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DATE: June 24, 2008

TO: Mayor and City Council

FROM: Debra C. Auker, Director of Finance

SUBJECT: Approval and Appropriation of the Operating and Capital Budgets for the FY 2009; Approval and Appropriation of the FY 2009 Hayward Redevelopment Agency Budget; and Approval of the FY 2009 Preliminary Master Fee Schedule changes, and FY 2009 Gann Appropriations Limit, the PERS Two-Year Additional Service Credit Enhancement, and Other Budget Related Actions

RECOMMENDATION

That the City Council reviews and adopts the attached resolutions:

1. Approving and Appropriating the FY 2009 Operating Budget;
2. Approving and Appropriating the FY 2009 Capital Budget;
3. Approving and Appropriating the FY 2009 Hayward Redevelopment Agency Budget;
4. Approving the FY 2009 Preliminary Master Fee Schedule changes;
5. Approving the FY 2009 Gann Appropriations Limit;
6. Approving the PERS Two-Year Additional Service Credit Enhancement; and
7. Approving the Recommended Financial Policies

BACKGROUND

The City held several Council budget work sessions prior to the official June 10, 2008 budget public hearing. These meetings were held on May 20, 22, and 26th. The work sessions provided an opportunity for public comment, while reviewing Council Priorities, Initiatives, and Service Delivery Outcomes in FY 2009 and FY 2010 Operating Budgets, and the FY 2009-13 Capital Improvement Program (CIP).

DISCUSSION

It is recommended that Council approve resolutions related to the budget priorities, service delivery outcomes and other actions discussed at the City Council public hearing held on June 10, 2008 to introduce the FY 2009 and FY 2010 Operating and FY 2009-13 Capital budgets. It is also recommended that Council approve resolutions related to other budget related actions summarized on the next page:

Risk Management/General Liability Insurance – The proposed budget allocates approximately \$1.6 million annually for the City’s Risk Management Program in the City Attorney’s Office, including insurance coverages for the City’s operations and facilities. Insurance coverages are obtained through the Exclusive Risk Management Authority of California (ERMAC), the five-member joint powers agency of which the City is a member. The City’s representative on the ERMAC board is the City Attorney. The proposed budget resolution confirms the City Manager’s/City Attorney’s authority to carry out actions necessary to further the City’s interests within the joint powers agency.

Repayment Agreement between the Redevelopment Agency and the General Fund – In 1975, the City Council entered into a revolving loan agreement in which the Redevelopment Agency (RDA) borrowed start-up money from the City General Fund to fund redevelopment projects. As of June 2007, the loan balance has grown to \$11 million. The budget resolution provides authority to the City Manager to amend the Repayment Agreement. The repayment agreement will be amended to establish the following terms:

1. Beginning in FY 2008, the RDA will make annual payments to the General Fund in the amount of \$800,000 on July 1 of each fiscal year.
2. Beginning July 1, 2008, interest will accrue on the remaining balance at the LAIF stated interest rate. The interest accrued will be added to the principal balance outstanding annually.

Loan Agreement between the General Fund and the Route 238 Housing Fund – In order to minimize the reduction in service levels during this time of reduced revenues, the General Fund will borrow \$5 million each fiscal year from the Route 238 Housing Fund, for a total of \$10 million. The budget resolution provides authority to the City Manager to execute this inter-fund borrowing agreement. The terms of this non-interest bearing inter-fund borrowing include repayment beginning in FY 2012, based on the General Fund’s ability to pay. In the event that the City participates in meeting any identified replacement housing and relocation needs of existing Caltrans tenants, the amount remaining in the Fund, along with possibly funds from the RDA Low and Moderate Income Housing Fund, will be available. As appropriate in the next few years, Council will be asked to review and amend the repayment terms of the inter-fund borrowing agreement as necessary.

PERS Two-year Additional Service Credit Enhancement – On May 23, 2008, the Council approved a two-year additional service credit provision to the City’s contract with the California Public Employees Retirement System (PERS) for miscellaneous (non-safety), police, and fire employees. As discussed at the June 10, 2008 public hearing, staff has attached a resolution to open two window periods: The first period from July 1, 2008 to September 30, 2008 and the second period from October 1, 2008 to December 31, 2008. The resolution will offer the enhancements to miscellaneous and safety classifications as outlined in the attachment to the PERS Resolution. Because of the impending curtailment of, or change in manner of performing service, the best interests of the City will be served by granting this retirement incentive. As has been stated previously, this enhancement is being offered to accelerate attrition that will result in General Fund savings.

At the public meeting on June 10, 2008, the future total maximum liability and potential cost savings associated with providing employees with two additional years of service credit if they retire during the designated periods were provided.

Master Fee Schedule – The City is in the process of reviewing user fees to determine the true cost of providing City services. The results of this fee study will be presented to the City Council in a work session on July 22. The fee study does not include a review of utility related fees or airport fees; therefore, these fees were reviewed and discussed at the June 10th public hearing, and are recommended for adoption effective July 1, 2008 in the attached resolution.

Gann Appropriation Limit – As the Council will recall, the Gann Limit, (State Proposition 4) was approved by California voters in November 1979. It places limits on the amount of revenue that can be spent by government agencies. The Council approves a resolution setting the limit each year. The City’s appropriations subject to the limit in the recommended annual budget is far below the \$218 million FY 2009 limit.

Financial Policies – At the June 10th work session the Council reviewed financial policies. These policies will be reviewed annually as part of the budget process. Financial policies assist the City with long-range planning and decision-making related to the use of resources.

FISCAL IMPACT

The FY 2009 Operating Budget includes a total appropriation of \$206 million, of which \$116 million is appropriated from the General Fund. City-wide resources include \$175 million in current revenues, \$24 million in transfers, and the use of \$7 million in special or enterprise fund reserves.

<i>(\$'s in millions)</i>	General Fund	All Other Funds	City-wide Total
FY 2009 Resources:			
Current revenues	\$103	\$72	\$175
Transfers in from other funds	\$13	\$11	\$24
Use of reserves	\$0	\$7	\$7
FY 2009 Expenditures:			
Operating costs	(\$111)	(\$78)	(\$189)
Transfers to other funds	(\$5)	(\$12)	(\$17)
Total (net change)	\$0	\$0	\$0

The General Fund operating budget for FY 2009 is balanced and does not require the use of reserves. In order to achieve a balancing of current revenues and expenditures, the City has set a \$6.8 million operating savings target for FY 2009. This target will be obtained through various salary savings, including reduced cost of living increases, early retirements and possible layoffs. Even though the City has taken many steps to manage spending diligently and conservatively over these next two years, several measures used to balance the budget are not sustainable and do not provide long term relief of the ongoing General Fund structural deficit.

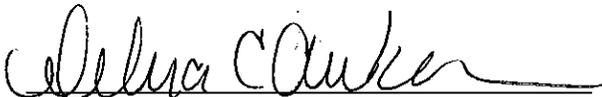
The table below reflects the General Fund reserves estimated for FY 2008 and FY 2009.

<i>(\$'s in millions)</i>	FY 2008 General Fund End of Year Estimate	FY 2009 General Fund Recommended Budget
Reserved Payable Obligation	\$628	\$628
Economic Uncertainty	\$7,000	\$7,000
Liquidity	\$3,500	\$3,500
Hotel Conference Center	\$1,250	\$1,000
Retirement Reserve		\$1,122
Police Staffing	\$1,000	\$1,000
Contingencies	\$872	
Total	\$14,250	\$14,250

PUBLIC CONTACT

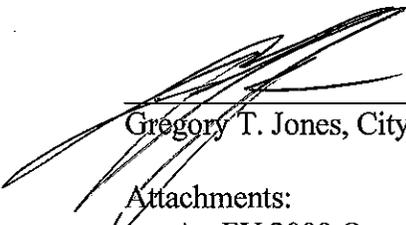
The Council held a public hearing in which all interested parties were invited to comment on June 10, 2008 to discuss the Recommended Operating and Capital budgets presented for approval this evening. Council also discussed the budget at three work sessions in May. The Council Budget and Finance Committee discussed the budget, at their April 23, 2008 meeting.

Prepared by:



Debra C. Auken, Director of Finance

Approved by:



Gregory T. Jones, City Manager

Attachments:

- A. FY 2009 Operating Budget Resolution
- B. FY 2009 Capital Budget Resolution
- C. FY 2009 Hayward Redevelopment Agency Budget Resolution
- D. FY 2009 Master Fee Schedule Resolution
- E. FY 2009 Gann Appropriations Limit Resolution
- F. PERS Two-Year Additional Service Credit Enhancement Resolution
- G. Financial Policies Resolution

The draft FY 2009 and FY 2010 Operating Budget is available in the City Clerk's Office, at the Main Library, and on the City website, <http://www.hayward-ca.gov/>.

