

**COUNCIL BUDGET & FINANCE COMMITTEE MEETING
MAY 17, 2017**

DOCUMENTS RECEIVED AFTER PUBLISHED AGENDA

Item #1 MIN 17-074



COUNCIL BUDGET & FINANCE COMMITTEE MEETING
Meeting Minutes of April 17, 2017

Call to Order: 4:05 pm

Members Present: Mayor Halliday, Councilmember Lamnin and Councilmember Salinas

Members Absent: None

Staff: Kelly McAdoo, Maria Hurtado, Dustin Claussen, Morad Fakhrai, and Nicole Gonzales

Guests: None

Public Comments: No public comments.

1. Approval of Meeting Minutes March 20, 2017. *Action: unanimous approval as submitted.*
2. Discussion on Mayor & City Council Department Budget including specifically:
 - Reviewed and discussed department budget financial details
 - Reviewed and discussed department budget narrative
 - Discussed development of performance metrics
 - Discussed adding a link in the Budget to the Council Handbook
 - Provision of the highest level of Transparency
3. Discuss the Review of the CIP Plan in Future Years and Review the May 20, 2017 Budget Work Session Schedule.
 - Review of CIP Plan
 - *Action: The Committee reviewed, and agreed that the CIP Plan would be presented to the Council Infrastructure Committee only, and would no longer be presented to the Council Budget and Finance Committee for review.*
 - Reviewed May 20, 2017 Budget Session Schedule
 - Discussed presenting the FY2018 Proposed Operating & Capital Budgets at the Public Hearing with the intent to adopt.

Committee Members/Staff Announcements and Referrals: None.

Adjournment: The meeting was adjourned at 4:56 pm

Item #3 RPT 17-077



DATE: May 17, 2017

TO: Council Budget & Finance Committee

FROM: Director of Finance

SUBJECT Discuss One-Time Options to Close the Budget Gap and Review the May 20, 2017 Budget Work Session Schedule

RECOMMENDATION

That the Committee discusses one-time options to close the budget gap and reviews the May 20, 2017 Budget Work Session Schedule.

BACKGROUND

The FY 2018 proposed operating budget includes the use of \$10.4M from the General Fund Reserve Fund to balance the budget. As discussed at the May 9th budget work session, the upcoming Council retreat this Fall will focus on discussing a combination of recommended strategies that will include revenue generation, expenditure control shifts, service delivery model options, and if necessary, possible service reductions and ways to do so that will be the least impactful to the Hayward community. This conversation will result in the development of a multi-year strategy to eliminate the General Fund structural deficit.

Because the development of these strategies will be completed after the adoption of the FY 2018 budget, the FY 2018 proposed budget includes the use of reserves to address the budget gap. This report presents five one-time options to close the projected FY 2018 budget gap for the Committee's consideration, as an alternative to the use of General Fund reserves.

DISCUSSION

DISCUSS ONE-TIME OPTIONS TO CLOSE THE PROJECTED FY 2018 BUDGET GAP:

On May 9, 2017, the City Council discussed the FY 2018 Proposed Operating Budget, which includes the use of \$10.4M of General Fund reserves to balance the budget. The use of \$10.4M would leave a FY 2018 ending General Fund Reserve Balance of \$17.9M.

For the Committee's consideration, below are five one-time options to close the projected FY 2018 budget gap as an alternative to the use of General Fund reserves. These options were developed as one-time considerations for this coming year, until this Fall, when the Council can deliberate on a multi-year strategy to eliminate the General Fund structural deficit long-term.

The five one-time options below exceed the \$10.4 million budget gap, but are intended to provide the Council with options to consider: These include the following:

OPTIONS	ONE-TIME STRATEGY	GF SAVINGS
1	Reduce General Fund allocation to Internal Service Funds	\$6.7M
2	Deferral of filling Vacant Positions	\$1.82M
3	Pre-payment of FY 2018 PERS ARC	\$ 700k
4	Deferral of OPEB ARC Contribution	\$1M
5	Lease financing large equipment purchases	\$2.7M
POTENTIAL SAVINGS TO GENERAL FUND:		\$12.72 MILLION

1. Reduce General Fund allocation to Internal Service Funds (\$6.7 Million):

Internal Service Departments (ISF) are designed to serve the needs of the City's departments (Recipient) on a cost-reimbursement basis. Annually department service needs are identified, and the costs associated with provision of those services are allocated by the ISF to the department receiving the services or the Recipient. These are done through an allocation to the recipient department. Most recipient departments are in the General Fund.

