



## STAFF REPORT TO THE CITY COUNCIL

**DATE:** Regular Meeting of October 10, 2023

**TO:** Mayor and Members of the City Council

**VIA:** Dante Hall, City Manager

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

**SUBJECT:** Victoria by the Bay Landscaping and Lighting Assessment District - Authorize Proposition 218 Proceedings for the Purposes of Increasing Assessments in Fiscal Year 2024/25, Approve Preliminary Engineer's Report, Declare City Council's Intention to Levy and Collect Assessments for Fiscal Year 2024/25

### RECOMMENDATION ACTION:

City staff is recommending City Council adopt the following resolutions:

- a. A resolution authorizing Proposition 218 proceedings and directing the filing of the Fiscal Year (FY) 2024/25 Engineer's Report for Victoria by the Bay Landscaping and Lighting Assessment District No. 2002-1, pursuant to the Landscaping and Lighting Act of 1972; and
- b. A resolution for the approval of the Preliminary Engineer's Report and declaring the City Council's intention to levy and collect assessments for Fiscal Year 2024/25 within the Victoria by the Bay Landscaping and Lighting Assessment District No. 2002-1 and setting a public hearing for December 5, 2023.

### EXECUTIVE SUMMARY:

Victoria by the Bay Landscaping and Lighting Assessment District is experiencing a funding shortfall primarily due to higher-level tree pruning, water rate increases, and increased irrigation demand from more extreme weather patterns. A 5-year financial projection completed in May of this year indicated the shortfall would worsen if not addressed and a program evaluation completed earlier this month by an independent 3<sup>rd</sup> party recommended this occur by undergoing Proposition 218 proceedings to increase assessments.

The recommendations in this staff report would initiate the Proposition 218 proceedings to increase the assessments \$150 from \$602.76 to \$752.76 for a single-family homes in Fiscal Year 2024/2025 and \$150 from \$752.76 to \$902.76 in FY 2025/26, which would be comparable to rates in other communities that have similar landscaping .

## **BACKGROUND:**

The City of Hercules (City) annually levies and collects special assessments to maintain certain improvements within the City's five Landscaping and Lighting Assessment Districts (LLADs). Each LLAD provides continued maintenance, servicing, administration, and operations of various landscape, lighting, and park improvements benefiting parcels within each LLAD. Each property is assessed only for the cost of the improvements from which benefit is received.

The boundaries of Victoria by the Bay LLAD No. 2002-1 (Victoria by the Bay LLAD) encompass the residential areas adjacent to San Pablo Avenue located at the northernmost point of the City. The Victoria by the Bay LLAD provides for well-maintained, attractive landscaping and LED streetlighting located along the neighborhood streets, Arbor Park, and Victoria Park, as well as its share of funding for the maintenance of the landscape and streetlighting improvements associated with the City's arterial roadways.

5-year financial projections presented to City Council on May 23, 2023 showed that the operating budget for the Victoria by the Bay LLAD is experiencing an annual operating deficit primarily due to the need for higher-level tree pruning work, the need for increased irrigation watering due to climate change, and East Bay Municipal Utility District water rate increases which have far exceeded the maximum allowable increase to the annual LLAD assessments. City Council directed staff to evaluate options to address the annual operating deficit and cumulative fund deficit prior to the start of FY 2024/25.

With City Council's authorization, City staff subsequently secured the services of Bakertilly, a management consulting firm, to comprehensively evaluate the means and methods by which the City is currently delivering services for the Victoria by the Bay LLAD. The consultant from Bakertilly presented findings and recommendations from their evaluation at the October 3, 2023 City Council meeting. The primary recommendation of the Bakertilly evaluation was that the City initiate proceedings pursuant to Proposition 218 for the Victoria by the Bay LLAD to obtain property owner approval to increase assessments with the objective of eliminating the current annual operating deficit, fund deficit including associated loan from the General Fund, and eventually restoring reserves.

## **ANALYSIS:**

Based on the recommendation above, City staff is recommending City Council authorize Proposition 218 proceedings for the Victoria by the Bay LLAD at this time to address the current annual operating deficit and cumulative fund deficit as well as provide a fair-share

contribution toward funding a future LLAD Program Leader position, which was also recommended in the Bakertilly report.

