



MEMORANDUM

DATE: December 23, 2010

TO: Mayor Ed Balico and City Council Members
City Employees
Members of the public

FROM: Nelson Oliva, City Manager

SUBJECT: City Manager's Weekly Report

On behalf of the city employees, we would like to wish the Hercules community a Merry Christmas and a happy and prosperous new year. Due to the holiday schedule, this report will not be prepared next week.

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

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Holiday Closure – City offices will be closed from Friday, December 24, 2010 through Friday, December 31st. Child Care Holiday Camp will be held the week of December 27th. City offices will resume normal business hours beginning Monday, January 3, 2011.

Special Joint Meeting of City and Agency: A special joint meeting has been scheduled on January 4th at 7pm to address several issues related to the Bayfront project.

Comprehensive Fiscal Review: Staff presented Council with a suggested document to request firms to present proposals to conduct a budget and/or performance audit of all City and Agency finances. The recommendation of staff also included the establishment of a Citizen’s Advisory Committee to assist the Council in the process. The following is the draft document presented to the Council. The Council requested that the community provide input on matters that should also be included in the request. Upon the document being completed, the material will be released to obtain proposals from firms. If you have any suggestions, please submit to Liz Warmerdam in the Finance Department at lwarmerdam@ci.hercules.ca.us.

**Request for Proposals
Comprehensive Fiscal Review
December 22, 2010**

I. BACKGROUND

The City of Hercules, California is a culturally diverse community of 24,324 residents situated in western Contra Costa County on the east side of San Francisco Bay where State Highway 4 intersects with Interstate-80. Over the past 15 years, the City has been pursuing an aggressive development program including a flagship 40 acre mixed use development that incorporates a Transit Center with train, bus and ferry service to major employment centers throughout the Bay Area.

As part of its city-wide development program, the City currently has close to \$200,000,000 of Capital Improvement Projects in the planning phase or under construction. With the downturn in the economy and other issues facing the City, the Hercules City Council is seeking proposals from qualified firms interested in providing an independent, comprehensive review of the City’s immediate and long term fiscal position (Review). The purpose of this Review is to assess the short and long term viability of all City Funds as well as the visionary plans described above.

II. SCOPE

- a. Review the City’s operating budget including sources of revenue and anticipated expenses for all funds including the General Fund, Redevelopment Agency which includes Affordable Housing, Municipal Electric Utility (HMU) and Sewer Fund. A five year projection of revenues and expenditures should be included; and
- b. Provide complete and accurate documentation of the City’s current Fiscal Year “working capital” for all funds in the context of budget funding requirements. Determine if current available funds are sufficient to meet the City’s current, intermediate and long term needs; and

- c. Analyze the procedures and document the flow of all inter-fund transfers and borrowing. Determine if level of transfers/borrowing is consistent with best practices and make recommendations for adjustments/remedies; and
- d. Document the City's use of its bond proceeds particularly from its Public Finance Authority and its Enterprise Funds. Over the past ten years, the City, Agency and Public Financing Authority (PFA) has issued close to \$200 million in different types of bonds. Each bond issuance needs to be reviewed and documented to determine how bond proceeds were spent, how much is left and what the remainder can be spent on. Include an analysis of debt service coverage for existing debt issuances; and
- e. Review the Affordable Housing Programs including loan programs to assess viability and appropriateness within the context of a city with approximately 25,000 residents; and
- f. Review capital projects and associated funds to understand how projects are/can be phased and funded; and
- g. Review the appropriateness of the financial management policies and practices and provide recommendations for enhancements where appropriate; and
- h. Review the flow of financial information from city staff to City Council including a review of how information is prepared and presented so appropriate decisions can be made. Assist with developing a process whereby current financial condition is disclosed to policy makers prior to execution of project funding commitments; and
- i. As the Review progresses, identify other issues of concerns that should be addressed and provide recommended solutions; and
- j. A list of other more specific issues can be found in Attachment I.

In short, the Hercules City Council desires a fresh look at the management of its fiscal resources in a resource constrained environment, and is prepared to consider changes to manage those resources.

III. METHODOLOGY

Firms bidding on the Review are expected to understand best practices in the field of municipal finance. The Review should draw on existing documentation including past audits which will be available to the selected firm. The firm selected will be expected to meet initially with the City Council to understand its concerns, then with city staff knowledgeable and responsible for the city's financial resources.

To ensure credibility, the Review should be conducted in accordance with the following principles:

- a) Independence and impartiality;

- b) Involvement of stakeholders;
- c) Transparency; and
- d) Reference to Government Auditing Standards as issued by the Comptroller General of the United States and general best practices of California based Municipal Finance Officers.

