



City of Rialto

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Title: Request City Council to Provide Direction on Annual Special Assessments and Consider Adoption of: (1) Resolution No. 7738, Resolution No. 7739, and Resolution No. 7740 Related to Street Light Maintenance District No.1; (2) Resolution No. 7741, Resolution No. 7742, and Resolution No. 7743 for Landscape Maintenance District No. 1 and Landscaping and Lighting Maintenance District No. 2 and; (3) Resolution No. 7744, Resolution No. 7745 , and Resolution No. 7746. Setting a Public Hearing for July 27, 2021, to Consider the Levy and Collection of Assessments Therein. (ACTION)

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Attachments: 1. Attachment 1 - FY 21-22 Rialto_SLD 1_Engineer Report.pdf, 2. Attachment 2 - FY 21-22 City of Rialto_LMD 1_Engineer Report.pdf, 3. Attachment 3 - FY 21-22 Rialto_LLD 2_Engineer Report.pdf, 4. SLD 1-Resolution 1_Prep of ER.pdf, 5. SLD 1-Resolution 2_Prelim of ER.pdf, 6. SLD 1-Resolution 3_Intent.pdf, 7. LMD 1-Resolution 1_Prep of ER.pdf, 8. LMD 1-Resolution 2_Prelim of ER.pdf, 9. LMD 1-Resolution 3_Intent.pdf, 10. LLD 2-Resolution 1_Prep of ER.pdf, 11. LLD 2-Resolution 2_Prelim of ER.pdf, 12. LLD 2-Resolution 3_Intent of.pdf, 13. FY 21-22 Power Point District Assessments -Short Version (003).pdf

Date	Ver.	Action By	Action	Result
7/13/2021	1	City Council		

For City Council Meeting [July 13, 2021]

TO: Honorable Mayor and City Council

APPROVAL: Marcus Fuller, City Manager

FROM: Michael Tahan, Interim Public Works Director

Request City Council to Provide Direction on Annual Special Assessments and Consider Adoption of: (1) **Resolution No. 7738**, **Resolution No. 7739**, and **Resolution No. 7740** Related to Street Light Maintenance District No.1; (2) **Resolution No. 7741**, **Resolution No. 7742**, and **Resolution No. 7743** for Landscape Maintenance District No. 1 and Landscaping and Lighting Maintenance District No. 2 and; (3) **Resolution No. 7744**, **Resolution No. 7745** , and **Resolution No. 7746**. Setting a Public Hearing for July 27, 2021, to Consider the Levy and Collection of Assessments Therein. (ACTION)

BACKGROUND

The Landscaping and Lighting Act of 1972, (the "Act"), beginning with Section 22500 of the California Streets and Highways Code, requires the City Council to order the preparation of an Engineer's Report each year which details the levying of special assessments for the three (3) separate Special Districts established within the City of Rialto (the "City"). This is the first of a two-step process required annually to ensure that the City can continue to levy special assessments against benefitted

properties on the upcoming County tax roll. To the extent the City Council does not take the required actions, the City would not levy and collect the special assessments (prior fiscal year assessments levied were in the amount of \$2,103,925), and the City would remain responsible for providing the various public maintenance services at a direct cost to the City's General Fund.

Street Light Maintenance District No. 1 (SLD 1):

The City established SLD 1 throughout the entire City to fund the operation of the City's streetlight system consisting of over 3,750 streetlights, and to fund costs for tree trimming and maintenance. Proposition 218 limits the special assessments levied in SLD 1 to the historic maximum special assessment prior to November 1996. Unless the City conducts a special ballot election of all properties located within SLD 1, and a majority of the voters in SLD 1 support and approve increased special assessments in amounts required to cover the City's actual costs, the City will continue to be responsible for subsidizing the budget for SLD 1 or to reduce maintenance services to attempt to balance the total revenue through capped special assessments with expenditures. As SLD 1 is limited to street lighting and tree trimming services, there are few options to reducing the City's costs as street light maintenance is dependent upon SCE's utility rates for electricity, leaving the only other option to significantly reduce or eliminate (defer) tree trimming services.

