in default, delaying performance requirements or restructuring the deal. It is difficult to determine in advance which choice makes the most sense, so contract provisions covering all eventualities will be impossible. When things go wrong, the performance of the developer to that point and the nature of the relationship between the parties will govern what happens.

12. *Keep it simple*: Complexity is the enemy of a fruitful relationship. By making the deal open, transparent and easy to understand, the partners create a relationship of trust and mutual gain.

I am asking the community to comment on these standards. I would like to bring the final version of these standards forward in the next month or so for the City and Agency to consider for formal adoption.

Schedule, Cost, and Timing of the Intermodal Transit Center (ITC) and Relationship to the Private Development: Lisa Hammon presented a tentative construction schedule for the Intermodal Transit Center to the Business Development Subcommittee. The [attached map](#) shows the phasing of the ITC improvements. Some of the improvements strictly benefit the ITC, but some are shared improvements which benefit both the City and the developer. The table below identifies the construction cost and duration of project components currently being advanced as part of the ITC Project by the City, which directly relate to the Station as well as the Shared Infrastructure. Keep in mind that some costs are more refined than others depending upon whether the plans are at 30%, 60%, or 90% completion.

<u>Project Components</u>	<u>Construction Cost Estimate</u>	<u>Construction Duration</u>
Shared Infrastructure ¹	\$20.3	14 mo.
Station/Transit Center ²	\$46.9	24 mo.
Parks/Plazas/Trails ³	\$7.0	9 mo.
	\$74.2	34 mo.*

<u>Notes</u>
1. Includes: Utilities, Retaining Walls, John Muir Prkwy, Bayfront Extension/Bridge, Transit Loop Drive/Bridge
2. Includes: Train Station, Platform, Track/Signal, RR Bridge, Utility Relocation
3. Includes: Hercules Civic Plaza, Cafe, Creekside Park, BayTrail, Creekside Trail
* Overall Construction Duration reflects overlapping contracts and requires NEPA/CEQA and ROW cert. prior to start of construction

The schedule for the start of construction of the ITC is dependent upon two things: first, the certification of the EIR under CEQA (California Environmental Quality Act) and the EIS under NEPA (National Environmental Policy Act); and second, the acquisition of the land.

The uncertainty of the two issues also has an effect on the grant funds already secured for the project, since most of the funding is programmed in FY 10-11. The City will likely move the FY 10-11 funding to FY 11-12 (which could be allocated as early as July 2011 or as late as June 2012) in order to plan for these variables, and not be at risk of losing the funds.

ITC EIR/EIS: The Planning Department held two public meetings for residents to submit comments on the Intermodal Transit Center Environmental Impact Report/Environmental Impact Statement. One resident commented and requested the City consider designing bike lines along Promenade Street and Sycamore Avenue. Approximately four comments were received and will be responded to, as well as comments received in writing. The comment period has been extended from November 1 to November 15.

ITC Grant Funding: On October 20th, City Staff was notified that the recently-submitted Transportation Investment Generating Economic Recovery (TIGER) II grant was not selected for funding. However, the East Bay Regional Parks District grant for the “East Bay Pedestrian and Bicycle Network” in the amount of \$10.2 million was successful. The City of Hercules was included as a recipient of a portion of the funds. The amount Hercules will receive is still to be determined due to the grant award being less than what EBRPD requested.

Next week staff will be submitting a Federal Railroad Administration (FRA) grant for “Rail Line Relocation and Improvement Program” funding in the amount of \$3.4M.

ITC Relocation of Pipelines: City Staff have confirmed the alignment for the relocation of the Shell and Kinder Morgan pipelines that are currently in the railroad right-of-way and need to be moved as part of the Intermodal Transit Center project. Amendments to the existing agreements with Shell and Kinder Morgan are on the Council agenda for October 26th, along with funding for final design.

Duck Pond Park: DPP is moving along. Contractors poured the seat walling on Wednesday, which will be a pewter colored concrete. The rough grading, irrigation sleeves and drainage are complete. Next week, hydro-seeding of the hill will begin and in two weeks, the parking lot and walkways will be paved. We are currently on schedule to open the park in December.