City staff is proposing that property owners approve a two-step fixed assessment increase to be implemented in FY 2024/25 and FY 2025/26 as outlined in the attached Victoria by the Bay LLAD Preliminary Engineer's Report. The Victoria by the Bay LLAD maximum annual assessment for each single-family home would increase by \$150 (or \$12.50 per month) from \$602.76 to \$752.76 for FY 2024/25 and would increase again by \$150 from \$752.76 to \$902.76 for FY 2025/26. The total \$300 proposed annual assessment increase through FY 2025/26 is intended to be utilized as follows:

Increase needed to Eliminate Current Annual Operating Deficit:	\$211.00
Contribution for LLAD Program Leader Position*:	\$5.00
Miscellaneous Capital Improvement Projects including Tree Mitigation:	\$30.00
Increase needed to Eliminate Cumulative Fund Deficit over 10-year period:	<u>\$54.00</u>
Total annual VBTB LLAD assessment increase through FY 2025/26:	\$300.00

\*The LLAD Program Leader position would be dedicated to and responsible for administering the City's LLADs, including all of the public parks. Its highest priorities would be working with community members to resolve issues and providing quality assurance/quality control on the landscape maintenance contracts. Duties would include field inspection, monitoring water usage, overseeing extra work beyond the base landscaping contract, processing progress payments, monitoring the district budgets, performing streetlight audits, and overseeing streetlight contract work. Currently there is insufficient staffing to adequately perform these duties, which are spread across different positions, which creates inefficiencies and coordination challenges. All five of the City's LLADs would contribute their fair share of cost to funding this position, which would be based upon the proportional benefit they receive. A detailed plan for fully funding the position, which could include contributions from other funding sources such as the General Fund/Capital Reserves, can be developed in time for the FY 2024/25 budget, if so desired. If the Program Leader position is not added in the future, this contribution could go towards paying off the cumulative fund deficit sooner.

Assuming the proposed maximum assessment increases described above are approved by property owners through Proposition 218 proceedings, the maximum annual assessments would be increased annually by the change in the San Francisco Bay Region All Urban Consumers, Consumer Price Index (CPI) commencing in FY 2026-27 to keep up with inflationary increases in maintenance costs.

The tentative schedule for the Victoria by the Bay LLAD Proposition 218 proceedings is as follows:

October 10, 2023: City Council authorizes Proposition 218 proceedings, preliminarily approves Victoria by the Bay Engineer's Report and proposed assessments, and adopts Resolutions of Initiation/Intention.

October 20, 2023: Deadline to mail required Proposition 218 notices and ballots to Victoria by the Bay LLAD property owners (minimum of 45 days prior to public hearing).

November 2023: Conduct additional public outreach in Victoria by the Bay.

December 5, 2023: City Council to conduct public hearing, close balloting period, conduct ballot tabulation, declare results of ballot tabulation, and approve final Engineer's Report and increased assessments, assuming favorable results, commencing FY 2024/25.

Staff is committed to continuous improvement and providing the very best LLAD program possible to the residents of Hercules, which includes actively engaging with the community. City staff conducted a virtual community meeting on September 19, 2023 with the property owners within the Victoria by the Bay LLAD, which included informing them of the funding challenges the LLAD is experiencing as well as actively listening to their concerns and providing responses when appropriate. Should the City Council choose to proceed with Proposition 218 proceedings as recommended, a second community workshop would be held in November which would also advise property owners of the proposed rate increase amounts.

#### **FISCAL IMPACT:**

If City Council authorizes Proposition 218 proceedings and property owners approve the Victoria by the Bay LLAD assessment increase, the City would be able to generate adequate funding to eliminate the current annual operating deficit and cumulative fund deficit over a period of 10 years, as well as provide a contribution toward funding the Program Leader position. More detailed information on this funding plan is included in the Preliminary Engineer's Report (Attachment No. 3, Page 8 – Table 1) If City Council does not authorize Proposition 218 proceedings or property owners do not approve the Victoria by the Bay LLAD assessment increase to balance the LLAD budget, the City would need to reduce levels of service to address the budget shortfall which would impact property values within the Victoria by the Bay LLAD.

#### **ATTACHMENTS:**

1. FY 2024/25 Victoria by the Bay LLAD Resolution of Initiation
2. FY 2024/25 Victoria by the Bay LLAD Resolution of Intention
3. FY 2024/25 Victoria by the Bay Preliminary Engineer's Report