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 08-_____

Introduced by Council Member _____

mae

6/19/08

RESOLUTION APPROVING THE OPERATING BUDGET OF
THE CITY OF HAYWARD FOR FISCAL YEAR 2009;
ADOPTING APPROPRIATIONS FOR FISCAL YEAR 2009

WHEREAS, the City Manager has submitted to the City Council of the City of Hayward estimates of revenues from all sources and estimates of expenditures required for the proper conduct of the activities of the City of Hayward for fiscal year 2009 contained in those documents entitled "City of Hayward Two-Year Recommended Operating Budget FY 2009," with adjustments to the Recommended Budget as approved at the June 10, 2008 Council Public Hearing; and

WHEREAS, a public hearing was held by the City Council of the City of Hayward, at which time all interested persons were afforded an opportunity to be heard on matters pertaining to the budget recommended by the City Manager.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward as follows:

1. That the budget for fiscal year 2009 presented by the City Manager in the documents entitled "City of Hayward Two-Year Recommended Operating Budget, FY 2009 and 2010" including Council Priorities and Service Delivery Outcomes, with adjustments to the Recommended Budget as outlined in the June 10, 2008 Public Hearing Budget Report are hereby approved and adopted as the budget of the City of Hayward for fiscal year 2009. Copies of the budget documents and the staff reports presented by the City Manager are on file in the office of the City Clerk and are hereby referred to, incorporated herein, and made a part of this resolution as though set forth in full.
2. That except as may be otherwise provided, any and all expenditures relating to the objectives described in the budget are hereby approved and authorized and payments therefore may be made by the Director of Finance without further action of Council.
3. That for the purposes of determining whether the City Manager is authorized to execute a contract for a commodity or service pursuant to City Charter section 701 subsection 8, the City Manager shall have the authority to expend such funds and enter into and execute any and all contracts and documents necessary to carry out the priorities and service delivery outcomes of the

Council's appropriations as set forth in this budget, except as limited in paragraph 12 of this resolution.

4. In consultation with the City Attorney the City Manager and/or City Attorney shall be authorized to represent the City on the board of the Exclusive Risk Management Authority of California and take any and all actions necessary or appropriate to advance the City's interests in connection with risk management services and procuring of insurance coverages.
5. The City Manager is also authorized to enter into an Amended Repayment Agreement with the Redevelopment Agency, which will establish annual repayment terms and interest accrual terms, together with such additional changes approved by the City Manager and the City Attorney. Such Amended Repayment Agreement consolidates the provisions of the Repayment Agreement executed on September 23, 1975, as amended through the Twelfth amendment thereto, and also provides for the repayment of additional expenses incurred by the City of Hayward from tax increment revenues, based on the findings and provisions contained in the Amended Repayment Agreement.
6. The City Manager is also authorized to enter into a Loan Agreement between the General Fund and the Route 238 Housing Fund, in which the General Fund will borrow \$5 million in FY 2009 and FY 2010 from the Route 238 Housing Fund, for a total of \$10 million. The General Fund contributed \$5 million to fund housing and relocation needs related to the Route 238 Bypass, which is no longer planned by the California State Department of Transportation (Caltrans). The terms of this non-interest bearing inter-fund borrowing include repayment beginning in FY 2012, based on the General Fund's ability to pay. In the event that the City participates in meeting any identified replacement housing and relocation needs of existing Caltrans tenants the amount remaining in the Fund, along with possibly funds from the RDA Low and Moderate Income Housing Fund will be available. As appropriate in the next few years, Council will be asked to review and amend the repayment terms of the inter-fund borrowing agreement as necessary.
7. The following amounts are hereby appropriated for expenditure:

I. OPERATING EXPENDITURE APPROPRIATIONS

General Fund

100	Police Department	\$56,422,249
100	Fire Department	30,944,284
	Library & Neighborhood Services	
100	Dept	6,949,955
100	Community & Economic Dev Dept.	6,045,215
100	Maintenance Services Department	4,503,159
100	Public Works Department	3,792,062

100	Finance Department	3,017,172
100	Human Resources Department	2,847,529
100	City Manager Department	1,242,822
100	City Attorney Department	1,131,649
100	Mayor & Council Department	641,172
100	City Clerk Department	575,383
		<u>\$118,112,651</u>

Enterprise

621	Water M&O	\$25,101,237
611-612	Wastewater M&O	16,061,879
602	Stormwater M&O	2,440,240
631	Airport M&O	1,986,007
660	Centennial Hall	840,653
627	Regional Water Inter-Tie M&O	59,045
		<u>\$46,489,061</u>

Debt Service

320	DS - Certificate of Participation	\$2,770,742
870	DS - Special Assessment Districts	911,762
870	DS - CFD #1-Trustee	707,603
625	DS - HPFA Water Revenue Bonds	559,055
333	DS - VOIP Communications System	528,759
325	DS - Site Acquisition - MJCC	133,329
331	DS - UNISYS Computer Lease	109,979
326	DS - Solar Panel Acquisition	71,363
332	DS - Motorola Police Radios	69,512
870	DS - CFD #1-Admin Fund	20,762
320	DS - HPFA Retrofit COP'S	1,915
		<u>\$5,884,781</u>

LLD

820	Consolidated LLD 96-1, ZONE 6	\$8,900
821	Consolidated LLD 96-1, ZONE 9	4,350
822	Consolidated LLD 96-1, ZONE 10	263,100
823	Consolidated LLD 96-1, ZONE 11	303,275
824	Consolidated LLD 96-1, ZONE 12	41,635
825	Consolidated LLD 96-1, ZONE 13	5,950
831	Consolidated LLD 96-1, ZONE 1	6,875
832	Consolidated LLD 96-1, ZONE 2	8,100
833	Consolidated LLD 96-1, ZONE 3	176,900
834	Consolidated LLD 96-1, ZONE 4	21,226

835	Consolidated LLD 96-1, ZONE 5	4,675
837	Consolidated LLD 96-1, ZONE 7	158,350
839	Consolidated LLD 96-1, ZONE 8	7,850
		<u>7,850</u>
		\$1,011,186

Internal Service

710	Worker's Compensation	\$4,440,273
711	Liability Insurance	1,979,737
720	Facilities Mgmt	2,731,473
725	Technology Services	3,218,253
730	Fleet Mgmt	4,308,756
731	Fleet Acquisition	451,396
		<u>451,396</u>
		\$17,129,888

Special Revenue

213-216	Recycling Fund	\$792,154
225	Community Development Block Grant	2,193,582
227	Small Business Loan Delivery	180,629
228	Home Loan	30,000
231	Sm Bus Revolving Loan Fund	135,000
240	Paratransit Fund	969,132
245	Housing Mortgage Bond	145,525
270	Measure B - Paratransit	969,132
270	Downtown Business Improvement	115,000
271, 272, 276, 277	Narcotic Asset Seizure	106,314
		<u>106,314</u>
		\$5,636,468

8. The Director of Finance is hereby authorized to transfer the following amounts from one fund to another as indicated below at such time as he/she may determine, giving consideration to the intended purposes for which the transfers are made and available balances in each of the funds.