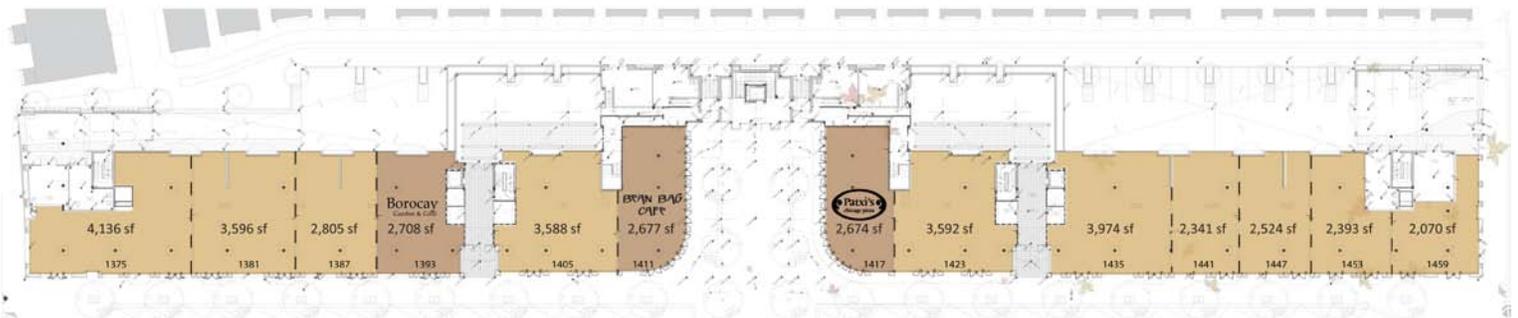
Sycamore North: The project construction is progressing well. The development team conducts weekly onsite construction meetings; those in attendance this week were: Oliver & Company (Construction Manager At-risk); Project Manager (Equity Community Builders); Architect (Daniel Solomon Design Partners); and, Project Coordinators (City of Hercules Affordable Housing Staff). This week the development team focused on the wood framing schedule, utility placement, schedule for retail tenant improvement work, and ongoing collaboration efforts to maintain the on-time and under-budget pace of the project.

The Affordable Housing Department is preparing the Sycamore Affordable Housing Implementation Plan as required under the Affordable Housing Agreement between the Redevelopment Agency and the City of Hercules. This Plan will include a Rental and For Sale plan with costs per unit and guidelines for qualifying and assisting income eligible

households through the process. The first public discussion regarding the development of this plan will occur on Tuesday, November 2, 2010 at 11:00 AM during the Transportation and Housing Subcommittee Meeting at the Hercules Council Chambers. There will also be follow up meetings within the Transportation and Housing Subcommittee forum as well as a community informational update on the Sycamore development which will be scheduled after the first of the year.

Sycamore Avenue Tenant Storefront and Signage Guidelines: The Sycamore Avenue Tenant Storefront and Signage Guidelines were approved by the Planning Commission on Monday. There was some discussion and concern about free standing signs, as we usually do not allow these. Outdoor signs will first be approved by the property management company and then the Planning staff, based on appearance and size. These guidelines **only** apply to the Sycamore Downtown area.

A status update on retail leasing was presented at the Business Development Subcommittee meeting. City staff and retail consultant Main Street Property Services have negotiated three leases-Borocay Garden and Grill, Bean Bag Café and Patxi's Chicago Pizza, see map below for space locations. MSPS continues discussions with other interested businesses.



2010 Street Maintenance Project to Begin October 25: The City of Hercules has contracted with Bay Cities Paving and Grading to complete this year's street maintenance project. Work is scheduled to begin on Monday, October 25th and will take approximately two to four weeks to complete. The following streets will be repaved:

- Area 1: Refugio Valley Road from Redwood Road to Miramar
- Area 2: Pheasant Drive from Partridge Rd to Starling Way, Partridge Rd from Pheasant Dr to Swallow Way, and Starling Way from Pheasant Dr to Sparrow Way
- Area 3: Jade Court, Onyx Court, Beryl Court, Lapis Court and Diamond Court
- Area 4: Left Turn Lane on San Pablo Avenue and John Muir Parkway

There may be periodic road closures while the work is being complete. Information was posted to the City website to let the community know about the project and possibility of delays.

