



DATE: June 13, 2017
TO: Mayor and City Council
FROM: Director of Finance
SUBJECT Proposed FY 2018 Operating Budget – Work Session 3

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 FY 2018 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. The Council held a work session on June 6, discussed the Airport Hanger Fees, and continued the other discussion items. This report presents all of the items again for Council's reference.

DISCUSSION

The work session scheduled for tonight will be Council's third budget work session regarding the FY 2018 Operating Budget. The budget work session this evening will include further discussion regarding Library and Community Services staffing, Airport Hanger Fees, and Passport Program.

Proposed Library and Community Services Staffing:

Council has been presented with information regarding staffing options at the new 21st Century Library and Learning Center on multiple occasions over the course of the fiscal year. Most recently in work session items, *Review of 21st Century Library and Community Learning Center Staffing Considerations*, on May 2, 2017 and again on May 20, 2017 during the FY 2018 Operating Budget Saturday Work Session. During these discussions Council identified some

key areas for staff to evaluate as the new 21st Century Library and Learning Center progresses towards its grand opening in February/March 2018. These key areas include: expanding services to allow the Library to open on Sundays; remaining open later into the evening on nights that correspond with key “study times” with some of the City’s educational institutions; to consider an increased use of volunteers to provide services at the facility; and last, but certainly not least, to limit the impact to the General Fund as it relates to new positions adhering to the status quo goal the City Manager identified as a priority in the Budget Message section of the Proposed FY 2018 Operating Budget.

As discussed in the May 2nd staff report, it is possible to operate the new 21st Century Library and Learning Center without additions to current staffing; this approach, however does not address challenges that could arise from the likelihood of a significant increase in annual visits from the current 400,000 per year to a projected 1.2 million in the first year of operation at the new facility. For this reason, staff proposed an increase of 4.3 FTEs for Council’s consideration.

Discussion

The main library has had the same hours of operation with no substantive changes for the past 20+ years. Keeping the library facility open and available to the public is the core library function which has been maintained through the extraordinary efforts of library staff through challenges such as staffing reductions and service demand increases that have occurred over the years. The main library is open to the public six days a week, Monday through Saturday, for a total of 48 hours of operation per week. The library is open from 11:00 a.m. to 8:00 p.m. on Mondays, Tuesdays and Wednesdays (nine hours per day); and from 10:00 a.m. to 5:00 p.m. on Thursdays, Fridays, and Saturdays (seven hours per day).

The optimal number of daily hours for the library to operate and allow for public access is between seven to nine hours per day. This number of hours is optimal for three fundamental reasons:

1. It offers provision of a reasonably wide window of opportunity for the public to access library services on a given day, including morning, afternoon, and occasional evening hours.
2. The operating window does not exceed the length of one full-time staff shift (eight hours plus one hour meal break).
3. It maximizes the amount of library operating hours the City can offer to the community with limited resources. This is achieved by focusing and aligning staff “shifts” with the library’s open hours to the greatest possible extent.

Options and recommendations:

Considering all the above, as well as the discussions in the May 2nd and May 20th work sessions, there are several options the Council can consider at this time.

Option One - No additions to library staffing in FY 2018. This option causes no fiscal impact to the General Fund in FY 2018 other than previously projected growth in net staffing expense

that will be incurred regardless. As mentioned in previously discussions, the new library can be operated with existing staffing levels. However, this may cause impacts on existing staff due to the anticipated increase in library visits that may occur during the first year the new library is open.

Option Two – Addition of 1.0 FTE Librarian position. Council may consider the implementation of a modest increase to library staffing to address the needs that will be created by new services offered at the new 21st Century Library and Learning Center, that are not currently offered which would consist of a Librarian (1.0 FTE).

Option Three – Addition of 4.3 FTE staff positions as proposed in the FY 2018 Operating Budget. The option included in the Proposed FY 2018 Operating Budget would add 4.3 FTE front-line library staff effective at the time the new library opens in 2018. It is this option that would comfortably address the initial projected spike in service demand. If the Council selects this option, staff could potentially redirect these staff to implement Sunday operating hours in FY 2019 depending on actual service demands. This option, combined with some small increases to supplies and services, would have a projected increase of \$203,399 in General Fund expenditures in FY 2018, and covers only the second half of the fiscal year. In future years, this cost would be for the full fiscal year should the staffing level be maintained.

Staff recommends deferring implementation of Sunday hours at the new 21st Century Library and Learning Center until July 2018 or later, after the new library has been open and operating for a period of time so staff can better understand service demand increases before implementing Sunday operating hours. This will also allow staff and the Council more time to evaluate options for addressing the structural deficit in the operating budget before adding additional services for the public.

Next Steps

Immediately upon the new 21st Century Library and Learning Center opening in the Winter of 2018, staff plans to look to some key indicators to be able to quantify ongoing service needs and identify appropriate service levels at the new facility. Among the measures staff plans to use are:

- A comparison of customer wait times at the main library today vs. wait times at the new 21st Century Library and Learning Center
- Customer surveys to identify the most desired operating times, including those currently offered and not offered
- Number of visits - trends and increases
- Times of heaviest and least use
- Services requiring additional resources to function optimally
- Services being offered that may not be desired or utilized
- More accurate projection of possible new revenue streams

Airport Hanger Fees: (This item was discussed at the June 6, 2017 Council Meeting and was not continued to the June 13, 2017 meeting)

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 a factor, 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 a study is conducted every 4th year. In year's when an independent study is conducted comparing rental rates at the Hayward Executive Airport with those of other similar and comparable airports in the Bay Area and across the country.

In accordance with the established precedence, 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 to 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 increases of up to that amount for these specific fees.. An increase of that magnitude was considered unbearable by staff upon review and recommended a phased in approach to bring these fees to market 10% a year 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 a number of 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 staff recommendation to limit all rent increases to not to exceed 10% in FY 2018, in an attempt 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 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 this discussion.

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, 2018 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 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 increase 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 service demand subsides over time, providing staff the ability to monitor over this coming fiscal year. Staff will continue to engage interns to assist with the provision of passport services, as well as, explore software solutions to allow for online appointments to meet added demand.

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 increase demand without adding additional resources. This option has no to minimal impact to the General Fund.

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 has no impact to the General Fund.

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 has 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 on the FY 2018 Operating and CIP Budgets is scheduled for June 20, 2017.

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