



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Regular Meeting of August 14, 2018

**TO:** Members of the City Council

**SUBMITTED BY:** David Biggs, City Manager  
Mike Roberts, Public Works Director

**SUBJECT:** Citywide Landscape & Lighting Assessment District Path Forward Options and Service Reductions

**RECOMMENDED ACTION:** Receive Report, Discuss, and Provide Direction, including Whether to Approve Implementation of Recommended Service Reductions

**FISCAL IMPACT OF RECOMMENDATION:** Three of the Zones in the Citywide Landscape & Lighting Assessment District require service reductions to eliminate current operating deficits – Zone 1 (Hercules by the Bay); Zone 3 & 4 (Birds & Gems); and Zone 6 (Village Parkway). In addition, there are cumulative deficits which will have to be addressed in the future in Zones 1 and 6.

**DISCUSSION:** The base financial structure of the City of Hercules since Proposition 13 in 1978, which passed just as the City started to develop, resulted in the City being a low-to-no share property tax community. This meant that the City had to implement other revenue vehicles as the community developed to provide basic services. One of these vehicles were the various Landscape & Lighting Assessment Districts which provide funding for parks, street lighting, landscape maintenance, weed abatement and fire breaks, and other services, through five Landscape & Lighting Assessment Districts, including the Citywide District which has eleven Zones, with services varying by Zone to some degree.

The City of Hercules has been working for more than three years to address the financial shortfalls in some of the zones in the Citywide Landscape & Lighting Assessment District. This process started in 2015 with a concerted effort to ensure that expenses were appropriately allocated and to reduce costs where possible, including having rebid the main landscape maintenance contract not once, but twice. In order to address the fair allocation of arterial/major street landscape and street lighting maintenance costs and to address operating deficits, cumulative deficits and streetlight replacement needs in some Zones, the City conducted a Proposition 218 balloting process in Zones 1, 3 & 4, 5C, 6 and 7 in 2017. Unfortunately, increased assessments were only approved in Zone 5C, where as a result of the increased assessments, the aged and obsolete hollow-core street lights have been replaced

and the cumulative deficit is being paid over ten years. The arterial/major street share reallocation was also implemented in all Zones.

The City continued to explore ways to reduce costs in the balance of the Zones. However, while some adjustments were made, annual operating and cumulative deficits remained in some Zones and the need to replace wood hollow-core streetlights remained. The City undertook a Pilot Streetlight Replacement Project in the first part of 2018. The aging and obsolete wood hollow core streetlights were replaced in Zone 2 (Foxboro), and on two streets in Zone 7 (Refugio Heights), plus in Zone 5C (Dev. Parcels), Zone 10 (Citywide), together with one streetlight in Zone 1 (Hercules by the Bay), Zone 3 & 4 (Gems/Birds), and Zone 6 (Village Parkway). Assessment income or reserves was sufficient to undertake this Pilot project in all Zones except Zone 1, Zone 3 & 4, and Zone 6, where a small amount of additional deficit spending was necessary.

In addition, it was identified that Zone 9 (Birds & Country Run) had a cumulative deficit where assessments needed to be increased in order to avoid service reductions, though street lights in this Zone are owned and operated by PG & E. Given the still pressing financial needs of these Zones, the City Council elected to try again to secure approval of higher assessments in Zones 1, 3 & 4, 6, 7, and 9. Each time the City undertakes a Prop 218 election process, there are costs associated with this effort including the noticing and balloting, together with the education and outreach efforts. These costs also exacerbate the annual operating deficits and/or cumulative deficits in the impacted Zones.

In 2018, the Proposition 218 balloting was successful only in Zone 9 (Birds & Country Run). Service levels in this Zone will be maintained with the cumulative deficit to be repaid over 10 years or less. However, after two rounds of property owner balloting, the City Council will need to determine a path forward for those Zones where the proposed assessment increases failed: Zone 1 (Hercules by the Bay); Zone 3 & 4 (Gems & Birds); Zone 6 (Village Parkway); and Zone 7 (Refugio Heights). The basic parameters to be considered include prioritizing the payment of the equitable share of arterial/major streets landscape and street lighting maintenance costs as the highest priority, followed by the elimination of any annual operating deficit, followed by the eventual reduction or elimination of any cumulative deficits.

The purpose of this report is to outline options and staff's recommendations as to how to proceed from both a common level and on a Zone by Zone basis.

### **Aged and Obsolete Hollow Core Streetlights**

The need to replace aged and obsolete hollow-core wood streetlights remains a high priority. This fall, the City will be replacing aging hollow-core wood street lights on the arterial/major streets using gas tax funds. The use of these funds represent a general contribution to the effort to replace the lights and reduces costs being passed through to all of the assessment districts and zones in the City. Lower operating costs will also flow to the other Districts and Zones.

