CITYWIDE BUDGET OVERVIEW

CITYWIDE FINANCIALS

The City's operating budget is comprised of a number of different funding sources.[1] The General Fund is the largest single fund and represents the resources for which the City Council has the most discretion. The total proposed City expenditure budget for the FY 2019 is $318.5 million, with a General Fund budget of $165.2 million.

Table 1: City Expenditure Budget Summary – All Funds

Expenditures *in 1,000's*	FY 2017 Adopted	FY 2018 Adopted	FY 2019 Proposed	$ Change	% Change
General Fund	149,029	151,562	165,219	13,657	9.0%
All Other Funds	130,306	135,938	153,316	17,378	12.8%
Total City Budget	**279,335**	**287,500**	**318,535**	**31,035**	**10.8%**

The FY 2019 proposed budget reflects General Fund expenditure growth over the FY 2018 adopted budget of 9% and an increase to All Other Funds of 12.8% primarily due rising personnel and benefits costs, and transfer related to funding critical capital needs. Total overall growth is projected at 10.8% for all funds combined.

CITYWIDE STAFFING

The FY 2019 proposed budget reflects a number of staffing changes over what was approved at the time of adoption of the FY 2018 Budget resulting in a net increase of 9.6 Full Time Equivalents (FTE) to the General Fund and 4.9 FTE additions to other revenue funds. Staffing changes result in a 1.6% increase in overall labor resources.

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

Table 2: Staffing Summary

FTE Summary	FY 2016 Adopted	FY 2017 Adopted	FY 2018 Adopted	FY 2019 Proposed	# Change	% Change
General Fund	646.7	651.2	654.5	664.1	9.6	1.5%
All Other Funds	217.5	223.6	226.3	231.2	4.9	2.2%
Total City Positions	**864.2**	**874.8**	**880.8**	**895.3**	**14.5**	**1.6%**

[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).

CITYWIDE BUDGET OVERVIEW

GENERAL FUND DISCUSSION

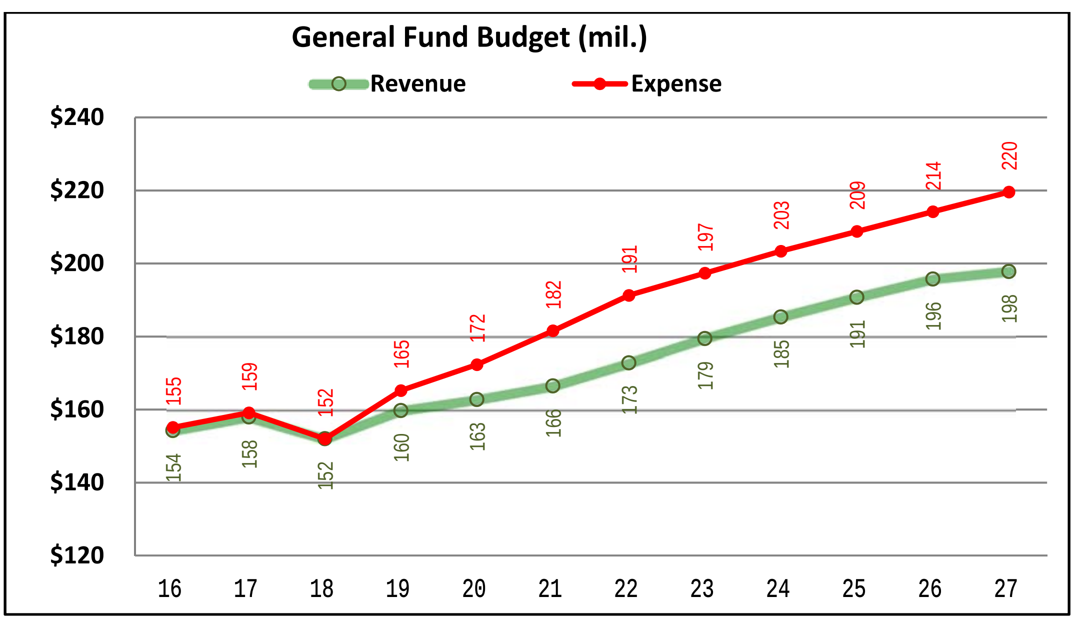
The General Fund represents over fifty percent of the City's total operating costs, and provides many important services such as police and fire services, street maintenance, code enforcement, library and learning services, and other community programs for the residents of Hayward.

