



THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: June 24, 2014

REPORT NO.: 14-052

ATTENTION: Honorable Council President and City Council

SUBJECT: Fiscal Year 2015 Annual Levy and Annual Update of Assessment Engineer's Reports for Park and Recreation Department Maintenance Assessment Districts (MADs) and Name Change of Eastgate Technology Park MAD

COUNCIL DISTRICTS: Citywide

CONTACT/PHONE NUMBER: Paul Sirois, (619) 685-1307, MS 5D

REQUESTED ACTIONS:

This City Council action is to establish the Fiscal Year 2015 assessment levy, approve the Assessment Engineer's Reports, and authorize appropriation and expenditure of funds for the Maintenance Assessment Districts (commonly referred to as MADs) that are managed by the Park and Recreation Department.

STAFF RECOMMENDATION:

Staff recommends the City Council authorize the levy and collection of assessments within previously established districts for Fiscal Year 2015; approve the annual update to the property owner-approved Assessment Engineer's Report for each district; and authorize the appropriation and expenditure of district funds for Fiscal Year 2015, including the management fund, district operating funds, district capital funds, and developer deposit funds associated with new assessment district formation activities.

SUMMARY:

State law requires that the City Council annually approve the levy of assessments and adopt Fiscal Year 2015 updates to the Assessment Engineer's Reports for each of the 50 MADs administered by the Park and Recreation Department prior to the County of San Diego enrollment deadline of August 10, 2014. In addition, this report identifies the contributions made by the City to provide general benefit for maintenance of parkland, library and fire station grounds, open space, and medians. This action also authorizes appropriation and expenditure of

MAD funds in accordance with the Annual Appropriation Ordinance, including capital funds and developer deposit funds collected in accordance with Council Policy 100-21. A companion item will discuss the Fiscal Year 2015 annual update for the eight MADs managed by the Economic Development Division.

BACKGROUND:

Program Overview

MADs are authorized by state and local law to assess benefiting property owners for maintenance of landscaping, lighting and other public improvements that confer special benefit. Specific authority is provided for in the Landscaping and Lighting Act of 1972 (Part 2 of Division 15 of the California Streets and Highways Code), applicable provisions of Proposition 218 (Articles XIII C and XIII D of the California Constitution), and provisions of the City of San Diego Maintenance Assessment District Procedural Ordinance, which is found in San Diego Municipal Code §65.201 et seq.

Maintenance areas within MADs may include but are not limited to landscaped and paved medians, landscaped right-of-ways and slopes, open space, parks, ponds, flood control channels, monuments, decorative street lighting, decorative gates, community signage, and other public improvements that confer special benefit. MADs may also provide for cleaning of curbs and gutters, sweeping sidewalks, and security services.

The City of San Diego's Park and Recreation Department currently administers 50 of the 58 MADs located throughout the City. The Economic Development Division of the Planning, Neighborhoods & Economic Development Department administers the remaining eight MADs, mostly in conjunction with existing Business Improvement Districts. The newest district formed in the City was the Civita MAD, created on October 23, 2013, per Council Resolution R-308497 by the Park and Recreation Department.

Attachment 1 provides a complete list of all Park and Recreation MADs including the Council District and community planning area. Each of the districts described herein were created by prior Council action and prior property owner ballot processes.

Separation of General and Special Benefits

Assessments collected through the MADs may only fund activities that provide a "special benefit" as defined by the Assessment Engineer. During the district formation process, the Assessment Engineer determines areas of benefit, allocation of costs, and apportionment of assessments based on relative special benefit. This determination is based on the nature of improvements/services to be maintained or provided by the district. The costs of maintaining the improvements apportioned to the properties within the district must be in proportion to the special benefits received by such properties.

Special benefits may include higher frequencies of services or services not otherwise provided by the City. Proposition 218 defines special benefit as follows:

“Special benefit” means a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large. General enhancement of property value does not constitute “special benefit.” (Article XIID, §2(i)).

“General benefits” can be characterized as benefits associated with the City’s standard level of service provided to the public at large as well as benefits that accrue to persons and/or properties located outside the district. The Assessment Engineer calculates the amount of “general benefit” as part of the district formation process. General benefits are provided by sources other than assessments. These other sources are defined in the “City Contributions and General Benefit Calculation” section later in this report.

As part of the district formation process, the Assessment Engineer prepares the Assessment Engineer’s Report, analyzes the improvements for each MAD, and establishes a boundary for the area of benefit. Only properties that benefit from the maintenance of improvements in the district are included within the MAD boundary, and each property is entitled to a weighted vote at the time of district formation.

