



Hiddenbrooke Property Owners Association, Inc.

850 Hiddenbrooke Parkway
Vallejo, CA 94591

Phone: 855 355-4762
Listen to Options

March 18, 2016

Ron Millard, Finance Director
City of Vallejo, Finance Department
555 Santa Clara Street
Vallejo, CA 94590

By email

Re: Hiddenbrooke Improvement District (“HID”) annual levy

Dear Mr. Millard;

The purpose of this letter is to renew the annual request by Hiddenbrooke homeowners for tax relief under the HID tax, and to request that the City establish a target for future relief. Enclosed please find our letter from February 24, 2015 with background information.

Last year, staff indicated that it would support a \$250,000 reduction in collection of the levy along with a \$250,000 early redemption of bonds, to protect "both current and future taxpayers" in the Hiddenbrooke Improvement District. You indicated that you could not make commitments on recommendations in years going forward, particularly because you were Interim Finance Director at the time, but that if circumstances did not change, you would be inclined to recommend that the \$250,000 annual relief be continued in years going forward as well.

This is an important issue for Hiddenbrooke homeowners, particularly since the HID levy falls unevenly on homeowners due to different pay-downs by the builders, and the levy is quite substantial (\$3591 annually) on some homeowners, particularly in the Reflections development.

We noted that per the FY 2015-16 budget, the HID "2004 A Fund #348" has an expected surplus of \$4.261 million as of 7/1/16 over and above the debt service reserve, designated for supplement payment amount, and a \$1 million delinquency maintenance reserve. Even with last year's relief, the surplus increased by \$135K year over year.

There are a couple of expected exposures to the fund: potential cost of St. John's Mine Road "utility corridor" work and periodic street resurfacing.

There is one additional project that we would like the City to investigate. Due to the severe drought conditions in Northern California over the past several years, the City, in response to a State declaration of emergency, drastically curtailed water usage and removed quite a bit of landscape vegetation along Hiddenbrooke Parkway. The City also capped sprinkler heads and is in the process of further work (funded by the Hiddenbrooke Maintenance District) to remove

Ron Millard
City of Vallejo, Finance Department
March 18, 2016
Page 2 of 2

unsightly white caps from the now unused irrigation system. Some rehabilitation work has been done on the Hiddenbrooke Parkway out of the HMD budget, particularly near the freeway entrance and the "Welcome Center" but long stretches of the Parkway median and borders are now bare and somewhat unsightly, not consistent with the original design concept. The Hiddenbrooke Parkway is one of the Hiddenbrooke's crown jewels and while the response to the drought was entirely appropriate, we think it is time now to consider capital improvements to restore the Parkway.

Improvements would take the form of installing a combination of drought resistant landscaping, perhaps drip system irrigation, and alternate designs in some places, such as cobblestone/tan bark to avoid all use of water. The work would also need to extend to the wide medians along Bennington, which currently have grass medians that can no longer be watered. Improvements might also include tapping in to the "raw water" supply the City currently uses for golf course water.

As this is a larger, capital project we do not believe it is appropriate to fund through the HMD, which is designed more for maintenance and repairs. Further, a piecemeal approach funded out of the annual HMD provision for rehabilitation is unlikely to be adequate to the need. Mr. Burton in Public Works points out that the current irrigation system is nearing the end of its useful life, and a major replacement project would have been due soon regardless of water conservation issues.

Actual money amounts involved would depend on the scope of the plan adopted by Public Works, and HPOA would like to consult with Public Works staff on this issue.

Our goal at HPOA for the HID therefore is: (1) to get the tax relief continued; (2) to see some long term planning applied to the HID fund [estimate future costs, particularly for road maintenance, and set a target surplus]; and (3) commit in principle to Hiddenbrooke Parkway improvements.

Thanks for your attention to this, and your continuing courtesies to us.