II. FUND TRANSFERS

FROM	TO	PURPOSE	AMT
100 - GF	Cert of Participation	City Hall DS	\$2,676,775
100 - GF	711 - Liab Insurance	Liab Insurance Premium	1,637,219
100 - GF	660 - Centennial Hall	GF Contribution	628,450
100 - GF	Trans Sys Improvement	CIP	220,000
100 - GF	Cert of Participation	D/S ABAG 2002(ABAG 33)	90,859
100 - GF	DS - Motorola Radios	DS - Motorola Radios	69,512

100 - GF	St Lighting Fund	CIP	30,000
100 - GF	Cert of Participation	DS	2,434
100 - GF	HPFA Retrofit COP'S	DS	1,915
			<u>\$5,357,164</u>
Spec Gas Tax	100 - GF	Street Maint., etc	\$2,111,492
215 - Recycling	100 - GF	Cost Allocation Prem	\$60,000
215 - Recycling	711 - Liab Insurance	Liab Insurance Prem	6,135
			<u>\$66,135</u>
216 - Recycling - Int	100 - GF	P/Y Interest	\$1,750,000
225 - CDBG	711 - Liab Insurance	Liab Insurance Prem	\$6,135
245 - Housing Mort. Bond	711 - Liab Insurance	Liab Insurance Prem	\$2,045
273 - BJA Grant	100 - GF	Granting Funding	\$60,000
278 - COPS Grant	100 - GF	Granting Funding	\$284,292
602 - Stormwater M&O	100 - GF	Cost Allocation to GF	\$68,261
602 - Stormwater M&O	711 - Liab Insurance	Liab Insurance Prem	25,974
			<u>\$94,235</u>
611 Wastewater	616 - WWTP Replac.	Capital Reserves to WWTP	\$2,000,000
611 Wastewater	613 - Sewer Improv.	Connection Fee to Sewer	1,500,000
611 Wastewater	614 - Sewer Improv.	Capital Reserves to Sewer	1,000,000
611 Wastewater	100 - GF	Cost Allocation to GF	364,821
			<u>\$4,864,821</u>
612 Wastewater	711 - Liab Insurance	Liab Insurance Prem	\$241,522
611 Wastewater	613 - Sewer Improv.	DS - CA SWRCB LOAN/SEWER	\$1,363,750
611 Wastewater	613 - Sewer Improv.	DS - 2002 ABAG XXIV Refunding	84,524
			<u>\$1,448,274</u>
611 Wastewater	616 - Sewer Revenue	DS - 2007 Sewer Revenue Refunding	\$362,454

621 - Water M&O	623 - Water Replacement	Capital Reserves to Water	2,000,000
621 - Water M&O	100 - GF	Cost Allocation to GF	855,833
621 - Water M&O	731 - Fleet Acquisition	Vehicle Purchase	451,396
621 - Water M&O	711 - Liab Insurance	Liab Insurance Prem	196,299
			<u>\$3,503,528</u>
621 - Water M&O	320 - HPFA Water Rev Bonds	D/S TO 1996 HPFA REVENUE B	\$332,157
621 - Water M&O	622 - Water Improv.	DS - 2004 Water System	171,450
621 - Water M&O	622 - Water Improv.	DS - 2001 Water System	88,480
621 - Water M&O	622 - Water Improv.	D/S ABAG 2002(ABAG XXIV	84,524
621 - Water M&O	320 - HPFA Water Rev Bonds	Misc Trsfr to HPFA Water Rev Bonds	3,276
			<u>\$679,887</u>
631 - Airport M&O	632 - Airport Cap Impr.	Airport Capital Reserves	\$700,000
631 - Airport M&O	621 - Water M&O	Misc Trsfr to Water M&O	194,519
631 - Airport M&O	100 - GF	Cost Allocation to GF	163,106
631 - Airport M&O	711 - Liab Insurance	Liab Insurance Prem	43,371
			<u>\$1,100,996</u>
660 - Centennial Hall	100 - GF	Cost Allocation to GF	\$100,000
660 - Centennial Hall	711 - Liab Insurance	Liab Insurance Prem	12,102
			<u>\$112,102</u>
710 - Worker's Comp	100 - GF	Cost Allocation to GF	\$213,667
710 - Worker's Comp	711 - Liab Insurance	Liab Insurance Prem	4,090
			<u>\$217,757</u>
711 - Liab Insurance	100 - GF	Cost Allocation to GF	\$401,124
720 - Facilities Mgmt	100 - GF	Cost Allocation to GF	\$135,000
720 - Facilities Mgmt	711 - Liab Insurance	Liab Insurance Prem	22,496
720 - Facilities Mgmt	326 - DS - Solar Panel	DS - Solar Panel	71,363
			<u>\$228,859</u>
725 - TS	333 - DS - VOIP	DS - VOIP Comm. System	\$528,464
725 - TS	100 - GF	Cost Allocation to GF	150,000
725 - TS	331 - DS - UNISYS	DS - Mainframe Computer	109,979
725 - TS	711 - Liab Insurance	Liab Insurance Prem	35,788
			<u>\$824,231</u>

730 - Fleet Mgmt	100 - GF	Cost Allocation to GF	\$135,000
730 - Fleet Mgmt	711 - Liab Insurance	Liab Insurance Prem	<u>35,916</u>
			\$170,916

9. There are hereby appropriated the following amounts to Reserves and Designations of Fund Balances, which the Director of Finance shall enter upon the records and reflect in the financial statement of the City:

GENERAL FUND RESERVES AND DESIGNATIONS

RESERVED

Encumbrances	\$600,000
Inventory	<u>28,000</u>
	\$628,000

DESIGNATIONS

Economic Uncertainty	\$7,000,000
Liquidity Reserve	3,500,000
Hotel Conference Center	1,000,000
Retirement Reserve	1,122,000
Police Staffing	<u>1,000,000</u>
	\$13,622,000

TOTAL RESERVE AND DESIGNATED \$14,250,000

In addition to the above specified amounts, the balances in each fund that are not otherwise appropriated are hereby appropriated to Contingency Reserves in those funds. Expenditures from Reserves or Designated Fund Balances shall require the approval of the City Council.

10. Any monies received during fiscal year 2009 as a consequence of a grant application approved by the City Council are hereby appropriated for the purposes for which the grant has been approved. Such appropriation includes authorization for the City Manager to expend such monies and for the Director of Finance to make payments therefore in accordance with the terms and conditions and for the purposes of the grant.
11. The Director of Finance is hereby authorized and directed to distribute the above appropriations, transfers, and reserves to the various accounts of the City in accordance with generally accepted accounting principles and consistent with the purposes and objectives as outlined in the approved budget.
12. Any contract for professional service included in the annual budget that will cost more than \$25,000 shall be executed by the City Manager only upon

approval of the contract by the City Council given at a meeting of the City Council.

13. The Director of Finance is directed to comply with GASB 31 (Unrealized investment gains and losses) and is authorized to make such entries as are required to the City's financial records. In addition, the Director of Finance is authorized to make such changes to the budget as are required by GASB 31.
14. The City Manager is hereby authorized to enter into a revolving loan Credit Agreement with Bank of the West, in a form which is satisfactory to the City Attorney.

IN COUNCIL, HAYWARD, CALIFORNIA _____

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 08-

Introduced by Council Member _____

MAL
6/19/08

RESOLUTION APPROVING CAPITAL IMPROVEMENT PROJECTS FOR FISCAL YEAR 2009

WHEREAS, the City Manager has submitted to the City Council of the City of Hayward estimates of revenues from all sources and estimates of expenditures required for the proper conduct of the activities of the City of Hayward for Fiscal Year 2009 contained in those documents entitled "City of Hayward Fiscal Year 2009 Recommended Budget" and "Five-Year Capital Improvement Program FY 2009 - FY 2013"; and

WHEREAS, a public hearing was held by the City Council of the City of Hayward, at which time all interested persons were afforded an opportunity to be heard on matters pertaining to the Capital Improvement Program budget recommended by the City Manager; and

WHEREAS, by Resolution No.08-_____, dated June 24, 2008, the City Council adopted the budget and appropriated funds for operating expenses for Fiscal Year 2009.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward as follows:

1. That the Capital Improvement Projects for Fiscal Year 2009, as embodied in the Five-Year Capital Improvement Program FY 2009 - FY 2013 document, are hereby adopted as the Capital Improvement Program for Fiscal Year 2009. Copies of the budget documents and the staff reports presented by the City Manager are on file in the office of the City Clerk and are hereby referred to, incorporated herein, and made a part of this resolution as though set forth in full.
2. That except as may be otherwise provided, any and all expenditures relating to the objectives described in the Capital Improvement Program budget are hereby approved and authorized and payments therefore may be made by the Director of Finance without further action of Council.
3. That for the purposes of determining whether the City Manager is authorized to execute a contract for a commodity or service pursuant to City Charter section 701 subsection 8, the City Manager shall have the authority to expend such

funds and enter into and execute any and all contracts and documents necessary to carry out the objectives of the Council's appropriations as set forth in this Capital Improvement Program budget.

