



DATE: May 14, 2019

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Discussion on the FY 2020 Proposed Operating Budget, the City Issued Debt Annual Report and Consideration of the Proposed Modifications to the City's "Use of One-Time Revenue for One-Time Expenses" Policy

RECOMMENDATION

That the Council provides direction on the Proposed FY 2020 Operating Budget, receives the City Issued Debt annual report, and considers potential changes to the City's "Use of One-Time Revenue for One-Time Expenses" policy.

SUMMARY

This agenda item continues the Proposed FY 2020 Operating Budget discussion from the Saturday, April 27, 2019 budget work session and staff seeks final direction in preparation for adoption of the FY 2020 Operating Budget scheduled for May 21, 2019. Additionally, staff presents the City issued debt annual report and the proposed modifications to the City's "Use of One-Time Revenue for One-Time Expenses" policy recommended by the Council Budget and Finance Committee for Council consideration.

BACKGROUND

The Council Budget and Finance Committee (CBFC) and City Council began holding budget-related meetings in January 2019. On April 27, 2019¹, the Council held a special budget work session to review the FY 2020 Proposed Operating Budget, received department presentations, and considered General Fund expenditure options and the impacts on the General Fund Five Year Plan.

On April 17, 2019, the CBFC discussed the City's policy on "Use of One-Time Revenue for One-Time Expenses"² and proposed modifications for Council consideration, which are outlined in the Discussion Section of this report.

¹ Hayward City Council Budget Work Session - FY 2020 Proposed Operating Budget on Saturday, April 27, 2019

<https://hayward.legistar.com/LegislationDetail.aspx?ID=3926698&GUID=045AF251-8300-455E-9FC8-141DEC5E515A&Options=&Search=>

² Council Budget and Finance Committee meeting held on April 17, 2019

<https://hayward.legistar.com/LegislationDetail.aspx?ID=3920697&GUID=2DADE33D-8FD7-4876-BDA9-81E125CC03D4&Options=&Search=>

On March 20, 2019, the CBFC reviewed the City Issued Debt³ Annual Report. The City of Hayward, like most cities and municipal agencies, incurs and manages debt as part of the normal course of business, leveraging different financing instruments to provide immediate access to funding for significant capital projects, equipment, and other specific projects. City staff prepares informational sections included in the City's annual budget document and the annual financial statements that include sections summarizing the City's debt. This report provides a comprehensive summary of the debt portfolio.

DISCUSSION

This agenda item is Council's second budget work session regarding the City's FY 2020 Operating Budget. During the Saturday, April 27, 2019 budget work session, Council discussed the FY 2020 Proposed Operating Budget, received department presentations, and considered three General Fund expenditure options, along with service-level impacts and fiscal impacts on the General Fund Five Year Plan. The proposed expenditure options are described below and show the FTE requests by department and classifications, along with the fiscal impact of each expenditure request.

OPTION ONE:

Option One includes expenditure increases in the amount of \$4.1 million over what was projected in February 2019. These expenditures include \$2.1 million in personnel related expenses, \$1.3 million in internal service charges, \$650 thousand to fund General Fund CIP projects. Table 1 below illustrates the proposed changes, which includes the addition of 5.0 FTEs in the General Fund.

TABLE 1: OPTION ONE: PROPOSED FTEs BY DEPARTMENT AND CLASSIFICATION

Department - Net Impact	Position	FTE	Position Expense	Expense Offset
Fire - \$55,545	Add Staff Captain	+1.0	\$ 268,461	
	Delete Firefighter	-1.0		\$ (212,916)
City Manager's Office - (\$29,298)	Add Community Program Specialist	+0.5	\$ 76,901	\$ (66,078) *
	Add Senior Secretary	+1.0	\$ 119,807	
	Add Management Fellow	+0.5	\$ 44,821	
	Delete Assistant to the City Manager	-1.0		\$ (204,748)
Development Services - \$38,037	Add Management Analyst	+1.0	\$ 162,915	
	Add Jr. Landscape Architect	+1.0	\$ 165,075	
	Delete Deputy Director of Development Services	-1.0		\$ (245,132)
Human Resources - (\$543)	Delete Management Fellow	-0.5		\$ (44,821)
	Add HR Analyst	+0.5	\$ 81,457	\$ (82,000) *
Library - \$134,487	Add Librarian II (Technology)	+1.0	\$ 134,487	
Maintenance Services - \$0	Add Lead Sweeper Operator	+2.0	\$ 274,228	\$ (166,480)
	Delete Maintenance Worker I	-1.0		\$ (107,748)
Police - \$136,471	Add Records Supervisor	+1.0	\$ 136,471	

*Off-sets result of a reduction in services and supplies budget.

