



**DATE:** May 30, 2015

**TO:** Mayor and City Council

**FROM:** City Manager  
Director of Finance

**SUBJECT:** Follow Up Information for May 30, 2015 FY 2016 Budget Presentations

### **RECOMMENDATION**

That the Council receives the attached updated “working agenda and schedule” and uses it to structure the work session.

### **BACKGROUND AND DISCUSSION**

On May 26, 2015, the City Manager and Finance Director presented the proposed FY 2016 operating budget to the City Council. The Council also held a work session that evening on the Council priorities and key factors relating to those priorities. During the discussions, Council requested additional time during the upcoming Council meetings to discuss a number of topics:

- 1) Review of the General Fund Ten-Year Plan
- 2) Further Discussion of the Performance Factors and Council Priorities
- 3) Benefit Liabilities Funding Plan
- 4) Budget Policies Update

Staff has restructured the working agenda and schedule for this Saturday’s budget work session to accommodate Council discussion about some of the critical budget topics listed above and to reduce the amount of time spent on departmental budget presentations. Staff has also added a work session on Tuesday, June 9 for further budget discussion along with the already scheduled Council budget work session on June 2.

Staff recommends that the Council focus on items 1 and 2 (General Fund Ten-Year Plan and Performance Factors and Council Priorities) this coming Saturday and then discuss items 3 and 4 (Benefit Liabilities and Budget Policies) during the June 9 City Council meeting. This will allow these two items to be presented to the Council Budget & Finance Committee on Wednesday, June 3 before coming back to Council for a full discussion.

Below is a proposed schedule:

Saturday, May 30	General Fund Ten-Year Plan Update Discussion of Performance Factors and Council Priorities
Tuesday, June 2	Follow up Discussion from Saturday, May 30 FY 2016 Proposed Capital Improvement Program Plan
Tuesday, June 9	Benefit Liabilities Funding Plan Budget Policies Update
Tuesday, June 16	Public Hearing on FY 2016 Budget
Tuesday, June 23	Adoption of FY 2016 Budget

Attached to this memorandum are several documents that will help inform the Council's discussion on these four topics:

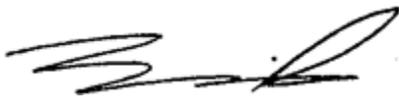
- Current Budget Policies (from proposed budget document)
- Council Priorities and Factor Maps (as updated based on Council comments from Tuesday, May 26 work session)
- Staff Report on Benefit Liabilities that was previously presented to the Council Budget & Finance Committee on April 16, 2015 and as partially included in the proposed budget document
- Proposed FY 2016 General Fund Ten-Year Plan as included in the proposed budget document

Staff has provided time estimates on the revised working agenda simply to help manage the Council's time during this special budget workshop. Listed times are estimates only and are subject to change at any time, including while the meeting is in progress. The Council reserves the right to use more or less time on any item, to change the order of items and/or to continue items to another meeting. Particular items may be heard before or after the time estimated.

Public comments will be heard at the beginning of the meeting. The public is also welcome to participate during the work sessions and public hearings when the Council considers adoption of the FY2016 budget, which are currently scheduled for Tuesday, June 2, Tuesday, June 9, Tuesday, June 16 and Tuesday, June 23, 2015.

*Prepared and Recommended by:* Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

Attachments:

- 1- Revised Budget Workshop Working Agenda
- 2- Budget Policies Update
- 3- Council Priorities and Factor Maps (to be distributed by Friday, May 29)
- 4- Benefit Liabilities Update & Funding Plan Staff Report
- 5- Proposed FY 2016 General Fund Ten-Year Plan and Assumptions

**Council Work Session REVISED Working Agenda and Tentative Schedule  
City Manager's Proposed FY 2016 Operating Budget  
Saturday, May 30, 2015 – Conference Room 2A**

<b>Estimated Start Time</b>	<b>Agenda Topic</b>	<b>Total Allotted Time (Presentation/Q&amp;A)</b>
8:30 am	Roll Call/Public Comment	30 minutes
9:00 am	Review of Day's Agenda & Objectives	10 minutes
9:10 am	Fire Department	30 minutes
9:40 am	Development Services	30 minutes
10:10 am	Police Department	30 minutes
10:40 am	Break	10 minutes
10:50 am	City Attorney's Office/City Clerk's Office/City Manager's Office/Office of the Mayor and City Council	15 minutes
11:05 am	Engineering & Transportation	20 minutes
11:25 am	Utilities & Environmental Services	30 minutes
11:55 am	Break to pick up lunch/working lunch	15 minutes
12:10 pm	Maintenance Services	15 minutes
12:25 pm	Library & Community Services	15 minutes
12:40 pm	Human Resources/I.T./Finance	20 minutes
1:00 pm	Other budget discussions <ul style="list-style-type: none"> <li>➤ General Fund Ten-Year Plan</li> <li>➤ Priorities (focusing on Factors)</li> <li>➤ General budget questions</li> </ul>	2 hours
3:00 pm	Conclude day and identify action steps	15-30 minutes

*\*\* All times listed are tentative and subject to change based on Council discussion and direction at the meeting.*

