



July 3, 2024

Via Electronic Mail
egato@herculesca.gov

Edwin Gato, Finance Director
CITY OF HERCULES /
SUCCESSOR AGENCY TO THE HERCULES REDEVELOPMENT AGENCY
111 Civic Drive
Hercules, CA 94547

PROPOSAL TO ADMINISTER THE HOUSING SUCCESSOR AGENCY HOUSING LOAN PROGRAM AND BUSINESS DEVELOPMENT LOAN PROGRAM

Dear Mr. Gato:

Thank you for considering RSG, Inc. (“RSG”) to administer the City of Hercules (“City”) Housing Successor Agency Loan Program (“Housing Loan Program”) and the former Hercules Redevelopment Agency’s (“Former Agency”) Business Development Loan Program collectively known as “Loan Programs”. On February 27, 2024, the City elected to become the Housing Successor to the Hercules Redevelopment Agency. The Former Agency issued loans for seven housing programs from its Low and Moderate Income Housing Fund and one business loan program.

The City is now responsible for administering 77 loans issued by the Former Agency. RSG was hired in September 2023 to review loan documents to confirm the status of outstanding loans and determine how to proceed with performing and non-performing loans. RSG’s review found that 47 loans are collectible and 30 are uncollectible. The City intends to write-off the uncollectible loans, leaving a loan portfolio of 47 active loans (42 Housing Successor Loans and 5 Business Development loans). Of the 47 active loans, 21 are performing (no overdue balance) and 26 are non-performing (carry an overdue balance). City Council has directed staff to write-off the uncollectible loans, continue administering performing loans, and restructure non-performing loans. The table on the following page details loan status by program.

RSG’s prior contract included reviewing loan files, setting up the initial loan administration process, and providing monthly invoicing templates. This proposal provides a scope of services to develop and implement a plan to restructure the non-performing loans, including borrower negotiations and amending loan agreements.

Summary of Collectible Loan Performance

Loan Program Name	Number of Collectible Loans		Total Outstanding Balance	
	Total	Non-Performing	Total	Non-Performing
First Time Home Buyer Program	16	14	\$ 833,491	\$ 773,391
Citywide Employee Incentive Homeownership Program	3	0	89,600	-
Homeownership Retention and Loss Mitigation Program	5	4	1,823,416	1,457,095
Inclusionary Housing Homeownership Program	5	0	675,000	-
Home Emergency Repair Program	0	0	-	-
BEGIN Homeownership Program	6	0	180,000	-
Revitalization and Beautification Program	7	4	147,567	87,081
Housing Program Subtotal	42	20	\$ 3,749,073	\$ 1,431,507
Business Development Loan Program	5	4	\$ 408,400	\$ 278,078
Total Outstanding Loans	47	21	\$ 4,157,473	\$ 2,595,644

SCOPE OF SERVICES

1. **Administrative Plan for Non-Performing Loans.** RSG will develop an Administrative Plan to restructure non-performing loans that includes the following:
 - a. Summary of all Loan Programs and recipient database with updated balances as of June 30, 2024
 - b. Loan Restructuring Hardship Terms and Process
 - c. Monthly Invoice Process
 - d. Reconveyance
 - e. Delinquency Resolution
 - f. Monitoring and Reporting
 - g. Compliance and Risk Management

The plan will consider best practices to administer and manage public agency loan programs. RSG will partner with City staff to present the Administrative Plan to City Council for their consideration. RSG will attend the City Council meeting and prepare a staff report and resolution. The fee proposal includes three meetings under Task 1: two staff meetings and one Council meeting.

2. **Restructure Non-Performing Loans.** Currently, there are 26 non-performing loans (22 housing and 4 business loans). RSG will undertake the following steps to address the non-performing loans to either recapture payments due or to restructure the loans and commence repayment:
 - a. RSG will identify loan terms and items that may be renegotiated based on the Administrative Plan.
 - b. RSG will coordinate with City staff to purchase Preliminary Title Reports and review them to understand the liens on the respective properties and to ascertain the City/Housing Successor lien position.
 - c. RSG will initiate dialog with borrowers informing them of amount past due (principal and interest) and requesting payment. The notification letter will incorporate the option to restructure loan based on documented hardship.
 - d. City Attorney to prepare revised loan and ancillary document templates with RSG review. RSG will draft amended loan documents based on the City Attorney templates for individual borrowers after completing negotiations. City staff to record documents against title with County Recorder.

