



MEMORANDUM

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DATE: November 19, 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

**City Council Strategic Issues Study Session:** Due to a pressing closed session item, next week's proposed Strategic Issues Study Session has been cancelled and will be rescheduled for early December.

We had planned to review with the Council and public the status of funding for the North Sycamore project in preparation for obtaining a construction loan to fund the remaining project costs. This presentation has been moved to the regular Council meeting of November 23.

We will still meet in December to discuss the various ideas for replacing the sub-committees.

**Overview of Report:** The following topics are included in this week's update:

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**Sycamore North Funding and Affordable Housing Mix:** The Agency’s mixed use project known as Sycamore North is under construction, about 45% complete, on Sycamore Avenue west of San Pablo and is scheduled for completion in October 2011. The project has 96 residential units and approximately 40,000 square feet of retail. It has two buildings, an east and west building, separated by a plaza.

When I arrived as Interim City Manager, I was concerned about the management of this project, which was scattered in various locations throughout the organization. There was no centralized monitoring of costs, nor, I discovered, no oversight of the funding for completing construction. I also discovered concerns about the amount and distribution of the affordable housing units.

After pulling together all the information about the project, here is what we know:

1. Total project costs are approximately \$70 million as shown on the table below.

|                                | <b>Residential</b>  | <b>Retail</b>       | <b>TOTAL</b>        |
|--------------------------------|---------------------|---------------------|---------------------|
| Land Cost                      | -                   | -                   | -                   |
| Site Improvement Cost          | \$2,449,121         | \$698,009           | \$3,147,130         |
| Building Costs                 | \$34,813,086        | \$6,672,097         | \$41,485,183        |
| General Conditions/OH/Fee      | \$4,896,179         | \$819,722           | \$5,715,901         |
| Hard Cost Contingency          | \$1,215,704         | \$236,353           | \$1,452,057         |
| Soft Costs                     | \$10,943,247        | \$7,138,582         | \$18,081,829        |
| <b>Total Development Costs</b> | <b>\$54,317,337</b> | <b>\$15,564,763</b> | <b>\$69,882,100</b> |
|                                | <b>78%</b>          | <b>22%</b>          | <b>100%</b>         |

2. The affordable housing mix in the project is 49 rental units assigned to very low income, all located in the east building. In the west building are 47 for-sale units, of which 26 are assigned to be sold to families of moderate income.
3. The funding for completing the project has not been obtained and the construction fund is essentially exhausted. The funding for the project was portrayed in the adopted city budget as follows:

|   |                   |
|---|-------------------|
| 2007A Housing Bond  | 11,732,938        |
| 2007B Housing Bond  | 10,334,216        |
| CalHousing Financing<br>Agency Loans and grants           | 5,350,000         |
| <b>TOTAL Funds available at<br/>start of construction</b> | <b>27,417,154</b> |

|   |                     |
|---|---------------------|
| <b>Funds to be secured through a construction loan from a bank based on project valuation</b> | <b>\$29,323,000</b> |
| <b>Total funding</b>  | <b>\$56,740,154</b> |

In other words, we discovered that the planned funding for the project was below its actual costs and that a portion of the funding, the bank loan, has not been secured. *Based on the amount of funds available at the start of construction, the remaining funds that need to be secured through “a bank loan based on project valuation” is approximately \$42,500,000, not \$29,393,000. As you can see in comparing the budget funding plan to the actual costs, the \$13,000,000 difference is due to the budget not reflecting the actual costs.*

4. The assumption that all the unsecured funding for the project could be obtained from a construction loan from a bank is of doubtful validity. Underwriting standards for banks to provide construction loans in today’s real estate environment make it more likely that a bank loan will be at 60% of project value, thus requiring that the Redevelopment Agency to fund additional investment in the project, some of which will be repaid at the time that the project is sold and some of which will remain as a permanent subsidy to the project.

Based on these finding, we will be reviewing with the Council at Tuesday’s November 23 Council meeting several issues that will require Council action at a future meeting:

1. Revisit the issue of the affordable housing mix and consider changing it to reduce the number of very low income rental units and distribute the very low income units throughout the project instead of concentrating them in one building.