- The City Manager and Director of Finance presented the City Manager's Proposed FY 2016 Operating Budget to City Council on May 26, 2015.
- No Capital Improvement Program (CIP) presentation will be given during this Council work session; a separate CIP work session is scheduled for Tuesday, June 2.
- FY 2016 Proposed Budget – City Council calendar:
  - May 26 Presentation of Proposed FY 2016 Operating Budget
  - Saturday, May 30 General Fund Ten-Year Plan update  
Discussion of Performance Factors and Council Priorities
  - Tuesday, June 2 Follow up discussion from Saturday, May 30  
FY 2016 Proposed Capital Improvement Program Plan
  - Tuesday, June 9 Benefit Liabilities Funding Plan & Financial Policies Update
  - Tuesday, June 16 Public Hearing on FY 2016 Operating & CIP Budgets
  - Tuesday, June 23 Adoption of FY 2016 Operating & CIP Budget



**DATE:** May 30, 2015  
**TO:** Mayor and City Council  
**FROM:** Director of Finance  
**SUBJECT:** FY 2016 Financial Policies

### **RECOMMENDATION**

That Council reviews the FY 2016 Financial Policies as presented in the FY 2016 Proposed Operating Budget document.

### **BACKGROUND**

The Proposed FY 2016 Operating Budget was presented to City Council on May 26, 2015. The budget document included updated budget-related financial policies and several new policies for Council consideration (pages 298-306 of the budget document). These have been reattached to this document for easy reference.

### **DISCUSSION**

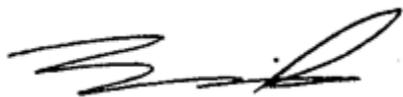
Below is a listing of key policies related to the citywide budget as included in the budget document. Many of these policies have been in operation for a number of years. It has been a while since Council reviewed and updated these budget-related financial policies. This year, staff has updated the language of some policies and is introducing several new policies for consideration during the FY 2016 budget process.

1. Balanced Budget Policy – existing
2. Use of One-time Revenue for One-time Expenditures Policy – NEW
3. Benefit Liabilities Funding Plan Policy – NEW
4. Long-Range Financial Forecasting Policy – existing
5. Reserves Policy – UPDATED
6. Investment Policy - existing
7. Debt Issuance and Management Policy - existing
8. Charges and Fees Policy - existing
9. Multi-Year Capital Improvement Program Plan Policy- existing
10. Internal Service Maintenance & Capital Replacement Policy - existing

City Council will consider these policies during the Special Council Meeting on June 9, 2015. However, staff is providing this information now to assist Council in its advance review. A similar item will be included in the June 9, 2015 City Council agenda – as well as reviewed by the Council Budget & Finance Committee on June 3, 2015.

*Prepared and Recommended by:* Tracy Vesely, Director of Finance

Approved by:



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Fran David, City Manager

Attachment I: FY 2016 Financial Policies

Attachment II: FY 2016 Proposed Operating Budget

[http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/documents/2015/FY16\\_Proposed\\_Operating\\_Budget.pdf](http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/documents/2015/FY16_Proposed_Operating_Budget.pdf)

# FINANCIAL POLICIES

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## Overview of Financial Policies

Financial policies as adopted by the City Council establish the framework for Hayward's overall fiscal planning and management. They set forth decision-making guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. Hayward's publicly adopted financial policies demonstrate the City's commitment to sound financial management and fiscal integrity. The financial policies also improve the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in City bond ratings and lower cost of capital.

Below is a listing of key policies related to the citywide budget. Many of these policies have been in operation for a number of years. However, staff is introducing several new policies for consideration during the FY 2016 budget process.

1. Balanced Budget Policy – existing
2. Use of One-time Revenue for One-time Expenditures Policy – NEW
3. Benefit Liabilities Funding Plan Policy – NEW
4. Long Range Financial Forecasting Policy – existing
5. Reserves Policy – UPDATED
6. Investment Policy - existing
7. Debt Issuance and Management Policy - existing
8. Charges and Fees Policy - existing
9. Multi-Year Capital Improvement Program Plan Policy- existing
10. Internal Service Maintenance & Capital Replacement Policy - existing

## Balanced Budget Policy<sup>1</sup>

The City of Hayward must adopt a balance annual operating budget. A structurally balanced budget exists when recurring operating revenues equal or exceed recurring operating expenditures and there is no planned or actual use of reserve cash to cover any “negative gap” between the two.

1. The operating resources and resource uses that are included or excluded from the definition of a balanced budget calculation;
  - a. Operating revenues and expenditures - including transfers in and transfers out.
  - b. Capital Improvement Program budget funds are excluded.
  - c. One-time revenues should be carefully considered before using to balance the operating budget per the newly recommended policies herein.
2. Available fund balances may be used as a resource for non-recurring expenditures as approved by City Council.
3. The modified accounting accrual basis is used to define revenues and expenditures.
4. For a variety of reasons, true structural balance may not be possible. In such a case, using reserves to balance the budget may be considered but only in the context of a plan to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken. Further, the plan should be

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<sup>1</sup> NACSLB's Practices located on GFOA's web site at [www.gfoa.org](http://www.gfoa.org)

## FINANCIAL POLICIES

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clear about the time period over which returning to structural balance, replenishing reserves, and remediating the negative impacts of balancing actions are to occur

5. The City shall conduct midterm budget reviews to review the budget and take any necessary action to bring the budget into balance.
6. The balanced budget policy will be applied over a ten-year financial planning horizon for the City's General Fund and other key operating funds in order to identify and plan to avoid structural imbalances in the long term.