Damaged or dilapidated street lights in the zones where the assessment increase didn't pass will be removed as needed, and they will in most instances not be replaced. An exception to this will be if the streetlight is damaged by a vehicle accident, which has often happened, and the City is able to

collect insurance proceeds to replace the streetlight, in which case the streetlight will be replaced with the new energy efficient metal pole lights.

Ultimately, should the lights start to fail at a high rate or become hazardous, they may need to be removed proactively. In that case, the failing hollow core wooden street lights would have to be de-energized by an electrician and be cut off close to base. Staff is estimating that it could cost up to \$500 per pole to have this work done.

The number of wooden hollow core streetlights in each Zone is shown in the table below:

Zone	Number of Wooden Hollow Core Street Lights	Number Replaced During Pilot Project	Estimated Remaining Cost to Replace
Zone 1 – Hercules by the Bay	81	1	\$280,000
Zone 2 - Foxboro	45	45	\$0
Zone 3 & 4 – Gems & Birds	136	1	\$472,500
Zone 5B – Dev Parcels	2	2	\$0
Zone 5C - Commercial	1	1	\$0
Zone 6 – Village Parkway	54	1	\$185,500
Zone 7 – Refugio Heights	129	24	\$367,500
Zone 10 – Citywide/Parks	3	3	\$0
Arterials	30	1	\$150,000 - budgeted in 2018/19 from Gas Tax

Staff also heard a level of frustration from many community members about the often long-time it takes for streetlights to be repaired. This may have contributed to the lack of support for higher assessments. The root of this repair time problem is twofold.

First, currently responsibility for streetlight repair is shared between the City and PG &E under the current LS-2C streetlight rate structure. PG & E is responsible for the bulbs, glass dome, ballast, and sensors. The City is responsible for the pole and wiring. When a streetlight malfunctions, coordination is needed between the two agencies to determine the cause of the failure and then determine who is responsible for the repair. This relationship is inherently inefficient and adds to response times. Second, PG&E has generally not responded in a timely manner to streetlight calls for service, which has further complicated coordination efforts and added significantly to the delays.

To address this issue, staff is proposing to transition to a different rate structure which will take PG & E out of the mix for maintenance. This lower cost structure may result in a more effective and less costly approach to repair, and depending upon Zone, may help to eliminate the operating deficits or allow for increases in reserves as necessary. The Zone by Zone analysis below assumes the savings which would result from transitioning to the LS-2A rate structure.

However, even with the City taking on all repair responsibilities, the aging streetlights are becoming increasingly difficult and costly to maintain. As such, depending upon the financial resources

available in the different Zones, it is likely that lights will not be repaired as quickly or at all depending upon condition, and that over time, more and more streetlights will become inoperable. This will be discussed further under each Zone later in this report.

Given financial constraints, it will also be necessary to reduce or eliminate streetlight expenses in some Zones. Staff is working to determine the feasibility and costs associated with turning streetlights off entirely, or say on an every other light basis, as part of the need to eliminate annual operating deficits in some Zones.

### **Partnership Opportunities**

Staff will be reaching out to those Zones where service reductions will be necessary to eliminate operating deficits to see if any of the neighborhood Homeowner Associations may be willing to take on some of the Zone funded responsibilities, for example by acquiring the streetlights or entering into a contract with the City to provide funding to support desired service levels. Perhaps the HOA's have capacity within their current HOA fee structure to do so or would have a better ability to increase HOA dues than the City has to increase assessments.

The table below shows what the costs would be in Zones 1 and 6 where there are HOA's with which to potentially partner and what the annual cost per unit would be to sustain existing services and eliminate the operating deficit in those zones:

Zone/Development Category	Current Assessment	Required Assessment to Eliminate Operating Deficit	Difference
Zone 1 (Cottage Ln, Coventry, Olympian Hills) Single-Family Home	\$60.32	\$65.00	\$4.68
Zone 1 (Cottage Ln, Coventry, Olympian Hills) Condo/Townhome	\$45.24	\$48.75	\$3.51
Zone 1 (Bellevue, Chelsea by the Bay, and Hercules by the Bay) Single-Family Home	\$60.32	\$89.00	\$28.68
Zone 1 (Bellevue, Chelsea by the Bay, and Hercules by the Bay) Condo/Townhome	\$45.24	\$66.75	\$21.51
Zone 6 (Devonwood, Forrest Run, Glenwood, Westwood Duets, Wildwood) Condo/Townhome	\$22.01	\$54.75	\$32.74

The above table for Zone 6 assumes that the streetlights in the Westwood Duets HOA area are transferred to the HOA as these lights are on private streets, as such the figures above only reflect the shared streetlights and maintenance costs on Village Parkway.

