



Meeting Date: 10/27/2015

ACTION	TYPE OF ITEM
<input type="checkbox"/> Approved Recommendation	<input type="checkbox"/> Info/Consent
<input type="checkbox"/> Ord. No(s). _____	<input checked="" type="checkbox"/> Report
<input type="checkbox"/> Res. No(s). _____	<input type="checkbox"/> Public Hearing (Info/consent)
<input type="checkbox"/> Other _____	<input type="checkbox"/> Other _____

Prepared By: Michael More, Financial Services Manager Agenda Item No. K-1

Reviewed By: City Manager JM City Attorney JOB Finance AL Other (Specify) _____

DATE: October 16, 2015

TO: City Council

FROM: Joseph Lillio, Chief Financial Officer
Finance Department

SUBJECT: Maintenance Assessment District Overview

RECOMMENDATION

That City Council receive a report on proposed solutions and timelines for maintenance assessment districts.

DISCUSSION

As part of the City Manager’s organizational assessment, it was disclosed that the City’s Maintenance Assessment Districts (“Districts”) needed a more comprehensive review, due to deficits or surplus funds that had been allowed to accumulate in various Districts. The deficits in 25 of the Districts required a transfer of approximately \$3 million from the General Fund in FY 14-15 to eliminate the accumulated negative fund balances and a General Fund allocation of \$600,000 in the FY 15-16 budget to subsidize these same districts for another year until a fix was implemented.

On May 20, 2015, the City contracted with NBS to conduct an in-depth review of the Districts. For its review, NBS interviewed City staff, reviewed the Districts’ formation and other annual documents, fund balances, the California Constitution, state statues, recent judicial rulings relating to assessments, conducted site visits to all of the Districts, and reviewed the City’s internal processes and procedures. On August 25, 2015, NBS issued its findings in the attached report titled “Maintenance Assessment Districts Review Findings and Recommendations Report” (Attachment No. 1).

NBS’ key findings are as follows:

- The parcel database used to prepare the annual assessment rolls is incomplete.
- Twenty five (25) of the Districts have deficit fund balances and operate with expenses that exceed revenues.
- District budgets don’t reflect actual District costs, nor do budgets align with annual revenues.
- The original findings by the assessment engineers need review to ensure compliance with the legal landscape present today.

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- The management of the Districts and the associated roles, responsibilities, and District related tasks has been compartmentalized beyond a point of efficiency or effectiveness.
- Standards documented in the Districts' engineer's reports are not always implemented.
- Constituents are not aware of the Districts' financial situation, deficit fund balances, or options to rectify financially strained Districts.
- The City does not have the resources, systems and tools needed to effectively track the District expenses and the internal and external labor costs.

These areas of concern should be addressed to ensure the City's special financing district program has a strong foundation that is compliant with the legal landscape surrounding assessments in California. The foundation of the City's special financing district program should be established upon the following principles and practices: transparency, accountability, efficiency and effectiveness, and industry best practices.

A high-level summary of NBS' findings can be found on page 1-1 of Attachment No. 1. A detailed discussion of these findings and their recommendations for improvement are found in Sections 5 and 6 of the report. A high-level summary of their recommendations can be found in Section 7 of the report. The recommendations outlined in this report will require the City to commit resources to ensure implementation. It's anticipated that a majority of the recommendations outlined in this report will be completed within the first year.

Below is a general list of the recommendations discussed in this report. Each recommendation listed has been prioritized and been assigned a proposed timeline to complete each task. The proposed timeline and order of priority is subject to change by City staff and Council.

Category Proposed Timeline

Task	Proposed Completion Date
Community Outreach	10/2015 to 04/2016
Consolidate District Responsibilities	10/31/2015
District Boundary Audits	10/31/2015
District Fund Balance Review and Budget Audits	11/30/2015
Establish District Internal Goals and Policies and Landscape Maintenance Service Levels	11/30/2015
District Levy Audits	12/31/2015
GIS/Regis/Monitoring of District Assets and Costs	12/31/2015
Training of Staff	01/31/2016
Administrative and Operational Manual	02/28/2016
Rewrite All Engineer's Reports and Resolutions Including General and Special Benefits Quantified and Separated	03/31/2016
Increase/Replace Assessments	06/30/2016
Sustainability and Water Conservation Program	12/31/2016

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A majority of the recommendations listed above should be implemented for all of the City's MADs prior to preparing and submitting the Fiscal Year 2016/17 assessment rolls.

Community Outreach

Communication between the City and property owners is a critical component of any special financing district program. Public outreach is an important tool for government agencies to communicate with their constituents about expectations and to receive feedback from the citizenry being served. Successful public outreach efforts relay regular messages about a variety of topics; topics that may include, but are not limited to the overall health of the districts, upcoming projects that may impact the properties, any surpluses/deficits, change in budgets and levels of services, any problems, and potential needs for additional revenue that may result in Proposition 218 ballot proceedings.