### Use of One-Time Revenue for One-Time Expenditures - Proposed

One time revenues shall be considered for use toward one-time expenditures. While one-time revenues may occur over more than a one fiscal year period (i.e. an allocation of one time funds over multiple fiscal years), they shall not support recurring operational expenses. Appropriate uses of one-time revenue funds include:

- Payments toward unfunded benefit liabilities such as Retiree Medical (other post-employment benefits – OPEB); CalPERS retirement unfunded liability, Workers' Compensation unfunded liability; or reduction of accrued leave through pay off of leave balances
- One-time capital improvements or economic development investments
- Early debt retirement
- Restoration of depleted reserve balances

Uses that increase ongoing operating expenditures should be carefully reviewed and avoided if at all possible. For example, capital expenditures that significantly increase ongoing operating expenses without a sustainable and offsetting long-term revenue plan should be avoided. Uses of one-time funds for reasons not mentioned above require explicit Council authorization.

### Property Transfer Tax – Threshold for Recurring & One-time Revenue - Proposed

The Real Property Transfer Tax (Transfer Tax) rate set by the City of San Hayward is \$4.50 per \$1,000 of the value of consideration paid for the documented sale of real property or any transfer of interest in real property. Hayward's Transfer Tax revenue is volatile and is driven directly by the real estate market, based on the rate of property turn over and the sales price of said properties. The City has experienced dramatic swings in Transfer Tax.

In order to best budget this general fund revenue, the City should establish a threshold for recurring revenues that will support recurring City operations. Based on historical averages and the current economic climate, it is recommended that Council establish a baseline threshold of \$5.5 million to be used to fund recurring City operations. Transfer Tax revenues received in excess of this amount should be considered one-time revenues and used in accordance with the City's policy on the Use of One-Time Revenue for One-Time Expenditures described above.

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### Benefit Liabilities Funding Plan & Policies - Proposed

Unfunded liabilities are defined as identifiable obligations of the City for which the organization does not have 100% of the funding (cash or other assets) set aside to cover the cost should all obligations become immediately and simultaneously due. The City's primary benefit liabilities include, but are not limited to:

- California Public Employees' Retirement System (CalPERS)
- Other Post-Employment Benefits (OPEB) – Retiree Medical Benefits
- Workers' Compensation
- Accrued Leave Payouts

Council shall identify appropriate levels to fund portions of each benefit liability considering the associated risk that the unfunded portion of the obligations present to the organization, timing of the liability's ultimate due date and realistic and responsible management of the organization's cash flows. The City's funding plans for unfunded actuarial accrued liabilities should not exceed the parameters established by GAAP.

### Long Range Financial Forecasting Policy

Hayward's budget shall include a long range financial forecast of operating revenues and expenditures of the General Fund and other key operating funds. The forecast will extend five to 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. The forecast shall include a spendable fund balance calculation and any difference from established reserve levels.

### Reserves Policy<sup>2</sup> - Updated

The City of Hayward will establish and maintain adequate financial reserves in order to prepare for the impact economic cycles and physical disasters have upon essential services to the public and assure annual fluctuations in revenue do not impede the City's ability to meet expenditure obligations. During periods of economic sufficiency, reserves may be used as a source of supplemental revenue through prudent investments and earnings while avoiding short-term cash flow deficiencies. When revenues fail to meet the normal operating requirements of essential public services, or the need for disbursements temporarily exceeds receipts, reserves, upon the recommendation of the City Manager and the authorization of the City Council, may be used in accordance with the standards set forth herein.

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<sup>2</sup> *Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund GFOA October 2009*

## FINANCIAL POLICIES

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Reserve goals are as follows:

<b>Name</b>	<b>Minimum</b>	<b>Basis</b>
<u>General Fund</u>	Goal of no less than two months of city operating costs or at least 20% of budgeted General Fund operating expenditures	To create a reserve that will allow the City to continue providing acceptable service levels during emergencies and economic downturns while maintaining adequate liquidity to make all payments without short term borrowing.
<u>Internal Service Funds</u> Fleet Replacement, Facilities Replacement Technology Replacement	As determined by the City Manager pursuant to established replacement plans and Council reserve policies	Accumulation of reserves within these discreet internal service funds will ensure timely replacement of City assets.
<u>Internal Service Funds</u> Risk Management General Liability	\$1,000,000	The City is self-insured and therefore it is prudent to set aside reserves with this internal service fund for unforeseen claims.

The annual budget presented by the City Manager 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 may be used if authorized by the City Council, based on the following principles:

1. Staffing levels in essential services shall be temporarily maintained, in order to avoid or reduce the necessity for immediate lay-offs: only in extreme conditions will reserves be used to support operational positions for longer than two years;
2. A hiring freeze must be implemented for designated positions as appropriate to maintain essential services to the public;
3. All other reasonable and available expenditure reduction measures have been taken by the City Manager and the City Council before using one-time funding to support operational positions;
4. User fees and services charges will be fully utilized for those services for which they were collected;
5. The level of the Reserve shall be restored in a timely manner as economic recovery occurs, consistent with the maintenance of essential services;
6. "Essential services", "appropriate levels" of such services, and "extreme conditions" shall be determined from time to time by the City Council upon the recommendation of the City Manager.