4. The following are hereby approved for expenditure:

I. CAPITAL PROJECTS EXPENDITURE APPROPRIATIONS

Gas Tax Fund (210)	1,040,000
Measure B Tax Fund [Local Transportation] (211)	2,685,000
Measure B Tax Fund [Pedestrian & Bicycle] (212)	605,000
Capital Improvement Fund (410)	2,424,000
Street System Improvement Fund (413)	8,891,000
Transportation System Improvement Fund (420)	220,000
Route 238 Housing Trust (430)	30,230,000
Redevelopment Agency (454)	320,000
Sewer Improvement Fund (613)	5,346,000
Sewer Replacement Fund (614)	3,243,000
Wastewater Treatment Plant Replacement Fund (616)	8,572,000
Water Improvement Fund (622)	5,231,000
Water Replacement Fund (623)	7,468,000
Airport Capital Fund (632)	1,778,000
Facilities Internal Service Fund (721)	322,000
Technology Services Internal Service Fund (726)	350,000
TOTAL: ALL CAPITAL FUNDS	78,725,000

5. The Director of Finance is hereby authorized to transfer the following amounts from one fund to another as indicated below at such time as she may determine, giving consideration to the intended purposes for which the transfers are made and available balances in each of the funds.

II. FUND TRANSFERS

FROM FUND:	TO FUND:	AMOUNT:
Gas Tax (210)	General (100)	2,111,492
RDA (451)	Measure B - Local Transp. (211)	430,000
Route 238 Housing Trust (430)	Street System Improvements (413)	500,000

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

DRAFT

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

RESOLUTION NO. RA- 08-

Introduced by Agency Member _____

me
6/19/08

RESOLUTION APPROVING THE BUDGET OF THE REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD AND ADOPTING APPROPRIATIONS FOR FISCAL YEAR 2009

WHEREAS, the Executive Director has submitted to the Redevelopment Agency of the City of Hayward estimates of revenue from all sources and estimates of expenditures required for the proper conduct of the activities of the Redevelopment Agency of the City of Hayward for fiscal year 2009; and

WHEREAS, a public hearing was held by the Redevelopment Agency of the City of Hayward, at which time all interested persons were afforded an opportunity to be heard on matters pertaining to the recommended budget.

NOW, THEREFORE, BE IT RESOLVED by the Redevelopment Agency of the City of Hayward that:

1. The budget presented by the Executive Director is hereby approved and adopted as the budget of the Redevelopment Agency of the City of Hayward for fiscal year 2009. The budget presented by the Executive Director and approved by this resolution appears on pages 125-130 and 154-155, of the document entitled "City of Hayward Two-Year Recommended Operating Budget, FY 2009 & 2010," with adjustments as outlined in the June 10, 2008 Council Budget Report, which is hereby referred to, incorporated herein, and made a part of this resolution as though set forth in full.
2. The Executive Director is also authorized to enter into an Amended Annual Repayment Agreement, which will establish annual repayment terms and interest accrual terms, together with such additional changes approved by the Executive Director and the General Counsel. Such Amended Repayment Agreement consolidates the provisions of the Repayment Agreement executed on September 23, 1975, as amended through the Twelfth amendment thereto and also provides for the repayment of additional expenses incurred by the City of Hayward based on the findings therein contained.
3. The Executive Director is also authorized to enter into an agreement between the City and the Agency, pursuant to which the Agency agrees to perform any

obligations which would otherwise be funded by the Route 238 Housing fund but for the loan of a portion of said funds to the City, to the extent permissible by the Community Redevelopment Law and based on the availability of unencumbered RDA Low and Moderate Income Housing funds. As referenced in Resolution _____, approving the operating budget of the City of Hayward, the City's General Fund will borrow \$5 million in FY 2009 and FY 2010 from the Route 238 Housing Fund, for a total of \$10 million. The General Fund contributed \$5 million to fund housing and relocation needs related to the Route 238 Bypass, which is no longer planned by the California State Department of Transportation (Caltrans). The terms of this non-interest bearing inter-fund borrowing include repayment beginning in FY 2012, based on the General Fund's ability to pay. In the event that the City participates in meeting any identified replacement housing and relocation needs of existing Caltrans tenants the amount remaining in the Fund, along with possibly funds from the RDA Low and Moderate Income Housing Fund will be available. As appropriate in the next few years, Council will be asked to review and amend the repayment terms of the inter-fund borrowing agreement as necessary.

4. The Executive Director or General Counsel shall have the authority to bind and prepay all coverage and to negotiate and execute all documents necessary to obtain the insurance, third party administration services, loss fund stabilization and defense of claims budgeted for in the Liability Insurance Fund. In consultation with General Counsel the City Manager and/or the General Counsel shall be authorized to represent the City on the board of the Exclusive Risk Management Authority of California and take any and all actions necessary or appropriate to advance the City's interest in connection with risk management services and procuring of insurance coverage.

5. The following amounts are hereby estimated resources and appropriated expenditures:

I. Hayward Redevelopment Agency Fund (Fund 451)

Revenue

Property Taxes (Tax Increment)	\$9,532,457
Interest Income	240,649
HUSD Pass Thru fee	154,203
School Impact Fee Reimbursement	96,000
Park in-lieu Fees	228,000
Developer Garage Maint Payments	83,900
Other Revenue	<u>131,000</u>
	\$10,466,209

Transfers from other funds

Fund 454, RDA CIP	<u>\$3,367,000</u>
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TOTAL FUNDS AVAILABLE \$13,813,209

Expenditures

Hayward Redevelopment Agency \$13,775,196
\$13,775,196

Transfers to other funds

General Fund, 100 - Cost Allocation \$598,438
General Fund, 100 - Misc 290,000
General Fund, 100 – Loan Repayment 800,000
Liability Insurance Fund 711 58,589
Debt Service-04 TABS Fund 311 3,372,932
Debt Service-06 TABS Fund 311 559,340
CIP Fund 413 570,000
CIP Fund 211 430,000
Misc Trsfr Fund 311 6,900
Prop Tax to Low/Mod Fund, Fund 452 2,183,400
Downtown Bus Improv Fund 270 55,000
\$6,741,199

TOTAL EXPENDITURES/TRANSFERS \$20,516,395

II. Hayward Redevelopment Agency Debt Service Fund, Fund 311

Revenue

Transfers from HRA \$3,939,172

TOTAL FUNDS AVAILABLE \$3,939,172

Expenditures \$3,940,772

TOTAL EXPENDITURES \$3,940,772

III. Low and Moderate Housing Fund, Fund 452

Revenue

Property Tax (Tax Increment, 20%) \$2,383,114

Interest Income	<u>100,000</u>
	\$2,483,114
TOTAL FUNDS AVAILABLE	<u>\$2,483,114</u>

Expenditures

Low & Mod Housing Fund	<u>\$897,663</u>
	\$897,663

Transfers to Other Funds

General Fund, Fund 100 - Cost Allocation	\$35,778
Liability Insurance, Fund 711	<u>4,090</u>
	\$39,868

TOTAL EXPENDITURES & TRANSFERS	<u>\$937,531</u>
-------------------------------------------	-------------------------

IV. Low and Moderate Housing Loan Fund, Fund 453

Revenue

Interest	\$13,000
Interest Income	35,000
Principle	<u>40,000</u>
	\$88,000

TOTAL FUNDS AVAILABLE	<u>\$88,000</u>
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Expenditures

Low/Mod Housing Loan Fund	<u>\$500,000</u>
	\$500,000

TOTAL EXPENDITURES & TRANSFERS	<u>\$500,000</u>
-------------------------------------------	-------------------------

6. Any and all expenditures relating to the objectives described in the budget are hereby approved and authorized and payments therefore may be made by the Director of Finance.

7. Except as limited in paragraph 9 of this resolution, the Executive Director is authorized without further action from Council to enter into a contract or agreement for any commodity or service included in the annual budget of the Redevelopment Agency.

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO 08-_____

Introduced by Council Member _____

me
6/19/08

RESOLUTION ADOPTING PRELIMINARY CHANGES TO THE MASTER FEE SCHEDULE RELATING TO FEES AND CHARGES FOR DEPARTMENTS IN THE CITY OF HAYWARD

WHEREAS, section 15273 of the California Environmental Quality Act Guidelines states that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits;
2. Purchasing or leasing supplies, equipment, or materials;
3. Meeting financial reserve needs and requirements;
4. Obtaining funds necessary for capital projects necessary to maintain service within existing service areas; or
5. Obtaining funds necessary to maintain intra-city transfers as are authorized by City Charter; and

WHEREAS, the City Council finds and determines that this action is exempt from CEQA based on the foregoing provisions.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Hayward hereby adopts certain changes Master Fee Schedule relating to fees and charges for all departments of the City of Hayward, a copy of which is on file in the office of the City Clerk.

BE IT FURTHER RESOLVED that if any provision of this Master Fee Schedule is deemed to be invalid or beyond the authority of the City of Hayward, either on its face or as applied, the invalidity of such provision shall not affect the other provisions of this Master Fee Schedule, and the applications thereof; and to that end the provisions of this Master Fee Schedule shall be deemed severable.

