CITYWIDE FINANCIALS

The City operating budget is comprised of a number of different funding sources.[1] The General Fund is the largest single fund and represents the revenue for which the City Council has the most discretion. The total proposed City expenditure budget for the FY 2018 is $298 million, with a General Fund budget of $157 million.

Table 1: City Expenditure Budget Summary – All Funds

Expenditures *in 1,000's*	**FY 2016 Adopted**	**FY 2017 Adopted**	**FY 2018 Proposed**	**$ Change**	**% Change**
General Fund	140,422	149,029	157,346	8,317	5.6%
All Other Funds	112,528	130,306	140,966	10,660	8.2%
Total City Budget	**252,950**	**279,335**	**298,312**	18,977	6.8%

The FY 2018 proposed budget reflects limited General Fund expenditure growth over the FY 2017 adopted budget of 5.6% and an increase to All Other Funds of 8.2% primarily due to reduced vacancies, expenses related to the opening of the City's 21st Century Library and Community Learning Center and transfers related to the funding of critical capital needs. Total overall growth is projected at 6.8% for all funds combined.

CITYWIDE STAFFING

The FY 2018 proposed budget reflects a limited number of staffing changes over what was approved at the time of adoption of the FY 2017 Budget resulting in a net increase of 6.6 Full Time Equivalents (FTE) to the General Fund and 2.7 FTE additions to other revenue funds. Staffing changes result in a 1.0% increase in overall labor resources. Proposed staffing increases are almost entirely associated with the opening of the new 21st Century Library and Community Learning Center.

The Staffing section of the budget document provides more details regarding specific department and fund staffing changes.

Table 2: Staffing Summary

FTE Summary	**FY 2003**	**FY 2016**	**FY 2017**	**FY 2018 Proposed**	**# Change**	**% Change**
General Fund	772.8	646.7	651.2	657.8	6.6	1.0%
All Other Funds	164.0	217.5	223.6	225.8	2.7	1.0%
Total City Positions	936.8	864.2	874.8	884.1	9.3	1.0%

[1] Other funds is comprised of all non-General Fund revenue sources with key funds including the City's enterprise funds (Water, Sewer, Airport, etc.), Internal Service Funds (Facilities, Fleet/Equipment, Technology).

GENERAL FUND DISCUSSION

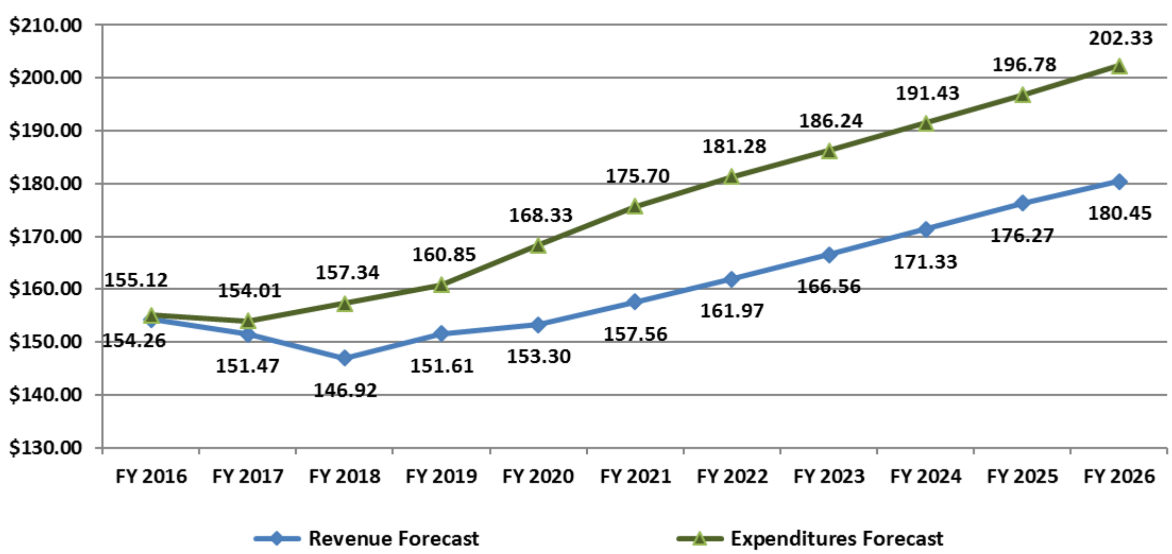
The General Fund represents over fifty percent of the City's total operating costs, and provides many important services such as police and fire services, street maintenance, code enforcement, library and learning services, and other community programs for the residents of Hayward.