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 forecasted a 30 million deficit – a reflection of the severe loss of revenue caused by the recession the continued forecast of expenditure growth relating to the cost of providing services out pacing revenue growth.

In October 2017, the City held a Fiscal Sustainability work session, where the Council was presented with the updated General Fund Long Range Financial Model (Model), as well as revenue generating, cost shifting, expenditure control, and change to service provisions options to assist in closing the City's long term structural budget gap. Council supported exploration of options from all categories with the expectation of a reduction to provision of services.

The FY 2019 proposed budget shows a use of $5.5 million of reserves. This structural gap continues to widen in future fiscal years. The adopted FY 2018 budget indicated a structural deficit of $2.4 million; however, it should be noted that the adopted budget included three key one-time strategies to help reduce the FY 2018 deficit: 1) Reduction in General Fund allocation to Internal Service Funds (ISF), 2) Deferral of recruitment for vacant non-sworn positions for a three-month period, and 3). Prepayment of CalPERS ARC. Based on the FY 2018 year-end projection, the City is expected to close the year building reserves by the nominal amount of $33,000. While the "surplus" would appear to be nominal in advancing the City's goal of long-term fiscal sustainability, it is an improvement over the projection from the FY 2018 adopted budget. The City continues to explore options to close the structural budget gap projected in the FY 2019 proposed budget.

Table 3: General Fund Long Range Financial Model



CITYWIDE BUDGET OVERVIEW

Basic General Fund Long Range Financial Assumptions

Over the last year, the City has worked with Management Partners to develop and enhance its General Fund Long Range Financial Model (Model). The Model is a dynamic planning tool used to assist City Council and staff in managing and projecting the City's current and future fiscal status. The updated Model provides sophisticated economic forecasting, escalation factors, and detailed personnel related costs. The City uses the Model to simulate a variety of different fiscal scenarios to understand the long-term fiscal impacts to the General Fund.

The General Fund section of the budget document contains a detailed General Fund Long Range Financial forecast. Critical Cost Drivers impacting FY 2019 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 and information technology

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 2018 assumed a use of $2.4 million of General Fund Reserves when the budget was adopted, the Model now projects to close the year building reserves by $33,000 (the actual use of reserves could change depending on actual year-end results). The FY 2019 proposed budget projects another planned use of the Reserve of $5.5 million to balance the proposed budget. The estimated FY 2019 ending General Fund Reserve is approximately $24.2 million, resulting in a projected Reserve level of 14.7%.

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 2019 BUDGET CHANGES

The following General Fund analysis provides a comparison of the FY 2019 Proposed Budget to the immediate previous years. FY 2018 "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 in the FY 2018 Adopted Budget. Overall, staff is proposing to increase FY 2019 revenues over FY 2018 Adopted by about $10.7 million or 7.2%. Each revenue category varies in its change over the prior year, with some revenues seeing declines and others experiencing increases.