BE IT FURTHER RESOLVED that Resolution No. _____, and all amendments thereto are hereby rescinded.

BE IT FURTHER RESOLVED that this resolution shall become effective as of July 1, 2008.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2008

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 08-

Introduced by Council Member _____

mm
6/19/08

RESOLUTION ESTABLISHING THE APPROPRIATION LIMIT FOR FISCAL YEAR 2009

WHEREAS, by Resolutions Nos. 08-_____ and 08-_____, the City Council approved the budgets and appropriated funds for operating expenses and capital projects for fiscal year 2009.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the appropriations limit for fiscal year 2009 is hereby established as \$215,816,566. In accordance with the requirements of state law regarding the appropriations limit, the annual adjustment factors for 2009 are hereby selected as follows: For change in population, the factor shall be the Alameda County population growth factor and for the change in the cost of living, the factor shall be the California per capita income factor. When adopted, the vote on this resolution shall constitute the recorded vote of the City Council for purposes of complying with the applicable procedural requirement of state law.

IN COUNCIL, HAYWARD, CALIFORNIA

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:

MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____

City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Actuarial and Employer Services Branch

Public Agency Contract Services

P.O. Box 942709

Sacramento, CA 94229-2709

**CERTIFICATION OF COMPLIANCE WITH
GOVERNMENT CODE SECTION 20903**

In accordance with Government Code Section 20903 and the contract between the Public Employees' Retirement System, the City Council of the City of Hayward hereby certifies that:

1. Because of an impending curtailment of, or change in the manner of performing service, the best interests of the agency will be served by granting such additional service credit.
2. The added cost to the retirement fund for all eligible employees who retire during the designated window period will be included in the contracting agency's employer contribution rate for the fiscal year that begins two years after the end of the designated period.
3. It has elected to become subject to Section 20903 because of impending mandatory transfers, demotions, and layoffs that constitute at least 1 percent of the job classification, department or organizational unit, as designated by the governing body, resulting from the curtailment of, or change in the manner of performing, its services.
4. Its intention at the time Section 20903 becomes operative is to keep all vacancies created by retirements under this section or at least one vacancy in any position in any department or other organizational unit permanently unfilled thereby resulting in an overall reduction in the work force of such department or organizational unit.

THEREFORE, the City Council of the City of Hayward hereby elects to provide the benefits of Government Code Section 20903 to all eligible members who retire within the designated period, _____ through _____.

CITY COUNCIL
OF THE
CITY OF HAYWARD

BY _____
Presiding Officer

Attest:

Clerk/Secretary

Date

PERS TWO YEAR ADDITIONAL SERVICE CREDIT ENHANCEMENT – ELIGIBLE CLASSIFICATIONS

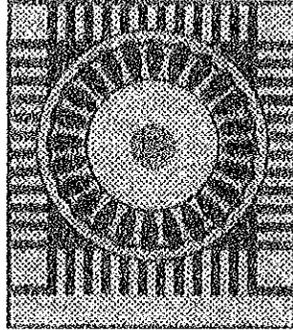
On May 23, 2008, the City added a two year additional service credit provision to the City's contract with the California Public Employees Retirement System (PERS) for miscellaneous (non-safety), police and fire employees. Due to our current financial situation and in an effort to avoid mandatory transfers, demotions, and layoffs, at the June 24, 2008 Council meeting, staff will be requesting approval of a resolution to open two periods, in which the eligible employees may retiree with enhanced retirement benefits.

The first period is from July 1, 2008 to September 30, 2008 for the following classifications:

- All PERS miscellaneous classifications (non-safety) in the following organizational units:
 - City Attorney Department
 - City Clerk Department
 - City Manager Department
 - Community and Economic Development Department/Administration Division
 - Community and Economic Development Department/Building Division
 - Community and Economic Development Department/Planning Division
 - Finance Department
 - Fire Department
 - Human Resources Department
 - Library and Neighborhood Services Department/Administration Division
 - Library and Neighborhood Services Department/Library Services Division
 - Library and Neighborhood Services Department/Neighborhood Services Division
 - Maintenance Services Department
 - Police Department
 - Public Works Department/Administration Division
 - Public Works Department/Engineering and Transportation Division
 - Technology Services Department
- Administrative Secretary and Technical Assistant in the Mayor and Council Department
- Administrative Analyst I, Administrative Analyst II, Administrative Analyst III, Administrative Clerk I, Administrative Clerk II, Administrative Secretary, Airport Maintenance Worker, Electrician I, Electrician II, Maintenance Worker, Secretary, Senior Secretary, Storekeeper, and Water Meter Reader in all Departments
- Utility Worker in Public Works/Sewer Collection Division
- Police Sergeants, Police Lieutenants, Police Captains and Police Chief
- Fire Marshal, Fire Captains and Fire Inspectors

The second period is from October 1, 2008 to December 31, 2008 for the following classifications:

- Police Officers and Inspectors
- Firefighters and Apparatus Operators



City of Hayward

FINANCIAL POLICIES

Department of Finance and Internal Services
Debra C. Auker, Director

National Advisory Council on State and Local Budgeting (NACSLB) Budget Practices

Background

The City of Hayward makes program and service decisions and allocates resources to programs and services through the budget process. As a result, the budget process is one of the most important activities undertaken by Hayward. The quality of decisions resulting from the budget process and the level of their acceptance depends on the budget process that is used.

The National Advisory Council on State and Local Budgeting (NACSLB) developed a set of recommended practices in the area of state and local budgeting.

Policy

Hayward endorses the work of the NACSLB, including the NACSLB's definition, mission, and key characteristics of the budget process, stated as follows:

Definition of the Budget Process: The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

Mission of the Budget Process: To help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.

Key Characteristics of the Budget Process:

- Incorporates a long-term perspective;
- Establishes linkages to broad organizational goals;
- Focuses budget decisions on results and outcomes;
- Involves and promotes effective communication with stakeholders;
- Provides guidelines to Hayward's management and employees.
- Brief analysis discussing the current financial status, the immediate future status, and long-term trends.

Given the evolving nature of good budgeting and management, these NACSLB practices are not intended as mandatory prescriptions for Hayward. Rather, they are recommendations that provide a blueprint for Hayward to make improvements to their budget processes. Implementation of these practices is expected to be an incremental process that will take place over a number of years.

References

- NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.
- NACSLB's Practices located on GFOA's web site at www.gfoa.org.
- *Budget Awards Program: Illustrations and Examples of Program Criteria*, Juliet Carol Powdar, GFOA, 1999.

Balanced Budget

Background

A government should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means. At a minimum, balance should be defined to ensure that a government's use of resources for operating purposes does not exceed available resources over a defined budget period. A more stringent definition requires that a government maintain a balance between operating expenditures and operating revenues over the long term, not just during the current operating period. This latter definition of balance is referred to as structural balance.

The policy should provide clear definition as to how budgetary balance is to be achieved. Definitions of items to be counted as operating resources (e.g., revenues) and operating resources uses (e.g. expenditures) should be explicitly identified. All major funds should be included. The policy should explicitly note and, if necessary explain the relevant constitutional, statutory, or case law provisions that impose a balanced budget requirement upon the government. The policy also should identify the circumstances when deviation from a balanced budget may occur. The policy should be written in nontechnical language or have a nontechnical summary. Because of its importance in budget decisions, it should be readily available to stakeholders and publicly discussed at key points in the budget process. Compliance is met with some states and local governments by defining resources and resource uses to include fund balances or charges to fund balances. There may be statutory or other requirements that a budget must be balanced based on this definition. These types of statutory balanced budget requirements are a component of and not in conflict with the goal of achieving structural balance. Additional or even separate reporting may be required to demonstrate that both statutory balance and structural balance have been achieved.

This practice does not directly apply to capital budgets. Capital budgets are often funded at least partially from one-time resources. However, the ongoing maintenance or replacement of capital equipment of facilities is an important part of the budget process. Such items, particularly maintenance or equipment replacements, are often defined as operating items to ensure their inclusion in operating budget decisions.

Policy

The City of Hayward's balanced budget policy includes the following:

- Identification of and rationale for which operating resources and resource uses are included or excluded from the definition of a balanced budget calculation: The calculation includes operating revenues and expenditures only; capital maintenance or replacement is excluded; interfund transfers are excluded and highly variable components of ongoing revenues (such as the volatile component of real property transfer tax revenues or development-

related revenue) shall be excluded on a case by case basis.