In the prior Fiscal Year 2020/2021, the adopted Engineer's Report identified annual costs of \$1,454,792 and a maximum assessment of \$835,703 leaving a deficit of \$619,089. Last year, and prior years, have relied on accumulated Fund Balance in SLD 1 to stabilize the Fund, however, there is insufficient Fund Balance to continue this practice for the upcoming Fiscal Year 2021/2022, and the Preliminary Engineer's Report identifies a deficit of \$655,400 with a Fund Balance reserve estimated at \$256,312 leaving a balance of approximately \$399,088 to be addressed through significant reduction of tree trimming services, or, subsidy through a transfer from the General Fund.

Landscape Maintenance District No. 1 (LMD 1):

In 1977, Rialto established LMD 1 to fund the maintenance of exterior parkway and median irrigation and landscaping adjacent to and associated with private land development. LMD 1 consists of over 100 separate areas throughout the City, annexed upon development of various properties. Within LMD 1, the City maintains 1,000,000 square feet of turf and 3,700 trees within a total area of 61 acres. Proposition 218 limits the special assessments levied in SLD 1 to the historic maximum special assessment prior to November 1996. Unless the City conducts a special ballot election of all properties located within LMD 1, and a majority of the voters in LMD 1 support and approve increased special assessments in amounts required to cover the City's actual costs, the City will continue to be responsible for subsidizing the budget for LMD 1 or to reduce maintenance services to attempt to balance the total revenue through capped special assessments with expenditures. As LMD 1 is limited to landscape maintenance services, there are few options to reducing the City's costs as landscape maintenance is dependent upon SCE's utility rates for electricity and the respective water utility rates, leaving the only other option to significantly reduce landscape maintenance services.

In the prior Fiscal Year 2020/2021, the adopted Engineer's Report identified annual costs of \$797,400 and a maximum assessment of \$475,235 (residential) and \$67,366 (non-residential) leaving a deficit of \$331,334 all related to non-residential parcels. Last year, and prior years, have relied on accumulated Fund Balance in LMD 1 and a transfer in from the General Fund (prior Fiscal Year 2020/2021 transfer was \$164,200) to stabilize the Fund, however, there is insufficient Fund Balance to continue this practice for the upcoming Fiscal Year 2021/2022, and the Preliminary Engineer's Report identifies a deficit of \$391,507 with a Fund Balance reserve of approximately \$89,204 leaving a balance of \$302,303 to be addressed through significant reduction of landscape maintenance

services, or, subsidy through an increased transfer of \$302,303 from the General Fund.

Landscaping and Lighting Maintenance District No. 2 (LLMD 2):

In January 2005, the City Council established Rialto Landscaping and Lighting Maintenance District No. 2 (LLMD 2) to fund the operation of new streetlights added to the City's streetlight system, and to fund the maintenance of exterior parkway and median irrigation and landscaping adjacent to and associated with private land development. LLMD 2 consists of eighty-four (84) separate areas throughout the City, annexed upon various developments approved after 2005. Within LLMD 2, the City currently maintains over 23.93 acres of landscaped area and 302 streetlights.

The City specifically established LLMD 2 after the implementation of Proposition 218 in 1996 as LLMD 2 incorporates an allowance for modest annual increases to special assessments to account for inflation in accordance with a formula based on the Consumer Price Index (CPI). The City may, but is not required to, increase LLMD 2 assessments annually in accordance with the CPI formula established with the formation of LLMD 2 as a means of ensuring total costs are covered by special assessments levied to the benefitted properties within LLMD 2. Annexation into LLMD 2 is a condition of approval for all new development projects required to provide exterior landscaped parkways or medians, and/or required to install new streetlights.

Although LLMD 2 was specifically established with the CPI formula adjustment, for the last several years the City has deferred adopting annual increases to the special assessments as a means of avoiding increased costs to the City's residents and businesses. In the prior Fiscal Year 2020/2021, the adopted Engineer's Report identified annual costs of \$1,025,624 and an available maximum assessment of \$820,202. However, the available maximum assessment was not levied and were held constant with prior year's assessments for a total levied assessment of \$725,614. Last year, and prior years, have relied on accumulated Fund Balance in LLMD 2 to stabilize the Fund, however, there is insufficient Fund Balance to continue this practice and for the upcoming Fiscal Year 2021/2022 it is estimated that the Fund Balance reserve will be depleted to \$31,643. If special assessments remain at prior year's levels without an increase to the available maximum assessment the remaining LLMD 2 Fund Balance will be completely depleted. Absent increases to the special assessments, the City will be required to stabilize LLMD 2 by reducing landscape maintenance services, or, begin to subsidize through a transfer from the General Fund.