³ Council Budget and Finance Committee meeting held on March 20, 2019

<https://hayward.legistar.com/LegislationDetail.aspx?ID=3892006&GUID=F0699AB1-17E2-44AC-B59B-FA609FB27BCB&Options=&Search=>

OPTION TWO:

Option Two included requests outlined in Option One, plus the following:

1. \$147,836 for a Management Analyst (1.0 FTE) to serve as the Homelessness Services Coordinator within the Community Services Division of the City Manager's Office;
2. \$154,742 for Emergency Services Coordinator (1.0 FTE) in the Fire Department to assist in community and organizational disaster preparedness. At the work session on April 27, 2019, staff noted this request could be reconsidered at mid-year or in FY 2021;
3. \$34,500 for a Senior Secretary (1.0) in the Maintenance Services Department to support the Facilities Division;
4. \$100,000 of additional funding for the Community Agency funding, and
5. \$20,000 of additional funding for temporary staffing at the Library.

OPTION 3:

Option Three included requests outlined in Options One and Two, plus the following:

1. \$236,038 for Groundskeepers (2.0 FTEs) in the Maintenance Services Department for additional litter pick- and assistance with homeless encampments. At the work session on April 27, 2019, staff noted Council's support to add these positions in the Measure C fund.
2. Prepayment of a Lease the City is currently paying over time; early payment would increase the FY 2020 debt service expense by approximately \$530 thousand, but would result in a long-term savings to the City which is estimated at approximately \$197 thousand total, and debt service payments would be reduced by approximately \$73 thousand annually through FY 2030, over the remaining life of the lease.

SUMMARY OF OPTION DISCUSSION:

During the Council discussion of the FY 2020 Proposed Operating Budget and Options at the April 27 work session, Council expressed general support for some, but not all of the proposed positions outlined in the Options above. During that discussion, Council offered feedback on some of the proposed positions and requested additional detail to review before making a final recommendation. Specifically, staff heard, but would like to confirm the following:

1. Council does not currently support the increased budgeted expense of \$154,742 for an Emergency Services Coordinator (1.0 FTE) in the Fire Department at this time: Council discussed potentially postponing this request to midyear FY 2020 or potentially considering it in FY 2021 once the Emergency Services Office in the Fire Department has been functioning again for some time;
2. Council supports the use of Measure C funds to provide the additional budgeted expense of \$236,038 for two Groundskeepers (2.0 FTEs) in the Maintenance Services Department for additional litter pick- and assistance with homeless encampments.

Table 2 below lists the expenditure requests where there was not clear support for or against the request and staff would like to provide additional cost-offset information to Council so that a recommendation supporting or denying these requests can be included as part of the budget adoption process currently scheduled for May 21, 2019. Staff requests direction on the items listed here.

TABLE 2: SUMMARY OF SPECIFIC PROPOSED GENERAL FUND EXPENDITURES FOR COUNCIL CONSIDERATION & DIRECTION

Department	Options	Budget Request	Impact	Off-set to Impact
City Manager's Office	Option 1	Add 1.0 FTE - Senior Secretary	\$ 119,807	\$ (149,105)
	Option 2	Add 1.0 FTE - Management Analyst (Homeless Services Coordinator)	\$ 147,836	
	Option 2	Additional Community Agency Funding	\$ 100,000	
Human Resources	Option 1	Add 0.5 FTE - Human Resources Analyst (0.5 FTE budgeted in Risk Mgmt Fund)	\$ 81,457	\$ (82,000)
Maintenance Services	Option 2	Add 1.0 FTE - Senior Secretary (GF Impact of Facilities ISF Charges)	\$ 34,500	

PROPOSED CHANGES TO THE USE OF ONE-TIME REVENUE POLICY

In the normal course of business, the City receives a variety of one-time funds such as the sale of City owned property, settlements, and various other one-time revenues. The City's Use of One-Time Revenue for One-Time Expenditures policy affirms current financial practices that align one-time resources with one-time (not on-going operational) expenditures. As part of the FY 2020 budget process, the CBFC considered potential modifications to the policy as it relates to appropriation of one-time revenues with a focus on long-term fiscal sustainability.

The Committee recommended that the policy could be modified to provide clear guidelines on appropriating one-time revenues. As a top priority, the Committee highlighted the importance of sustaining a General Fund reserve balance congruent with its policy of *"no less than two months of city operating costs or at least 20% of budgeted General Fund operating expenditures."* Additional priorities included (1) funding the City's unfunded liabilities, (2) capital infrastructure needs, (3) emerging needs, and (4) funding for economic development.

The Committee then developed two options based on General Fund Reserves below and above the 20% reserves policy guidelines. Table 3 and Table 4 summarize the proposed policy modifications:

TABLE 3: GENERAL FUND RESERVES *AT OR ABOVE* 20%

%	PROPOSED DESIGNATION
50%	95% would be allocated to fund the City's unfunded liabilities
	5% would be allocated to build General Fund Reserves
50%	70% would be programmed for capital infrastructure needs
	20% would be appropriated for emerging needs
	10% or up to \$1M would be appropriated for economic development needs

TABLE 4: GENERAL FUND RESERVES *BELOW 20%*

%	PROPOSED DESIGNATION
100%	100% would be used to restore General Fund Reserves until funding levels were at or above the City’s policy of “no less than two months of city operating costs or at least 20% of budgeted General Fund operating expenditures”

The CBFC Committee recommends Council consideration of the proposed modification to the “Use of One-Time Revenue for One-Time Expenditures” policy.