The purpose of these efforts in keeping the public informed is to ensure that as situations arise, whether it is a need to cut services, changes in budget, or the need to ask for additional revenue, the property owners aren't blindsided by these events. These efforts help ensure that constituents are well informed about any special circumstances that may impact them directly. These communications should occur at a minimum of quarterly, and may come in many forms, such as community meetings or mailers. Ongoing public outreach efforts build a productive relationship between the City and property owners within the districts based on transparency and accountability, to earn the public's trust.

The initial public outreach efforts should be aimed at informing the public about each District's unique circumstances, what can be expected in the coming months and years, and establish a system and procedures for how property owners will direct any future inquiries, feedback, and/or complaints. Currently, the Director of General Services is overseeing a number of inquiries by property owners and interest groups. REGIS Connect can assist via its public application in managing the inquiries for the City. Public inquiries related to the Districts should be managed and overseen by the individual tasked with the responsibility of managing the MAD program.

Presentation

NBS staff will provide a verbal presentation at this meeting providing greater detail on its findings, recommendations, and timelines for remedial action. NBS will also provide a progress update on the projects listed in the IAP that the community outreach efforts have already been started.

FINANCIAL IMPACT

None at this time. City agreement No. 7117-FN-15 in the amount of \$100,000 was previously approved on May 12, 2015. The services included in this initial cost include: Establish MAD Internal Goals and Policies and Landscape Maintenance Service Levels, Consolidate District Responsibilities, District Boundary Audits, and District Fund Balance Review and Budget Audits. To Date, approximately \$50,000 of the initial contract has been expensed.

Attachment No. 1 – Maintenance Assessment District Review Findings and Recommendations Report
Attachment No. 2 – Six-Month Implementation Action Plan

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Attachment No. 3 – One-Year Implementation Action Plan

Note: Attachment #1 has been provided to City Council under separate cover. Copies for review are available at the Help Desk in the Library after 6:00 p.m. on Wednesday prior to the Council meeting and in the City Clerk's Office after 10:00 a.m. on Thursday prior to the Council meeting.

Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status		
Community Outreach							
<u>General/Educational/Foundation for Program (All Districts)</u>							
1	Perform Community Outreach for Assessment Increase	<ul style="list-style-type: none"> Identify benefits, issues, and major stakeholders for a customized community outreach plan for the Districts 	10/1/2015	NBS	Completed		
		<ul style="list-style-type: none"> Develop a timeline for community outreach efforts. 	10/15/2015	NBS	Completed		
		<ul style="list-style-type: none"> Create a link on the City's webpage dedicated to Community Outreach for the City's Maintenance Assessment Districts. 	10/31/2015	NBS	In Progress		
		<ul style="list-style-type: none"> Verify situational factors, demographics, needs, constraints, and review any further documents or data to confirm the relevant facts and circumstances surrounding the improvements, maintenance and services provided by each District. 	11/30/2015	NBS	In Progress		
		<ul style="list-style-type: none"> Gather and review parcel characteristics data relevant to community outreach efforts. Gather and review projected improvements, maintenance and services to be funded with cost estimates and cost increase expectations. 	12/15/2015	NBS			
		<ul style="list-style-type: none"> Design and prepare a public informational mailer to educate property owners about the need for the assessment increase in relation to the ongoing maintenance of the public improvements. Post related information to the City's website. The public informational mailer also provides the date, time and location of public meetings. 	12/31/2015	NBS			
		<ul style="list-style-type: none"> Hold public meetings to educate and discuss with property owners MAD's and obtain feedback. 	1/1/2016 to 2/28/2016	NBS			
		<ul style="list-style-type: none"> Update City Council with progress to date and outline next steps in the outreach effort. 	2/2016	NBS			
		<u>District Specific Outreach (Individual Districts)</u>					
		<ul style="list-style-type: none"> District Specific Outreach will be approached in a similar manner as General Outreach. 	2/1/2016	NBS			
<ul style="list-style-type: none"> Develop a timeline for community outreach efforts congruent with Proposition 218 assessment increase efforts. 	2/15/2016	NBS					
<ul style="list-style-type: none"> Hold public meetings for each District to discuss the need for the assessment increase with property owners and obtain feedback. 	3/1/2016 to 4/30/2016	NBS					