The economic crisis that began in 2008 hit the General Fund the hardest of all of the City's funds. In 2011, the General Fund deficit was forecast at $30 million – a reflection of the severe loss of revenue caused by the recession and the long-term chronic shortfall between revenues and expenditures.

Hayward's employees help close the gap. The City has achieved enormous success in reducing this structural gap through recurring expenditure reductions – in large part through the efforts of City employees to share in the cost of their employee benefits and forgo wage increases for five years. All employee groups were asked to consider wage and benefit concessions of 17% to be achieved by FY 2015, or as otherwise agreed upon. All groups achieved between 12%–17% in overall structural savings, allowing the City to avoid significant service reductions and to preserve services and jobs.

The FY 2018 proposed budget shows a structural deficit of $10.4 million re-appearing. This structural gap continues to widen in future fiscal years. The adopted FY 2017 budget indicated a structural deficit of $4.4 million. However, with the FY2017 projection showing a reduction in the general fund deficit to $2.5 million dollars. In collaboration with the consulting firm Management Partners, staff is currently working to update the ten-year financial projection tool and will be bringing back to Council measures for consideration to assist the City in closing its ongoing structural gap in the fall of 2017.

Table 3: General Fund 10-Year Gap Forecast



Key assumptions to help reduce projected FY 2018 deficit

- Only funding critical departmental needs
- Proposing only new positions related to the opening of the 21st Century Library & Learning Center or those needed to meet the directive of outside agencies to keep accreditation
- Reduction in contribution toward funding OPEB unfunded liability

Basic General Fund Ten-Year Plan Assumptions

The General Fund Ten-Year Plan (Plan) is a dynamic planning tool used to assist City Council and staff in managing and projecting the City's current and future fiscal status. Staff considers a variety of assumptions in constructing and updating the Plan; these variables can easily influence the fiscal forecast. The City is currently updating its model with the assistance of Management Partners to ensure that projections are as accurate as possible and that the City uses best practices when creating assumptions used for modeling. This work will also result in the provision of a menu of options for Council to choose from to help close the City's structural deficit. This project's anticipated completion is late fall 2017.

The General Fund section of the budget document contains a detailed General Fund Ten-Year Plan. Critical Cost Drivers impacting FY 2018 and beyond include:

- Escalating CalPERS retirement costs, related to the recent change in PERS discount rate assumption
- Funding Retiree Medical benefits
- Critical resource additions
- Capital costs: vehicle replacement, information technology, streets maintenance

General Fund Reserve

The General Fund Reserve is made up of funds intended for emergency needs (such as a catastrophic natural or financial disaster). It also provides some flexibility to address one-time priority programs, smooth out economic swings, and buffer the loss of state and federal funds. Current City Council policy is to maintain a reasonable Reserve level equal to 20% of total General Fund expenditures.

While FY 2017 assumed a use of $4.4 million of General Fund Reserves when the budget was adopted, the Ten-Year Plan now assumes the need to use about $2.5 million of General Fund Reserves to balance the FY 2017 year end budget (the actual use of reserves could change depending on actual year-end results). Based on the Ten-Year Plan projections and another planned use of the Reserve of $10.4 million to balance the FY 2018 budget, the estimated FY 2018 ending General Fund Reserve (cash) is approximately $11.2 million, resulting in a projected Reserve level of 10% - far below Council policy.

It is Council's policy to replenish the General Fund Reserve when it dips below the 20% threshold as one-time funds become available. Council has been wise in past uses of reserves, and staff has made every effort to maintain those reserve levels as close to Council policy as possible.

KEY FY 2018 BUDGET CHANGES

The following General Fund analysis provides a comparison of the FY 2018 Proposed Budget to the immediate previous years. FY 2017 "projected" is based on what staff currently knows about how this fiscal year will end; the actual ending balance may be different when the year is closed.

General Fund Revenues

General Fund revenue projections reflect improvements to several key revenues, refined further from the projections presented this past March during the FY 2017 mid-year review. Overall, staff is proposing to increase FY 2018 revenues over FY 2017 Adopted by about $2.2 million or 1.6%. Each revenue category varies in its change over the prior year, with some revenues seeing declines and others experiencing increases.