The Act allows the City to establish Special Districts to absorb the costs of installation and maintenance of various improvements that provide special benefits to properties within its area of influence. Proposition 218 requires that property owners ratify increases in special assessments related to SLD 1. The maximum special assessment within SLD 1 for a typical residential parcel is approximately \$26; the maximum special assessment within LMD 1 for a typical residential parcel is approximately \$58. For residential parcels in both SLD 1 and LMD 1, the total maximum special assessment is limited to approximately \$84.

ANALYSIS/DISCUSSION:

The City is legally required to approve various Resolutions to initiate the process for annual levying of special assessments to collect funds for maintenance of improvements within SLD 1, LMD 1, and LLMD 2. The method for calculating the special assessments for these Districts remains unchanged from last year. Formulas apply to the special assessments to the properties in the City based on the benefit of having streetlights and/or landscaping (as the case may be), and other District services within the City. Engineer's Reports for SLD 1, LMD 1, and LLMD 2 have been prepared pursuant to requirements of the Act, and the projected revenues and expenditures have been estimated for these

Districts in Fiscal Year 2021/2022.

Street Light Maintenance District No. 1 (SLD 1):

Assessments on parcels are dependent upon their classification as residential or commercial, and whether vacant or developed. Residential properties include single-family units, multiple family units (condominiums and apartment complexes) and mobile home parks. For residential, a Land Benefit Factor of \$8.18 per acre applies, with a minimum assessment of \$2.05; and a Development Factor of \$24.03 applies to each residential parcel. The maximum special assessment for a typical residential parcel is \$26.08 and cannot be increased without voter approval.

Non-residential properties include commercial, professional, office and industrial uses, and the City applies an assessment formula similar to residential properties. A Land Benefit Factor of \$8.18 per acre applies, with a minimum assessment of \$4.09; and a Development Factor of \$52.09 per acre applies. The maximum special assessment for a typical commercial parcel is \$56.18 and the City cannot increase it unless approved by a majority vote of members within the district.

The maximum special assessments to be levied within SLD 1 proposed for Fiscal Year 2021/2022 remain at pre-Proposition 218 levels at \$837,502 and remain unchanged. The estimated expenditures for SLD 1 for Fiscal Year 2021/2022 are \$1,492,903 resulting in a budget deficit of \$655,400. After allocating the full SLD 1 Fund Balance of \$256,312 there remains a deficit of \$399,088 as summarized in **Table 1** below. The Preliminary Engineer's Report for SLD 1 provides a full discussion of SLD 1 and a detailed budget (**Attachment 1**).

Table 1

	<u>Fiscal Year 2019/2020</u> <i>Actuals</i>	<u>Fiscal Year 2020/2021</u> <i>Estimated</i>	<u>Fiscal Year 2021/2022</u> <i>Estimated</i>
Beginning Fund Balance	\$ 956,806	\$ 983,509	\$ 256,312
Revenues- Tax Assessments	\$ 834,952	\$ 843,719	\$ 837,502
Revenue - Other	\$ 42,400	\$ -	
Transfer from General Fund	\$ 527,520	\$ -	
Expenses	\$ 1,378,169	\$ 1,570,916	\$ 1,492,903
Ending Fund Balance	\$ 983,509	\$ 256,312	\$ (399,088)

The budgeted expenditures of \$1,492,903 for SLD 1 are further identified as follows:

- Street light services: \$ 775,200
- Debt service (street light acquisition): \$ 286,009
- Personnel costs (SLD 1 coordination): \$ 27,864
- Tree trimming services: \$ 403,830
- Total Cost: \$1,492,903**

Options available for reducing costs are limited to deferring or significantly reducing the City's annual tree trimming services which represent \$400,000 (approximately 27%) of the total budget. However, Staff recommends the City maintain some degree of tree trimming services to trim or remove the highest priority trees due to poor health to preserve public health and safety.

Staff requests City Council direction on resolution of the estimated deficit of \$399,088 for Fiscal Year 2021/2022. Two options available are: (1) defer all tree trimming services for one year, or (2)

subsidize SLD 1 through commencement of a transfer in from the General Fund to be incorporated into the annual budget.

Landscape Maintenance District No. 1 (LMD 1):

The City assesses parcels based upon three (3) established Zones of Benefit:

Zone 1 includes residential parcels that benefit from parkway/median landscaping that do not include trees. The City established the maximum special assessment in 1993 at \$58 per Equivalent Benefit Unit (EBU). A single-family residential parcel is 1 EBU, and Zone 1 of LMD 1 contains 1,802.40 EBUs.