The valuation of the project will change with the mix of affordable units. For instance, we have calculated that with the current configuration of 49 very low income units, 26 moderate income and 21 market rate units will result, with the retail component of the project, a total project valuation of approximately \$25 million. If the Council were to decide to change the mix of affordable units to 67 market rate units and 29 moderate income units, the valuation of the project would increase to approximately \$35 million, thus permitting a larger portion of the unfunded project costs to be funded through a value-based construction loan.

2. Decide how to fund the additional Agency investment in the project by deciding on which pending capital projects need to be eliminated and which projects can be delayed until Sycamore North is sold and the Agency gets the non-bank portion of

the remaining funding returned. At the end of the last fiscal year, the City and Agency had approximately \$35 million of capital project funds available and allocated to projects. If the project valuation were \$35 million, the Agency could secure, at a 60% loan-to-value ratio, approximately \$21 million of bank loan, leaving \$21 million required in additional Agency/City investment. When the project is sold, \$14 million of this investment could be returned, leaving \$7 million of permanent unrecoverable investment remaining in the project.

Obviously, this issue is complex and we hope only to be able to explain it at the November 23 Council meeting and answer questions. We suggest that the Council schedule a future time within the following 2 weeks to make decisions on the two primary issue areas.

**Five Year Financial Projections:** The Finance Department is finishing up the five year projections. I have seen a draft and plan to have a copy of the document out to the Council the week of November 29. Shortly after, we will schedule a public meeting to review the projection in preparation for the mid-year financial review in January. This continues to be a top priority.

**Bayfront:** On Wednesday, I meet with members of the community to discuss the Bayfront project. Council Member Joanne Ward attended as a representative of the Council. The meeting was productive in continuing to engage and inform the public. There were numerous good suggestions and comments. I've attached [the handout](#) that was provided at the meeting and a [summary of the meeting](#), which has also been posted to the project page on the City's web site.

One of the questions at the meeting concerned funding for the ferry component of the ITC. Here are the recent activities of the Water Emergency Transportation Agency (WETA) on studies they are doing on the ferry stop in Hercules.

1. Hercules Hovercraft Study: WETA recently completed a first stage study of the feasibility of hovercraft in Hercules, to avoid the projected \$18 million in dredging costs. This initial study indicated no fatal flaws with hovercraft in Hercules and in fact indicated that it could reduce travel time. WETA is now embarking on a second stage study.
2. Hercules Ridership Study: WETA recently approved \$250,000 for updated ridership projections for the system, including Hercules. The projections update the current ridership projections that were completed in 2003, and based on 2001 ABAG data.
3. Hercules EIR/Terminal Design: The WETA 2010-2011 capital budget approved by the board includes \$121,000 for the Hercules EIR/Conceptual Design, building

on the \$902,764 spent by WETA on the EIR/Conceptual Design in previous years.

Later in the day, I spoke by phone with Jim Anderson and we agreed to hire a market consultant to validate the market value of the project. This validation is critical if we are to craft a public private partnership. I will bring forward to the Council a contract for this consultant at the next available Council meeting.

Finally, on Thursday, I met with Jim Anderson for 3.5 hours and we discussed the approach to putting together a memorandum of understanding that will create a framework for the full public private partnership for the entire project. The discussion was very productive.

**Intermodal Transit Center:** Here is what we have been working on related to ITC:

- Retaining walls: On Monday, November 15<sup>th</sup> Hercules Bayfront representative, William Silva and City of Hercules project manager, Jesse Harder made a joint-presentation to the Planning Commission on the retaining wall design along the waterfront. They shared an overview of the technical approach to the structural design as well as aesthetic consistency provided and interpretive art opportunity. The design meets the needs of the Bayfront development along with the Bay Trail and ITC track realignment.
- Wetland delineation: On Tuesday, November 16<sup>th</sup> the U.S. Army Corps of Engineers (Corp) was on site along with the City, Anderson Pacific and members of the ITC environmental consulting team. Delineated wetlands and mudflats were verified by the Corp for the waterfront area extending from Pinole Creek to Victoria by the Bay. The ‘verified delineation’ will be effective for a period of five years.
- EIR/EIS Comment and Next Steps: The public comment period for the ITC Project DEIR/DEIS ended on Monday, 11/15. We are organizing and reviewing the comments and will begin to prepare necessary responses. As soon as the comments have been fully reviewed we will determine the anticipated date for release of the Final EIR/EIS.
- Meeting with Contra Costa Transportation Authority (CCTA): On Wednesday, November 17<sup>th</sup> the City met with CCTA staff to discuss the programming of STIP grant funds. Additional coordination with MTC and Caltrans will be required to secure a funding extension for the ITC project funds.