Table 4: FY 2018 General Fund Revenues

		A	B	C	D	E	F
	(in the 1,000's)	FY 2016 Actual	FY 2017 Adopted	FY 2017 Projected	FY 2018 Proposed	Change $ (D-B)	Change % (D/B-1)
	Revenue						
1	Property Tax - recurring	41,828	44,405	45,334	46,512	2,107	4.7%
2	RPTTF Pass-Thru & Annual	2,331	1,600	2,400	2,400	800	50.0%
3	Property Tax - one-time	-	-	-	-	-	0.0%
4	Property Tax Total	44,159	46,005	47,734	48,912	2,907	6.3%
5	Sales Tax	33,059	32,600	33,401	32,609	9	0.0%
6	UUT	16,017	16,543	16,543	16,663	120	0.7%
	UUT Prior Period Payment	6,023	-	3,027	-	-	0.0%
7	Franchise Fees	10,139	9,362	9,362	9,462	100	1.1%
8	Property Transfer Tax	7,849	7,154	7,800	7,154	-	0.0%
9	Business License Tax	2,623	2,846	2,846	2,903	57	2.0%
10	Transient Occupancy Tax	2,591	2,036	2,036	2,077	41	2.0%
11	Emergency Facilities Tax	2,153	1,840	1,840	1,849	9	0.5%
12	Charges for Services	12,218	11,137	11,787	12,607	1,470	13.2%
13	Other Revenue	959	452	400	400	(52)	-11.5%
14	Intergovernmental	8,893	8,038	8,038	5,648	(2,390)	-29.7%
15	Fines and Forfeitures	1,899	2,014	2,014	2,055	41	2.0%
16	Interest and Rents	151	614	614	621	7	1.2%
17	**Total Revenue**	**148,733**	**140,641**	**147,443**	**142,960**	2,318	1.6%
18	Transfers in	5,529	4,025	4,025	3,960	(65)	-1.6%
19	**Total Revenue/Resources**	**154,262**	**144,665**	**151,467**	**146,920**	**2,254**	1.6%

A summary of key revenue assumptions for FY 2018 follows. Please note that the General Fund section of the budget document contains further discussion and analysis of key General Fund revenue categories.

Property Tax – Property Tax is tied directly to assessed valuation and the decline of these revenues since 2009, coupled with California's tax controls, resulted in a slow recovery.

However, Hayward is now experiencing the impacts of an improved economy and active real estate market. Actions taken by the County Assessor in FY 2013 – FY 2015, driven by improved market conditions and rising housing stock prices, increased overall assessed valuation related to the reassessment of property values (Proposition 8). This is a reversal of significant reductions in assessed value that occurred during FY 2010 – FY 2012 as a result of the Great Recession.

With the majority of the second installment of Property Tax revenues received in April 2017 by the City, and following a discussion with the County Assessor about projected FY 2018 valuations in early March, staff is proposing an increase to Property Tax revenue projections for FY 2018 totaling 4.7% over the adopted FY 2017 revenues. Future annual growth is projected at between 2–5%.

Sales Tax – While Sales Tax revenues have rebounded from pre-recession lows, this revenue category has experienced some regression. Revenue projections for FY 2018 reflect no growth from the amount adopted in FY 2017.

The City has experienced sales tax erosion like many California municipalities. In addition, the City anticipates the projected loss of a key sales tax generating business in the next fiscal year, which has a significant impact on projected sales tax revenue. With the loss of a sales tax generating business, and adjustments for inflation sales tax revenues are not keeping pace. When viewed on a per capita basis, these contributing factors indicate a significant decline in sales tax projections. At a time when the City is experiencing higher costs in municipal government and a growing demand for services from the community, the City is collecting less sales tax per person than in the early years. However, considering some economic development improvements and a sustained level of receipts, staff assumes a steady economic growth of sales tax revenue of 3–4% in future years.

Real Property Transfer Tax – FY 2018 Transfer Tax revenues are projected at $7.2 million – of which $4.8 million are considered recurring baseline revenues pursuant to current Council policy. This is not an increase over FY 2017 adopted revenues. It is difficult to project this volatile revenue; however, future annual growth is estimated at 2% in future fiscal years.