Very Truly Yours,



A. Byrne Conley
For the HPOA

H.I.D. Advisory Committee
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February 24, 2015

Jon Oiler
City of Vallejo, Finance Department
555 Santa Clara Street
Vallejo, CA 94590

Re: Hiddenbrooke Improvement District annual levy

Dear Mr. Oiler;

The purpose of this letter is to renew the annual request by Hiddenbrooke homeowners for tax relief under the HID tax, and to request that the City establish a target for future relief. We are hoping to set up a repeat meeting with you and the other Finance and Public Works officials concerned with the District's funds.

Background.

The Hiddenbrooke Improvement District was formed by the City in 1988 (originally called the Sky Valley Improvement District) to finance infrastructure improvement in Hiddenbrooke – streets, lights, water and sewer, drainage and underground electric. In 2004, the City repurchased the original bonds and refinanced the remaining balance with a new issuance at a more favorable interest rate (\$22.8 million to be paid over 27 years). As originally drafted in July 2004 and presented to Council, the refinancing documents simply provided for paying off the remaining principal, but amended documents were created, dated August 1, 2004 and August 30, 2004 to include a new "Surplus Account" under which the City could continue to charge homeowners based on the original amortization schedule, and retain the savings generated for capital projects in Hiddenbrooke. In effect the District was turned into a revolving account, available for new capital expenditures as it continued to also operate to pay down the original debt.

The Surplus Account has been growing at some \$500,000 per year, well above (actually double) the July, 2004 estimate. By FY 2009-2010 the accumulated surplus exceeded \$4 million, over and above amounts held for the next year's payment and a \$1 million required Delinquency Maintenance Account.

As a result, City staff has been meeting annually with Hiddenbrooke homeowner representatives and has recommended, and the Council has approved, tax relief for homeowners. In FY 2010-2011, \$1 million of the principal was redeemed early (resulting in about \$60,000 in reduced payments to bondholders each year going forward) and the collection from homeowners was reduced by \$500,000 (technically the levy amount nominally stayed the same but surplus was used to pay part of the levy, so tax bills went down). In FY 2011-2012, another \$500,000 in

Jon Oiler
City of Vallejo, Finance Department
February 24, 2015
Page 2 of 4

relief was approved. No relief was given in FY 2012-2013. \$250,000 in relief was approved each year in FY 2013-2014 and 2014-2015.

Expenditures.

There have been some expenditures from the HID Surplus Account in the last few years. The account was used to fund street resurfacing in Hiddenbrooke at a cost of about \$308,000 and we expect this District to continue to fund future Hiddenbrooke street repairs, including pavement repairs to the Napa County portion of Hiddenbrooke Parkway and St John's Mine Road. Four radar speed signs were purchased at a cost of \$40,000, and there was a recent allocation to purchase new stop signs for the Welcome Center as well as re-mark the lanes approaching the Welcome Center to provide two full lanes.

The Surplus account may also be called upon to fund erosion repairs along St. John's Mine Road (stemming from a large winter storm in 2005), sometimes referred to as the "utility corridor" through which water, sewer, etc. is connected to Hiddenbrooke. The extent of this exposure for such costs is uncertain, as the necessity for improvements, their scope, and any required environmental mitigation measures are all open topics of discussion. However City staff has advised that even under the broadest estimate this should not cost more than \$750,000 – and it should be emphasized that the City has not agreed to any liability for erosion, nor that any erosion has been caused by City utilities. Further the City has re-engineered proposed drainage improvements (as Mr. Kleinschmidt advised us last year) in an attempt to reduce costs and avoid the necessity of triggering any mitigation obligations. (Note that St. John's Mine Road is a private road not open to the public, but also is subject to a City easement for utilities and provides potential alternate access for City emergency vehicles.)

Going forward.

The chief issue presently for the City regarding HID is to determine how much should be reserved for future road maintenance. We have been asking for several years now that staff prepare an estimate for the total expected cost for periodic resurfacing. This has not yet been done formally (the Public Works Department advised at our last annual meeting that the 10 year estimate would be about \$2 million).