The fee proposal includes three meetings under Task 2: two staff meetings and one Council meeting. Restructured agreements may be presented to City Council for their consideration if required by the Administrative Plan. RSG will attend the meeting and

prepare a staff report and resolution. The fee proposal assumes two hours of negotiations per borrower (26 non-performing borrowers); actual time may vary depending on the complexity of negotiations. The City will be responsible for any mailings and postage. RSG will provide monthly progress reports on borrower negotiations to the City.

3. Loan Administration

- a. RSG will develop materials to implement the City/Housing Successor Loan Programs based on the Administrative Plan created in Task 1. This includes template invoicing letters for non-performing loans, a database to track loan balances, and monthly reports to track loan compliance in order to flag loans that become delinquent.
- b. City staff will be responsible for administering monthly loan invoicing, processing payments, and updating the database with outstanding loan balances, and preparing monthly reports. RSG will review the monthly reports to identify delinquent loans.
- c. If restructured loans become delinquent, RSG will strategize with City staff to determine collection actions determined by the Administrative Plan, such as issuing past-due letters and recording a notice of default against the property.

The fee proposal includes consulting on up to three loans that become delinquent after restructuring; the actual number may vary.

SCHEDULE

Task 1: Administrative Plan

RSG proposes to have the work completed for Task 1 in approximately 4 months. The Schedule would be as follows:

Month 1: Schedule a Kick-off meeting within the 1st month of the accepted proposal, finalization of scope and contract execution. Update loan database and identify best practices.

Month 2: Draft Administrative Plan for City Review.

Month 3: Finalize Administrative Plan.

Month 4: City Council Adoption

Task 2: Restructure Non-Performing Loans

RSG proposes to have the work completed for Task 2 in approximately 10 months subject to participant cooperation and responsiveness. The schedule would be as follows:

Month 1: Order Preliminary Title Reports and review applicable standard agreements for all programs.

Month 2: Review Preliminary Title Reports to determine City/Successor Agency lien positions, confirm amount due, and draft letters to non-performing loan clients.

Month 3: Review results with City. Subject to approval of the Administrative Plan, issue letters to property owners regarding their respective outstanding balance and requesting payment. Letter would include hardship restructure options. Work with City to develop new set of documents for loan programs.

Month 4: Commence restructuring of loans. Prioritize based on responses and amounts outstanding.

Months 5-12: Negotiate with borrowers, amend loan documents, complete restructuring.

Task 3 – Loan Administration

RSG would commence Loan Administration upon finalizing the Administrative Plan.

Months 1-2: Develop invoicing and compliance tracking program for non-performing loans.

Months 3-4: Commence invoicing and tracking of payments pursuant to approved Administrative Plan.

Months 5 and Onward: Consult with City staff on delinquent loans as needed to develop an action plan for each loan based on the Administrative Plan approved in Task 1.

PROJECT TEAM

The project team will be led by Jim Simon, Principal. Mr. Simon will oversee the engagement and is the authorized contact. Rosa Romero, Senior Associate and Certified Specialist in blended compliance regulations, will serve as Project Manager on the engagement and will perform the tasks identified in the Scope of Services. Ms. Romero will be the day-to-day contact with client staff. Suzy Kim and Dena Fuentes, Directors; Jenny Benitez, Senior Analyst; and Jennifer Hernandez, Analyst, will work in collaboration with the team to perform the task identified in the Scope of Services as needed. Other staff may be assigned as needed. Resumes for all RSG staff can be viewed at www.rsgsolutions.com.