- *RPTT Volatility and Base Annual Revenues:* RPTT is volatile revenue – and is entirely connected to Hayward's real estate market conditions, both value and rate of sales. It is reasonable to assume that Hayward will receive an annual base of revenues due to normal property turnover. However, given the unpredictability of this revenue, it is also reasonable to assume that spikes to this revenue are one-time in nature. Meaning, revenues received in excess of an annual base, currently set at $4.8 million, are considered non-recurring and are to be used toward one-time expenses such as replenishing the General Fund reserve, capital improvements, and/or reductions of benefit liabilities. This prudent fiscal approach helps avoid the mistake of budgeting recurring costs against one-time spikes in revenue – thereby exacerbating the City's structural gap.

Franchise Fees – This revenue category is comprised of franchise fees assessed on utilities doing business within City limits (e.g., refuse, gas, electricity, cable, etc.) and is assessed as a percentage of gross receipts. While some categories show slight growth, overall franchise fees are experiencing a slight increase of 1.1% for FY 2018.

Charges for Services – This revenue category is comprised of a variety of fees for building and development related activities. Given current levels of activity, FY 2018 projects a 13.2%

increase. Future years reflect lower annual growth of 2–3% as a means to smooth the impacts of a future recession and market slow-down.

Transfers In (from other funds): Gas Tax – The City uses State Gas Tax funds to partially fund streets maintenance. These funds are transferred from the Gas Tax fund into the General Fund each year. The projections for FY 2018 revenues reflect a nominal increase of $2,000. The FY2017 Adopted budget indicated revenue projections of $227,000, with the FY2018 Adopted budget of $229,000 in projected revenue collection. While the City has seen a decline in its Gas Tax allocations in recent years, the FY2018 assumes minimal change in its projected allocation.

General Fund Expenditures

Overall, the proposed FY 2018 expenditures have increased over the FY 2017 adopted budget by $8.3 million or 5.6%. There are several factors driving the expenditure growth, almost all due to escalating employee-related costs.

Table 5: FY 2018 General Fund Expenditures

(in the 1,000's)	FY 2016 Actual	FY 2017 Adopted	FY 2017 Projected	FY 2018 Proposed	Change $ (D-B)	Change % (D/B-1)
Expenditures						
Salary	67,497	71,806	68,759	74,446	2,640	3.7%
Overtime	7,778	5,530	7,059	5,566	36	0.7%
Wages Subtotal	**75,275**	**77,336**	**75,818**	**80,012**	2,677	3.5%
Medical & Dental	10,958	13,054	11,366	12,805	(249)	-1.9%
Retiree Medical (pay-go)	2,810	2,846	2,846	2,794	(52)	-1.8%
Worker's Compensation	5,732	6,343	6,000	5,903	(440)	-6.9%
Other Benefits	2,133	2,067	2,067	1,624	(443)	-21.5%
Retirement (CalPERS)	20,689	23,919	23,065	24,152	233	1.0%
Benefits Subtotal	**42,322**	**48,230**	**45,344**	**47,278**	(952)	-2.0%
Assumed Vacancy Savings	-	(2,860)	-	(751)	2,109	-73.7%
Interdepartmental (ID) Charges	(4,451)	(4,832)	(4,404)	(4,602)	230	-4.8%
Unemployment Self Insurance	52	150	100	-	(150)	0.0%
OPEB Liability Contribution*	1,106	-	-	1,000	1,000	
Net Staffing Expense	**114,304**	**118,023**	**116,858**	**122,938**	**4,915**	**4.2%**
Maintenance & Utilities	907	1,025	756	1,020	(5)	-0.5%
Supplies & Services	8,900	6,940	8,797	8,154	1,214	17.5%
Internal Service Fees	13,336	14,413	14,413	15,375	962	6.7%
Minor Capital Outlay	-	25	25	-	(25)	0.0%
Debt Service*	3,445	3,710	3,568	3,420	(290)	-7.8%
Liability Insurance*	2,338	2,889	4,389	2,907	18	0.6%
Economic Dev. Fund (from RPTTF)*	-	350	350	350	-	0.0%
Capital Funding*	2,444	1,654	1,654	3,182	1,528	92.4%
Stormwater Fund*			173	-	-	0.0%
Capital Improvement Program FY 2015	3,420				-	0.0%
Non-Personnel Expenses Subtotal	**34,790**	**31,005**	**34,124**	**34,408**	3,402	11.0%
UUT Prior Period Payment Offset	6,023	-	3,027		-	0.0%
Total Expenditures	**155,117**	**149,029**	**154,009**	**157,346**	**8,317**	**5.6%**

**Transfers Out of General Fund Total*

Salary – FY 2018 includes the contracted Cost of Living Adjustment (COLA) for all bargaining groups. This was a critical necessity to keep our organization market-competitive and to respect the five years or more than our employees had weathered without any increase to base salary. FY 2018 includes all position changes approved by City Council as part of the FY 2017 mid-year review, and the proposed FY 2018 changes – a total increase of 7.6 FTE to the General Fund. The increase in staffing is primarily due to the need to establish appropriate staffing levels in anticipation of the opening of the City's 21st Century Library and Learning Center.