The second table below shows what the cost would be for each of these HOA's to maintain services.

HOA Name	Category	No. of Units	Estimated Amount needed from HOA to Eliminate Annual Deficit
Zone 1 (Bellevue)	Single-Family Home	132	\$3,785.76
Zone 1 (Chelsea by the Bay)	Condo/Townhome	118	\$2,538.18
Zone 1 (Cottage Lane)	Condo/Townhome	10	\$35.10
Zone 1 (Cottage Lane)	Single-Family Home	46	\$215.28
Zone 1 (Coventry)	Single-Family Home	40	\$187.20
Zone 1 (Hercules by the Bay)	Single-Family Home	246	\$7,055.28
Zone 1 (Olympian Hills)	Condo/Townhome	301	\$1,056.51
Zone 6 (Devonwood)	Condo/Townhome	168	\$5,500.32
Zone 6 (Forrest Run)	Condo/Townhome	136	\$4,452.64
Zone 6 (Glenwood)	Condo/Townhome	228	\$7,464.72
Zone 6 (Westwood Duets)	Condo/Townhome	192	\$6,286.08
Zone 6 (Wildwood)	Condo/Townhome	237	\$7,759.38

### **Personnel Costs**

The City allocates a level of Public Works maintenance staff to all of the Landscape & Lighting Assessment District and Zones based on the amount of staff working in these Districts and Zones. As service levels are reduced, these personal costs will need to be reallocated to other Districts and Zones, or other non- L&LAD funding sources.

### **Zone 1 (Hercules by the Bay)**

This Zone is expected to have an annual operating deficit for the 2018/19 fiscal year of just over \$14,000. This would increase an existing \$17,000 cumulative deficit to be just over \$31,000.

Zone 1 funded amenities include streetlights, Railroad Park, landscaped median islands on Hercules Avenue, fire breaks, and a fair-share contribution towards landscaping & lighting improvements on arterial/major roads throughout the City, and a handful of cul-de-sacs which over time have evolved into a shared responsibility between the City and the adjacent homeowners association.

Elimination of the annual operating deficit would require some combination of reducing landscape & irrigation expense, water, street lighting expense, and personnel costs equal to approximately \$14,000 or approximately 22% of total expenses for this Zone.

With regards to establishing priorities as it relates to potential cost cutting, reducing fire breaks is not recommended for self-explanatory reasons. Landscaping and Lighting improvements on arterial/major roads is more impactful than neighborhoods in maintaining the character of the City and overall property values, plus other LLAD Districts and Zones pay their full fair share contribution. For these reasons, reductions in arterial/major roads landscaping and lighting is not recommended. Reductions to Zone 1 neighborhood landscaping initially seems like a more viable option until closely scrutinized. Closing Railroad Park would require fencing costs and become a liability due to trespassers using an unmaintained park. Detrimental impacts to the landscaping due to eliminating maintenance and irrigation water could result in losing established trees and lawn areas that would take years to recover. Landscaping costs in medians and cul-de-sacs is fairly low relative to the deficit.

The existing streetlights in Zone 1, as discussed above, have well-exceeded their useful life. The electronic hardware is failing at an increasingly frequent level such that current staffing resources available are not adequate to sustain the increasing repair demand. The wood poles are in many cases warped, cracked, or rotting. For these reasons, continuing to spend money on the streetlights is a poor investment, especially when viewed relative to the impacts cuts would have on other amenities. Staff is therefore recommending streetlight service levels be decreased to eliminate the operating deficit. This could be achieved by keeping the streetlights on along Hercules Avenue and Santa Fe for safety purposes due to traffic volumes and shutting off a number of the failing wooden hollow core street lights at all other locations. Personnel costs would be shifted to other areas such as Streets. No further maintenance would be performed on the hollow-core wooden streetlights left in service. When the electronic hardware in the streetlights fail, electricity would be turned off.

As an alternative to service reductions, this is a Zone where the City could explore the willingness of the Homeowners Associations to contribute to the continuation of services.

### **Zone 3 & 4 (Gems & Birds)**

This Zone is expected to have an annual operating deficit for the 2018/19 fiscal year of just over \$27,000, however, \$20,000 of this amount is a maintenance project which would see the hillside v-ditches cleaned and repaired which can be funded from existing capital reserves. If the v-ditch cleaning project were funded from reserves, then the annual operating deficit would be just over \$7,000. There is no cumulative deficit in this Zone.

