



DATE: June 6, 2017
TO: Mayor and City Council
FROM: Director of Finance
SUBJECT Proposed FY 2018 Operating Budget - Work Session 2

RECOMMENDATION

That the Council provides comments on the FY 2018 Operating Budget and reviews the information in this report on follow-up items from the Saturday, May 20, 2017 and Tuesday, May 23, 2017 budget work sessions.

BACKGROUND

The City commenced the FY2018 budget development process with the City Council in early February. Both the Council Budget & Finance Committee and the full City Council have held several budget-related meetings as part of this development process.

On May 20, 2017, the Council held a special budget work session to review the FY 2018 Proposed Operating Budget. The special budget work session included Department presentations, and Council discussion on department budgets and related operating issues. On May 23, 2017, the Council continued the special budget work session at its regular City Council meeting to discuss one-time strategies to close the FY 2018 Operating Budget gap.

DISCUSSION

The work session scheduled for tonight will be Council's second budget work session regarding the FY 2018 Operating Budget. The budget work session this evening will include further discussion regarding Library staffing, Airport Hangar Fees, Passport Program, and minor change to the City's Financial Policies to come into compliance with State law.

Proposed Library Staffing

A separate memo on this item will be distributed no later than Monday, June 5.

Airport Hangar Fees:

On May 2, 2017, the Council adopted the FY 2018 Master Fee Schedule. This update to the Master Fee Schedule included rent increases for hangars, offices, and storage areas owned and operated by the Hayward Executive Airport. The increases are part of a regular schedule of rental rate setting at the airport. Beginning in 1999 the City, and more specifically the

Hayward Executive Airport began the practice of adjusting rates every two years using either of two factors, 75% of the Bay Area Consumer Price Index (CPI) *or* based on the results of a market rate study conducted by an independent aviation expert. The practice has been that a market study is conducted every 4th year. In years when an independent study is conducted, rental rates at the Hayward Executive Airport are compared with those of other similar and comparable airports in the Bay Area and across the country.

In accordance with the established past practice, 2017 was the year rates at the airport were to be established based on a study. To that end, the City engaged Aviation Management Consulting Group, an independent aviation consultant, to conduct a rent study for rental rates at the Hayward Executive Airport. This study included a comparison with multiple local general aviation airports and other comparable airports. The study results indicated that many of the rates charged by the City at the Hayward Executive Airport were far below the rates charged at comparable airports and “below market.” The study revealed that the City was in some cases 51% below market and would support an increase of up to that amount for these specific fees. An increase of that magnitude in a single year was considered untenable by staff upon review so staff recommended a phased in approach to bring these fees to market with increases of 10% per year until market rate was achieved. For instance, the study recommended that rates for a Standard T-hangar be increased by a total of 51%, but staff proposed to limit that increase to 10% per year over several years until the rates charged at the Airport reached market rates as calculated in the study. This 10% change in rent for a Standard T-hangar is an increase of \$34 per month or \$408 annually. On May 2, 2017, Council approved the staff recommendation to limit all rent increases to a not to exceed amount of 10% in FY 2018, to limit the financial impact on airport tenants. Rents, in some instances, were not increased at all and others varied in percentage, up to, but not exceeding 10% in FY 2018.

Prior to the May 2, 2017 meeting with the full Council, staff presented the proposed FY 2018 rental rates at a regularly scheduled Council Airport Committee (CAC) meeting on April 13, 2017 to allow for tenant input and to gain an understanding of possible impacts to renters. Staff also made a presentation to a group of impacted renters at a well-attended tenant meeting on April 17, 2017 where they received feedback on the rental increase. At the May 2, 2017, meeting of the City Council, a handful of airport tenants provided comments, including some which questioned the validity of the study and rate increases. To provide further clarification based on feedback received at the various meetings, staff prepared a detailed response in **Attachment II** and made this information available to the public in a variety of ways. For instance, it has been suggested that the 2002 *Hayward Executive Master Plan* stipulates that rental rate increases be capped at 3%. In fact, the 2002 *Hayward Executive Master Plan* only makes financial assumptions for planning purposes. It is not a policy document that prescribes the amount of future rental increases. Meaning, essentially, that this document is not relevant to the discussion of fees adopted by the Council given the current market conditions at the time of adoption.

