



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of March 24, 2026

TO: Mayor and Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Glenn Dombeck, Public Works Director/City Engineer

SUBJECT: Proposition 218 Proceedings for Hercules Village Landscaping and Lighting Assessment District No. 2002-2

RECOMMENDED ACTION:

City staff is requesting direction from City Council regarding the timing of Proposition 218 proceedings to increase annual assessments for the Hercules Village Landscaping and Lighting Assessment District No. 2002-2.

BACKGROUND:

On February 24, 2026, City Council adopted a resolution initiating the annual process to levy and collect assessments through the City's five Landscaping and Lighting Assessment Districts (LLADs) and ordering the preparation of the annual Engineer's Report for each LLAD as required by the Landscaping and Lighting Act of 1972.

Hercules Village Landscaping and Lighting Assessment District No. 2002-2 (Hercules Village LLAD) is experiencing annual operating deficits between \$40,000 to \$60,000 over the past several years. This has gradually depleted the reserve fund balance such that the Hercules Village LLAD will enter an overall deficit at the end of Fiscal Year 2026–27 if assessments are not increased. The financial challenges currently facing the Hercules Village LLAD are largely the result of significant external cost pressures that have increased over the past several years. Drought conditions have required increased irrigation to preserve existing landscaping. During this same period, water rates have also increased significantly. In addition, landscaping maintenance needs have evolved as trees originally planted as part of the development have matured and specialized contract tree-trimming services not anticipated in the original scope of work are needed. The combined effect has been rising expenditures for the Hercules Village LLAD.

On February 24th, City staff sought City Council approval to conduct Proposition 218 proceedings to increase annual assessments within the Hercules Village LLAD beginning in Fiscal Year 2026–27 to address the annual operating deficit. This process offers the most expeditious approach to restoring adequate LLAD reserves by completing the required Proposition 218 process ahead of the Contra Costa County Auditor’s August 10, 2026 deadline to place assessments on the Fiscal Year 2026–27 property tax roll. If property owners and the City Council approve the proposed assessment increases, the updated assessments would be placed on the property tax roll, with the first installment due on December 10, 2026.

City Council requested that staff provide additional information regarding the financial impacts of postponing the Proposition 218 proceedings to the Fiscal Year 2027–28 property tax roll. The purpose of this agenda item is to provide the requested information to City Council and receive direction regarding the timing for conducting the Proposition 218 proceedings.

ANALYSIS:

Assessment Increase Scenarios

An annual assessment increase of \$50 over eight years (\$400 total) was initially estimated to eliminate the annual operating deficit for the Hercules Village LLAD by Fiscal Year 2031–32 and to eliminate the cumulative fund deficit in approximately 10 years. However, the City intends to issue a competitive bidding process for its landscaping maintenance contract during Fiscal Year 2026–27, and City staff expect costs may rise from current levels. Therefore, a \$50 annual assessment increase over 10 years (\$500 total) is recommended as a precaution to cover potential increases in landscape maintenance costs. Even with a 25% rise in maintenance costs, this scenario would eliminate the annual operating deficit by Fiscal Year 2033–34 and resolve the cumulative fund deficit in roughly 15 years.

Proposition 218 Process Options

Option 1: Proceed Now (FY 2026-27 Tax Roll) - If City Council directs staff to proceed with Proposition 218 proceedings for the Hercules Village LLAD for the upcoming Fiscal Year 2026-27 property tax roll, the remaining schedule will run concurrently with the annual approval process for all five of the City’s LLADs as outlined below:

- April 28, 2026: City Council preliminarily approves the Engineer’s Reports for all LLADs and adopts the Resolutions of Intention.
- No Later than May 8, 2026: Mail required Proposition 218 notices and ballots to Hercules Village LLAD property owners (must occur a minimum of 45 days prior to public hearing).
- June 23, 2026: City Council conducts public hearing for all LLADs, closes balloting period and conducts ballot tabulation for the Hercules Village LLAD,

declares results of the ballot tabulation for the Hercules Village LLAD, and approves the Final Engineer's Reports and FY 2026/27 assessments for all LLADs.

Proceeding with Proposition 218 processes for the upcoming fiscal year would allow the District to avoid entering a negative overall fund balance and to begin restoring reserves earlier. This approach also keeps the process aligned with the City's annual LLAD approval schedule, making sure that any approved assessment increase appears on the December 2026 property tax bill.

However, moving forward immediately provides less time for expanded public outreach to property owners, which may limit opportunities for education and engagement. In addition, the assessment increase would need to be set before the City completes its new landscape maintenance procurement, meaning the final contract costs would not yet be known when the assessment amount is established.

Option 2: Postpone to FY 2027-28 - If the City Council decides to postpone the Proposition 218 proceedings to the Fiscal Year 2027–28 property tax roll, the District is projected to incur a cumulative fund deficit of approximately \$50,000 by the end of Fiscal Year 2026–27. This would extend the timeline to eliminate the cumulative fund deficit by one to two years, depending on future inflationary cost trends. Postponing Proposition 218 proceedings would provide additional time to conduct outreach and inform Hercules Village property owners of the LLAD's financial outlook. It would also allow the assessment amount to be calibrated once the new landscape maintenance contract pricing is known, ensuring that any proposed increase more accurately reflects updated cost information. However, portions of the current Proposition 218 preparation work would need to be repeated, resulting in some duplication of effort and cost.

Additionally, it is recommended that the Proposition 218 noticing process be conducted no earlier than March 2027 or as late as May 2027, thus the schedule would be similar to Option 1 above, just postponed by 10 or 12 months. There is no advantage to a mid-year adjustment since the assessment increases would not be levied on the property tax roll until Fiscal Year 2027-28 with the first installment due in December 2027.

Under Option 2, the City would incur approximately \$17,250 in total costs. This includes the full \$14,000 needed for a separate Proposition 218 process, approximately \$1,750 already spent on the current effort, and an additional \$1,500 for enhanced outreach, such as an informational mailing, a website FAQ, and a virtual meeting.

Staff requests that the City Council provide direction on the timing of the Proposition 218 proceedings for the Hercules Village LLAD. Specifically, the Council must determine whether to move forward with the proceedings now, allowing the assessment increase to be placed on the FY 2026–27 tax roll, or to postpone the process until the FY 2027–28 cycle. Postponing would provide additional time for outreach and allow the assessment

to be refined once updated maintenance contract costs are known, but it would also delay revenue recovery and extend the District's deficit timeline.

FISCAL IMPACT:

If Proposition 218 proceedings are not conducted to approve assessment increases for the Hercules Village LLAD, it is anticipated that an annual deficit of over \$50,000 will arise, starting in Fiscal Year 2026–27, to maintain landscaping and streetlighting improvements associated with the Hercules Village LLAD at current service levels.

ATTACHMENTS:

None