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## Investment Policy

The City of Hayward incorporates a prudent and systematic investment process and investment related activities are formalized in Annual Statement of Investment Policy. The primary objectives of the policy, in order, are safety, liquidity, and yield. City policy requires diversification of the investment portfolio, in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, issuer, or class of securities. An Investment Advisory Committee is appointed by the City Manager to oversee the City's investment program and assure it is consistent with the investment policy as approved by the Council. The committee meets quarterly to monitor portfolio performance and consider changes in strategy and investment policy. The policy is approved annually by the City Council at a public meeting. The Director of Finance provides periodic reporting to the Committee and to City Council on the status of City cash and investments

## Debt Issuance and Management 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 approved by City Council.
2. Legal debt limitations or limitations established by policy, including limitations on the pledge of the issuer's general credit, shall be calculated.
  - 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.
3. 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
4. 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.
5. Except in extreme conditions as defined by Council, should the issuance of new debt in and by itself jeopardize or lower the City's bond ratings.
6. 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.
7. Authorized methods of sale shall be considered on a case by case basis, including

## FINANCIAL POLICIES

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- competitive sale, negotiated sale, and private placement.
8. Method of selecting outside finance professionals shall be consistent with the City's procurement practices.
  9. Compliance with federal tax law provisions, such as arbitrage requirements.

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 Director of Finance 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.

### Charges and Fees Policy<sup>3</sup>

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 as appropriate. Circumstances where a charge or fee is set at less than 100 percent of full cost shall be considered and approved by City Council.
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. It is intended that there be a direct relationship between the amount paid and the level and cost of the service received.
4. Information on charges and fees will be made available to the public. This includes the City's 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.
5. The use of service charges and fees as a 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 exist for the delivery of the services.
  - c. Expedited or unusual handling or service is requested by the person or entity paying the fee.
  - d. 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.
6. The following general concepts will be used in developing and implementing service charges and fees:
  - a. Fees structures must comply with Proposition 26 (or its replacement) – and revenues should not exceed the reasonable cost of providing the service.

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<sup>3</sup> "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

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- 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 as simple as possible in order to reduce the administrative cost of collection and increase the transparency of how the fees are calculated
- d. Charges and fees should be reviewed annually and adjusted as appropriate to recover cost.

### Multi-Year Capital Improvement Program Plan<sup>4</sup> Policy

The City of Hayward shall prepare and adopt comprehensive a ten-year capital improvement plan to ensure effective management of capital assets. A prudent multi-year capital improvement plan identifies and prioritizes expected needs based on the City's General Plan, replacement plans, and other needs; establishes project scope and cost; details estimated amounts of funding from various sources; and projects future operating and maintenance costs. The capital plan should identify present and future service needs that require capital infrastructure or equipment, including:

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

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

- a. The scope and timing of a planned project should be well defined in the early stages of the planning process
- b. Identify and use the most appropriate approaches, including outside assistance, when estimating project costs and potential revenues
- c. For projects programmed beyond the first year of the plan, Hayward should adjust cost projections based on anticipated inflation
- d. The ongoing operating costs associated with each project should be quantified, and the sources of funding for those costs should be identified
- e. 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

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- John Vogt, *Capital Budgeting and Finance: A Guide for Local Governments*, (Washington, D.C.: International City/County Management Association, 2004)
- 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 Practices: *Establishing the Useful Life of Capital Assets* (2002); *Establishment of Strategic Plans* (2005)

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- f. Recognize the non-financial impacts of the project (e.g., environmental) on the community.

### **Internal Service Maintenance & Capital Replacement Policy**

The City of Hayward maintains 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 and related cost.
2. Perform periodic measurement of the physical condition of all existing capital assets including estimated remaining useful life of assets.
3. Establish condition/functional performance standards to be maintained for each category/component of capital assets. 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 that encourage a high priority for those capital programs whose goal is maintaining the quality of existing assets.
5. Allocate sufficient funds in the ten-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. Periodically, report on long-lived capital assets, including:
  - o Condition ratings jurisdiction-wide
  - o Condition ratings by geographical area, asset class, and other relevant factors
  - o Indirect condition data (e.g., work orders, repeat repairs)
  - o Replacement life cycle(s) by asset type
  - o Year-to-Year changes in net asset value
  - o Actual expenditures and performance data on capital maintenance compared to budgeted expenditures performance data (e.g., budgeted improvements compared to actual)

ATTACHMENT 3 to be distributed Friday,  
May 29.



**DATE:** May 30, 2015  
**TO:** Mayor and City Council  
**FROM:** Director of Finance  
**SUBJECT:** City Benefit Liabilities and Funding Plan Review

### **RECOMMENDATION**

That the City Council reviews the City Benefit Liabilities and Funding Plan.

### **BACKGROUND**

On April 16, 2015, the Council Budget & Finance Committee (CBFC) received a comprehensive report on the City's benefit liabilities and proposed funding policies for these liabilities<sup>1</sup>. This April 16 report is being formally transmitted to City Council for review. In addition, the City Manager's Proposed FY 2016 Operating Budget that was presented to City Council on May 26, 2015 also includes a summary of the City's Benefit Liabilities & Funding Status (pages 15-17).

### **DISCUSSION**

Each year, the City Council considers its benefit liabilities and the funding status toward the related unfunded actuarial liabilities (UAL). Given the potential fiscal impact of these large unfunded liabilities, staff is proposing a number of funding policies for Council consideration as contained in the April 16 CBFC report.