Zone 2 includes residential parcels that benefit from parkway/median landscaping that include trees. The City established the maximum special assessment in 1993 at \$58 per EBU. A single-family residential parcel is 1 EBU, and Zone 2 of LMD 1 contains 6,390.30 EBUs.

Zone 3 includes multi-family residential or non-residential (commercial/industrial) parcels that benefit from parkway/median landscaping (with or without trees). The formula determines a parcel's EBU by allocating costs to each parcel on a per-parcel apportionment, utilizing the best representation of each parcel's benefit compared to other parcels. The maximum special assessment varies from \$2.58 per EBU to \$2,666.67 per EBU, dependent upon the individual annexation area. Zone 3 of LMD 1 contains 2,934.52 EBUs.

The special assessments to be levied within LMD 1 proposed for Fiscal Year 2021/2022 remain at pre-Proposition 218 levels at \$542,543 and remain unchanged. The estimated expenditures for LMD 1 for Fiscal Year 2021/2022 are \$917,745 resulting in a budget deficit of \$375,203. The estimated LMD 1 Fund Balance is estimated at \$89,204 leaving a net deficit of \$302,303 as summarized below in **Table 2**.

Table 2

	<u>Fiscal Year 2019/2020</u> <i>Actuals</i>	<u>Fiscal Year 2020/2021</u> <i>Estimated</i>	<u>Fiscal Year 2021/2022</u> <i>Estimated</i>
Beginning Fund Balance	\$ 166,039	\$ 171,566	\$ 89,204
Revenues- Tax Assessments	\$ 544,759	\$ 550,839	\$ 542,543
Expenses	\$ 787,540	\$ 797,400	\$ 917,745
Ending Fund Balance	\$ 171,566	\$ 89,204	\$ (302,303)

Zones 1 and 2 have a reserve fund collection of \$16,304, while Zone 3 has a deficit of \$302,303. The budget is showing the full deficit amount of \$302,303 as reserve funds collected from Zones 1 and 2 cannot be used to offset the deficit in Zone 3.

The Preliminary Engineer's Report for LMD 1 provides a full discussion of LMD 1 and a detailed budget (**Attachment 2**).

The budgeted expenditures of \$917,745 for LMD 1 are further identified as follows:

Residential Parcels

- Landscape maintenance services: \$ 154,265
- Utilities (Water / Electricity): \$ 287,435
- Personnel costs (LMD 1 coordination): \$ 17,173
- Total Cost: \$ 458,873**

The maximum special assessment (pre-Proposition 218) that has continued to be levied on residential parcels is \$58 per EBU for a total assessment of \$475,177. The maximum assessment continues to cover the entire allocated cost of services attributed to residential parcels, but does not generate any reserve fund to provide for improvements to landscaping and plantings.

Non-Residential Parcels

- Landscape maintenance services: \$ 154,265
- Utilities (Water / Electricity): \$ 287,435
- Personnel costs (LMD 1 coordination): \$ 17,173
- Total Cost: \$ 458,873**

The maximum special assessment (pre-Proposition 218) that has continued to be levied on non-residential parcels varies depending upon the specific property (from \$2.58 per EBU to \$2,667 per EBU) for a total assessment of \$67,366. The maximum assessment does not cover the entire allocated cost of services attributed to non-residential parcels and has required use of LMD 1 Fund Balance.

Last year Staff identified options to be further evaluated in the last year as a means of identifying options to reducing costs. Those options included the following:

- Evaluate the Feasibility of Using In-House Staff for District Maintenance - With the increase in contractor costs, staff will evaluate the use of in-house staff for landscaping and streetlight maintenance. This will allow the city to improve quality control and response times.

Staff did evaluate this option, but based on the personnel costs required to ramp up with services provided by new employees (and the on-going related PERS and benefit costs), as well as the initial capital costs required with new vehicles and landscape maintenance equipment, this option was deemed not feasible. It is important to note that landscape maintenance costs only account for 34% of total costs.

- Reassess Landscape Maintenance, Street Lighting Maintenance, and Tree Trimming Contracts Staff will reassess current maintenance contracts associated with the assessment districts to ensure competitiveness of costs and services.