Table 4: FY 2019 General Fund Revenues

		A	B	C	D	E	F
	(in the 1,000's)	**FY 2017 Actuals**	**FY 2018 Adopted**	**FY 2018 Projected**	**FY 2019 Proposed**	**Change $ (D-B)**	**Change % (D/B-1)**
	Revenue						
1	Annual Property Tax - Recurring	$ 44,501	$ 46,512	$ 46,512	$ 50,258	$ 3,746	8.1%
2	RPTTF Pass-Thru & Annual	$ 2,697	$ 2,400	$ 2,400	$ 3,009	$ 609	25.4%
3	Property Tax Total	$ 47,198	$ 48,912	$ 48,912	$ 53,267	$ 4,355	8.9%
4	Sales Tax (incl Prop 172)	$ 34,839	$ 32,609	$ 33,540	$ 34,817	$ 2,208	6.8%
5	Utility Users Tax	$ 16,777	$ 17,663	$ 18,663	$ 19,000	$ 1,337	7.6%
6	UUT Prior Period Payment	$ 3,977		$ -	$ -	$ -	
7	Franchise Fees	$ 9,646	$ 9,462	$ 10,462	$ 10,921	$ 1,459	15.4%
8	Property Transfer Tax	$ 8,350	$ 7,154	$ 7,154	$ 7,369	$ 215	3.0%
9	Business License Tax	$ 2,724	$ 2,846	$ 2,846	$ 2,903	$ 57	2.0%
10	Transient Occupancy Tax	$ 2,560	$ 2,036	$ 2,036	$ 2,077	$ 41	2.0%
11	Cannabis Tax				$ 750	$ 750	
12	Emergency Facilities Tax	$ 2,100	$ 1,838	$ 1,838	$ 1,981	$ 143	7.8%
13	Charges for Services	$ 15,435	$ 12,799	$ 12,929	$ 13,019	$ 220	1.7%
14	Intergovernmental	$ 6,559	$ 6,424	$ 6,304	$ 6,552	$ 128	2.0%
15	Fines and Forfeitures	$ 2,429	$ 2,114	$ 2,114	$ 2,187	$ 73	3.5%
16	Interest and Rents	$ 561	$ 656	$ 680	$ 308	$ (348)	-53.0%
17	Other Revenue	$ 798	$ 614	$ 590	$ 635	$ 21	3.4%
18	**Total Revenue**	**$ 153,952**	**$ 145,127**	**$ 148,069**	**$ 155,785**	**$ 10,658**	7.3%
19	Transfers In-Other Funds	$ 4,037	$ 3,960	$ 3,960	$ 3,962	$ 2	0.1%
20	**Total Revenue/Resources**	**$ 157,989**	**$ 149,087**	**$ 152,029**	**$ 159,748**	**$ 10,661**	7.2%

A summary of key revenue assumptions for FY 2019 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 during the Great Recession, coupled with California's tax controls, resulted in a slow recovery. Hayward has experienced the impacts of an improved economy and active real estate market. Actions taken by the County Assessor from FY 2013 – FY 2015, driven by improved market conditions and rising housing stock prices, increased valuation related to the reassessment of property values (Proposition 8). This is a reversal of significant reductions in assessed value occurring from FY 2010 – FY 2012 as a result of the Great Recession.

The FY 2019 Proposed Budget increases Property Tax revenue projections totaling 8.1% over the amount adopted in FY 2018 revenues. The projection for Property Tax revenue is primarily based on the annual County Assessor's Office estimate of assessed values, with projections for the proposed budget based on information provided by the Assessor in March. In addition, the City uses a property tax consultant to review and confirm estimates. Future annual growth is projected between 2%–5%.

CITYWIDE BUDGET OVERVIEW

Sales Tax – Revenue projections for FY 2019 reflect a 6.8% growth from the amount adopted in FY 2018.

In recent years, the City has experienced sales tax erosion like many California municipalities; however, the FY 2019 proposed budget projects an increase in Sales Tax revenue similar to levels experienced in FY 2017. Due to focused efforts of 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 $7.4 million – of which $4.8 million are considered recurring baseline revenues pursuant to current Council policy. This is a 3% increase over FY 2018 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. Overall franchise fees are experiencing an increase of 15.4% for FY 2019.

Charges for Services – This revenue category is comprised of a variety of fees for building and development related activities. Given continued levels of activity, FY 2019 projects a 1.7% increase over FY 2018. Future years reflect a steady annual growth of 2–3% as a means to smooth the impacts of a future recession and market slow-down.