- Fund balances may be used as a resource for non-recurring expenditures.
- The budget must be balanced, upon adoption.
- The modified accounting accrual basis is used to define revenues and expenditures.
- The circumstances in which noncompliance with the balanced budget policy shall be permitted if fully disclosed (e.g. during the early stages of an economic downturn so that services can be reduced in an orderly fashion).
- Mid term reviews shall be used to take action to bring the budget into balance if adjustments are needed in the course of a fiscal period.
- The balanced budget policy will be applied over a 10-year financial planning horizon for the City's General Fund in order to identify and plan to avoid structural imbalances in the long term.

References

- *NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.*
- *NACSLB's Practices located on GFOA's web site at www.gfoa.org*

Long Range Financial Forecasting in the Budget Preparation Process

Background

The National Advisory Council on State and Local Budgeting (NACSLB) has endorsed the forecasting of revenues and the forecasting of expenditures in their Recommended Budget Practices. The City Council recognizes the importance of combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast all the City's major operating funds. Hayward should have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals. A key component in determining future options, potential problems, and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting does the following:

- *Provides an understanding of available funding;*
- *Evaluates financial risk;*
- *Assesses the likelihood that services can be sustained;*
- *Assesses the level at which capital investment can be made;*
- *Identifies future commitments and resource demands; and*
- *Identifies the key variables that cause change in the level of revenue.*

Most importantly, forecasting provides an early warning system for identifying future problems that might not be obvious when only looking at the short-term horizon, and allows the organization to adjust in a planned manner rather than as a reaction after the fact.

Policy

Hayward's budget shall include a long range financial forecast of General Fund revenues and expenditures including subsidy funds. The forecast will extend at least ten years including the budget period. The forecast, along with its underlying assumptions and methodology, will be clearly stated and made available to participants in the budget process. It will also be referenced in the final budget document. To improve future forecasting, staff should analyze the variances between previous forecast and actual amounts. The variance analysis should consider the factors that influence revenue collections, expenditure levels, and forecast assumptions. The forecast shall include a fund balance calculation and any difference from established reserve levels.

References

- *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting, NACSLB, 1998.*
- *Recommended Budget Practices CD-ROM, NACSLB, 1998.*
- *Budget Awards Program: Illustrations and Examples of Program Criteria, Juliet Carol Powdar, GFOA, 1999.*

Internal Service Maintenance and Capital Replacement

Background

Capital assets comprise major government facilities, infrastructure, equipment, vehicles, computers, and data networks enabling the delivery of public sector services. The quality and continued utilization of these capital assets are essential to the health, safety, economic development and quality of life of those utilizing such assets.

Budgetary pressures may impede capital program investments for maintenance and replacement purposes, making it increasingly difficult to sustain existing capital asset condition and avoid functional obsolescence. Yet deferring such essential reinvestments reduces vital public services and may even endanger public safety. The financial result is increased cost as the physical condition of these assets declines. Hayward has therefore established capital planning, budgeting and reporting practices to encourage adequate capital spending levels. A government's financial and capital improvement plans should address the continuing investment necessary to properly maintain its capital assets. Such practices should include proactive steps to promote adequate capital maintenance and reinvestment in existing public capital assets.

Recommendation

The City of Hayward established internal service funds for facilities, fleet and technology. These funds create a system for planning, budgeting and periodic assessment of capital maintenance/replacement needs. The following actions are considered in these assessments:

1. Develop and maintain a complete inventory of all capital assets. This inventory should contain essential information including engineering description, location, physical dimensions and condition, "as-built" documents, warranties, maintenance history, book value and replacement cost. Operating cost information could also be included. Database and geographic information technologies should be employed to assist in this task.
2. Develop a policy to require periodic measurement of the physical condition of all existing capital assets including estimated remaining useful life of assets. Document the established methods of condition assessment. Periodically evaluate the capital program using data driven analysis of asset condition as well as past expenditure levels.
3. Establish condition/functional performance standards to be maintained for each category/component of capital assets. Such standards may be dictated by mandated safety requirements, federal or state funding requirements or applicable professional standards. Use these standards and a current condition assessment as a basis for multi-year capital planning and annual budget funding allocations for capital asset maintenance and replacement.
4. Develop financing policies for capital maintenance/replacement which encourage a high priority for those capital programs whose goal is maintaining the quality of existing assets. Consider earmarking fees or other revenue sources to help achieve this goal.

5. Allocate sufficient funds in the 10-year capital improvement plan and annual operating budgets for routine maintenance, repair and replacement of capital assets in order to extend the useful life of these assets and promote a high level of performance throughout the target period.
6. At least annually, report on capital assets, including:
 - a. Condition ratings jurisdiction-wide
 - b. Condition ratings by geographical area, asset class, and other relevant factors
 - c. Indirect condition data (e.g., work orders, repeat repairs)
 - d. Replacement life cycle(s) by asset type
 - e. Year-to-Year changes in net asset value
 - f. Actual expenditures and performance data on capital maintenance compared to budgeted expenditures performance data (e.g., budgeted improvements compared to actual)
7. Report trends in spending and accomplishments in the jurisdiction's Capital Improvements Program including trends in spending, replacement cycle, and other important factors for each major asset category.

References

- John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments*, ICMA, 2004.
- Nicole Westerman, *Managing the Capital Planning Cycle: Best Practice Examples of Capital Program Management*, Government Finance Review, 2004.
- GFOA & National Advisory Council on State and Local Budgeting Best Practices in Public Budgeting (Practice #s 2.2, 5.2, 6.2, 11.5). – www.GFOA.org/services/nacslb.
- GFOA Recommended Practice, *Capital Project Budget (2006)*; www.GFOA.org.
- GFOA Recommended Practice, *Establishing the Estimated Useful Lives of Capital Assets (2002, 2007)*; www.GFOA.org.
- GFOA Recommended Practice, *Considerations on the Use of the (GASB 34 Reporting Model) Modified Approach to Account for Infrastructure Assets (2002)*; www.GFOA.org.

Multi-Year Capital Improvement Plan (CIP)

Background

Buildings, infrastructure, technology, and major projects are the physical foundation for providing services to constituents. The procurement, construction, and maintenance of capital assets are critical activities of the City of Hayward, and therefore require careful planning.

Capital planning is critical to water, sewer, transportation, sanitation, and other essential public services. It is also an important component of a community's economic development program and strategic plan. And, it provides structure and support for the management and maintenance of capital facilities and infrastructure, which are important to the future health of the community. It is extremely difficult for governments to address the current and long-term needs of their constituents without a sound multi-year capital improvement plan that clearly identifies capital and major equipment needs, maintenance requirements, and funding options, as well as their respective impacts on the relative operating budgets.

Recommendation

The City of Hayward shall prepare and adopt comprehensive 10-year capital improvement plans to ensure effective management of capital assets. A prudent multi-year capital improvement plan identifies and prioritizes expected needs based on a community's strategic plan, establishes project scope and cost, details estimated amounts of funding from various sources, and projects future operating and maintenance costs.

Identify needs. The first step in capital planning is identifying needs. Using information, including development projections, strategic plans, comprehensive plans, facility master plans, regional plans, and citizen input processes, governments should identify present and future service needs that require capital infrastructure or equipment. In this process, attention should be given to:

- Capital assets that require repair, maintenance, or replacement that, if not addressed, will result in higher costs in future years
- Infrastructure improvements needed to support new development or redevelopment
- Projects with revenue-generating potential
- Improvements that support economic development
- Changes in community needs
- New policies, such as those related to sustainability and energy efficiency

Determine costs. The full extent of project costs should be determined when developing the multi-year capital improvement plan. Cost issues to consider include the following:

- The scope and timing of a planned project should be well defined in the early stages of the planning process
- Identify and use the most appropriate approaches, including outside assistance,

when estimating project costs and potential revenues

- For projects programmed beyond the first year of the plan, Hayward should adjust cost projections based on anticipated inflation
- The ongoing operating costs associated with each project should be quantified, and the sources of funding for those costs should be identified
- A clear estimate of all major components required to implement a project should be outlined, including land acquisition needs, design, construction, contingency and post-construction costs
- Recognize the non-financial impacts of the project (e.g., environmental) on the community.