Staff did evaluate current costs, and due to the continued increase with state mandated prevailing wage rates, and the City's currently negotiated multi-year contracts for services, it is anticipated that at the time the City bids for new multi-year contracts that the total costs will increase over current costs to account for increased labor and benefit costs, and to adjust for

inflation over time. Staff did negotiate a slight reduction in landscape contract maintenance costs of up to 5% with the City's existing contractor as a means of helping to reduce overall costs.

- Existing Development and HOAs to Maintain Perimeter Landscaping - The process is more complicated for existing developments and HOAs as it may require a majority vote from multiple property owners. Staff will review and communicate with existing developments and HOAs and seek their input on maintaining landscaping adjacent or around the perimeter of their property.

Staff continues to evaluate this option, but as noted, assigning the City's responsibility for providing landscape, tree trimming, or street lighting services to the HOA's responsibility will require formal vote by the respective HOAs and potentially by all residents living in that development. Moreover, not all areas annexed into LMD 1 have a HOA.

- Conversion to Synthetic Turf - Conversion of turf or existing landscaping to synthetic or decorative hardscaping surfaces, such as installation of gateway monuments, boulders, decorative concrete may significantly reduce or eliminate the need for continual maintenance. Such designs will be reviewed and considered as appropriate.

Staff continues to evaluate this option, but implementing any turf conversion or other changes to landscaped areas will represent a capital project at considerable expense. LMD 1 does not have a reserve fund to finance the cost of any capital improvements, thus, to proceed with this option will require City Council to appropriate funds for these turf conversion and other improvements from the General Fund, in addition to any transfer from the General Fund to continue providing the minimum services while these capital improvements are designed and constructed. Savings through reduced landscape maintenance costs would not occur until the year after implemented, and would require several years to realize the return on investment given the capital cost vs. the reduced landscape maintenance cost savings.

Options available for reducing costs are limited to significantly reducing the City's landscape maintenance services for non-residential parcels which represents only \$154,265 (approximately 17%) of the total budget. It should be noted that utility costs (water and electric) for both residential and non-residential parcels represent most of the costs in LMD 1 at \$574,870 (or approximately 63%) of the total budget.

Staff requests City Council direction on resolution of the estimated deficit of \$302,303 for Fiscal Year 2021/2022. Two options available are: (1) significantly reduce landscape maintenance services, or (2) increase the LMD 1 General Fund subsidy from \$164,200 as budgeted in prior Fiscal Year 2020/2021 to \$302,303 to continue providing the required services.

Landscaping and Lighting Maintenance District No. 2 (LLMD 2):

The City assesses parcels based upon eighteen established Zones of Benefit:

Zones 1, 3, 5, 6, and 7 include residential parcels that benefit from parkway/median landscaping and street lighting. As previously identified, LLMD 2 was specifically established by the City to allow for annual increases to the maximum special assessments in accordance with a formula based on the CPI. However, since Fiscal Year 2017/2018, the City has deferred implementing annual CPI adjustments and has held special assessments at level rates, relying upon the LLMD 2 Fund Balance reserve to stabilize the Fund due to increasing costs.

The following Table 3 shows a history of the allowable maximum special assessments based on the annual CPI adjustments over the past 4 years, as compared to the adopted special assessment rates for residential parcels.

Table 3
Landscaping and Lighting District No. 2
 Applied and Maximum Assessment Rate Comparison per EBU -
 Residential

Fiscal Year	Maximum Assessment Rate	Applied Assessment Rate	Total EBU's	Variance
2017-2018	\$1,027.31	\$1,006.04	\$17,223.76	\$4,119.52
2018-2019	\$1,063.37	\$1,006.04	\$17,224.98	\$10,972.28
2019-2020	\$1,095.77	\$1,006.04	\$17,300.73	\$19,292.48
2020-2021	\$1,128.98	\$1,006.04	\$17,285.73	\$25,720.60

For Fiscal Year 2021/2022, in accordance with the annual CPI adjustment the maximum special assessment may be increased by 2.25% and is reflected in Table 3.

Zones 2, and 4 include non-residential (commercial/industrial) parcels that benefit from parkway/median landscaping and street lighting. Similar to residential parcels, since Fiscal Year 2017/2018, the City has deferred implementing annual CPI adjustments and has held special assessments at level rates, relying upon the LLMD 2 Fund Balance reserve to stabilize the Fund due to increasing costs.

Table 4 on the following page shows a history of the allowable maximum special assessments based on the annual CPI adjustments over the past 4 years, as compared to the adopted special assessment rates for residential parcels.

