



## STAFF REPORT TO THE CITY COUNCIL

**DATE:** Regular Meeting of October 8, 2024

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

**VIA:** Dante Hall, City Manager

**SUBMITTED BY:** Edwin Gato, Director of Finance  
Mike Roberts, Director of Public Works/City Engineer

**SUBJECT:** Landscaping & Lighting Assessment Districts (LLAD) – FY 24-25  
Staffing Allocation, 5-Year Financial Projections with 30% Reduction  
in Staff Costs, and associated Management of the Districts

### RECOMMENDED ACTION:

Receive and discuss the report on the staffing allocation and associated management of the Landscaping and Lighting Assessment Districts (LLAD).

### EXECUTIVE SUMMARY:

Per City Council request, staff has developed a Five-Year financial projection for the LLAD program with a 30% reduction in staff and overhead cost allocations (**See Attachment 10**). Cost allocation is the process of identifying, accumulating, and assigning costs to costs objects such as departments, or programs of a City. This staff report and associated attachments detail all cost associated with the LLAD Program (with special attention to staff costs), and how those costs are allocated to the various zones.

The Five-Year Forecast with a 30% reduction in City personnel and overhead administration improves the financial status of the LLADs by \$314,895 (or 9% of total LLAD program operating budget). However, Victoria by the Bay and Promenade LLAD will continue to experience annual operating deficits primarily due to increased irrigation costs, and work associated with regular tree pruning. If LLAD Program overhead costs were reduced by 30%, alternative funding sources would need to be identified to pay for those expenses.

## **BACKGROUND:**

The five established LLADs in the City of Hercules consist of Victoria by the Bay, Promenade/Hercules Village, Baywood, Bayside, and District No. 83-2. Together they encompass the entire City and provide for 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, hazard tree abatement, lighting, landscaping, water features, and trails in City parks. Each property is assessed only for the cost of the improvements from which benefit is received. Property assessments are projected to generate \$3.3M in revenue for FY 2024/25.

The City is responsible for administering the LLADs and allocates staff time to perform this work. These allocations primarily cover the cost for maintenance and operations activities, but also include the delivery of capital improvement projects.

At the August 29, 2024, Special Meeting, the City Council directed staff to provide the cost allocation plan for the 5 LLADs at a future meeting.

## **ANALYSIS:**

Staffing allocations and associated costs for the LLAD program are categorized into direct and indirect. Under the City's allocation plan, Public Works employees are included in the direct cost category because they are the primary agents performing the work involved in administering the Districts.

## **DIRECT COSTS**

Duties Public Works employees perform include, but are not limited to: receiving, tracking, and responding to citizen requests including on the City's reporting software, managing the landscaping and irrigation contracts in the Districts including all City-owned parks and on Major Roads, assessing and repairing streetlights, bidding out and overseeing the annual tree trimming contracts, reviewing water and electric bills, graffiti abatement, hazard tree assessment and removal, weed abatement in the wildland-urban interface for City-owned property to reduce fire danger, sidewalk repair, litter control, illegal dumping cleanup on City-owned open space parcels, cleaning bathrooms in City parks, maintenance and repair of park furniture, preparation of staff reports for the annual renewal process, administering Proposition 218 rate increases including public workshops and social media activities, preparing and selecting consultants for program studies, and applying for grants.

Maintenance areas for each of the 5 LLADs and the Arterials/Major Roads Program are illustrated in **Attachment Nos. 1-6**, with the primary responsibilities noted.

The direct cost staffing allocation itself is shown on **Attachment No.7** and is based upon the work to be completed in FY 24-25 by each of the 11 public works employees in the 8 established job classifications, which are shown in the first column of the table below. The remaining columns are for each the Districts/Zones. Each of these latter columns includes the labor allocation and associated cost for each of the job classifications. The total cost is included at the bottom of the column, as is the total labor allocation, but while this last metric provides a general sense of the level of effort involved, it is a combination of the different job classifications. Staffing in the LLAD Program is shared with the other functional areas for Public Works, including Sewer, Streets, Facilities, and Engineering.