Prioritize capital requests. Hayward is continually faced with extensive capital needs and limited financial resources. Therefore, prioritizing capital project requests is a critical step in the capital improvement plan preparation process. When evaluating project submittals, Hayward should:

- Reflect the relationship of project submittals to financial and governing policies, plans, and studies
- Allow submitting departments to provide an initial prioritization
- Incorporate input and participation from major stakeholders and the general public
- Adhere to legal requirements and/or mandates
- Anticipate the operating budget impacts resulting from capital projects
- Apply analytical techniques, as appropriate, for evaluating potential projects (e.g., net present value, pay back period, cost-benefit analysis, life cycle costing, cash flow modeling)
- Re-evaluate capital projects approved in previous multi-year capital improvement plans
- Use a rating system to facilitate decision-making

Develop financing strategies. Hayward recognizes the importance of establishing a viable financing approach for supporting the multi-year capital improvement plan. Financing strategies should align with expected project requirements while sustaining the financial health of the organization. While undertaking a capital financing plan Hayward should:

- Anticipate expected revenue and expenditure trends, including their relationship to multi-year financial plans
- Prepare cash flow projections of the amount and timing of the capital financing
- Continue compliance with all established financial policies
- Recognize appropriate legal constraints
- Consider and estimate funding amounts from all appropriate funding alternatives
- Ensure reliability and stability of identified funding sources
- Evaluate the affordability of the financing strategy, including the impact on debt ratios, taxpayers, ratepayers and others

References

- John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments*, (Washington, D.C.: International City/County Management Association, 2004)
- National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (Chicago: GFOA, 1998)
- Patricia Tigue, *Capital Improvement Programming: A Guide for Smaller Governments* (Chicago: GFOA, 1996).
- Nicole Westerman "Managing the Capital Planning Cycle: Best Practice Examples of Effective Capital Program Management," *Government Finance Review* 20, no. 3 (June 2004).
- GFOA Recommended Practice: *Establishing Appropriate Capitalization Thresholds for Tangible Capital Assets* (2001)
- GFOA Recommended Practice: *Establishing the Useful Life of Capital Assets* (2002)
- GFOA Recommended Practice: *Establishment of Strategic Plans* (2005)

Revenue Enhancements and Setting of Charges and Fees

Background

The City of Hayward uses charges and fees to fund the provision of goods and services. Charges for services: Charges are voluntary payments that are used to finance traditional governmental services such as water, wastewater, recreational activities such as library services; and miscellaneous programs, such as planning services, building permits and, dangerous tree removal. Fees for services: From a technical standpoint, fees are distinctively different from charges, although the terms may be used interchangeably by some. A fee is imposed as a result of a public need to regulate activities, typically related to health, safety, or other protective purposes. Fees result in the purchase of a privilege or authorization and are applied to such activities as passports, inspections, and building permits. According to economic theory, the most efficient use of resources is achieved if the price for a good or service is set at a level that is related to the cost of producing the good or service. In practice, governments set some charges and fees to recover 100 percent of the cost. Other charges and fees are set at levels below cost for various reasons, and in some cases, state or local law may restrict the amount of a charge or fee.

Policy

The City of Hayward supports the use of charges and fees as a method of funding governmental services. The following policy is established regarding the charge and fee setting process:

1. Hayward intends to recover the full cost of providing goods and services. Circumstances where a charge or fee is set at less than 100 percent of full cost shall be identified. If the full cost of a good or service is not recovered, then an explanation of the City's rationale for this deviation should be provided. Some considerations that might influence Hayward's pricing practices are the need to regulate demand, the desire to subsidize a certain product, administrative concerns such as the cost of collection, and the promotion of other goals.
2. Charges and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
3. Information on charges and fees should be available to the public. This includes the City of Hayward policy regarding setting fees and charges based on full cost recovery, and information about the amounts of charges and fees, current and proposed, both before and after adoption.
4. Staff will regularly assess the cost and feasibility of collection and recovery. Although it may be determined that a high level of cost recovery may be appropriate for specific services, it may be impractical or too costly to establish a system to identify and charge the user. Accordingly, the feasibility of assessing and collecting charges should also be considered in developing user fees, especially if significant program costs are intended to be financed from that source.
5. Very low cost recovery levels are appropriate under the following circumstances:
 - a. There is no intended relationship between the amount paid and the benefit received. Almost all "social service" programs fall into this

- category as it is *expected* that one group will subsidize another.
- b. When collecting fees is not cost-effective or will significantly impact the efficient delivery of the service.
 - c. If the service is non-recurring, generally delivered on a "peak demand" or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. Many public safety services also fall into this category.
 - d. When collecting fees would discourage compliance with regulatory requirements and adherence is primarily self-identified, and as such, failure to comply would not be readily detected by the City. Many small-scale licenses and permits may fall into this category.
6. The use of service charges and fees as a major source of funding service levels is especially appropriate under the following circumstances:
- a. The service is similar to services provided through the private sector.
 - b. Other private or public sector alternatives could or do exist for the delivery of the services.
 - c. For equity or demand management purposes, it is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
 - d. The use of the service is specifically discouraged. Police responses to disturbances or false alarms might fall into this category.
 - e. The service is regulatory in nature and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. Building permit, plan checks, and subdivision review fees for large projects would fall into this category.
7. The following general concepts will be used in developing and implementing service charges and fees:
- a. Revenues should not exceed the reasonable cost of providing the service.
 - b. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization-wide support costs such as accounting, personnel, data processing, vehicle maintenance and insurance.
 - c. The method of assessing and collecting fees should be simple as possible in order to reduce the administrative cost of collection.
 - d. Charges and fees should be reviewed annually and adjusted by the Bay Area CPI increase, salary increases or by their applicable multipliers based on the cost of providing services.

References

- *Catalog of Public Fees and Charges*, compiled by Dennis Strachota and Bruce Engelbrekt, GFOA, 1992.
- *Costing Government Services: A Guide for Decision Making*, Joseph T. Kelley, GFOA, 1984.
- "User Charges and Fees," C. Kurt Zorn in *Local Government Finance: Concepts and Practices*, edited by John E. Petersen and Dennis R. Strachota, GFOA, 1991.
- "Cost Analysis and Activity-Based Costing for Government," GFOA, 2004

Debt Issuance and Management Parameters

Background

A comprehensive debt policy sets forth the parameters for issuing debt and managing the debt portfolio and provides guidance to decision makers. These parameters recognize a long-term commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to the parameters helps to ensure that Hayward maintains a sound debt position and that its credit quality is protected. A policy regarding debt issuance and management is beneficial because it enhances the quality of decisions, rationalizes the decision-making process, identifies objectives for staff to implement, demonstrates a commitment to long-term financial planning objectives establishes healthy boundaries for the debt burden of the organization, and is viewed positively by the rating agencies.

Issuers of government bonds should sell their debt using the method of sale that is most likely to achieve the lowest cost of borrowing while taking into account both short-range and long-range implications for taxpayers and ratepayers. Differing views exist among issuers and other bond market participants with respect to the relative merits of the competitive and negotiated methods of sale. Moreover, research into the subject has not lead to universally accepted findings as to which method of sale is preferable when taking into account differences in bond structure, security, size, and credit ratings for the wide array of bonds issued by state and local governments.

Policy

The City of Hayward has developed a comprehensive debt management policy. The following parameters are to be considered before debt issuance:

1. The purposes for which debt may be issued shall be determined;
2. Legal debt limitations or limitations established by policy, including limitations on the Pledge of the issuer's general credit shall be calculated;

Limits are generally set for legal, public policy, and financial reasons.

a. *Legal limits* may be determined by:

- State constitution or law,
 1. The City is bound by a provision in state law limiting indebtedness for California cities to 15% of the assessed value of all real and personal property of the city. This statutory limitation applies to bonded indebtedness of the City payable from the proceeds of taxes levied on property.
- Local charter, by-laws, resolution or ordinance, or covenant.

b. *Public Policy limits* can include:

- Purposes for which debt proceeds may be used or prohibited,
- Types of debt that may be issued or prohibited.
 1. Types of debt permitted to be issued are:
 - short-term and long-term debt,
 - general obligation and revenue debt,
 - capital and variable rate debt,
 - lease-backed debt, such as certificates of participation,

- special obligation debt such as assessment district debt,
 - pension obligation bonds,
 - conduit issues,
 - State Revolving Loan Funds and Pools,
 - Inter-fund borrowing,
 - taxable and non-taxable debt;
 - Relationship to and integration with the Capital Improvement Program, and
 - Policy goals related to economic development, capital improvement financings, tax increment financing, and public-private partnerships.
- c. *Financial limits* generally reflect public policy or other financial resource constraints, such as reduced use of a particular type of debt due to changing financial conditions. Appropriate debt limits can positively impact both bond ratings, if the government demonstrates adherence to such policies over time. Financial limits are often expressed as ratios customarily used by credit analysts. Different financial limits are used for different types of debt. Examples include:

- *Direct Debt* can be measured or limited by the following ratios:
 - ✓ Debt per capita,
 - ✓ Debt to personal income,
 - ✓ Debt to taxable property value, and
 - ✓ Debt service payments as a percentage of general fund revenues or expenditures.
- *Revenue Debt* levels are often limited by debt service coverage ratios (e.g., annual net pledged revenues to annual debt service) or credit rating impacts (e.g., additional bonds should not lower ratings) contained in bond covenants.
- *Conduit Debt* limitations may reflect the right of the issuing government to approve the borrower's creditworthiness, the purpose of the borrowing issue, or a minimum credit rating. Such limitations reflect sound public policy, particularly if there is a contingent impact on the general revenues of the government or marketability of the government's direct debt.
- *Short-Term Debt Issuance* should describe the specific purposes and circumstances under which it can be used, as well as limitations in term or size of borrowing.