Overtime – Proposed FY 2018 Overtime is $5.56 million – which is 0.7% more than budgeted in FY 2017. Much of the General Fund overtime use is in the Police and Fire Departments and is necessary to meet mandatory staffing level requirements.

CalPERS Retirement Rates – Retirement rates increase significantly in FY 2018 – with total costs increasing 11.1%. The FY 2018 rates increase over prior year levels by 1.92% to as much as 4.8% of payroll, depending on plan. Over the last several years, the CalPERS Board of Administration has considered and adopted several rate methodology changes that directly impact the retirement rates that cities pay (employer contribution rates). Each of these changes is effective in different fiscal years, with varying phase-in schedules. While these changes significantly increase our current retirement costs, they are intended to stabilize the CalPERS plans for long-term sustainability and should have been implemented long ago in the CalPERS system.

The cost of the retirement plans is broken into Employee Contribution rates (fixed) and Employer Contribution rates (variable). Both rates are a percent of payroll. The Employee Contribution is fixed and is based on the pension plan formula (generally 9% for public safety plans and 7% or 8% for miscellaneous plans). The Public Employees' Pension Reform Act of 2013 (PEPRA) introduced new benefit formulas effective January 1, 2013 that affect new employees to the City that have not previously been part of the CalPERS system. While there is little immediate financial benefit to the City with this "two-tiered" system, the long-term benefit of lower retiree costs is anticipated to be significant.

Most employee groups contribute beyond the Employee Contribution portion and pay a portion of the Employer Contribution: 6% for sworn police and fire personnel, 1% for all non-sworn personnel (with a multi-year phased-in increase to 3% by FY2018). The Employer rates displayed in Table 6 represent the full Employer cost as assessed by CalPERS, and do not reflect these cost-sharing agreements, as these agreements do not affect the overall cost of CalPERS, only who pays what share.

Table 6 – CalPERS Rates

(in the $1,000's)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Miscellaneous								
Employer Contribution ($)	$9,192	$9,754	$10,436	$11,437	$12,779	$14,197	$15,173	$16,212
Change over prior year	**$ 492**	**$ 562**	**$ 682**	**$ 1,001**	**$ 1,342**	**$ 1,418**	**$ 976**	**$ 1,039**
Employer Contribution Rate	22.10%	24.47%	26.39%	27.40%	29.70%	32.10%	33.30%	34.50%
Change over prior year	**2.36%**	**2.37%**	**1.92%**	**1.01%**	**2.30%**	**2.40%**	**1.20%**	**1.20%**
Police								
Employer Contribution ($)	$9,024	$9,910	$10,846	$11,559	$13,788	$15,457	$16,510	$17,572
Change over prior year	**$ 364**	**$ 887**	**$ 935**	**$ 714**	**$ 2,229**	**$ 1,669**	**$ 1,053**	**$ 1,062**
Employer Contribution Rate	39.80%	42.40%	47.22%	47.60%	55.10%	60.00%	62.20%	64.30%
Change over prior year	**4.61%**	**2.60%**	**4.82%**	**0.38%**	**7.50%**	**4.90%**	**2.20%**	**2.10%**
Fire								
Employer Contribution ($)	$6,168	$6,559	$ 7,057	$ 9,551	$ 9,004	$10,110	$10,867	$11,675
Change over prior year	**$ 542**	**$ 392**	**$ 498**	**$ 2,494**	**$ (547)**	**$ 1,106**	**$ 757**	**$ 808**
Employer Contribution Rate	37.15%	40.40%	43.12%	54.30%	49.70%	54.20%	56.50%	59.00%
Change over prior year	**2.36%**	**3.25%**	**2.72%**	**11.18%**	**-4.60%**	**4.50%**	**2.30%**	**2.50%**

Nevertheless, while the rates shown above are alarming in themselves, they do not reflect that the CalPERS Board lowered the discount rate from 7.5% to 7.0% in December 2016. Lowering the discount rate, also known as the assumed rate of return, means employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities in order to make the plan more sustainable in the long term. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise.