Staff is not recommending changes to the rates adopted in the FY 2018 Master Fee Schedule at this time. However, staff does support the notion of yet another study to ensure that rates established are in fact truly “market rates.” Accordingly, in the fall of 2017, staff will engage a

separate independent third-party consultant or appraiser to review and verify that assumptions used, airports selected for comparison, and the results provided in the market value study completed by Aviation Management Consulting Group are accurate. Also, as indicated at previous meetings with Council, staff will collect information to be able to report to Council the effects of the rental rate increase, including the impact to hangar waiting lists and vacancy rates.

Passport Program:

The City Clerk's Office became a U.S. passport acceptance facility in 2008. Since December 2016, the requests for U.S. passports has increased beyond what current resources can absorb. During the May 20, 2017 budget work session, the City Clerk proposed the elimination of the Passport Program because the office could not handle the added demand. The Council requested that the City Clerk and the City Manager's office meet to determine how the Passport program could be retained.

Three options are presented for Council consideration.

OPTION 1: ELIMINATE PASSPORT PROGRAM:

This option was presented at the May 20, 2017 budget workshop but is no longer being considered, after a more detailed review of current resources and receiving Council's feedback in which a desire was expressed to maintain the program in some capacity. Option 1 is not recommended.

OPTION 2: CONTINUE PASSPORT SERVICES IN THE CITY CLERK'S OFFICE WITH EXISTING RESOURCES:

Continue the passport service with existing staffing, providing the same level of service as was provided in 2016, prior to the current increased demand. Retaining the passport program at the 2016 service level will not impact core services or overall service delivery. This will allow staff to determine whether the current elevated service demand will subside over time, providing staff the ability to monitor this over the coming fiscal year. Staff will continue to engage unpaid interns to assist with the provision of passport services, as well as, explore software solutions to allow for online appointments to meet added demand. This Option is recommended.

OPTION 3: TRANSFER THE PASSPORT SERVICE FROM THE CITY CLERK'S OFFICE TO THE LIBRARY:

The library could become a certified passport acceptance facility and the passport service could be transferred and managed with existing Library staff now and new Library staff in the new Library. This would allow the Passport Program to continue and handle increased demand without adding additional resources. This option would have some indirect impact to the General Fund, in that some library staff resources would need to be redirected from other areas to support offering the program at the library. Given the changes occurring in FY 2018 with the opening of the new library, this option is not recommended at this time but could be considered in the future once service demands at the new library have leveled out.

OPTION 4: OFFER THE PASSPORT PROGRAM IN BOTH THE CITY CLERK'S OFFICE AND THE NEW LIBRARY:

The passport program would continue in the City Clerk's office with existing staff, providing the level of service as was provided in 2016. The Library could become a certified passport acceptance facility and assist with handling any increase in demand, as well as, allow for Saturday appointments. The Passport Program could be managed with existing Library staff now and new Library staff in the new Library. This option would have some indirect impact to the General Fund, in that some library staff resources would need to be redirected from other areas to support the program at the library. Staff recommends exploring this option in the future once service demands at the new library have leveled out. Adding the library as a passport service center could increase customer service and possibly allow for Saturday appointments given the hours of operation at the library.

Proposed Changes to the Financial Policies in the Supplemental section of the Operating Budget:

The Financial Policies included in the "Supplemental" section of the FY 2018 Operating Budget that will be brought to Council for adoption on June 20, 2017 have been updated to include changes that will bring the City in compliance with SB 1029 (codified in California Government Code section 8855), which required revisions to the City's Debt Issuance and Management Policy and the addition of a Debt Disclosure Policy. Included in **Attachment III** is a red lined version of the updated policy.

NEXT STEPS

The City Council will hold an additional work session (if necessary) on June 13, 2017; and the Public Hearing and adoption of the FY 2018 Operating and CIP Budgets is scheduled for June 20, 2017.

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