Many of the City's internal service funds have managed their resources in such a way that they have built substantial fund balance reserves.

This option enables a one-time reduction of the General Fund allocation to three of the ISF funds (Fleet, Facilities and IT) in FY 2018 in the amount of \$6.7 million. Reducing the General Fund allocation for one fiscal year does not reduce the ISF budgets nor the ability to fund FY 2018 needs because this strategy recommends funding expenses using ISF reserves rather than allocating the costs to the General Fund.

Table 1 below delineates the projected 2017 fund balance for Fleet, Facilities and IT Internal Service funds, the recommended one-time use of ISF fund balance this year, and the projected fund balance in FY 2018, if no General Fund allocation is budgeted.

Table 1: ISF Fund Balance Reserve for FY 2018

Internal Service Fund (ISF)	Projected FY 2017 Fund Balance Reserve Amount	Recommended Usage Amount from ISF Fund Balance Reserves	Projected FY 2018 Fund Balance Reserves (With No FY 2018 GF Allocation)
Fleet	\$12.9M	\$5.9M	\$7M
Facilities	\$700k	257k	\$443k
IT	\$3.8 M	\$529k	\$3.27M
Total Use of (ISF) Fund Balance Reserves/Savings to General Fund:		\$6.7 Million	

The use of Fleet, Facilities and IT ISF fund balance reserves to cover the costs of operations and replacement capital, while reducing the ISF fund balance does not alter the FY 2018 operations. This one-time option, however, is not a recommended strategy as an ongoing remedy and is only recommended to be used this fiscal year. Utilizing this approach would reduce the General Fund's use of reserves by \$6.7 million.

2. **Defer filling Vacant Non-Sworn Positions for three months & new Library positions for six months (\$1.82 Million Savings):**

This one-time option recommends deferring filling current vacant non-sworn positions for 3 months through October 1, 2017 and any new authorized and budgeted Library positions for six months through January 2018. Deferring these positions would result in a projected one-time savings to the General Fund of approximately \$1.82 million. If Council chose to defer filling current vacant non-sworn positions for six-months, rather than three, it would result in a projected reduction to the FY2018 General Fund budget of approximately \$3.25 million. Staff recommends that a three-month deferral for current vacant non-sworn positions and a six-month deferral for new library positions be considered.

3. **Pre-payment of FY 2018 PERS ARC (\$700k Savings):**

CalPERS provides agencies with two payment options: annual prepayment based on budgeted positions or monthly installment payments. The City currently makes payments monthly to CalPERS based on actual earnings of its employees. If the City were to execute an annual prepayment to CalPERS, it is projected to yield a savings of approximately \$700K.

4. **Deferral of OPEB ARC Contribution (\$1 Million):**

Many cities are still pay as you go and this could be a temporary solution. The FY 2018 budget fully funds the City's pay as you go obligation (approximately \$2.9 million) and staff had proposed to fund \$1 Million of the City's unfunded OPEB liability in this budget as well. The disadvantage of deferring payment towards the City's unfunded OPEB liability is that the unfunded liability will continue to grow, and may increase in the City's next actuarial valuation. Staff would normally advise against this approach, but the Council can consider this as a one-time option for this coming fiscal year as has been done in prior years.

5. **Lease financing large equipment purchases (\$2.7 Million savings):**

Lease financing is a way to stabilize costs, spread the costs associated with the purchasing of large pieces of equipment over multiple fiscal years, and allow for more regular replacement of aging equipment. This approach, however, would result in added debt service costs and additional financing charges.

Staff requests that the Committee discuss these one-time options to close the budget gap in lieu of using General Fund reserves and provide staff feedback.

REVIEW THE MAY 20, 2017 BUDGET WORK SESSION SCHEDULE:

Attachment II provides the planned schedule for the May 20, 2017 all day Budget work session, which delineates the various department presentation times.

NEXT STEPS

- May 20, 2017: Saturday Budget Work Session
- June 6, 2017: CIP Work Session
- June 13, 2017: Budget Work Session #2 & Presentation of Three Strategic Initiatives
- June 20, 2017: Public Hearing on Operating & CIP budgets (and possible adoption of both documents)
- June 27, 2017: Adoption of Three Strategic Initiatives

Prepared by: Nicole Gonzales, Budget Officer
Dustin Claussen, Director of Finance

Recommended by: Dustin Claussen, Director of Finance

Approved by:



Kelly McAdoo, City Manager