As mentioned, in addition to maintenance improvements, the cost allocation also includes staff time to deliver Capital Improvement Projects. To help gauge the level of effort involved, for FY 24-25 Park CIPs include: Beechnut Park Improvement Project, Foxboro Park Basketball Court Resurfacing & Renovation, Refugio Valley Park Picnic Area & Shade Structure Improvement Project, Refugio Lake Dredging, and Bay Trail Wall Repair. Activities for each CIP include selecting a design consultant, developing a scope of work, executing a contract including City Council approval if needed, overseeing the design including plans and specifications, bidding the project out, awarding a construction contract including City Council approval if needed, executing a construction contract, construction management including inspection, and project acceptance, including City Council approval if needed.

Public Works staff is averaging roughly 350 citizen requests for service each year over the last 2 years. These requests are made on-line through the City's citizen request software, by email, phone, and verbally. Representative requests and the level of effort required to address them are as follows:

#### Streetlights

Request - "The Street Light located at Fremont Court has been blinking constantly for almost a week. As soon as it turns on in the evening, it starts to blink. It would stop after a couple of hours when it first started. However as the days have passed it now blinks all night into the early morning hours (5-6 am). Thank you."

Response – The streetlight is assessed, and the necessary repairs are made either by City staff or contractor. The resident is notified. Level of effort is 3 person hours.

#### Public Trees

Request – "2 large dead trees on property, still standing. 1 large branch already fallen. would like evaluated or taken down when possible."

Response – The request puts the City on constructive notice of a potential hazard. The tree is initially evaluated by staff. If determined to be dead and within the clear space buffer for fire or a hazard to the private property, which may necessitate assessment by

a certified arborist, bids are solicited, and a contract tree company takes the appropriate action. The resident is notified. Level of effort is 4 person hours of staff time.

#### Sprinkler & Irrigation

Request – Sanderling Drive. I think the irrigation system under the lawn on my property is leaking water. Grass is muddy and mushy on my corner lawn and is getting worse by the day. Cannot walk on it at all.”

Response – City staff has the irrigation contractor inspect to see if the water is from the irrigation system. If not, staff advises the resident to contact EBMUD to test for chlorine. If chlorine is detected, City staff advises homeowner to have plumber assess EBMUD service. If service is found to be damaged by a City tree, City advises resident to file a claim. If PG&E determines there is no chlorine in the water, staff advised resident to check roof drain and mentions natural springs and catchment areas. Resident asks for remedy. Level of effort is 30 hours staff time.

#### Graffiti

Request – “There is a swastika symbol written outside the women's bathroom by the baseball field at Hanna Ranch Park. Please remove this despicable symbol IMMEDIATELY. Thank you. Hundreds of parents and children saw this symbol yesterday as the West Contra Costa Youth Soccer League had our "team photo" day yesterday throughout the day yesterday.”

Response – Staff strives to abate all graffiti within 24 hours and extremely offensive graffiti immediately, which necessitates adjusting work schedules. Complainant is notified. Level of effort is 1 person hour.

#### Weed Abatement

Request – “The small dog park has knee high growth of FOXTAIL. This makes the park un-usable because these weeds are very dangerous for dogs. PLEASE REMOVE AND BAG. MOWING WILL ONLY RELEASE THE PODS DANGEROUS TO DOGS. PLEASE PLAN A PERMANENT SOLUTION FOR REMOVAL OF THISE WEEDS-DIG THEM UP OR CHEMICALS. IF NOT, THERE IS NO POINT IN HAVING THIS DOG PARK BECAUSE IT IS UNSAGE.”

Response – Contract landscapers cut weeds. Complainants notified. Level of effort is 2 person hours.

Staff time to respond to the citizen requests are included in the cost allocation and with the addition of the Landscaping & Lighting Assessment District Coordinator there should be sufficient time to address all of the requests in the future.