Table 4

Landscaping and Lighting District No. 2

Applied and Maximum Assessment Rate Comparison per EBU - Non Residential

Fiscal Year	Maximum Assessment Rate	Applied Assessment Rate	Total Actual Levy	Variance
2017-2018	\$49.89	\$48.85	\$368,288.19	\$11,516.45
2018-2019	\$51.63	\$48.85	\$473,825.88	\$32,036.89
2019-2020	\$53.21	\$48.85	\$516,033.69	\$51,660.47
2020-2021	\$54.83	\$48.85	\$516,034.28	\$68,867.54

For Fiscal Year 2021/2022, in accordance with the annual CPI adjustment the maximum special assessment may be increased by 2.25% and is reflected in Table 4.

Zones 8, 9, 11, 12, 14, 16, and 17 were created in Fiscal Year 2020/2021 as part of the annexation process and include developments and parcels that are classified as residential and non-residential properties benefiting from the maintenance and servicing of landscape improvements adjacent to and/or near the development or property.

Zone L was created in Fiscal Year 2020/2021 as part of the annexation process and includes developments and parcels that are classified as residential and non-residential properties benefiting from the maintenance, operation and servicing of street lighting adjacent to and/or near the development or property.

Fiscal Year 2021/2022, represents the first-year levy that will set the new assessment rates for Zones 8, 9, 11, 12, 14, 16, 17 and L, as outlined in the Engineer's Report.

During prior fiscal years, expenditures for LLMD 2 were aligned with assessments and the LLMD 2 Fund Balance reserve allowed for deferral of the annual CPI adjustment to the special assessment rates. The special assessments to be levied in LLMD 2 proposed for Fiscal Year 2021/2022 remain at levels adopted since Fiscal Year 2016/2017 to generate revenue of \$929,915. The estimated expenditures for LLMD 2 for Fiscal Year 2021/2022 are \$1,031,777 resulting in the need for a Fund Balance contribution of \$96,262. The estimated Fund Balance for LLMD 2 that may be applied to next year's budget is estimated at \$31,643 and will be depleted and unavailable in future years to stabilize LLMD 2.

Table 5 on the following page identifies the varying assessment rates and total revenue that may be generated to the extent an increase is approved by City Council in accordance with the annual CPI adjustment formula up to and not exceeding the Fiscal Year 2021/2022 maximum assessment rate.

Table 5

LLMD 2 Rate Variance

LLMD No. 2 Zones	Fiscal Year 2021-22 Maximum Assessment Rate	Fiscal Year 2016-17 Maximum Assessment Rate	Variance
Zone 1	\$369.42	\$423.87	\$54.45
Zone 2	\$0.60	\$0.70	\$0.10
Zone 3	\$567.92	\$651.64	\$83.72
Zone 4	\$48.25	\$55.36	\$7.11
Zone 5	\$0.60	\$0.70	\$0.10
Zone 6	\$68.10	\$78.15	\$10.05
Total Assessment	\$730,822	\$844,664	\$113,842

As shown in Table 5, due to the deferral of annual CPI adjustments over the last 4 years, the City has the discretion to approve an adjustment up to the current maximum special assessment leading to increased revenues and decreasing the net deficit in the LLMD 2 budget and the need for a transfer in from the General Fund to stabilize the Fund. To the extent the City Council desires to minimize required transfers from the Reserve Fund to subsidize LLMD 2, Staff requests City Council direction on any adjustment to special assessments to be implemented in the next year.

The Preliminary Engineer's Report for LLMD 2 provides a full discussion of LLMD 2 and a detailed budget (**Attachment 3**).

Table 6 below summarizes the actual Fiscal Year 2019/2020 LLMD 2 revenues and expenditures, and estimated revenues and expenditures for Fiscal Year 2020/2021 and Fiscal Year 2021/2022 with Ending Fund balances.