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Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
Boundary Audits					
2	Audit Maintenance Assessment District Boundaries	<ul style="list-style-type: none"> Research and compare the 2015/16 fiscal year assessment rolls, County Assessor's secured roll data, boundaries from GIS data, and the original formation and 2015/16 fiscal year engineer's reports to identify parcel levied outside the boundaries of each District and parcels missed within the boundaries of each District. 	10/15/2015	NBS	Completed
		<ul style="list-style-type: none"> Document findings including proposed corrections and fiscal impact. 	10/31/2015	NBS	In Progress
		<ul style="list-style-type: none"> Perform corrective measures with the County Auditor-Controller's Office and the redistribution of funds where applicable. 	10/31/2015	NBS	In Progress
		<ul style="list-style-type: none"> Prepare an updated parcel listing to ensure future assessment rolls reflect only parcels within the boundaries of each District. 	10/31/2015	NBS	In Progress

Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
Internal Goals/Policies and Maintenance Service Levels					
3	Establish Internal Goals/Policies and Maintenance Service Levels for the Maintenance Assessment Districts	<ul style="list-style-type: none"> Gather current policies and procedures used for the formation of new maintenance assessment districts and any other related documents. 	10/15/2015	NBS	Completed
		<ul style="list-style-type: none"> Review policies and procedures, forms, documents, fees, and staff understanding of the 1972 Act, Proposition 218, and the district formation process. 	10/15/2015	NBS	Completed
		<ul style="list-style-type: none"> Review historical and anticipated property development data to identify specific development scenarios to incorporate in the modification and creation of new policies and procedures. 	10/15/2015	NBS	Completed
		<ul style="list-style-type: none"> Modify and create policies, procedures, forms, documents, updated fees, timelines and systems consistent with the 1972 Act, Proposition 218 and the development goals and standards of the City also incorporating the use of Community Facilities Districts for future district formations. 	11/15/2015	NBS	In Progress
		<ul style="list-style-type: none"> Establish citywide landscape maintenance graded service levels identifying the type and frequency of maintenance services to be provided for each grade level. 	11/15/2015	NBS	In Progress
		<ul style="list-style-type: none"> Develop and establish fiscal goals and policies, including ongoing revenue and cost projections in accordance with industry best practices to ensure the financial viability of the Districts. 	11/30/2015	NBS	In Progress

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Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
Funds and Budget Audits					
4	Audit Funds and Budgets for Maintenance Assessment Districts	<ul style="list-style-type: none"> Research and compare historical fund balances and costs of maintenance and services to create new audited budgets. 	11/15/2015	NBS	In Progress
		<ul style="list-style-type: none"> Document findings including proposed corrections, fiscal impact, and related goals and policies. Identify Districts subject to an assessment increase through Proposition 218 proceedings or a reduction in levels of service and Districts where surplus funds can be used for authorized improvements and services currently not being provided. Provide five-year projections based on anticipated assessment revenue considering an allocation for operational reserve funds. 	11/30/2015	NBS	In Progress
		<ul style="list-style-type: none"> Perform corrective measures and the redistribution of funds where applicable. 	11/30/2015	NBS	
		<ul style="list-style-type: none"> Update fund balance information and budgets to ensure future assessment levy calculations reflect correct funding needs. 	11/30/2015	NBS	

Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
		Levy Audits			
5	Audit Maintenance Assessment District Levy Calculations	<ul style="list-style-type: none"> Research and compare the 2015/16 fiscal year assessment rolls as corrected by the boundary audits, County Assessor's secured roll data and the method of assessment (rates) to recalculate and apply assessment levies to all parcels based on applicable property characteristics as required by each method of assessment. 	12/15/2015	NBS	
		<ul style="list-style-type: none"> Document findings including historical modifications, misinterpretation and misapplication of the method of assessment, proposed corrections and fiscal impact. 	12/31/2015	NBS	
		<ul style="list-style-type: none"> Perform corrective measures with the County Auditor-Controller's Office and the redistribution of funds where applicable. 	12/31/2015	NBS	
		<ul style="list-style-type: none"> Prepare an updated assessment roll and supporting data and calculations in an Excel spreadsheet to ensure future assessment rolls reflect the correct application of the Method of Assessment of each District for approximately sixty-one (61) maintenance assessment districts. 	12/31/2015	NBS	

Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
Staff Training					
6	Train Staff on Maintenance Assessment Districts	<ul style="list-style-type: none"> Identify training needs and objectives related to the use of special financing districts including Maintenance Assessment Districts and Community Facilities Districts to create a customized training session. 	1/15/2016	NBS	
		<ul style="list-style-type: none"> Provide staff, at least ten (10) days before training day, with an outline of the training session for review and feedback to ensure a successful training session. 	1/15/2016	NBS	
		<ul style="list-style-type: none"> Host a one (1) day in-depth training with all applicable staff. The training will include, but not be limited to, 1972 Act background and current environment, Proposition 218 and impact, determination of special and general benefit, formation policies and procedures, forms, documents, timelines, systems, ongoing administration of the Districts, anticipated challenges to assessment district law and an introduction to Community Facilities Districts. 	1/30/2016	NBS	

Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
Administrative and Operational Manual					
7	Create an Administrative and Operational Manual for Maintenance Assessment Districts	<ul style="list-style-type: none"> Create an Administrative and Operational Manual describing the procedures necessary for proper administrative and operational practices by all applicable City staff to ensure compliance with requirements of the 1972 Act and Proposition 218. The Manual will include but not be limited to background and supporting information about the Districts, annual administrative and operational timelines, inventory and assignment of necessary tasks throughout the organization, templates, forms and spreadsheets to track and accomplish such tasks, and related administrative and operational procedures. 	2/28/2016	NBS	

Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
Resolutions, Engineer's Reports - General and Special Benefits					
8	Rewrite Resolutions and Engineer's Reports Including General and Special Benefits Quantified and Separated	<ul style="list-style-type: none"> Prepare 2016/17 fiscal year resolutions and staff reports compliant with the 1972 Act and Proposition 218 for the placement of assessment levies on the County secured tax roll and to serve as templates for subsequent fiscal years. 	1/15/2016	NBS	
		<ul style="list-style-type: none"> Review annexation documents, if any, and special circumstances that may impact the engineer's reports. 	1/30/2016	NBS	
		<ul style="list-style-type: none"> Analyze improvements, maintenance, services, boundaries, district characteristics, parcel characteristics, special and general benefits conferred, and assessment engineering industry standards and sources to separate and quantify special vs. general benefit in compliance with the special benefit requirements of Proposition 218. 	2/28/2016	NBS	
		<ul style="list-style-type: none"> Create and add a map of improvements and assessment diagram to the engineer's reports. 	3/15/2016	NBS	
		<ul style="list-style-type: none"> Document findings and recommendations for inclusion into the updated engineer's reports. Provide analysis and numerical support for the breakdown of special vs. general benefit. Identify general fund contributions for general benefit and assessment amounts representing special benefit. 	3/15/2016	NBS	
		<ul style="list-style-type: none"> Prepare updated 2016/17 fiscal year engineer's reports compliant with the 1972 Act and Proposition 218 for the placement of assessment levies on the County secured tax roll and to serve as templates for subsequent fiscal years. 	3/31/2016	NBS	

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Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
Proposition 218 Assessment Increase					
1	Perform Proposition 218 Assessment Increase for Maintenance Assessment Districts	<ul style="list-style-type: none"> • Create a budget for the projected costs of improvements, maintenance, and services. 	1/15/2016	NBS	
		<ul style="list-style-type: none"> • Establish a parcel database relevant to the spread of the assessments. 	2/1/2016	NBS	
		<ul style="list-style-type: none"> • Analyze improvements, maintenance, services, proposed boundaries, district characteristics, parcel characteristics, special and general benefits conferred, and assessment engineering industry standards and sources to separate and quantify special vs. general benefit in compliance with the special benefit requirements of Proposition 218. 	2/15/2016	NBS	
		<ul style="list-style-type: none"> • Prepare a Method of Assessment, including rates, in compliance with the proportionality requirements of Proposition 218. 	2/15/2016	NBS	
		<ul style="list-style-type: none"> • Document findings and recommendations for inclusion into engineer's report. Provide analysis and numerical support for the breakdown of special vs. general benefit. Identify general fund contributions for general benefit and assessment amounts representing special benefit. Use report for community outreach efforts where all stakeholders may provide input, and participate. 	3/1/2016	NBS	
		<ul style="list-style-type: none"> • Prepare mailed and published legal notices, determine dates for public meetings and public hearing, verify scheduling, approach, requirements, and other issues related to a successful assessment increase. 	3/15/2016	NBS	

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Rec #	Recommendation	Steps	Estimated Timeline	Lead Staff	Project Status
		<ul style="list-style-type: none"> Prepare resolutions, notices and ballots, as required, for compliance with the 1972 Act and Proposition 218. Prepare notice of the public hearing to be published by the Clerk, as required, by the 1972 Act. 	4/1/2016	NBS	
		<ul style="list-style-type: none"> Prepare engineer's report with description of improvements, map of improvements, plans and specifications, cost estimate, assessment methodology, assessment roll and diagram for approval by City Council. 	4/1/2016	NBS	
		<ul style="list-style-type: none"> Tabulate ballots and report results at the conclusion of the public hearing. 	6/15/2016	NBS	
		<ul style="list-style-type: none"> Record assessment diagram with the County Recorder. 	6/30/2016	NBS	
		<ul style="list-style-type: none"> Calculate the first year's levy and process for approval by City Council simultaneously with the assessment increase proceedings. 	6/30/2016	NBS	