Zone 3 & 4 funded amenities include streetlights, fire breaks, a fair-share contribution towards landscaping & lighting improvements on arterial/major roads, and landscaping in cul-de-sacs. Elimination of the annual operating deficit would require some combination of reducing landscape & irrigation expense, water, street lighting expense, and personnel costs equal to approximately 9% of total annual expenses for this Zone.

Similar to the evaluation for Zone 1, staff is recommending cuts in street lighting to eliminate the annual deficit in Zones 3 & 4. Establishing the necessary savings could be achieved by discontinuing maintenance on all the streetlights. Once the streetlights fail, the electricity would be turned off.

There are no Homeowners Association in this Zone with a number of small exceptions.

### **Zone 6 (Village Parkway)**

This Zone is the most problematic of all of the Zones. This Zone is expected to have an annual operating deficit for the 2018/19 fiscal year of just over \$33,000, and with revenues of just over \$24,000, has little to no room to reduce the operating deficit without dramatic cuts to services.

To eliminate all but \$1,300 of the annual operating deficit, all of the street lights would have to be turned off, together with the elimination of all landscape & irrigation maintenance, together with all associated personnel costs. This would allow for just the equitable share of arterial/major streets landscape and street lighting costs to be funded together with fire breaks/discing and irrigation water

to continue to be funded. This Zone is projected to have a cumulative deficit of over \$160,000 at the end of FY 2018/19 before any expenses are reduced.

This is a Zone where the City could explore the willingness of the Homeowners Associations to contribute to the continuation of services. For example, the street lights in the Westwood Duets neighborhood are City owned but are on private streets. The Westwood Duets HOA has expressed an interest in taking on the street light costs in their neighborhood which would put them on par with the other HOA's in this Zone where the street lights interior to the neighborhoods are privately owned and funded. This would result in the Zone funding just the streetlights along Village Parkway, together with some Village Parkway and Hercules Avenue landscape maintenance.

### **Zone 7 (Refugio Heights)**

The only purpose of the proposed assessment increase in this Zone was to fund the replacement of street lights. There were sufficient reserves in this Zone to allow for 24 street lights to be replaced along Carson and Coronado Streets which was done as part of the Pilot Streetlight Replacement Project. There is no annual operating deficit in this Zone, and in fact, there is an amount being added to capital reserves each year. As such, funds can be continued to be applied to repair existing street lights for as long as that is cost effective. In addition, as reserves build up, the City may be able to replace street lights as they fail, at least until such time as all available funds have been exhausted. A minimum balance of \$52,500 as a capital reserve should be accumulated should it become necessary to cut down the remaining 105 wood poles and cap the electrical wires at an estimated cost of \$500 for each pole.

### **Recommendation**

After two failed attempts at property owner balloting to put the subject Zones in the Citywide Landscape & Lighting Assessment District on better financial footing and eliminate operating deficits, together with replacing failing wooden hollow-core street lights, it is recommended that services be eliminated in order to bring expenses in line with revenues. As such, should the City Council concur, staff will implement expense reductions as identified in each of the Zones as discussed above and will work to do so by September 30, 2018, as a quarter of the fiscal year will have already passed.

In summary, the changes will involve:

- Changing from the LS-2C rate with PG&E to the LS-2A rate with the saving applied to expense reduction;
- Eliminate that portion of staff costs in each Zone attributable to the reduction in services;
- Lights which fail will not be repaired as staff will not be allocated for this purpose except in Zone 7;
- All streetlights will be turned off in Zone 6 and a number of the wooden hollow-core street lights will also be turned off in Zone 1;
- Landscape Maintenance will be eliminated in Zone 6.

Between now and September 30, 2018, staff will advise the Homeowners Associations of the service reductions and they will be afforded an opportunity to enter into an agreement with the City to fund the gap to maintain existing services levels.

None of the recommended changes address the need to replace streetlights nor do they address the existing cumulative deficits on Zone 1 and Zone 6. As such, these will have to be revisited over time. The City Council may wish to modify or build upon what staff is recommending, though the passage of time does not improve the financial state of the impacted Zones and it will take some time to fully implement what is recommended.

**ATTACHMENTS:** None

<i>Financial Impact</i>			
<b>Description:</b>			
<b>Funding Source:</b>			
<b>Budget Recap:</b>			
Total Estimated cost:	\$	New Revenue:	\$
Amount Budgeted:	\$	Lost Revenue:	\$
New funding required:	\$	New Personnel:	\$
Council Policy Change: Yes <input type="checkbox"/> No <input type="checkbox"/>			