CITYWIDE BUDGET OVERVIEW

General Fund Expenditures

Overall, the Proposed FY 2019 expenditures have increased over the FY 2018 Adopted Budget by $13.6 million or 9%. There are several factors driving the expenditure growth, almost all due to escalating employee-related costs.

Table 5: FY 2019 Proposed General Fund Expenditures

		A	B	C	D	E	F
		FY 2017	FY 2018	FY 2018	FY 2019	Change $	Change %
	(in the 1,000's)	Actual	Adopted	Projected	Proposed	(D-B)	(D/B-1)
1	**Expenditures**						
2	Salary	$71,003	$74,243	$74,257	$77,899	$3,656	4.92%
3	Overtime	$8,161	$5,566	$7,021	$3,320	($2,246)	-40.35%
4	**Wages Subtotal**	**$79,164**	**$79,809**	**$81,278**	**$81,219**	**$1,410**	**1.77%**
5	Medical/Dental/Other Benefits	$12,585	$14,585	$14,581	$14,549	($36)	-0.25%
6	Retiree Medical (pay-go)	$2,847	$2,794	$2,794	$3,038	$244	8.72%
7	Worker's Compensation	$6,284	$5,899	$5,903	$6,600	$701	11.88%
8	Retirement (CalPERS)	$23,021	$23,600	$23,600	$29,018	$5,418	22.96%
9	**Benefits Subtotal**	**$123,901**	**$126,687**	**$128,156**	**$134,424**	**$7,737**	**6.11%**
10	Assumed Vacancy Savings		($1,931)	($4,602)	($2,288)	($357)	18.49%
11	Interdepartmental (ID) Charges	($4,069)	($4,602)	($4,396)	($4,507)	$95	-2.05%
12	OPEB Liability Contribution*	-	$1,000	$1,000	$2,000	$1,000	100.00%
13	**Net Staffing Expense**	**$119,832**	**$121,155**	**$120,158**	**$129,629**	**$8,474**	**6.99%**
14	Supplies & Services	$10,294	$9,268	$10,574	$10,074	$806	8.70%
15	Internal Service Fees	$14,413	$11,863	$11,863	$16,504	$4,641	39.12%
16	Debt Service*	$3,640	$3,283	$3,283	$2,930	($353)	-10.75%
17	Liability Insurance*	$4,389	$2,907	$2,907	$2,950	$43	1.48%
18	Economic Dev. Fund (from RPTTF)*	$556	$350	$350	$350	$0	0.00%
19	Capital Funding*	$1,769	$2,736	$2,861	$2,782	$46	1.68%
20	**Non-Personnel Expenses Subtotal**	**$35,061**	**$30,407**	**$31,838**	**$35,590**	**$5,183**	**17.05%**
21	UUT Prior Period Payment Offset	$4,248	$0	$0	$0	$0	
22	**Total Expenditures**	**159,139**	**151,562**	**151,996**	**165,219**	**$13,657**	**9.01%**

Transfers Out of General Fund Total

Salary – FY 2019 include the assumed contracted Cost of Living Adjustment (COLA) for all applicable bargaining groups. The City is currently in negotiations with all of the applicable bargaining groups. As a result, staff assumed COLA based on FY 2018 contractual rates, with the exception of public safety bargaining groups, which included a 5% COLA in FY 2019 per the current contract. FY 2019 includes all proposed position changes – a total increase of 9.6 FTE to the General Fund and 4.9 FTE additions to other revenue funds.

Overtime – FY 2019 Overtime is $3.3 million – which is significant decrease over the FY 2018 Adopted Budget. The FY 2019 Proposed Budget includes the addition of 9 Fire Fighters to allow for adequate staffing levels, and significantly minimize the use of overtime within the Fire Department. The majority of the remaining General Fund overtime is appropriated in the Police Departments to meet mandatory staffing level requirements.