City Council will formally consider these policies during the Special City Council Meeting on June 9, 2015. However, staff is providing this information now to assist Council in its advance review. An updated item will be included in the June 9, 2015 City Council agenda that reflects any recommendations made by the Council Budget & Finance Committee during its follow-up discussion on this topic on June 3, 2015.

*Prepared and Recommended by:* Tracy Vesely, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read "Fran David", is written over a horizontal line.

Fran David, City Manager

<sup>1</sup> April 16, 2015 Council Budget & Finance Committee: [Item #3 Annual City Benefit Liabilities and Funding Plan Review](#)



**DATE:** May 30, 2015

**TO:** Mayor and City Council

**FROM:** Director of Finance

**SUBJECT:** FY 2016 Proposed General Fund Ten-Year Plan

## **RECOMMENDATION**

That the City Council reviews the General Fund Ten-Year Plan as contained in the FY 2016 Proposed Operating Budget.

## **BACKGROUND**

Over the last several months, the City Council Budget & Finance Committee (CBFC)<sup>1</sup>, and the City Council<sup>2</sup> have reviewed the City's General Fund Ten-Year Plan. The City Manager's Proposed FY 2016 Operating Budget that was presented to City Council on May 26, 2015 contains an updated FY 2016 Proposed General Fund Ten-Year Plan (page 23). The assumptions that are contained in the plan are discussed throughout the budget document (key assumptions can be found on pages 4-17 and pages 30-39).

## **DISCUSSION**

The General Fund Ten-Year Plan is a critical and dynamic planning tool that establishes the framework for the City's General Fund budget and financial planning. The City Council and the CBFC review the various assumptions that drive the Plan throughout the fiscal year. The Plan included in the Proposed FY 2016 Operating Budget reflects this input. This plan includes FY 2014 actual revenues and expenditures, estimated actuals for FY 2015, proposed FY 2016 revenues and expenditures and future year projections that build off of FY 2016.

The FY 2016 Proposed Operating Budget reflects a General Fund Ten-Year Plan that is balanced in FY 2016 without the assumed use of the General Fund Reserve. As discussed in the budget document, this is a precarious balance based on revenue projections, a reduced contribution to the City's Retiree Medical unfunded liability, limited new staffing (4 FTE) to address increased service demands, limited wage growth, and limited capital funding. Unfortunately, the City's structural deficit returns in FY 2017 (projected at \$3.7 million) and grows if we do not implement additional balancing measures. In addition, until we have various labor contracts at least closer to resolution,

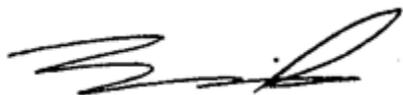
<sup>1</sup> The General Fund Ten-Year Plan was discussed and considered during the CBFC meetings on December 8, 2014 (oral presentation) and January 21, 2015 ([DRAFT General Fund Ten-Year Plan Key Assumptions & Considerations](#) and [DRAFT General Fund Ten-Year Plan FY 2015 Working Update](#) )

<sup>2</sup> City Council considered the General Fund Ten-Year Plan during the FY 2015 Mid-Year Review on March 17, 2015 ([http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/documents/2015/FY2015\\_Mid-Year\\_Budget\\_Review\\_and\\_General\\_Fund\\_Ten-Year\\_Plan\\_Update.pdf](http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/documents/2015/FY2015_Mid-Year_Budget_Review_and_General_Fund_Ten-Year_Plan_Update.pdf) )

the Ten-Year Plan does not capture whatever additional costs may emanate from settlement of those labor negotiations. Attachment II provides a summary of the key plan assumptions for FY 2016 and future years.

*Prepared and Recommended by:* Tracy Vesely, Director of Finance

Approved by:



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Fran David, City Manager

Attachment I: FY 2016 Proposed General Fund Ten-Year Plan

Attachment II: FY 2016 Proposed General Fund Ten-Year Plan – Assumptions Summary

General Fund Ten-Year Plan - FY 2016 Proposed

	PY3 Actual FY 2012	PY2 Actual FY 2013	PY1 Actual FY 2014	Year 1 Adopted FY 2015	Year 1 Projected FY 2015	Year 2 Proposed FY 2016	Year 3 Forecast FY 2017	Year 4 Forecast FY 2018	Year 5 Forecast FY 2019	Year 6 Forecast FY 2020	Year 7 Forecast FY 2021	Year 8 Forecast FY 2022	Year 9 Forecast FY 2023	Year 10 Forecast FY2024
<b>1 Revenue</b>														
2 Annual Property Tax	35,716	36,561	36,898	39,784	39,830	42,021	44,122	46,328	48,181	50,108	52,113	54,197	56,366	58,620
3 RPTTF Pass-Thru & Annual Remittance	-	650	730	730	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
4 One-time RPPTF	-	1,970	1,343	-	-	-	-	-	-	-	-	-	-	-
5 Property Tax	<b>35,716</b>	<b>39,181</b>	<b>38,971</b>	<b>40,514</b>	<b>41,330</b>	<b>43,521</b>	<b>45,622</b>	<b>47,828</b>	<b>49,681</b>	<b>51,608</b>	<b>53,613</b>	<b>55,697</b>	<b>57,866</b>	<b>60,120</b>
6 Sales Tax	26,346	28,534	31,019	31,421	31,719	34,064	33,996	35,320	36,712	38,181	39,708	41,296	42,948	44,666
7 UUT	14,797	14,940	15,762	15,000	15,816	16,411	16,934	17,015	17,058	17,101	17,143	17,186	17,229	17,272
8 Franchise Fees	9,892	9,688	9,765	9,120	9,120	9,585	9,335	9,127	8,908	9,191	9,483	9,785	10,096	10,418
9 Property Transfer Tax	4,778	4,596	4,879	5,000	5,269	6,500	6,890	7,303	7,449	7,598	7,750	7,905	8,064	8,225
10 Business License Tax	2,483	2,493	2,602	2,652	2,652	2,721	2,775	3,053	3,114	3,176	3,240	3,305	3,371	3,438
11 Transient Occupancy Tax	1,466	1,679	1,918	1,734	1,957	1,996	2,036	2,077	2,118	2,160	2,204	2,248	2,293	2,339
12 Emergency Facilities Tax	1,751	1,870	1,694	1,820	1,820	1,831	1,840	1,849	1,859	1,868	1,877	1,887	1,896	1,906
13 Charges for Services	7,811	7,844	10,466	8,922	9,381	9,924	10,222	10,426	10,635	10,848	11,064	11,286	11,512	11,742
14 Other Revenue	3,797	174	690	166	206	431	400	400	400	400	400	400	400	400
15 Intergovernmental	3,717	5,365	6,771	6,577	7,266	7,262	7,262	7,262	6,762	5,567	5,567	5,567	5,567	5,567
16 Fines and Forfeitures	2,403	2,913	2,227	1,801	2,336	1,767	1,802	1,838	1,875	1,913	1,951	1,990	2,030	2,070
17 Interest and Rents	511	400	563	293	293	555	561	568	575	581	588	595	602	609
18 <b>Total Revenue</b>	<b>115,465</b>	<b>119,677</b>	<b>127,327</b>	<b>125,020</b>	<b>129,164</b>	<b>136,567</b>	<b>139,676</b>	<b>144,067</b>	<b>147,146</b>	<b>150,193</b>	<b>154,589</b>	<b>159,147</b>	<b>163,873</b>	<b>168,772</b>
19 Transfers in	4,514	4,064	3,390	3,221	3,221	3,855	3,946	4,032	4,119	4,208	4,301	4,396	4,496	4,598
20 <b>Total Revenue/Resources</b>	<b>119,979</b>	<b>123,741</b>	<b>130,717</b>	<b>128,241</b>	<b>132,385</b>	<b>140,422</b>	<b>143,622</b>	<b>148,099</b>	<b>151,265</b>	<b>154,401</b>	<b>158,891</b>	<b>163,543</b>	<b>168,369</b>	<b>173,369</b>
<b>21 Expenditures</b>														
22 Salary	61,697	62,986	63,649	66,445	66,952	68,627	70,352	70,918	73,543	75,009	76,505	77,999	79,555	81,143
23 Overtime	5,412	6,879	7,831	5,334	7,000	6,000	6,120	6,243	6,367	6,495	6,625	6,757	6,892	7,030
24 <b>Wages Subtotal</b>	<b>67,109</b>	<b>69,865</b>	<b>71,480</b>	<b>71,779</b>	<b>73,952</b>	<b>74,627</b>	<b>76,472</b>	<b>77,160</b>	<b>79,910</b>	<b>81,504</b>	<b>83,129</b>	<b>84,756</b>	<b>86,448</b>	<b>88,173</b>
25 Medical Benefits	8,515	10,083	9,133	10,942	10,942	11,491	12,526	14,278	15,074	15,919	16,814	17,763	18,768	19,834
26 Dental Benefits	988	-	957	1,065	1,065	1,105	1,108	1,130	1,153	1,176	1,199	1,223	1,248	1,273
27 Retiree Medical (payments to current retirees)	2,560	2,321	2,349	2,242	2,242	2,809	2,866	2,923	2,981	3,041	3,102	3,164	3,227	3,292
28 Worker's Compensation	4,877	5,189	5,275	5,013	5,013	5,162	5,212	5,313	5,420	5,525	5,636	5,745	5,860	5,977
29 Other Benefits	1,726	1,030	1,378	1,818	1,918	1,173	1,209	1,245	1,282	1,321	1,360	1,401	1,443	1,486
30 PERS	17,492	15,143	14,736	18,359	19,183	21,306	23,861	25,356	27,774	30,863	31,126	31,763	32,413	33,077