Annual Levy of Assessments and Updates to Assessment Engineer’s Reports

In accordance with state and local law, Assessment Engineer’s Reports are updated annually thereafter as described in this report. The Fiscal Year 2015 Assessment Engineer’s Reports are provided in Attachment 2 or may be found on the City’s webpage at www.sandiego.gov/park-and-recreation/general-info/engreports.shtml. The methodology to create the assessment levy is described in each district’s Assessment Engineer’s Report and cannot be modified as part of the annual update process. An explanation of the budget chart found in Exhibit B of each Assessment Engineer’s Report is provided in Attachment 3.

As part of this action, staff annually requests that the City Council approve the assessment levy for the MADs. This action will allow the levy to be placed on the San Diego County Property Tax enrollment prior to its deadline of August 10, and will meet the legal requirements necessary for each MAD to provide the maintenance and other services as described in the Assessment Engineer’s Reports. Attachment 4 provides a list of the summarized assessment district levies and parcel count for the 50 Park and Recreation-administered MADs, with a grand total of 149,680 parcels in Fiscal Year 2015. Each of these districts is also included in the Proposed Fiscal Year 2015 Budget.

For the Fiscal Year 2015 update, Park and Recreation Department retained EFS Engineering, Inc. to review all MADs and update the Assessment Engineer’s Report for each district. Updates to the reports include:

- Modifying assessment rates within provisions for cost indexing, maximum assessment rate, and reserve limits
- Identifying property and land use changes that may impact the calculation of the assessment rate
- Reviewing the scope of services for improvements to comply with assessment methodology
- Incorporating general benefit rates proposed for Fiscal Year 2015

- Integrating the Proposed Fiscal Year 2015 Budget

Assessment Rates

Each district has unique attributes that require individual review of the Assessment Engineer’s Report, especially the calculation of the district’s assessment rates. Some districts are permitted to index assessments by the San Diego Regional Consumer Price Index – All Urban Consumers (CPI) as calculated by the federal Bureau of Labor Statistics. Others are permitted to increase at a rate higher than CPI. Still other districts have no provisions for any inflationary increases to the assessment rate.

In cases where an inflationary adjustment is permissible, the maximum authorized assessment is indexed by applicable CPI or inflationary factors. The Fiscal Year 2015 assessment may be an amount equal to or less than the maximum authorized assessment.

The Fiscal Year 2015 CPI base indexing factor is 1.71%, based on the annual change in the “Second Half” values as shown in the following table:

**Change in Consumer Price Index All Urban Consumers
San Diego, Fiscal Years 2009-2015
U.S. Bureau of Labor Statistics**

Calendar Year	Fiscal Year	First Half	Second Half	Increase
2007	FY 2009	231.870	234.772	2.25%
2008	FY 2010	242.440	242.185	3.16%
2009	FY 2011	240.885	243.655	0.61%
2010	FY 2012	244.242	246.686	1.24%
2011	FY 2013	252.451	253.368	2.71%
2012	FY 2014	256.637	257.285	1.55%
2013	FY2015	258.955	261.679	1.71%

A summary of assessment rate changes for all districts is provided in Attachment 5.

Property and Land Use Changes

Land use changes occur routinely throughout the year and are incorporated into the Assessment Engineer’s Report. Most MADs have apportionment methodology that relies on land use factors and the City’s Trip Generation Manual (2003) to calculate the assessment. Since the latest property information was not available at the time the Proposed Fiscal Year 2015 Budget was submitted to the City Council in April, discrepancies may exist in total assessment revenue reported in the Proposed Fiscal Year 2015 Budget as compared to the Assessment Engineer’s Reports, primarily due to parcel and land uses changes.

Modifications to Scope of Services

Improvements maintained by a MAD are delineated in each Assessment Engineer's Report, typically in the "Project Description" section. From time to time, clarification and explanatory language may be added to a report to explain the exact services provided by the MAD in question. Only minor, clarifying language changes were implemented for the Fiscal Year 2015 annual update cycle.

City Contributions and General Benefit Calculation

The formation of a MAD does not remove the City obligation to provide a standard level of services. For specific services that are provided by the MAD in lieu of the City at large, financial and in-kind contributions are made to MADs to provide general benefit for specific types of improvements as follows:

- Environmental Growth Fund for open space lands maintenance
- Gas Tax Fund for landscape and hardscape median maintenance
- General Fund for population-based park maintenance
- General Fund for fire station grounds and library grounds through a Service Level Agreement (SLA)
- General Fund or non-assessment assessment contribution for external public special benefits as defined by FY 2015 Assessment Engineer Reports.
- Street Division provides in-kind services for energy and maintenance of standard street lights as defined in Council Policy 200-18 and the 2002 Street Design Manual

The amount of contribution is defined in the Proposed Fiscal Year 2015 Budget. Attachment 6 provides detailed information regarding the current rate for each general benefit contribution. Additional details for each type of general benefit contribution follows:

Open space maintenance receives an allocation from the Environmental Growth Fund, which is based upon the previous year's actual expenditures for open space within the Park and Recreation Department. Excluded from this calculation are park ranger and brush management services, as MADs typically do not provide these services. The open space maintenance contribution increased between Fiscal Year 2014 and Fiscal Year 2015 as a result of increased actual costs per open space acre.