FEE PROPOSAL

Our services would be charged on a time-and-materials basis. RSG proposes a total budget of **\$113,000** for the first year of administration as detailed on the following page. If actual costs are higher due to the complexity of negotiations RSG would notify staff to obtain advance authorization before proceeding. The cost of third-party Preliminary Title Reports and mailings is not included the budget.

Our fee would be billed monthly per the following rate schedule:

Principal	\$ 295
Director	\$ 275
Senior Associate	\$ 225
Associate	\$ 195
Senior Analyst	\$ 160
Analyst	\$ 145
Research Assistant	\$ 135
Technician	\$ 100
Clerical	\$ 60
Reimbursable Expenses	Cost plus 10%

RSG does not charge clients for travel or mileage (except direct costs related to field work/surveys), parking, standard telephone/fax expenses, general postage, or incidental copies. However, we do charge for messenger services, overnight shipping/express mail costs, and teleconferencing services. We also charge for copies of reports, documents, notices, and support material in excess of five copies. We bill reimbursable costs at the actual expense plus a 10% surcharge.

RSG issues monthly invoices payable upon receipt, unless otherwise agreed upon in advance. Invoices identify tasks completed to date, hours expended, and the hourly rate.

Scope of Services	Task Hours & Billing Rate						Total Not to Exceed
	Principal \$	Director \$	Director \$	Sr. Assoc \$	Sr. Analyst \$	Analyst \$	
Task 1 Administrative Plan	3	14	12	24	6	-	59 \$ 14,395
<i>Meeting with client and project team, includes internal meeting and coordination at outset</i>							
Task 1.1 Internal team coordination and preparation	-	1	1	1	1	-	4 935
Task 1.2 Client kickoff meeting and preparation (via videoconference)	-	2	3	3	5	-	5 1,225
Task 1.3 Draft Administrative Plan	2	3	10	15	5	-	35 8,340
Task 1.4 Client review and approval of Administrative Plan/ Client Meeting	1	2	1	2	-	-	5 1,275
Task 1.5 Present to Council	1	6	3	3	-	-	10 2,620
Task 2 Restructure Non-Performing Loans	6	17	74	154	72	64	338 \$ 82,245
<i>Review non-performing loans, develop documents and outreach to participants (26 loans)</i>							
Task 2.1 Order Preliminary Title Reports and applicable review loan documents	-	-	-	1	7	7	15 2,360
Task 2.2 Review PTR, determine lien positions, confirm amounts due	-	2	2	26	26	26	82 14,880
Task 2.3 Draft letters to borrowers and develop loan documents / Client Meeting	1	2	5	15	13	13	- 9,560
Task 2.4 Borrower Negotiations / Client Meeting	2	7	15	29	26	13	92 19,210
Task 2.5 Draft Amended Loan Documents and Reconveyance	2	-	52	78	-	5	137 33,165
Task 2.6 Present to Council	1	6	-	5	-	-	12 3,070
Task 3 Loan Administration	3	5	17	31	-	17	73 \$ 16,375
<i>Administer loan programs in compliance with Administrative Plan - 12 month program</i>							
Task 3.1 Develop templates, database, invoicing mechanism and monthly reports	-	2	2	10	-	5	19 4,075
Task 3.2 Monthly compliance monitoring (12 months)	3	3	15	15	-	12	18 3,090
Task 3.3 Strategize actions on loans that transition to non-performing (3 cases)	-	-	-	-	-	-	36 9,210
GRAND TOTAL BUDGET	12	36	103	209	78	81	470 \$ 113,015

Edwin Gato, Finance Director
CITY OF HERCULES
June 27, 2024
Page 8

Should you have any questions, please do not hesitate to contact Suzy Kim at 714-316-2116 or skim@rsgsolutions.com. We look forward to the opportunity to discuss our proposal with you.

Sincerely,
RSG, Inc.

A handwritten signature in black ink, appearing to read "Jim Simon", written over a light beige rectangular background.

Jim Simon
Principal

A handwritten signature in black ink, appearing to read "Suzy Kim", written over a light beige rectangular background.

Suzy Kim
Director