## INDIRECT COST OR ADMINISTRATIVE COST

In addition to the direct cost of providing services, governments also incur indirect or administrative costs. Such indirect costs include shared administrative expenses where a department or agency incurs costs for support to other departments (e.g., city council, city manager, city clerk, legal, finance, risk management, and human resources.). The cost to governments to track every expense and directly attribute each cost to each function would exceed the benefits. Indirect cost allocation is an accounting function by which a methodology is used to distribute indirect costs to programs or functions to determine their full cost. Certain important management objectives (measuring the cost of government services, establishing fees, charging back the cost of internal services to departments/agencies, fully utilizing restricted funds, and requesting reimbursements under federal and state grants, when allowed) can be served by allocating indirect costs. Regardless of the purpose of an indirect cost allocation, a systematic and rational methodology should be used.

The primary objective of the cost allocation plan is to allocate costs from departments that provide services internally to operating departments that conduct the day-to-day operations necessary to serve the community. The term "indirect costs," applies to costs originating in the central service departments. To determine the total cost of delivering specific services, a methodology for determining and distributing indirect costs is developed to identify indirect costs and to allocate them to benefit direct cost programs in a logical, consistent, and reasonable manner. It is important to stress that the goal of the Cost Allocation Plan is a reasonable allocation of indirect costs, not a "perfect" one. By their very nature, indirect costs are difficult to link with direct costs. In developing an allocation approach, it is important to keep this goal in mind as we balance the cost and effort of complicated allocation methods that likely produce very similar end results.

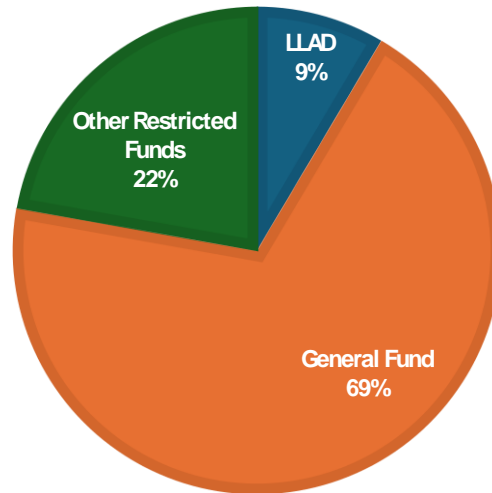
Staff calculates the indirect cost or administrative cost allocation annually using a methodology that complies with the Office of Management and Budget (OMB) Circular and CFR Part 200 (Cost Principles) and uses it to develop the budget for the indirect service cost. The City also acquired the services of RCS and conducted a cost allocation study to verify the City's calculation. The Cost Allocation Plan ("CAP") summarizes a comprehensive analysis completed for the City of Hercules to determine the appropriate allocation of costs from central service departments to the operating departments.

Below is the summary of the indirect cost or administrative cost allocation by fund type and **Attachment 8** is the detailed cost allocation plan study conducted by RCS:

		RCS - Citywide Allocation Plan		FY 24-25 Adopted Budget	
Fund #	Fund Name	% of total- Citywide Allocation	\$ (Round)	Adjusted proportionate to Assessment Fee revenues	Citywide Allocation
232	LLAD 83-2 (Zone 1)	0.06%	14,858	(11,887)	2,971
233	LLAD 83-2 (Zone 2)	0.06%	12,648	(9,677)	2,971
234	LLAD 83-2 (Zone 3 & 4)	0.01%	14,824	(14,376)	448
235	LLAD 83-2 (Zone 5A)	0.11%	22,459	(16,723)	5,736
236	LLAD 83-2 (Zone 5B)	0.10%	5,153	34	5,187
237	LLAD 83-2 (Zone 5C)	0.03%	4,983	(3,201)	1,782
238	LLAD 83-2 (Zone 6)	0.06%	15,899	(12,928)	2,971
239	LLAD 83-2 (Zone 7)	0.06%	13,030	(10,059)	2,971
251	LLAD 83-2 (Zone 8)	0.06%	18,744	(15,773)	2,971
253	LLAD 83-2 (Zone 9)	0.06%	15,258	(12,287)	2,971
220	LLAD 83-2 (Zone 10)	5.58%	304,063	(15,803)	288,260
	<i>Total, LLAD 83-2</i>	6.17%	441,919	(122,680)	319,239
221	LLAD 2002-1 (Victoria by the Ba	0.79%	97,893	(57,253)	40,640
222	LLAD 2002-2 ( Hercules Village)	0.46%	57,161	(33,261)	23,900
223	LLAD 2004-1 (Baywood)	0.45%	46,357	(22,937)	23,420
224	LLAD 2005-1 (Bayside)	0.39%	40,117	(20,184)	19,933
225	Arterial Roadways	0.24%	108,530	(95,891)	12,639
<b>Total, LLAD</b>		<b>8.51%</b>	<b>791,977</b>	<b>(352,206)</b>	<b>439,771</b>
100	General Fund/Other	69.30%	3,230,914	352,206	3,583,120
231	Stormwater	1.96%	101,234		101,234
262	Gas Tax	2.00%	103,363		103,363
263	Measure C - Street Fund	1.53%	79,278		79,278
420	Wastewater	8.45%	436,951		436,951
460	Information Technology	3.08%	159,357		159,357
470	Facility Maintenance	5.17%	267,397		267,397
<b>Total, Citywide</b>		<b>100.00%</b>	<b>5,170,471</b>	<b>-</b>	<b>5,170,471</b>