Median maintenance receives an allocation from the Gas Tax Fund, which is normally based on the previous year's actual expenditures within the Gas Tax Median Program. As part of this program, the Park and Recreation Department maintains 92 landscape and hardscape street medians that are scattered throughout the City and generally are not located within the boundaries of an existing MAD. Median maintenance within a MAD receives an allocation from the Gas Tax Fund based on the cost to maintain each square foot of landscaped or hardscape median. The Gas Tax contribution increased between Fiscal Year 2014 and 2015 as a result of an increased rate of reimbursement per square foot of landscape.

Park maintenance receives an allocation from the General Fund. The park maintenance contribution is for population-based parks in accordance with General Plan standards for each

community planning area as defined by the Development Services Department, Planning Division. The amount of the contribution is based on the previous year's actual expenditures for parkland maintenance, excluding overhead, utilities, and capital improvements. Utilities (water, sewer, electrical) are also excluded since utility bills are paid directly from the General Fund for parks rather than passing through the MAD budget. Funding for park maintenance is budgeted in the Park and Recreation Department budget. The per-acre contribution for park maintenance increased between Fiscal Year 2014 and Fiscal Year 2015 as a result of increased actual costs per useable park acre.

Library and fire station grounds maintenance also receives an allocation from the General Fund from the Library Department and Fire-Rescue Department budgets under SLAs with each department. The amounts of contribution from these departments are based on actual maintenance costs for each location. The maintenance costs are identified within the current landscape maintenance contract and stated in the SLA rather than based on prior year actual expenditures.

Street lighting energy and maintenance costs are split between the General Fund and the MAD, with the Street Division providing all maintenance services. Street lighting provided in excess of City standards (as defined in the Street Design Manual) may be funded by the MAD as a special benefit, while street lights installed per the City standards are funded by the General Fund. Since the Street Division maintains the City's street lighting network, all costs are incurred within its budget. As a result, there is no financial contribution from the Street Division to the applicable MAD. Instead, the MAD will fund appropriate energy and maintenance costs based on the most recent determination of special benefit street lights.

External benefits are benefits received by the general public who do not pay an assessment into the district, yet experience some level of special benefit above and beyond what the City provides from assessment district services or amenities. Assessment law specifies that only special benefits may be assessed and recent court rulings have rendered that special benefits received by the general public must be funded by sources other than assessments collected from parcel owners in the district. Examples of other sources of funding are General Fund contributions to Parks, Library and Street light maintenance and Gas Tax contributions to median maintenance. In Fiscal Year 2015, the Assessment Engineer quantified these External benefits. This resulted in an additional contribution from the General Fund identified as "General Fund Offsets".

Proposed Fiscal Year 2015 Budget Integration

Assessment rates and general benefit rates are incorporated into the Proposed Fiscal Year 2015 Budget, which is also presented in each MAD's Assessment Engineer's Report (Attachment 2) as Exhibit B. The budgets in Exhibit B are unchanged from the Mayor's Proposed Fiscal Year 2015 Budget, aside from the land use changes that impact the apportionment methodology and may result in a changed parcel assessment amount. A brief explanation of how to read the Exhibit B budgets is provided in Attachment 3.

Shared costs for all 50 Park and Recreation MADs are budgeted in the Park and Recreation MAD Management Fund, which allocates its costs across each district on a ratio based on prior

year expenditures. Costs incurred within the MAD Management Fund include contract inspectors, analytical/budgetary support, accounting, assessment engineering, assessment enrollment, contract procurement, legal, information technology, vehicles, and communications. The MAD Management Fund budget is presented in Attachment 7.

All publicly-owned parcels (including those owned by the City) are assessed based on the proportional special benefit conferred to the property as defined by the Assessment Engineer. Assessable parcels owned by the City are funded from Citywide Program Expenditures (General Fund) in accordance with Resolution R-288830 dated June 9, 1997. Attachment 8 provides a list of City-owned parcels with an assessment levy as a result of this action.