Prior to the issuance of any debt, the funding source for the debt service is identified and designated. The level of debt to which the City obligates itself is managed within available resources and represents a minimal cost to general taxpayers. To the extent possible, the City plans the issuance of new debt to occur when resources are made available by the retirement of an existing obligation. By managing the timing of new debt, current City operations are not affected.

3. Debt structuring practices that are to be considered before issuance of debt:

- maturity of the debt,
- setting the maturities of the debt equal to or less than the useful life of the project, (debt should not be issued for a term greater than the useful life of the asset)

- use of zero coupon bonds, capital appreciation bonds, deep discount bonds, or premium bonds,
 - debt service structure (level debt service payments, equal principal payments or other repayment structure defined by state law),
 - redemption provisions (mandatory and optional call features),
 - use of credit enhancement, such as bond insurance,
 - use of senior lien and junior lien obligations,
 - use of derivative products;
 - use of variable rate or fixed-rate debt, and
 - other structuring practices should be considered such as capitalized interest, deferral of principal and/or other internal credit support, including general obligation pledges.
4. Additional consideration shall be given to credit objectives, such as:
 - maintenance of specific credit ratings, and
 - adherence to benchmark direct and overall debt ratios and other affordability targets;
 5. Authorized methods of sale shall be considered on a case by case basis, including: competitive sale, negotiated sale, and private placement;
 - a. The presence of the following factors may favor the use of a *competitive sale*:
 - The rating of the bonds, either credit-enhanced or unenhanced, is at least in the single-A category.
 - The bonds are general obligation bonds or full faith and credit obligations of the issuer or are secured by a strong, known and long-standing revenue stream.
 - b. The presence of the following factors may favor the use of a *negotiated sale*:
 - The rating of the bonds, either credit-enhanced or unenhanced, is lower than single-A category.
 - Bond issuance or other credit enhancement is unavailable or not cost-effective.
 - The structure of the bonds has features such as a pooled bond program, variable rate debt, deferred interest bonds, or other bonds that may be better suited to negotiation.
 - The issuer desires to target underwriting participation to include disadvantaged business enterprises (DBEs) or local firms.
 - Other factors that the issuer, in consultation with its financial advisor, believes favor the use of a negotiated sale process.
 6. Method of selecting outside finance professionals shall be consistent with the City's procurement practices;
 7. Refunding of debt calculations;
 8. Primary and secondary market disclosure practices;
 9. Compliance with federal tax law provisions, such as arbitrage requirements;
 10. Integration of capital-planning and debt-financing activities; and
 11. Investment of bond proceeds where otherwise not covered by explicit written law or written investment policy.

In order to be an effective management tool, the parameters of the debt issuance and management must be compatible with the City's goals pertaining to the capital

improvement program and budget, the long-term financial plans, and the operating budget. Debt parameters should strike an appropriate balance between establishing limits on the debt program and providing sufficient flexibility to respond to unforeseen circumstances and new opportunities. Finally, the Finance Director should consider debt parameters on a given issuance, and the debt program should be continuously monitored to ensure that it is in compliance with these parameters.

References

- Developing Formal Debt Policies," *Government Finance Review*, August 1991.
- "Preparing a Municipal Debt Policy Statement," *Government Finance Review*, June 1994.
- Audio Cassette Tape, GFOA Annual Conference Session, "Debt Affordability Analysis: A Comparative Approach," 1996.
- An Elected Official's guide to Debt Issuance, J.B. Kurish and Patricia Tigue, GFOA, 2005.
- Debt Management Policy, GFOA Recommended Practice, 2003

Reserves

Background

Hayward should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures. These resources also provide a first defense against deficit spending and help maintain liquidity when budgeted draw downs are inevitable.

Reserves may be used at the City Council's discretion to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities. These resources are intended to provide flexibility to respond to unexpected opportunities that may help the City of Hayward achieve its goals. The use of these funds may also be tied to an adverse change in economic indicators to ensure that the funds are not depleted before an emergency arises.

Policy

It is the policy of the City of Hayward to establish and maintain adequate financial reserves in order to avoid the negative effects of economic cycles upon essential services to the public and to assure that annual fluctuations in revenue receipts do not impede the City's ability to meet its expenditure obligations. During periods of economic sufficiency, these reserves shall be used as a source of supplemental revenue through prudent investments and earnings under policies of the City Council and for meeting short-term cash flow deficiencies. During periods of economic downturns, when revenues fail to meet the normal operating requirements of essential public services, or when need for disbursements temporarily exceeds receipts, these reserves may, upon the recommendation of the City Manager and the authorization of the City Council, be used in accordance with the standards set forth herein.

The minimum and maximum targets are as follows:

Name	Minimum	Maximum	Basis
General Fund-Economic Uncertainty	\$5,000,000	10% of the annual general fund operating appropriations	Sales tax, real property transfer tax and development related fees are sensitive to general economic cycles. Since they are major revenue sources to the general fund it is necessary to create a reserve that will allow the City to continue providing acceptable service levels during economic downturns.
General Fund-Liquidity	\$2,500,000	5% of the annual general fund operating appropriations	Certain major revenues of the general fund are passed through other government agencies, state and county. We cannot control the timing of when they make payments to the City. This reserve is to address short-term borrowing needs the City may encounter.

Name	Minimum	Maximum	Basis
General Fund-Emergencies	\$10,000,000 (to be established over 10 year planning period)	3 months City payroll	To ensure that the City can provide essential services to the public during a disaster, a reserve for emergencies will be developed over the next 10 year planning period.
Fleet Management	Annual replacement requirements of existing assets	Long-term replacement requirements for existing and future assets	Accumulation of reserves will ensure timely replacement of city assets.
Facilities Replacement	Annual replacement requirements of existing assets	Long-term replacement requirements for existing and future assets	Accumulation of reserves will ensure timely replacement of city assets.
Technology Replacement	Annual replacement requirements of existing assets	Long-term replacement requirements for existing and future assets	Accumulation of reserves will ensure timely replacement of city assets.
Risk Management-General Liability	\$1,000,000	Amount recommended by City Attorney	The City is self insured and therefore it is prudent to set aside reserves for an unforeseen claim.
Retirement Benefit Liability (City to explore establishing a Trust Fund to hold and manage these reserves)	3% of annual payroll (to begin in 2010 and grow to minimum target over 10 year planning period)	Actuarial determined OPEB liability	Per GASB 45, City's must report the other Pension Employee Benefits (OPEB) Liability in financial statements. It is also recommended to set aside reserves for these obligations.

The budget presented by the City Manager annually is required to include a recommendation for the amounts to be appropriated to these Reserves.

In times of economic downturn, if revenues are insufficient to meet the normal operating requirements of essential services, funds contained in the Reserve for Economic Uncertainty or Reserve for Liquidity may be used if authorized by the City Council, based on the following priorities:

- 1) Staffing levels in essential services shall be maintained, in order to avoid or reduce the necessity for lay-offs;
- 2) A hiring freeze shall be implemented for designated positions as appropriate to maintain essential services to the public;
- 3) User fees and services charges shall be utilized as fully as possible for those services for which they are appropriate;
- 4) The level of the Reserve shall be restored in a timely manner as economic recovery occurs, consistent with the maintenance of essential services;
- 5) Essential services and appropriate levels of such services shall be determined from time to time by the City Council upon the recommendation of the City Manager.

References

- *NACSLB's Framework for Improved State and Local Government Budgeting and Recommended Practices.*
- *Impact of Management Practices on Municipal Credit*, Fitch IBCA, May 4, 2000
- *Budgeting a General Fund Reserve*, CSMFO, February 18, 2000
- *City of Hayward City Council Resolution 89-180*, June 13, 1989