IV. SUBMITTAL REQUIREMENTS

Suitably qualified firms willing to undertake the Review described in this Request for Proposals are invited to respond in the following manner:

A. Background Information

1. Describe your firm's capabilities that would fulfill the requirements of the Review described above.
2. Identify other projects similar to the Review completed by your firm. Please describe the date, the general scope and the outcome of these projects.
3. List the personnel you would expect to assign to the Review. Please provide brief biographical information on each individual including position in the organization, tenure at the organization, academic/professional qualifications, and a description of relevant experience. List any relevant licenses, certifications, or associations.
4. Please state what relevant documents you may require in order to complete your analysis.
5. Provide three (3) references from clients for which firm has provided services similar to those described in RFP Section II, SCOPE OF SERVICES. Include current working phone numbers and e-mail addresses for each reference. **Do not include Hercules city employees as references.**

B. Services

1. Describe how you expect to approach this Review. Indicate whether you would be able to deliver a Final report to the City Council by February 22, 2011 assuming that a contract is signed by January 11, 2011.
2. Please state the total cost for completing the Review, including a breakdown of fixed and variable costs, if any.

V. DELIVERABLES

Expected deliverables

- During implementation of the Review, provide weekly progress updates to the City Council and Citizens' Committee (currently being formed).

- Final report: To be delivered by February 22, 2010
- PowerPoint presentation of the Review to the City Council and Community
- Summary report for public dissemination
- Final report should include but not be limited to the high level questions cited in **Section II** above and in **Attachment I**, with a full analysis of recommended steps to ensure the short term and long term fiscal health of the City.

VI. TIMELINE

Note: All 'Event Dates' shall be executed by 5 PM

Events	Date
RFP issued	22 December, 2010
Proposals Due	5 January, 2011
Selection of the Consultant	11 January, 2011
Final Report Due	22 February, 2011

VII. MANAGEMENT

The Hercules City Council is responsible for conducting the evaluation of proposals and for the selection process.

VIII. RFP PROCESS AND CONTACT INFORMATION:

A. Contact Information

Any Firm may request further clarification on matters pertaining to this RFP by contacting Elizabeth Warmerdam (510) 799-8231, or in writing or email lwarmerdam@ci.hercules.ca.us. Proposals sent by email are acceptable.

Reponses to this proposal should be sent to:

City of Hercules
 Attention: Elizabeth Warmerdam
 111 Civic Drive
 Hercules, CA 94547

Proposals shall consist of seven (7) copies and be sent to the contact listed above. The outside envelope (or subject line in email) must be marked **“RFP – Financial Review.”** Submittals must be received no later than **Wednesday, January 5, 2011 at 5:00pm.**

Please note staff will continue to incorporate comments from the public in this RFP until December 29, 2010. Please check website for final RFP.

B. Selection Process/Requirements

1. Proposals will be evaluated and screened by the City Manager and staff, then forwarded with a recommendation to the Hercules City Council for review and approval.
2. The City reserves the right to reject any and all responses and to waive irregularities and informalities in this selection process such as late proposals submitted after the deadline date.
3. City will require the selected firm to execute a contract following appointment.
4. This RFP does not commit City to enter into a Contract, award any services related to this RFP, nor does it obligate City to pay any costs incurred in preparation or submission of a proposal or in anticipation of a contract.
5. If selected, Respondent will be required to comply with the Insurance and Indemnification Requirements.
6. The successful respondent must be able to formally invoice the City for services rendered.

Attachment 1

1. What is the redevelopment tax increment cash flow compared to redevelopment agency obligation?
2. How much was the redevelopment agency paying the city's general fund in the past and how much can it afford now?
3. How much of a deficit is the general fund running and how long before all the reserves are exhausted?
4. How long has the redevelopment agency's debt service and operating funds been in deficit and what is the current deficit?
5. How was the Venture/Bio-Rad deal structured? Was it bought twice?
6. How and why did the Redevelopment Agency pay \$5.4 million to HMU and how was this related to the 2010 PFA substation financing?
7. What are the projected revenues and expenses of the HMU for the next 5 years?
8. What are the funding options for the North Sycamore project?
9. How is the New Town Center/Red Barn deal structured and what performance requirements does the developer have in return for the \$12 million that has been paid?
10. What are the long-term consequences of debt commitments as a percentage of potential future recurring revenue streams.