Requested Annual Levy Actions

This action authorizes appropriation and expenditure of funds related to MAD activities, including the MAD administrative fund, district operating funds, district capital improvement funds, and developer deposit funds. The MAD Management Fund provides for all shared costs in the MAD program, including position expenses and costs associated with budgeting, finance, procurement, and accounting. Each of the 50 MADs has its own operating fund budget as presented in the Proposed Fiscal Year 2015 Budget and in the Assessment Engineer's Reports (Exhibit B). For those MADs authorized to have a capital improvement program, capital funds have been created for MAD-funded projects. Finally, deposit funds have been created for MAD formation activities in compliance with Council Policy 100-21.

In accordance with Streets and Highway Code §22629 and Government Code §53753, the City Council must conduct two meetings on this item. The first meeting is to be held in June to consider approving the Assessment Engineer's Reports for existing districts and adopting the Resolution of Intention to levy assessments in Fiscal Year 2015. At this initial meeting, the City Council gives notice of the time and the place for a public hearing related to the levy of the proposed assessment. Publication of this notice must be completed at least 10 days prior to the date of hearing, hence why approximately four weeks must elapse between the initial meeting and the public hearing. At the second meeting (public hearing) in July, the City Council considers all objections or protests, if any, to the proposed assessment, and determines whether to authorize levy of the assessment.

To meet the County of San Diego's August 10, 2014, deadline for enrolling assessments in the annual property tax bill for Fiscal Year 2015 and to ensure consistency with the Proposed Fiscal Year 2015 Budget, the City Council must approve the assessment levy each July. If approved, assessments for each MAD would appear on tax bills for benefitting property owners in fall 2014.

If this action is not approved and the levy of assessments is not authorized, existing districts will need to rely on their reserves to fund maintenance of improvements. Reserve levels vary in each district. Once reserves are depleted, special benefit maintenance activities would cease.

FISCAL CONSIDERATIONS:

Assessment Revenue

Attachment 4 summarizes the Proposed Fiscal Year 2015 Assessment for all 50 Park and Recreation MADs; the total assessment amount is projected to be \$13,798,030. This attachment also provides a summary of assessment levies and parcels sorted by district.

Assessment rates and benefit units vary for each district based on the method of apportioning the benefit as described in the Assessment Engineer's Report. Some districts may have multiple assessment rates in defined zones of benefit based on the location of the property in relationship to the improvements. Attachment 5 provides a summary of assessment rate and benefit unit changes between Fiscal Year 2014 and Fiscal Year 2015 for each district, including assessment rate changes for specific zones of benefit.

The following table provides an overview of the nature of assessment rate changes between these two fiscal years for the 50 MADs:

Type of Change between Fiscal Year 2013 and Fiscal Year 2014	Number of MADs ¹
Assessments Raised by CPI	11
Assessments Unchanged (Kings Row MAD Zone 1 = .5)	19.5
Assessments Suspended	5
Assessments Reinstated	0
Assessments Increased (Kings Row MAD Zone 2 = .5)	14.5
Assessments Decreased	0

General Benefit/City Contributions

City Contributions are provided to MADs for the purpose of providing general benefit for activities otherwise provided by the City but in this case performed by the MAD. The general benefit is included in the Proposed Fiscal Year 2015 Budget for each funding source. Estimated general benefit contributions are summarized in the table below. Most changes are due to rate changes as shown in Attachment 6.

¹ The Kings Row/Village at Euclid MAD is divided into two zones of benefit. In Zone 1 (Kings Row), the assessment cannot be increased without a rebalot of property owners. In Zone 2 (Village at Euclid), the assessment can be increased by CPI.

Maintenance Funding Source	Type of Maintenance Activity	FY 2014 Budget	FY 2015 Proposed	Change
Environmental Growth Fund	Open Space	\$266,961	\$284,723	\$17,762
Gas Tax Fund	Street Medians	\$1,068,148	\$1,148,863	\$80,715
General Fund	Park Grounds	\$683,380	\$764,537	\$81,157
General Fund	Library Grounds	\$25,877	\$26,396	\$519
General Fund	Fire Station Grounds	\$12,030	\$12,271	\$241
General Fund	External Benefit Contribution	0	\$1,143,869	1,143,869
TOTAL			\$3,380,659	\$1,324,263

City-Owned Parcels within MADs

The City owns 1,218 assessable parcels located within the Park and Recreation-managed MADs.² Consequently, there will be a General Fund impact of \$158,527.02 (see Attachment 8 for a complete list of parcels). The City Council directed staff to pay assessments levied against City-owned parcels through Resolution R-288830 dated June 9, 1997. Assessments to property owned by the City are budgeted in the General Fund, Citywide Program Expenditures department budget.