The most recent actuarial valuations provided to the City of Hayward by CalPERS in August 2016 reflect the final rates for FY 2018; however, these rates did not incorporate the change to discount rates, which result in FY 2018 rates increasing over FY 2017 rates by between 1 – 8 percent of payroll. The above noted change to the assumed discount rates impacts the City's required contributions significantly in the coming years. The City's revised rates (combined average for all groups) will increase from 37.1% in FY 2018 to 49.0% in FY 2023 as currently projected by CalPERS.

The new valuations the City received in August 2016 reflect rate projections that include all of the rate actions taken by the CalPERS Board to date. Table 7 provides a summary of what the City's projected CalPERS rates will be based on CalPERS recent change to the discount rate. Per the CalPERS rate projections, by FY 2023, rates for Miscellaneous Plans are estimated to be 43.3 percent and rates for Safety Plans are projected to be 69.2 percent of payroll. Please note that these projections are an estimate based on a model and are not entirely reflective of what the City's exact rates will be because the model uses ranges for projecting in the model. Immediately upon receipt of the CalPERS Actuarial Valuation Report (reportedly late July 2017), staff will return to the Council with updated projections and further discussion.

Table 7 – CalPERS Rates (Projected Assuming 7.0% Discount Rate Phase In)

(in the $1,000's)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Miscellaneous								
Employer Contribution ($)	$ 9,192	$ 9,754	$ 10,436	$ 11,437	$ 13,223	$ 15,164	$ 17,503	$ 19,299
Change over prior year	**$ 492**	**$ 562**	**$ 682**	**$ 1,001**	**$ 1,786**	**$ 1,941**	**$ 2,339**	**$ 1,796**
Employer Contribution Rate	22.10%	24.47%	26.39%	27.40%	30.80%	34.30%	38.40%	41.10%
Change over prior year	**2.36%**	**2.37%**	**1.92%**	**1.01%**	**3.40%**	**3.50%**	**4.10%**	**2.70%**
Police								
Employer Contribution ($)	$ 9,024	$ 9,910	$ 10,846	$ 12,204	$ 14,207	$ 16,369	$ 18,653	$ 20,421
Change over prior year	**$ 364**	**$ 887**	**$ 935**	**$ 1,358**	**$ 2,003**	**$ 2,162**	**$ 2,284**	**$ 1,768**
Employer Contribution Rate	39.80%	42.40%	47.22%	50.30%	56.80%	63.60%	70.30%	74.70%
Change over prior year	**4.61%**	**2.60%**	**4.82%**	**3.08%**	**6.50%**	**6.80%**	**6.70%**	**4.40%**
Fire								
Employer Contribution ($)	$ 6,168	$ 6,559	$ 7,057	$ 9,550	$ 10,950	$ 12,457	$ 14,145	$ 15,516
Change over prior year	**$ 542**	**$ 392**	**$ 498**	**$ 2,493**	**$ 1,400**	**$ 1,507**	**$ 1,688**	**$ 1,371**
Employer Contribution Rate	37.15%	40.40%	43.12%	54.30%	60.40%	66.80%	73.60%	78.40%
Change over prior year	**2.36%**	**3.25%**	**2.72%**	**11.18%**	**6.10%**	**6.40%**	**6.80%**	**4.80%**

Vacancy Savings – Vacancy savings are assumed based on normal attrition and known staffing vacancies. Projected FY 2018 vacancy savings are $750,000 in the General Fund and assume savings primarily attributed to police and fire staffing.

Retiree Medical Unfunded Liabilities – City Council policy is to pre-fund the City's benefit liabilities to the greatest extent possible within existing operating resources. However, due to a potential operating deficit, FY 2018 assumes deferring a $1 million contribution toward the City's Other Post-Employment Benefits (OPEB) Retiree Medical unfunded liability. The City will attempt to resume funding in FY 2019 and plans to continue to phase in the funding of the total Annual Required Contribution (ARC) for its OPEB liability – reaching this minimum annual funding level by FY 2022.

Internal Service Fees – The Internal Service Funds (ISF) have experienced general cost increases and grow by 6.7% over FY 2017 Adopted.

The Fleet Management Internal Service Fund presents an increase of $222,529, which includes a transfer to the Fleet Management Capital fund.