Table 6

	Fiscal Year 2019/2020 <i>Actuals</i>	Fiscal Year 2020/2021 <i>Budget</i>	Fiscal Year 2021/2022 <i>Estimated</i>
Beginning Fund Balance	\$ 532,722	\$ 445,215	\$ 127,904
Revenues- Tax Assessments	\$ 715,954	\$ 667,574	\$ 929,915
General Benefit Contribution	-	-	\$ 5,600
Expenses	\$ 980,964	\$ 1,042,925	\$ 1,031,777
Ending Fund Balance	\$ 445,215	\$ 127,904	\$ 31,643

As noted for LMD 1, most landscape maintenance costs relate to the water and electricity utility costs. Options available to the City to reduce costs are limited to reducing the scope of landscape maintenance services, however, those savings will not address estimated for future deficits without increasing special assessments. Also, Staff did evaluate some of the options discussed for LMD 1, but one other option remains available for City Council consideration regarding LLMD 2:

- New Development and Home-Owner Associations (HOA) to Maintain Perimeter Landscaping - The Department of Public Works currently requires developers to provide easements on property and annexation into LLMD 2 as part of the conditions of approval and subdivision

improvement agreement. For new development and new HOAs these conditions can be modified to require the developer or HOA to enter into a landscape maintenance agreement to maintain landscaping within and adjacent to the property. The process and legalities of this potential condition will be thoroughly reviewed over the next six months.

This option can easily be implemented by simply changing the City's practice of requiring annexation of all new residential or non-residential properties into LLMD 2 and requiring that the property owners form a HOA (for residential) or establish Covenants, Conditions and Restrictions (CCRs) (for non-residential) whereby the property owners are obligated to maintain in perpetuity all public landscaping required to be constructed a condition of development of the property. Changes to the City's process would be required to ensure prior to approval of a final map for recordation (for residential) or prior to issuance of a certificate of occupancy of commercial / industrial buildings (for non-residential) that the HOA or CCRs have been drafted and approved to form by the City Attorney, and recorded on title.

Regarding street lights, as the streets lights are integrally connected to the City-wide street light system, it would remain important to obligate new development to annex into LLMD 2 (Zone L) specific to the street lights. It is worth noting that the special assessments levied in Zone L are substantially lower given that the costs are limited to street light maintenance.

Summary

To levy annual special assessments for SLD 1, LMD 1, and LLMD 2, the City Council is required to make certain findings and adopt various Resolutions related to the Special Districts and schedule a Public Hearing for July 27, 2021. At the Public Hearing, property owners will have an opportunity to comment on the continued operation and maintenance of improvements within SLD 1, LMD 1, and LLMD 2. Based on the public testimony, the City Council may consider at the Public Hearing to approve the Engineer's Reports, to approve the continued operation of SLD 1, LMD 1, and LLMD 2 for Fiscal Year 2021/2022, and to order the levying and collection of the special assessments. It is critical that the actions occur by the July 27, 2021 Public Hearing in that the City is required to forward to San Bernardino County all of its special assessments and other fees to be levied on the next property tax roll no later than August 10, 2021 - the date of the subsequent City Council meeting.

The City Clerk will publish notices for the Public Hearing to be held on July 27, 2021, as required by Sections 22552 and 22553 of the California Streets and Highways Code.

ENVIRONMENTAL IMPACT:

Pursuant to Section 15378(a), a "Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. According to Section 15378(b), a Project does not include: (5) Organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

GENERAL PLAN CONSISTENCY:

Approval of this action complies with the City of Rialto General Plan Goals and related Policies:

Goal 2-8: Preserve and improve established residential neighborhoods in Rialto.

Goal 2-10: Create distinctive gateways at all entry points into Rialto and for individual districts or neighborhoods.

- Goal 2-12:** Design new streets to be pedestrian friendly.
- Goal 2-13:** Achieve quality aesthetic design of all signage in the City of Rialto.
- Goal 2-17:** Provide high-quality and environmentally sustainable landscaping.
- Goal 2-19:** Encourage neighborhood preservation, stabilization, and property maintenance.
- Goal 2-21:** Ensure high-quality planned developments in Rialto.
- Goal 2-22:** Promote commercial and/or industrial development that is well designed, people-oriented, environmentally sustainable, sensitive to the needs of the visitor or resident, and functionally efficient for its purpose.

LEGAL REVIEW:

The City Attorney has reviewed and supports the staff report, resolutions, and preliminary Engineer's Reports.