The chart below shows the administrative cost allocation by fund:

### INDIRECT/ADMINISTRATIVE COST OVERHEAD COST ALLOCATION PLAN BY FUND



On April 24, 2018, the City Council approved a overhead and cost allocation model for the LLAD Program, which was reflected in the Preliminary Engineer's Report (Attachment 11). That methodology, which is used today, reduced overhead costs assessed to the property owner. As a result, in FY 24-25, the cost allocation for both direct and indirect staffing expenditures for the LLAD Program was reduced by \$352K due to the district's inability to absorb the full costs of administering the program without significantly increasing fees. A fair share of overhead was allocated primarily at the district level, with Zone 10 serving as the vehicle for overhead cost recovery for Citywide District 83-2, as all residential parcels in the City pay into Zone 10. In zones with commercial parcels, which are 5A, 5B, and 5C, which do not pay a Zone 10 assessment, there is a direct allocation of overhead to these zones reflecting the overhead attributable to the commercial parcels.

The Cost Allocation Plan helps determine total program costs by establishing a reasonable methodology for identifying and allocating indirect costs to direct cost programs. Because of this, the Cost Allocation Plan can be a valuable analytical tool in several situations, including establishing fees designed for full cost recovery, reimbursing support service costs provided by the General Fund to other funds, and recovering indirect costs associated with the landscaping and lighting programs.

The indirect cost rate for the FY 24-25 Adopted Budget for the landscaping and lighting assessment districts is estimated to be 13% of total LLAD costs. See illustration below:

<b>Fund #</b>	<b>Fund Name</b>	<b>Citywide Allocation</b>	<b>Total LLAD Annual Operating Costs</b>	<b>% of Total Costs</b>
232	LLAD 83-2 (Zone 1)	\$2,971	\$75,757	4%
233	LLAD 83-2 (Zone 2)	2,971	54,109	5%
234	LLAD 83-2 (Zone 3 & 4)	448	71,840	1%
235	LLAD 83-2 (Zone 5A)	5,736	93,482	6%
236	LLAD 83-2 (Zone 5B)	5,187	29,539	18%
237	LLAD 83-2 (Zone 5C)	1,782	25,629	7%
238	LLAD 83-2 (Zone 6)	2,971	56,183	5%
239	LLAD 83-2 (Zone 7)	2,971	75,719	4%
251	LLAD 83-2 (Zone 8)	2,971	178,896	2%
253	LLAD 83-2 (Zone 9)	2,971	91,349	3%
220	LLAD 83-2 (Zone 10)	288,260	1,151,517	25%
	<i>Total, LLAD 83-2</i>	<b>\$319,239</b>	<b>\$1,904,020</b>	<b>17%</b>
221	LLAD 2002-1 (Victoria by the Bay)	40,640	682,108	6%
222	LLAD 2002-2 ( Hercules Village)	23,900	225,414	11%
223	LLAD 2004-1 (Baywood)	23,420	165,811	14%
224	LLAD 2005-1 (Bayside)	19,933	161,240	12%
225	Arterial Roadways	12,639	365,916	3%
	<b>Total, LLAD</b>	<b>\$439,771</b>	<b>\$3,504,509</b>	<b>13%</b>

The industry standard for a reasonable overhead percentage is typically between 10% to 30%. Therefore, the City's indirect or administrative cost to the landscaping and lighting assessment district is within the reasonable overhead cost percentage.