The Technology Internal Service Fund presents an increase of about $229,900 in FY 2018 for specific recurring technology costs , but do include:

- Munis and other program annual software maintenance
- 1 new FTE position charged to the fund (to be assigned to Library & Community Services for support of the new Library facility)
- Transfer of $622,104 to the Technology Capital Fund

Capital Funding

The Technology Capital Fund requests $1.5 million or 92.4% over the FY2017 Adopted budget. The FY2018 proposed budget includes:

- IT security assessment
- Server replacement/network server replacement
- Network infrastructure replacement
- Council Chambers technology upgrade
- Highspeed Hayward fiber plan implementation
- EBRCS Subscription

Some of these projects will require funding in future years as well to complete; however, funding levels will be contingent on future budget processes. In addition, there are similarly critical technology needs that remain on the unfunded list, as can be seen in the Capital Improvement Plan budget for FY 2018.

Other Funds

The most significant changes in non-General Fund funds are related to the new Measure C Fund. The Enterprise & Other Funds section of the budget document provides multi-year forecasts and analyses for all of the City's key enterprise and internal service funds.

Measure C – During the June 3, 2014 municipal election, the voters of the City of Hayward passed a ballot measure (Measure C) to increase the City's Transaction and Use (Sales) Tax by half a percent for twenty years. This half cent increase became effective October 1, 2014, bringing Hayward's Sales and Use Tax rate to 10.0%. This is a general tax and is considered discretionary in nature. Staff originally estimated that the new sales tax would generate approximately $10 million annually in locally controlled revenue that can be allocated by the City Council and will remain in place for a period of twenty years. In FY 2018, staff projects that the City will receive $14.5 million in Measure C sales tax revenues.

The City Council, as well as the ballot language, established a number of spending priorities for these funds. These priorities include a mix of capital projects and funding allocations toward operating services. The Measure C revenues will be used to fund debt service for construction of the new Library and Community Learning Center, completion of fire station retrofits and improvements, and rehabilitation and expansion of the City's existing fire training center. Of the $13.5 million in annual revenue, staff estimates annual debt service payments for the above defined projects will total approximately $5.4 million annually. The remaining funds are to be allocated among police services, maintenance services, and street repairs.

Staff presented recommendations for the use of the Measure C funds to both the Council Budget & Finance Committee and the City Council in November and December 2014[2]. Consistent with those discussions, staff is including assumed revenues and expenditures for Measure C as part of the FY 2018 budget.

- *Revenue:* The City began receiving allocations of the Measure C Transaction and Use (sales) Tax effective January 1, 2015. Staff anticipates receiving approximately $13.5 million in revenues from Measure C for FY 2018. As previously approved by Council, staff established a new fund within the General Fund to allow for easy tracking of the revenues and expenses associated with Measure C (Fund 101).

- *<u>Expenditures:</u>* Given the timing of the design of the Measure C funded capital projects, FY 2018 estimates expenses of $6.2 million for staffing (police and maintenance) and estimated debt service.

UNFUNDED NEEDS & LIABILITIES

While the proposed FY 2018 Operating Budget reflects the basic operating needs of the City, as well as the inclusion of funding toward some benefit liabilities and capital needs, it does not reflect the full spectrum of need – as many of these needs are by necessity "unfunded." As can be seen in the discussion below regarding benefit liabilities, the City is not fully funding these obligations. However, the City Council spent time in FY 2016 and 2017 reviewing its benefit liabilities and considering funding plans toward adequately funding the unfunded portions of these liabilities.

Unfunded Capital Needs

The FY 2018 Capital Improvement Program reflects "Identified Capital Needs" totaling almost $400.3 million for which funding is undetermined. In accord with Council policy, as one-time funding becomes available, Council will allocate funds toward these unfunded CIP needs.

Benefit Liabilities & Funding Status

The City actively manages its benefit liabilities and completes actuarial valuations for all benefit liabilities with the exception of accrued leave payouts (analysis conducted by staff). These valuations consider the economic, demographic, and historical compositions of the benefit programs and establish amounts that the City should allocate each year to fund its benefit-related financial obligations. In today's economic climate, it is critical that the City continue to manage its benefit liabilities to ensure long-term fiscal stability and the continuance of these valuable benefits to City employees. Actuarial valuations identify the Annual Required Contribution (ARC) an agency should make toward the funding of the benefit. This is essentially the minimum funding amount that should be responsibly made by any organization. The ARC is generally comprised of two elements: a portion of funding for current costs (sometimes referred to as "pay go") and a portion of funding for future costs (the Unfunded Actuarial Liability or UAL).