Integration with the Proposed Fiscal Year 2015 Budget

Budgets for the 50 existing MADs and the MAD Management Fund are included in Volume 1 of the Proposed Fiscal Year 2015 Budget document (Schedule VIII, pages 199-200). These budgets were approved during City Council consideration as part of the Fiscal Year 2015 Budget Hearings.

The Assessment Engineer's Reports presented herein incorporate the proposed annual budget and incorporates the latest property information, which may result in changes to anticipated revenues, the majority of which are property assessments. A copy of each district's budget, including revenues, expenditures, and fund balances/reserves is provided in Exhibit B of the Assessment Engineer's Report (see Attachment 2). A copy of the MAD Management Fund's budget, including revenues, expenditures, and fund balances/reserves is provided in Attachment 7. The budgetary display includes Fiscal Year 2013 unaudited actuals, Fiscal Year 2014 estimate, and Fiscal Year 2015 budget.

² Note that many City-owned parcels are open space. In keeping with the methodology defined in the Assessment Engineer's Report, many of these parcels do not receive benefit and thus will have no assessment levied.

MAD Reserves/Fund Balance

In accordance with California Streets and Highways Code §22569, reserves and fund balances are maintained at an amount no greater than 50% of the annual budget for each district. Staff reviews existing fund balances along with anticipated and actual revenues and expenditures to determine whether modifications to the assessment rate or estimated expenditures are necessary to ensure compliance.

EQUAL OPPORTUNITY CONTRACTING INFORMATION:

This section is not applicable, as this action does not pertain to any contract or agreement.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The City Council approved the Fiscal Year 2014 Assessment Engineer's Reports and annual levy of assessments for all existing Park and Recreation MADs on July 16, 2013. This action will update the Park and Recreation MADs for Fiscal Year 2015. A companion Council action will consider existing MADs managed by the Planning, Neighborhoods & Economic Development Department, Economic Development Division.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

For those districts with a citizen advisory committee (designated representatives), staff presented the Proposed Fiscal Year 2015 Budget, which incorporates annual assessment rates shown in the Assessment Engineer's Reports. MAD citizen advisory committees are typically subcommittees of officially recognized planning committees, town councils, or other community based organizations. For those districts without a citizen advisory committee, staff conducted a publicly noticed meetings to discuss the Proposed Fiscal Year 2015 Budget and assessment rates. This meeting took place on January 28, 2014 in accordance with Municipal Code §65.0210(a).

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Key Stakeholders: This action most directly affects property owners to be assessed in each of the 50 MADs, as they directly benefit from the maintained improvements and will see an assessment charge in the fall 2014 property tax bill. Other key stakeholders are the citizen advisory committees that serve as the "designated representatives" of assessed property owners to advise the City regarding the budget and operations of the existing MADs in accordance with Municipal Code §65.0209 and §65.0210. Staff works closely with these groups in developing annual MAD budgets and providing contract specifications for maintenance. The advisory committees met with staff to develop budgets during the October 2013 through February 2014 timeframe.

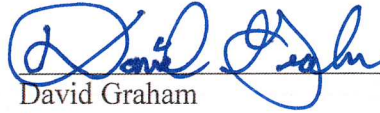
Projected Impacts: If the levy of assessments and Annual Assessment Engineer's Reports are not authorized, the City will be unable to maintain special benefits. In this scenario, existing districts will need to rely on their reserves to maintain improvements. Some MADs would remain in service longer than others since reserve levels vary. As reserves are depleted, maintenance activities would cease, and assets would be decommissioned. If the appropriation and expenditure of MAD funds is not authorized, all MAD services would immediately cease

(including MAD formation funds authorized in Council Policy 100-21), and a contingency plan would need to be developed to decommission MAD assets. If all actions are approved, then assessments will be levied and maintenance services will be provided at budgeted levels.

Respectfully Submitted,



Herman D. Parker
Park and Recreation Director



David Graham
Deputy Chief Operating Officer

Attachments:

1. List of MADs, Council Districts, and Community Planning Areas
2. Fiscal Year 2015 Assessment Engineer's Reports (includes Exhibit B, District Budget) and Original Year of Formation
3. Understanding the Budget (Exhibit B) in the Assessment Engineer's Report
4. Assessment Levy Summary by MAD
5. Assessment Rate and Benefit Unit Summary by MAD
6. City Contributions to MADs for General Benefit
7. Fiscal Year 2015 MAD Management Fund Budget
8. City-Owned Parcels and Assessments within Park and Recreation MAD Boundaries