FINANCIAL IMPACT:

Operating Budget Impact:

Street Lighting Maintenance District No. 1 (SLD 1):

Consistent increases in labor costs and significant increases in utility costs have resulted in increased costs to maintain the improvements within SLD 1, which exceeded the maximum special assessments levied within SLD 1. In prior years, SLD 1 has operated at a deficit, relying on the General Fund to cover the excess costs. Based on the preliminary Engineer's Report, the Fiscal Year 2021/2022 special assessments will generate \$837,502 in revenue for SLD 1 in Fund 490 and remains unchanged from prior years. Estimated costs for SLD 1 is \$1,492,903 resulting in a budget deficit of \$655,400. After allocating the full SLD 1 Fund Balance of \$256,312 there remains a deficit of \$399,088. Depending upon City Council direction, the City can either reduce/defer all tree trimming services for Fiscal Year 2021/2022 in SLD 1, or can authorize a transfer from the General Fund in the amount of \$399,088 to stabilize the Fund.

Landscape Maintenance District No. 1 (LMD 1):

As a result of consistent increases in labor costs and significant increases in utility costs, the costs to maintain the improvements within LMD 1 in prior years exceeded the maximum special assessments that can be levied within LMD 1. Based on the preliminary Engineer's Report, the Fiscal Year 2021/2022 special assessments will generate \$542,543 in revenue for LMD 1 in Fund 225 and remains unchanged from prior years. The estimated expenditures for LMD 1 for Fiscal Year 2021/2022 are \$917,745 resulting in a budget deficit of \$391,507. The estimated LMD 1 Fund Balance is \$89,204 leaving a net deficit of \$302,303. Depending upon City Council direction, the City can either reduce/defer all tree trimming services and reduce landscape maintenance services for Fiscal Year 2021/2022 in LMD 1, or can authorize an increased transfer from the General Fund in the amount of \$302,303 to stabilize the Fund.

Landscaping and Lighting Maintenance District No. 2 (LLMD 2):

As a result of consistent increases in labor costs and significant increases in utility costs, the costs to maintain the improvements within LLMD 2 in prior years exceeded the maximum special assessments that were levied within LLMD 2 that were adopted below the maximum available special assessment rate. The LLMD 2 Fund was stabilized through use of accumulated Fund Balance, however, the estimated Fund Balance will be depleted in Fiscal Year 2021/2022. Based on the preliminary Engineer's Report, for Fiscal Year 2021/2022 special assessments will generate \$929,915 and remains unchanged from prior years. The estimated expenditures for LLMD 2 for Fiscal Year 2021/2022 are \$1,031,777 resulting in a budget deficit of \$96,262. The estimated LLMD 2

Fund Balance is \$127,904 leaving a net Fund balance of \$31,643.

Since the inception of LLMD 2, the City has approved the levy of special assessments at amounts up to the maximum allowed which were sufficient to fund total expenditures and develop a Fund Balance for contingencies and improvements. However, from Fiscal Year 2017/2018 through 2020/2021, in an effort to minimize increasing costs to residents and business owners, the City deferred approving the annual adjustments to the special assessments in accordance with the CPI formula. As a result, the LLMD 2 Fund Balance has been reduced and may not cover the cash flow for the first half of the Fiscal Year before the City receives the County's first property tax installment payments in January.

At this time, Staff has prepared this item based on maintaining special assessment rates without an annual CPI adjustment generating revenue of \$929,915. However, total costs are estimated to exceed the estimated revenue, and the LLMD 2 Fund Balance will be near depletion, leaving a net Fund balance of \$31,643.

Capital Improvement Budget Impact:

There is no impact to the Capital Improvement Budget related to this action.

Licensing:

A Business license application and payment of a Business License tax is not required.

RECOMMENDATION:

Staff requests that the City Council:

- Provide direction as appropriate on funding for Street Light Maintenance District No. 1, Landscape Maintenance District No. 1, and Landscaping and Lighting Maintenance District No. 2.
- Adopt Resolutions ordering the preparation of Engineer's Reports for Street Light Maintenance District No. 1, Landscape Maintenance District No. 1, and Landscaping and Lighting Maintenance District No. 2.
- Adopt Resolutions giving preliminary approval (with incorporation of any direction received by City Council) of the Engineer's Reports for Street Light Maintenance District No. 1, Landscape Maintenance District No. 1, and Landscaping and Lighting Maintenance District No. 2, and the levy and collection of annual assessments related thereto for Fiscal Year 2021/2022.
- Adopt Resolutions declaring the City Council's intention to conduct a Public Hearing on July 27, 2021, on Street Light Maintenance District No. 1, Landscape Maintenance District No. 1, and Landscaping and Lighting Maintenance District No. 2, and to levy and collect annual assessments related thereto for Fiscal Year 2021/2022.