31 <b>Benefits Subtotal</b>	<b>36,158</b>	<b>33,766</b>	<b>33,828</b>	<b>39,439</b>	<b>40,362</b>	<b>43,047</b>	<b>46,781</b>	<b>50,245</b>	<b>53,684</b>	<b>57,844</b>	<b>59,237</b>	<b>61,059</b>	<b>62,960</b>	<b>64,939</b>
32 Vacancy Savings (wages & benefits)	-	-	-	(1,250)	(2,250)	(2,282)	(1,750)	(1,500)	(1,250)	(1,250)	(1,250)	(1,000)	(1,000)	(1,000)
33 Interdepartmental (ID) Charges to other funds	(5,332)	(5,399)	(5,120)	(5,179)	(5,179)	(4,998)	(4,898)	(4,898)	(4,898)	(4,898)	(4,898)	(4,898)	(4,898)	(4,898)
34 Unemployment Self-Insurance	-	-	-	150	150	150	150	150	150	150	150	150	150	150
35 <b>Salaries &amp; Benefits Subtotal</b>	<b>97,935</b>	<b>98,232</b>	<b>100,188</b>	<b>104,939</b>	<b>107,035</b>	<b>110,544</b>	<b>116,755</b>	<b>121,157</b>	<b>127,596</b>	<b>133,350</b>	<b>136,369</b>	<b>140,068</b>	<b>143,660</b>	<b>147,364</b>
36 Transfer to OPEB Liability Trust Fund*	-	-	1,978	2,060	1,000	1,000	2,000	2,500	3,000	4,000	4,500	5,000	5,100	5,202
37 Workers' Compensation Liability Contribution	310	310	310	-	-	-	-	-	-	-	-	-	-	-
38 <b>Net Staffing Expense</b>	<b>98,245</b>	<b>98,542</b>	<b>102,476</b>	<b>106,999</b>	<b>108,035</b>	<b>111,544</b>	<b>118,755</b>	<b>123,657</b>	<b>130,596</b>	<b>137,350</b>	<b>140,869</b>	<b>145,068</b>	<b>148,760</b>	<b>152,566</b>
39 Maintenance & Utilities	810	908	870	969	969	969	979	988	998	1,008	1,018	1,029	1,039	1,049
40 Supplies & Services	5,900	6,184	7,632	6,838	9,538	6,798	6,934	7,073	7,214	7,358	7,506	7,656	7,809	7,965
41 Internal Service Fees	9,280	9,300	9,367	11,515	11,515	13,336	13,472	13,609	13,748	13,888	14,030	14,173	14,318	14,464
42 Minor Capital Outlay	-	-	-	19	-	19	-	-	-	-	-	-	-	-
43 Transfer to Debt Service Fund*	2,784	2,822	2,809	3,299	3,445	3,445	3,445	3,445	3,445	3,445	3,445	3,445	3,445	3,445
44 Transfer to Liability Insurance Fund*	2,464	2,537	2,621	2,338	2,338	2,338	2,385	2,432	2,481	2,531	2,581	2,633	2,686	2,739
45 Transfer to Economic Development Fund (from RPTTF)*	-	-	-	-	-	-	350	350	350	350	350	350	350	350
46 Transfer to Capital Improvement Program Fund*	3,027	3,174	5,489	1,925	1,944	1,973	859	887	1,168	799	2,003	1,206	1,206	1,206
47 <b>Net Operating Expense</b>	<b>24,265</b>	<b>24,925</b>	<b>28,788</b>	<b>26,903</b>	<b>29,749</b>	<b>28,878</b>	<b>28,424</b>	<b>28,785</b>	<b>29,405</b>	<b>29,380</b>	<b>30,934</b>	<b>30,492</b>	<b>30,852</b>	<b>31,219</b>
48 <b>Expenditures Subtotal</b>	<b>122,510</b>	<b>123,467</b>	<b>131,264</b>	<b>133,901</b>	<b>137,784</b>	<b>140,422</b>	<b>147,179</b>	<b>152,442</b>	<b>160,001</b>	<b>166,730</b>	<b>171,802</b>	<b>175,560</b>	<b>179,612</b>	<b>183,785</b>
50 Assumed Additional Labor Concessions	-	-	-	(600)	-	-	-	-	-	-	-	-	-	-
52 <b>Total Expenditures</b>	<b>122,510</b>	<b>123,467</b>	<b>131,264</b>	<b>133,301</b>	<b>137,784</b>	<b>140,422</b>	<b>147,179</b>	<b>152,442</b>	<b>160,001</b>	<b>166,730</b>	<b>171,802</b>	<b>175,560</b>	<b>179,612</b>	<b>183,785</b>
53 <b>Total Surplus/(Shortfall)</b>	<b>(2,531)</b>	<b>274</b>	<b>(547)</b>	<b>(5,060)</b>	<b>(5,399)</b>	<b>(0)</b>	<b>(3,557)</b>	<b>(4,344)</b>	<b>(8,736)</b>	<b>(12,329)</b>	<b>(12,912)</b>	<b>(12,017)</b>	<b>(11,243)</b>	<b>(10,416)</b>
54 * Transfers Out of the General Fund Total	8,585	8,843	13,207	9,622	8,727	8,756	8,689	9,265	10,094	10,775	12,530	12,284	12,437	12,593
55														
57 <b>Beginning Fund Balance</b>	<b>29,550</b>	<b>27,764</b>	<b>28,115</b>	<b>25,052</b>	<b>25,052</b>	<b>19,653</b>	<b>19,652</b>	<b>16,095</b>	<b>11,751</b>	<b>3,015</b>	<b>(9,314)</b>	<b>(22,226)</b>	<b>(34,243)</b>	<b>(45,485)</b>
58 Change to Reserves	(2,531)	274	(547)	(5,060)	(5,399)	(0)	(3,557)	(4,344)	(8,736)	(12,329)	(12,912)	(12,017)	(11,243)	(10,416)
59 Adjustments to fund balance	745	77	(2,516)	-	-	-	-	-	-	-	-	-	-	-
60 <b>Ending Fund Balance</b>	<b>27,764</b>	<b>28,115</b>	<b>25,052</b>	<b>19,991</b>	<b>19,653</b>	<b>19,652</b>	<b>16,095</b>	<b>11,751</b>	<b>3,015</b>	<b>(9,314)</b>	<b>(22,226)</b>	<b>(34,243)</b>	<b>(45,485)</b>	<b>(55,901)</b>
61 % of Expenditures (Council Policy is minimum of 20%)	23%	23%	19%	15%	14%	14%	11%	8%	2%	-6%	-13%	-20%	-25%	-30%