- Hovercraft study: WETA is currently reviewing a draft version of the study and has advised that the Final Report should be available for public review in January 2011.

**Transition of duties from contract with Affordable Housing Solutions Group:** I've asked our Planning Director, Dennis Tagashira to meet with Walter McKinney and review the scope of services for Affordable Housing. I am also discussing with them the possibility of bring those services in house. I've asked for the scope of services to be completed by December 6.

**Organizational Changes:** This week, much of the physical relocation of staff took place. The Affordable Housing Department has been relocated to the Planning and Building trailer, the Human Resources Department moved into the old Affordable Housing trailer and many of the Municipal Services staff moved into the main City Hall Building.

We are continuing the recruitments for the [Real Property Manager position](#) and the [Senior Project Manager position](#). Please see the attached job descriptions linked to each title for more information about the positions in the new department.

**Annexation:** On November 15, 2010, the Planning Commission unanimously recommended to the City Council approval for the Panhandle Annexation which consists of 8 parcels totaling 76.88 acres located directly across the Franklin Canyon Golf Course between State Route 4 and the railroad tracks. The Panhandle Annexation consists of the following applications:

1. Mitigated Negative Declaration and Mitigation Monitoring and Reporting Program;
2. General Plan Amendment No. 10-01 adding an "Agriculture" land use designation, and designating certain land uses in the City's Sphere of Influence with a "Planned Commercial-Industrial" and "Agriculture" classification;
3. Pre-Zoning No. 10-01 for the annexation of the 76.88 acre area known as the "Eastern Panhandle Annexation Area" with an "Agriculture" and "Planned Commercial-Industrial" zone;
4. Zoning Ordinance Amendment No. 10-02 adding the "Agriculture" zone and provisions to the Zoning Ordinance for the administration of properties annexed by the City and under contract through the Williamson Act (Agricultural Preserve) of the State of California.

**Operations Safe Playground:** On Tuesday November 16, two Hercules police detectives participated along with over 50 other officers, in Operation Safe Playground, a state and countywide sweep to check on registered sex offenders on parole. The Hercules

detectives assisted in locating and arresting two sex offenders in West Contra Costa County for violating the conditions of their parole. Channel 2 News covered the event and ran a story on their November 18 news broadcast:

<http://www.ktvu.com/news/25850390/detail.html>

**Norteno Gang Members:** On Wednesday November 7, at 12:51 am officers stopped a vehicle at Willow Avenue and Viewpoint Boulevard for speeding. The driver and passenger, both Richmond residents, were wearing gang attire and admitted being members of the Norteno gang. The passenger had an extensive criminal arrest history. The driver was cited and released.

Members of the community often ask officers “Does Hercules have any gangs?” Gangs are not stationary groups. As long as gang members reside anywhere nearby, they become our problem when they visit Hercules.

**Training Revenue Received:** This week the city received a reimbursement check for \$11,071.52 from California Peace Officers Standards and Training for training costs incurred by police personnel.

**Facility Update:** The light fixtures in the booking room at the police department were enhanced to allow booking photos of suspects to be taken with our LiveScan fingerprinting machine. This will allow us to book and release many arrestees from the station, which in the past would have been taken to the Martinez Detention Facility; triggering a jail access charge to the city.

**Duck Pond Park:** We will be bringing Phase II of the project forward to City Council next week. Phase II includes an additional pathway that connects the rear of the existing trail, additional irrigation, some additional landscape, trees and a dedicated area for a Memorial Tree Grove. The project continues to be on tract to have both phases completed by the end of the year (weather permitting).