ANNUAL REVIEW OF CITY ISSUED DEBT

Annually, City staff presents a review of City issued debt to both the CBFC and full City Council. The City uses debt to finance the cost of capital improvements through various debt instruments (see list below). Debt service payments are generally made on an installment basis, typically annually or semiannually. This document contains debt service information for the General Fund and all other funds, including anticipated debt issuances that will be issued prior to the end of the fiscal year as have been approved by Council during the FY 2019 budget process or separate resolution. Debt service payments of previously issued debt, as well as planned issuances, are budgeted and approved annually by City Council – these obligations are funded through identified tax and/or fee supported revenues that include the General Fund, Enterprise Funds, and Internal Service Funds.

Debt Instruments – The City and Successor Agency of the Hayward Redevelopment Agency currently maintain the following types of debt:

- Certificates of Participation
- Revenue Bonds
- Private Placement Bonds
- California Energy Commission (CEC) Loan
- Lease-Purchase Agreements
- State Water Resources Control Board (SWRCB) Loan
- Special Tax Bonds (CFD only) & Limited Obligation Improvement Bonds (LID only)
- Internal Fund to Fund Loans
- Tax Allocation Bonds (Successor Agency only)

City-Issued Long-Term Debt	Debt as of 6/30/2019
Certificate of Participation	\$ 79,058,939
Revenue Bonds	\$ 4,000,000
Private Placement Bonds	\$ 4,086,667
California Energy Commission (CEC) Loan	\$ 2,584,237
Lease-Purchase Agreements	\$ 2,170,579
State Water Resources Control Board (SWRCB) Loan	\$ 48,502,095
Special Tax Bonds (CFDs only) & Limited Obligation Improvement Bonds (LID only)	\$ 5,851,643
Internal Fund to Fund Loans	\$ 3,167,508
Tax Allocation Bonds (Successor Agency Only)	\$ 37,834,019
Total City-Issued Long-Term Debt	\$ 187,255,688

City-Issued Debt

Attachment II provides a basic summary of the debt the City currently maintains. The City's Comprehensive Financial Report (CAFR) and annual budget document both contain further detail on the various debt issuances with explanations of uses and sources of funds. Hayward is a charter city and, as such, legally does not have a debt limit. A useful tool for comparison to peer agencies who are subject to this limit is to calculate what the legal debt limit and margin would be *if* Hayward were a general law city. This calculation and information are described below.

Legal Debt Limit & Margin

- The legal bonded debt limit for the City is \$3.4 billion. The City does not have any bonded debt that is subject to this limitation – resulting in a legal bonded debt margin of the entire \$3.4 billion. However, if the City's debts were subject to this limit, the City has issued \$90.4 million of outstanding debt, which is approximately \$3.3 billion below the limit.
- The City's projected General Bonded Debt Outstanding as of June 30, 2019 will total \$90.4 million and represents .40% of taxable property value or \$558 per capita.

Debt Limit Computation (projected June 30, 2019) –

Total FY 2019 projected assessed valuation (<i>less</i> exemptions)	\$ 22,385,452,432
Debt limit (15% of assessed value)	\$ 3,357,817,865
Amount of legal debt applicable to the debt limit	\$ 90,350,182
<u>Legal debt margin (if Hayward were a general law city)</u>	<u>\$ 3,357,817,865</u>
Amount above or (below) Legal Debt Margin	(\$ 3,267,467,682)

New Debt

While the City acted as a conduit on issuing debt for other agencies, it has not authorized or issued new debt of its own in FY 2019.

Credit Ratings

Credit ratings are opinions about credit risk; they are published by a rating agency that has analyzed the City's ability and willingness to meet its financial obligations in accordance with the terms of the debt obligations. Credit ratings have a significant impact on the interest rate the City will pay when issuing debt. In May 2018, Moody's Investor Service issued a rating of AA- assigning a negative outlook primarily attributed to the City's large and growing pension related liabilities and future projected pension cost increases in coming year. Many agencies across the state and country have experienced similar rating actions. Prior to the May 2018 rating, Fitch Ratings issued an AA rating for the Certifications of Participation (COPs) (Capital Projects).

ECONOMIC IMPACT

There is no economic impact associated with this report as it is informational only.

FISCAL IMPACT

The fiscal impacts of the information presented above is dependent on the elements of the proposed options which Council selects for inclusion in the Adopted FY 2020 Operating Budget. A more defined impact will be included in the staff report for the public hearing on the FY 2020 Operating Budget at the regularly scheduled City Council meeting on May 21, 2019.

STRATEGIC INITIATIVES

This agenda item is a routine operational item and does not relate to any Council's Strategic Initiatives.

SUSTAINABILITY FEATURES

There are no sustainability features associated with this report as it is informational only.

PUBLIC CONTACT

The agenda for this item was posted in compliance with the California Brown Act.

NEXT STEPS

The Public Hearing and Adoption of the FY 2020 Operating and CIP Budgets are scheduled for May 21, 2019.

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Approved by:



Kelly McAdoo, City Manager