## FIVE-YEAR FINANCIAL FORECAST

The Five-Year Forecast provides an early look at potential gaps between revenue and expenses. The forecast and budget are financial planning tools that allow staff to project the long-term fiscal sustainability of policy decisions. Many of the assumptions, projections, and cost estimates are based on early and preliminary information and, as such, will change in future years. It is important to remember that a forecast is not a budget. Given certain assumptions, the Five-Year Forecast is a vehicle that peers into the future and makes projections about what is likely to happen.

Per Council request, staff has updated the Five-Year financial projections for the LLADs with a 30% reduction in staff and overhead costs (**See Attachment 10**). Staff used the FY 24-25 Adopted Budget as a starting point, with a 30% reduction in City personnel and overhead administration costs as a baseline for the projections, as illustrated in **Attachment 9**.



As stated in the report, below are the key assumptions used for the Five-Year Forecast:

- Assessment Revenue - A 3% annual increase for all Benefit Zones within LLAD No. 83-2 and LLAD Nos. 2002-1, 2002-2, 2004-1, and 2005-1, except for Benefit Zones 2 and 5B within LLAD No. 83-2 because they currently generate sufficient revenue to cover annual operating and maintenance expenses while also building reserves for future capital improvements and replacement projects.
- City Personnel and Overhead Administration - A 3% annual increase in City personnel and overhead administration costs to support operational needs.
- Landscape Maintenance - A 2% annual increase in the Landscape, Open Space, and Associated Repairs expenditure line item to ensure ongoing landscape maintenance. An automatic 2% annual increase has typically been included in City landscape contracts.
- Electricity and Streetlighting - A 5% annual increase in the Electricity and Streetlight Repairs expenditure line item, primarily to address rising Pacific Gas & Electric energy rates.
- Water Costs - A 5% annual increase in the Landscape and Facilities Water expenditure line item to account for anticipated East Bay Municipal Utility District rate increases.

The Five-Year Forecast shows that although incorporating a 30% reduction in City personnel and overhead administration improves the financial status of the LLADs by \$314,895 (or 9% of total LLAD program operating budget). However, Victoria by the Bay and Promenade LLAD will continue to experience annual operating deficits primarily due to the need for increased irrigation, East Bay Municipal District water rate increases, and additional work associated with regular tree pruning. If LLAD Program overhead costs were reduced by 30%, the city would need to identify an alternative funding source for those expenses.

#### **FISCAL IMPACT:**

This is an information item only, and no fiscal impact is associated with it.

#### **ATTACHMENTS:**

1. Bayside Maintenance Improvement Diagram
2. Promenade Maintenance Improvement Diagram
3. Baywood Maintenance Improvement Diagram
4. Victoria Maintenance Improvement Diagram

5. Hercules Arterials/Major Roads Program Map
6. Citywide District 83-2
7. LLAD Staffing Allocation and Admin\_Indirect Charges FY 24-25
8. Cost Allocation Plan – RCS
9. FY 24-25 Adopted Budget with 30% Staff reduction - Baseline
10. 5-Year Projection Findings – Francisco & Associates
11. Landscaping and Lighting Assessment Districts - Approval of Preliminary Engineer's Reports and Declaring the City Council's Intention to Levy and Collect Assessments for Fiscal Year 2018/19

### **Financial Impact**

**Description:**

**Funding Source:**

**Budget Recap:**

Total Estimated cost:

New Revenue:

Amount Budgeted:

Lost Revenue:

New funding required:

New Personnel:

Council Policy Change: Yes ☐ No ☐