**Housing Element:** We received 7 pages of comments from the California Housing and Community Development (HCD) Dept. HCD wants more information on:

1. Site specific projects,
2. Demonstrate feasibility of emergency shelters sites, land use controls, on-/off-site improvements, local processing and permitting procedures,
3. Design Review process impacting housing costs and approval certainty,
4. Inclusionary housing: Provide an analysis of the impact of inclusionary requirements on the cost and supply of housing, opportunities for energy conservation,

5. Develop a program setting forth a schedule of actions describing Housing Programs (identify State and federal assistance programs)
6. Public Participation: More discussion on the success on the outreach efforts conducted on October 4<sup>th</sup>.
7. Consistency with General Plan

The Planning Department and Housing Element consultant will be responding to each of these comments.

### Subcommittee Replacement Suggestions

These are suggestions I have received so far on replacing the Subcommittee meetings.

No new suggestions received this week.

#### Last Weeks

Kathleen Cyr (City staff member)-I have a few suggestions on how to improve the “pre-approval” of requests for expenditures presented to the Council, formerly in the Subcommittee forum.

- ◆ A specific dollar amount needs to be determined and consistently adhered to in regard to items needing approval. (In the past, it was at the Finance Director’s discretion, and very inconsistent which led to frustration in trying to do it correctly as the rules were always changing.)
- ◆ Emailing Staff reports to the entire Council that must be read within a predetermined time frame, the next step is the author will meet at a predetermined time possibly every other week. Each author will meet the Council members in time slots so the Council can hear everyone’s explanation individually, and does not waste time with non involved staff being present. The Public would be welcome to attend the meetings.

|                |                  |                                 |             |
|----------------|------------------|---------------------------------|-------------|
| Staff member 1 | 10:00-10:30      | Council members                 | 10:00-11:00 |
| Staff member 2 | 10:30-11:00, etc | (Council stays for entire time) |             |

- ◆ Once an item is approved by the Council members the Staff report should be signed. There is spot on the form, but this has not been utilized as it should.

Gerard Boulanger-If no decisions are to be made and if the Council meets with the public, then I am afraid it will very quickly become an endless argument of the pro and cons and it will build even more frustrations.

I suggest to drastically reduce the number of subcommittees. Actually, most of them could be relocated into their respective division as "regular business".

When it comes to strategic projects, I think subcommittees are not a good solution. Instead, I suggest including a Project discussion/report at every single Council meeting as part of the official agenda. People concerned/motivated will prepare a thoughtful and short speech knowing in advance the subject of discussion.

Workshops are a very good tool to get fast and qualified feedback from the public while subcommittees are more about going around the subject or/and preaching for special interests. Having said that, I believe workshops should be organized *ONLY to address strategic projects/issues*, and then a specific subcommittee could be build to follow up. However, I don't think we should replace all subcommittees with workshops as there is a risk to build too high of expectations, then frustrations. Transforming subcommittees into workshops may also give too much importance to "minor" projects.

I believe some subcommittees should simply disappear and be replaced by a regular report during Council meetings. It may sound like I don't want the public to intervene in city affairs, but on some subjects, the public doesn't have enough information to be productive. For example, I attended a finance subcommittee a few weeks ago and I was lost. How can I give feedback on spending more if I don't have the whole picture? Another example: the Chamber of Commerce or Education, we don't need a subcommittee to decide whether to financially support them or not: we can or we can't.

Dan Romero-The complaint about the sub-committee meetings is that the public couldn't attend. Many in the public wanted to see the meeting telecasted on TV or a audio recording. Minutes have not been maintained. I feel that the meetings should continue but be telecasted to the community so the public can watch. I feel that the meetings should not be held in the evening because it prolongs the workday for city staff. Having the opportunity to see business meetings and discussion prior to the council meetings is good for the public. Being able to hear what staff is suggesting to the council members is good for the community and hearing the response from council members that the public never hears during council meetings is likewise good. Postponing the meetings and asking the community which has no experience in city government leads to chaos.