1. We would like to see a reasonable target level of funding estimated, so that the City can in turn determine a target amount for holding in the Surplus Account, and in turn, make tax relief for Hiddenbrooke homeowners more regular and certain. We understand that there may be a desire not to commit to a fixed amount of tax relief without regard to future events, but a target could be set (for both the amount retained in the Surplus Account and the amount added each year) and left in place subject to adjustment if unexpected needs arise. This might be revisited periodically, perhaps every 5 years.

Jon Oiler
City of Vallejo, Finance Department
February 24, 2015
Page 3 of 4

2. It is important to understand that the current Surplus exceeds the amount needed to fund the projects above by a significant amount; therefore, the tax burden in addition to causing equity issues (discussed below) is not justifiable.

3. There should be no plan to accumulate Surplus simply to roll over to the general fund at the end of the bond, since that would be inconsistent with the District's purpose of funding capital improvements in the District area, and Hiddenbrooke residents would seek to have any remaining funds contribute to an earlier retirement of the bond instead.

Equity issues.

There are other good reasons for trying to make tax relief more certain. First, Hiddenbrooke homeowners are heavily taxed already. The homes are of recent construction (1999 forward) and thus have high base values under Proposition 13. In addition to the Improvement District, there are special taxes for a Maintenance District (\$650 per home) and eleven different Mello Roos taxes for the School Districts (nearly \$2000 more per home).

Further, there is a tax equity issue involved. Some of the developers paid the Improvement District bond liability down entirely; others paid it down partially, so that some homeowners pay nothing for HID bonds, and others pay fixed amounts in a range of \$1200-\$2100 per year. Other developers did not pay them down at all, and the owners of those homes (particularly, in the Reflections development) are billed \$3591 per year for HID. The Orchards subdivision was excluded from the District and also pays nothing towards it. Thus any new capital improvements funded from the Surplus Account benefit everyone, but are being paid for by only some of the homeowners, and the tax burden falls very unevenly.

We therefore think the District funds should be used sparingly, and the Surplus Account used for tax relief to the extent reasonably possible.

Background document references.

The Official Statement of the Vallejo Public Financing Authority for the issuance of the 2004 bonds indicates, at pages 30-31, that the bonds are subject to a potential voter initiative under Proposition 218 to reduce the levy, at least as long as reduction would not interfere with timely retirement of the District Bonds. The 8/30/04 First Supplemental Agreement between the City and Wells Fargo as Successor Fiscal Agent, at Section 5.08, indicates that the levy will be in an amount at least sufficient to pay principal and interest plus administrative expenses for the ensuing fiscal year, taking into account Improvement Levy Fund balances. Sections 5.18 and 5.19 go beyond this, however, to also indicate that the levy can be reduced to an amount estimated to be not less than 103% of the annual debt service plus administrative expenses, and separately covenants not to set the levy below that amount. The Indenture of Trust, at Section 5.06 (c) indicates that the Surplus Account be used to "pay costs of public capital improvements that the [Vallejo Public Financing] Authority determines are of benefit to the District (as defined in the Fiscal Agent Agreement)." (Thus the funds must be spent in Hiddenbrooke, and only on

Jon Oiler
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February 24, 2015
Page 4 of 4

capital improvements.) Section 5.06 (d) also indicates the Surplus Account can be used to redeem bonds early or to reduce the levy in the current or succeeding fiscal year.

Further action requested.

As indicated, we'd like to meet with City staff in the next several weeks and consult on the above referenced issues. Specifically, we would:

- a) ask that the City staff provide estimates of the long term pavement needs in Hiddenbrooke,
- b) agree to a target for a Surplus cap, to be reviewed every five years, and
- c) provide annual reductions in the bond levy, consistent with the cap above.

With these agreements we would then be able to join staff in supporting a recommendation to the City Council.

Thanks for your attention to this and your continuing courtesies to us.

Very Truly Yours,



A. Byrne Conley
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