**FY 2016 Proposed General Fund Ten-Year Plan  
Key Assumptions & Considerations  
May 26, 2015**

## Summary

- Projected FY 2016 revenues to increase over FY 2015 Adopted projections by \$12.2 million (9.5%).
- Projected FY 2016 expenditures to increase over FY 2015 Adopted projections by \$7.1 million (5.3%).
- FY 2016 balanced without the projected use of the General Fund Reserve.
- Decreased structural deficit returns in FY 2017 – FY 2024.

## Revenue

### Property Tax (secured, unsecured, VLF)

- a. FY 2016 Secured projections grow 5.6% over FY 2015 Adopted.
- b. FY 2017 & FY 2018 assume 5% growth; FY 2019+ assumes 4% growth.

### Property Tax (Redevelopment Property Tax Trust Fund – RPTTF)

- a. Recurring RPTTF estimates increased \$770,000 to \$1.5 million/year.
- b. Repayment of GF loan of \$9 million from SA-RPTTF not yet reflected in Plan.

### Sales Tax

- a. FY 2016 assumed growth of 8.4% over FY 2015 Adopted. This includes \$1.2 million in one-time Triple Flip true-up funds.
- b. FY 2017 is flat compared to FY 2016 due to one-time revenues in FY 2016.
- c. FY 2018+ assumes annual growth of 4%.
- d. Measure C revenues accounted for in a separate fund.
- e. Seeing negative impacts of e-commerce – Statewide slowdown of revenues

### Property Transfer Tax

- a. FY 2016 assumes 30% increase over FY 2015 Adopted based on optimistic transaction activity.
- b. FY 2017 assumes 8% growth; FY 2018 assumes 5% growth.
- c. FY 2019+ assumes 2% annual growth (assumes market retraction and possible recession).

### Utility Users Tax

- a. FY 2016 grows 9.4% over FY 2015 Adopted.
- b. Increase primarily due to Russell City Energy Center (RCEC) electricity usage impact and positive impacts of new legislation (AB1717) that provides tax revenue from wireless services.
- c. FY 2017 assumes growth by 3.2% (impact of AB1717).
- d. FY 2018+ assumes limited .3% - .5% annual growth (market saturation).

### Transient Occupancy Tax

- a. FY 2016 grows 15.1% over FY 2015 Adopted based on improved economy.
- b. FY 2017+ assumes limited annual growth (no new hotel activity) of 2%.

### Charges for Services

- a. FY 2016 reflects growth over FY 2015 Adopted of 11.2% (improved building activity).
- b. FY 2017 assumes 3% growth.
- c. FY 2018+ assumes 2% annual growth (market retraction and possible recession).

## Expenditures

### Salaries & Benefits

1. FY 2016 Proposed reflects negotiated COLAs and cost sharing for the Hayward Police Officers Association and the Firefighters Association-Local 1919. Wages and benefits for all other units reflect current agreements/contracts.
2. No wage growth assumptions in FY 2016 for other units are included since no other approved contracts are in place. FY 2017+ assumes a wage growth of 2% each year thereafter. Any negotiated increases that are effective in FY 2016 or are beyond the 2% as assumed in FY 2017+ will be a bottom-line cost increase and will tip the Plan out of balance.
3. Projecting increased overtime costs of \$666,000 (12.5%) for FY 2016 based on vacancies and staffing needs; FY 2017+ growth at 2% annually.
4. FY 2016 assumed vacancy savings of \$2.82 million – a \$1 million increase over FY 2015 Adopted (partial offset to overtime costs). FY 2017 decreases to \$1.75 million – with a phased step-down to \$1 million by FY 2022.
5. FY 2016 and FY 2017 assume annual medical premium growth of 8%; FY 2018+ assumes annual premium growth of 6%; added annual \$1 million Affordable Care Act Cadillac Tax effective FY 2018.
6. FY 2016 reflects CalPERS rates per 10/2014 valuation.

### Non-personnel

7. FY 2016 Internal Service Fund (ISF) Charges grow \$1.8 million (15.8%) over FY 2015 Adopted. Growth reflects fleet (+\$500,000) and technology (\$1.2 million) recurring program cost increases. FY 2017+ assumes annual growth of 2%.
8. Capital Improvement Program (CIP) allocation is transfer to the CIP fund as part of 10-Year CIP plan.
  - a. Fluctuates each year depending on CIP Plan.
  - b. FY 2016 = \$1.97 million: \$1.4 million for technology projects not included in the Information Technology ISF, \$350K to the Transportation Improvement Fund (streets); \$243K for general capital for police, fire and general government.
- a. FY 2016 OPEB unfunded actuarial liability (UAL) allocation of \$1 million; phased-in growth until reaches \$5 million in unfunded liability contribution in FY 2022 (current Annual Required Contribution (ARC) is \$7.6M: \$2.6M in Pay Go and \$5M in unfunded liability).
  - a. Majority of OPEB liability is a General Fund cost; however, other revenue funds are assessed their appropriate share of costs.