



STAFF REPORT TO THE CITY COUNCIL

DATE: Special Meeting of October 3, 2023

TO: Mayor and Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Mike Roberts, Public Works Director/City Engineer

SUBJECT: Operational and Financial Assessment for the Victoria By The Bay Landscaping & Lighting Assessment District No. 2002-1

RECOMMENDED ACTION:

Receive a report on the operational and financial assessment for Victoria By The Bay Landscaping & Lighting Assessment District (LLAD) No. 2002-1, discuss, and provide direction to staff, if needed.

BACKGROUND:

The City administers five separate Landscaping and Lighting Assessment Districts that encompass the Hercules city limits. Virtually all 8,000+ parcels in the City are included in one of the Districts. Each LLAD provides continued maintenance, servicing, administration, and operations of various landscape and lighting improvements. This includes well-maintained, attractive landscaping and serviceable streetlighting along public streets as well as fire breaks adjacent to open space. They also provide for the upkeep of playgrounds, fields, park furniture, tennis courts, graffiti abatement, lighting, landscaping, water features, and trails in City parks. The expenses associated with the maintenance of these LLADs include labor, material, equipment, utilities, repairs, and administration. Each property is assessed only for the cost of the improvements from which benefit is received.

The City levies and collects special assessments annually for each LLAD to fund the maintenance of these improvements in accordance with the Lighting and Landscaping Act of 1972. The amount the City can increase assessments for each LLAD each year is limited by the Bay Area Consumer Price Index (CPI), which for Fiscal Year 2023/24 is

5.3%. When increases larger than the maximum allowable are proposed, a Proposition 218 balloting process must be undertaken where the weighted majority of returned ballots from property owners must affirm the increase.

In May of this year 5-year financial projections were presented to City Council which indicated most of the Districts were trending positively; however, Victoria By The Bay was operating in a fund deficit which would worsen if not corrected. To address this issue, in July the City Council approved a maximum-allowable CPI increase for Fiscal Year 2023/24 for Victoria By The Bay and authorized staff to proceed with a Proposition 218 process to further increase rates which would be implemented in Fiscal Year 2024-25. Staff also received authorization to secure the services of an independent 3rd party to evaluate the administration and funding of the LLADs, as the Districts now assess and collect over \$3.2M annually and have been in place for approximately 20 years. Victoria By The Bay was selected as the District to evaluate, given its fund deficit, but lessons learned can be applied to all the Districts. Baker Tilley was subsequently commissioned to complete the assessment.

Victoria by the Bay consists of approximately 790 single-family detached parcels, 132 multi-family units, a City open space parcel, and 2 neighborhood parks (Victoria Park and Arbor Park). The District was established in 2002.

ANALYSIS:

In brief, Baker Tilley's report concludes that the District is operated in an effective manner. However, the turf planter strips between the curb and sidewalk in front of homes are inefficient to water, which when coupled with water utility rate increases, is the primary cause of the funding deficit.

To correct the funding deficit, the report recommends increasing assessments to eliminate the annual operating deficit, fully repay the General Fund loan for the fund deficit and build back reserves.

Specific recommendations are:

1. Plan to rebid the landscape contract to insure competitiveness in the next year. Include tree trimming in the work bid since with the maturing of trees this is now a regular part of the maintenance regime.
2. Plan a turf and irrigation system replacement project for implementation once the current operations deficit and general fund loan have been paid off. Replace the turf with a no or low water surface such as decomposed granite or rock or a planting that is consistent with pedestrian traffic but uses little water and can be drip irrigated.

3. Explore the East Bay Municipal Utility District (EBMUD) median turf replacement rebate program to see if the City would or could qualify for the rebate support.
4. Work with the community to design the replacement project most in keeping with the needs and budget of the Victoria by the Bay community.
5. Use the incremental increase in the assessment used to pay off the general fund loan to fund the improvement project with the City advancing funds for the work if possible, to be repaid with the flow of funding from the assessment increment.
6. If assessment increases are not voted in by property owners, reduce services to stay within budget. A reduction in irrigation water and regular maintenance may lead to a significant decline in overall neighborhood aesthetics and a decline of private property values.
7. Create a position in Public Works similar to other cities to administer the LLADs given their complexity and administrative burden.

FISCAL IMPACT:

There is no financial impact associated with receiving this report. The preliminary engineer's report including the proposed assessment rate increases will be brought to City Council for review and approval as soon as October 10.

ATTACHMENTS:

1. Baker Tilley Assessment
2. Victoria By The Bay District Boundary Map