Proposition 22: The League of California Cities hosted a press conference on Monday, October 18 to discuss the impacts of Proposition 22. If passed, Prop 22, called the Local Taxpayer, Public Safety and Transportation Protection Act, would prohibit the State from taking, borrowing or redirecting local taxpayer funds currently dedicated to local governments. Last year, the State took \$5 million from the Hercules Redevelopment Agency (\$2.05 billion statewide) and without Proposition 22, it is very likely similar raids will continue in the future. The taking away of redevelopment funds significantly impairs our ability to move forward with projects and plan for the future. In addition to protecting our redevelopment dollars, the Act would protect transportation and public transit funds and public safety funds. A copy of the resolution that you passed on October 12 in support of the Act was forwarded to the League of California campaign offices as instructed. If you or a member of the community has any questions on Prop 22, please have them contact me or visit the savelocalservices.com website.

Finance Receives GFOA Award: Last week, we were notified that the Finance Department received a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA) for our 2008/2009 CAFR (Comprehensive Annual Financial Report). This is the highest form of recognition in the area of governmental accounting and represents a major accomplishment for the department and the City. The CAFR is available for the public's review on our website.

Police Operations: On Friday October 15th Mary Ann McDonald reported Joe Eddy's campaign signs were removed from their original locations and discarded on the street at several locations throughout the city. On Tuesday October 19th detectives arrested Chona Cruz Baez on a warrant charging her with shooting a firearm into an occupied dwelling. The original incident occurred on October 1st, on Bedford Street, and the bail amount on the warrant is \$250,000.

On October 19th detectives conducted a probation search at 1069 Sanderling Way after receiving complaints of possible drug dealing activity at the residence. The probationer, David Mallard, was not at the residence at the time of the search. Several pieces of identification and checks belonging to other people were found and will be evaluated as possible stolen property.

Traffic Update: Officers conducted targeted traffic enforcement at Hercules Middle High School on Tuesday October 19th, in response to complaints of students jaywalking. Fourteen citations were issued to students. This enforcement effort was preceded by a posting on the city webpage by the chief:
<http://www.ci.hercules.ca.us/index.aspx?page=23&recordid=565&returnURL=%2findex.aspx>

Principal Zakrevsky was also advised of this issue and agreed to make a public service announcement using school media.

Police Personnel Changes: The police department will undergo some organizational structure changes to accommodate the anticipated Nov. 15 retirement of Commander Tom Dalby. Commander Bill Goswick will be appointed Operations Division Commander and Investigations will move from Administration to Operations. Sergeant Ruben Rodriguez will oversee all administrative staff.

Community Pride and Neighborhood Cleanup Program: The last cleanup of the calendar year was held last Saturday, October 16 within the “Trees” Neighborhood. This cleanup was staffed by thirty volunteers including the Hercules Police Explorers and their family members, City Planning, Building and Public Works staff, as well as by the Affordable Housing Department staff. Sixty-seven homes were served and it is anticipated that over 10.8 tons of refuse were removed from the neighborhood. The next series of eight cleanups will commence in March of 2011.

First Time Homebuyer Program: Another First Time Homebuyer applicant is in the final stages of approval. The completed application and staff work is now before the City’s Loan Review Committee for review. If approved, this will be the fourth First Time Homebuyer application funded for this fiscal year. If approved, the applicant will receive \$75,000.00 in down-payment assistance.

Citywide Employee Incentive Program: The first Citywide application for the fiscal year has been completed and is now before the City’s Loan Review Committee for review. If approved, the applicant (public school teacher) will receive \$31,000.00 in down-payment assistance to purchase a home within the “Trees” Neighborhood.