As bond rating agencies review the City's debt, they actively consider the level of the City's unfunded benefit liabilities and the economic pressure these place on the City. Failure to meet the minimum recommended funding levels or to implement a plan to achieve full funding of the ARC and/or a long-term plan to pay down the future liabilities could have a negative impact on future bond ratings – with a possible resultant increase in the cost of borrowing should the City seek to incur new debt or need to refinance existing debt.

Table 8 provides a summary of the City's benefit liabilities and current levels of funding. Each of these benefit liabilities is unique in its structure and the degree of funding varies depending on the benefit.

Table 8: Summary of Benefit Liabilities

(in millions)	Actuarial Valuation Date	Accrued Liability	Value of Assets	Funded Ratio	Unfunded Liability (1)	Unfunded Ratio
CalPERS Police Safety Plan	6/30/2015	$ 327.80	$ 214.90	65.6%	$ 112.90	34.4%
CalPERS Fire Safety Plan	6/30/2015	$ 249.30	$ 172.20	69.1%	$ 77.10	30.9%
CalPERS Miscellaneous Plan	6/30/2015	$ 393.50	$ 277.00	70.4%	$ 116.50	29.6%
Total CalPERS		**$ 970.60**	**$ 664.10**	**68.4%**	**$ 306.50**	**31.6%**
OPEB - Retiree Medical Police Office	6/30/2015	$ 55.69	$ 1.36	2.4%	$ 54.33	97.6%
OPEB - Retiree Medical Firefighters	6/30/2015	$ 22.47	$ 0.94	4.2%	$ 21.53	95.8%
OPEB - Retiree Medical Miscellaneou	6/30/2015	$ 30.18	$ 1.38	4.6%	$ 28.80	95.4%
Total OPEB-Retiree Medical		**$ 108.34**	**$ 3.68**	**3.4%**	**$ 104.66**	**96.6%**
Workers' Compensation	6/30/2016	$ 17.37	$ 7.46	42.9%	$ 9.91	57.1%
Accrued Leave Payouts (1)	6/30/2016	$ 7.66	$ -	0.0%	$ 7.66	100.0%
Total		**$ 1,103.97**	**$ 675.24**	**61.2%**	**$ 428.73**	**38.8%**

(1) Accrued Leave Payouts - no actuarial valuation

Retirement Annual cost (annual cost: $23.1 million) – The City is fully meeting its annual required contribution (ARC) amounts based on the CalPERS premium rates. Given the new CalPERS “smoothing” methodology, the long-term intent is to fund the City’s liability over the 30-year amortization period. However, while recent changes adopted by the CalPERS Board will increase Hayward’s Employer rates, the changes will improve the plan’s funding status over the next thirty years.

Workers’ Compensation (annual Cost: $4.8 million) – Pursuant to the current actuarial valuation conducted for the program, a funding status of 70 – 85% is recommended. Table 8 shows that the City is currently at about a 42.9% funding level. Staff recommended funding at the 80% level and beginning in FY 2013, implemented a plan to build the fund balance toward achieving this funding level over the next four years. Workers’ Compensation rates charged against live payroll include a component of cost (about $1.5 million/year) toward unfunded liability. Once the 80% funding level is reached (about $9 million in fund balance reserved for future liability), the Workers’ Compensation rates will be adjusted downward.

*Retiree Medical – O*PEB (annual cost: $2.9 million “pay go”) – The estimated actuarial calculation of the City’s ARC is $12.2 million ($2.9 million “pay go” and $9.3 million toward future unfunded liability). The City is not funding the full ARC due to its budget pressures but is fully funding the annual $2.9 million “pay go” portion for active retirees. Effective FY 2014, the City began contributing toward the unfunded liability based on available resources and had a planned phase in in which it intended to fully funding the ARC by FY 2022. A change in the actuarial valuation, lack of resources and significant increases to the ARC have jeopardized this approach. This will be examined as part of the work done with Management Partners in Fall of 2017.

Accrued Leave Payouts (annual Cost: varies) – Staff has taken strong action to lower this liability during the past two years by managing employees to approved vacation caps. This has helped to prevent large accrued leave payouts to retiring or terminating employees. The total liability has reduced from the FY 2013 balance of $8.6 million to the FY 2016 balance of $7.7 million – a 10.5% reduction in liability.