City/Agency Annual Independent Auditors Report: The annual audit report is being finalized by the city's contracted outside auditor's firm. The report is anticipated in January 2011. The audit firm was delayed in part due to their inability to meet with the Interim City Manager. A meeting with city management staff was held on December 9th to provide a preliminary overview of the timeline and to obtain information on the recent re-structuring of the finance department and the qualifications of currently reassigned staff of the department.

Costco Development: Costco representatives have returned to the table to meet with city staff. During the Interim City Manager's term, Costco was advised that there may be no interest in their coming to Hercules. Prior to that, staff had been negotiating with the operator to see if they were interested in coming to Hercules for well over one year and was respectful of their confidentiality during their due diligence period. I am aware that some residents had asked about the possibility but it was too early to discuss the matter. Costco has now advised city staff that they are moving forward with their due diligence on the Hilltown Parcel. Their negotiations are directly with the owner of the property. I have advised their representatives that they will need to bring forth their proposal to the community and address any concerns from the community as part of their negotiations.

Some of the challenges identified are the massing of the structure, traffic, noise, off-site improvements and other environmental matters. The potential of this operation could mean as much as \$800,000 per year in sales tax revenues and also becoming a major client to the HMU. In addition, the creation of local jobs for the community is also considered beneficial.

Hercules Municipal Utility – the Public Finance Authority is moving forth with the construction of the substation for the HMU. The HMU will continue the effort to connect several clients within the North Shore Business Park to its service grid. We anticipate starting construction in early spring to deliver the station by summer.

ITC Project Update: Staff accomplished the following:

- City met with our funding partner agency CCTA to review the project and outline possible revisions to the funding plan to align with the initial contract packages.
- Completed utility potholing work within UPRR right of way to confirm rearrangement plans.
- Initiated additional air quality analysis (hot-spot) in consultation with MTC and will include results in FEIR/FEIS.
- Reviewing traffic impact analysis and traffic calming measures

Bayfront Development: Council was presented with the deal points submitted by Anderson Pacific which are proposed to serve as the deal points of a Development and Owner Participation Agreement (DOPA) for the development. The recommendation is to have the Council become familiar with the deal points and offer suggestions to staff. Staff is working with the developer to move this project ahead in order to meet his deadlines and the deadlines for the construction of the ITC and to prevent loss of funds from Federal agencies that have awarded funding for the project. A special meeting was scheduled for the 4th of January to address the matter.

The City pointed out that the long awaited Environmental Impact Report (EIR) for the project has been completed for almost one month and that it is awaiting approval from the developer to release the EIR. Representatives of Anderson Pacific advised the City/Agency members that they have engaged an appraiser to obtain an opinion of value for the property that will be needed to build infrastructure and the ITC facilities. They indicated that the appraisal process should be completed in late January 2011. The City/Agency presented the developer with its appraisal in October for their information and consideration

RFQ's Sycamore Crossings: Three responses were received in response to the recent Requests for Qualifications to develop the Sycamore Crossings site: 1) Property Development Centers, 2) Sargeant Town Planning, Studio One Eleven, and 3) Shea Properties. Next step is to schedule reviews of the proposals by a committee which will be composed of a resident representative, city staff and other representatives designated by the City Council. We will schedule these interviews for mid January 2011.

RFQ Parcel "C": Staff has prepared and is ready to release an RFQ (Request For Qualifications) to potential developers for the former site of the Wal-Mart project pending City Council/Board approval. The suggested development use of the 17 acres is proposed as an office/research and development type of use. If approved, the RFP will be released in January with responses anticipated in February 2011. Please provide the Planning Department with any suggestions on the RFQ and the process.

Baywood HOA: The Planning Department is coordinating with the legal firm that has completed a draft of legal documents to possibly create an HOA for the Baywood development. John Beatty & Associates has been working with the City at the request of the residents of the neighborhood. Meeting with 78 property owners tentatively scheduled for Saturday, January 15, 2011, 10:00 a.m. at City Council Chambers.

POLICE OPERATIONS:

Suspected Drug Overdose - On December 19 at 10:32 am the Contra Costa County Coroner notified the Police Department that a Hercules resident died at Doctor's Hospital in San Pablo the night before at approximately 11:06 p.m. The victim, who lived on Beechnut, died of an apparent drug overdose.

Threats And Mental Health Commitment – On December 20th at 11:18 pm an officer responded to a residence on the 1000 block of Devonwood for a report of loud music. When the officer approached the residence a male subject yelled from an upstairs window, "I ain't going to jail! I'll shoot you dead!" Additional officers were called to the scene and the subject, a 34 year old Hercules resident, voluntarily surrendered without incident. He was taken to the County Hospital for a mental health evaluation.