CalPERS Retirement Rates – Retirement rates increase significantly in FY 2019 – with total costs increasing 22.9%. 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 FY 2019 Proposed Budget is the first year of a three-year phase-in in the changes in CalPERS discount rate from 7.5% to 7.0%.

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, 3% for all non-sworn personnel. The Employer rates displayed in Table 7 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 below reflects the CalPERS Board decision to lower 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 July 2017 reflect the final rates for FY 2019.The new valuations the City received in July 2017 reflect rate projections that include all of the rate actions taken by the CalPERS Board to date.

Table 6 provides a summary of what the City's projected CalPERS rates will be based on CalPERS recent change to the discount rate. 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. 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 6 – CalPERS Rates

(in the $1,000s)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Miscellaneous								
Normal Cost %	84.160%	8.809%	9.300%	10.200%	10.200%	10.200%	10.200%	10.200%
UAL Payment	$7,926	$9,165	$10,591	$11,722	$13,187	$14,514	$15,423	$16,209
Employer Contribution Rate %	27.40%	28.60%	31.50%	34.10%	36.30%	38.10%	39.00%	39.60%
Change over Prior Year	101.00%	1.20%	2.90%	2.60%	2.20%	1.80%	0.90%	0.60%
Police								
Normal Cost %	21.460%	22.112%	23.000%	24.900%	24.900%	24.900%	24.900%	24.900%
UAL Payment	$6,994	$8,346	$9,880	$10,928	$12,255	$13,376	$14,227	$14,962
Employer Contribution Rate %	50.30%	54.40%	60.20%	64.70%	68.30%	70.90%	72.40%	73.40%
Change over Prior Year	4.61%	4.10%	5.80%	4.50%	3.60%	2.60%	1.50%	1.00%
Fire								
Normal Cost %	16.872%	17.721%	18.600%	20.400%	20.400%	20.400%	20.400%	20.400%
UAL Payment	$4,985	$5,939	$7,024	$7,854	$8,929	$9,811	$10,432	$10,969
Employer Contribution Rate %	45.20%	48.90%	54.40%	59.20%	63.20%	66.10%	67.60%	68.60%
Change over Prior Year	2.36%	3.70%	5.50%	4.80%	4.00%	2.90%	1.50%	1.00%

Vacancy Savings – Vacancy savings are assumed based on normal attrition and known staffing vacancies. Projected FY 2019 vacancy savings are $2.3 million in the General Fund and assume savings primarily attributed to police 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. FY 2019 Proposed Budget includes a $2 million contribution toward the City's Other Post-Employment Benefits (OPEB) Retiree Medical unfunded liability. The City will 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) for FY 2019 Proposed shows an increase of $4.6 million over the FY 2018 Adopted Budget. In FY 2018, City Council approved the reduction in General Fund allocation to Internal Service Funds in FY 2018 to help close the structural budget gap. The reduction in General Fund allocation was a one-time approach, and has been discontinued.

The Technology Internal Service Fund presents specific recurring technology costs, which includes Munis and other program annual software maintenance.

Capital Funding
The Technology Capital Fund requests $1 million in FY 2019, and includes:

- Network infrastructure replacement
- Security Assessment and Improvement
- Highspeed Hayward fiber plan implementation

Some of these projects will require funding in future years as well to complete; however, funding levels will be contingent on future budget processes.

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 2019, staff projects that the City will receive $14.2 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 continue to 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 $14.2 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. Consistent with those discussions, staff is including assumed revenues and expenditures for Measure C as part of the FY 2019 budget.

- *Revenue:* The City began receiving allocations of the Measure C Transaction and Use (sales) Tax effective January 1, 2015. Staff anticipates receiving approximately $14.2 million in revenues from Measure C for FY 2019. 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).

- *Expenditures:* Given the timing of the design of the Measure C funded capital projects, FY 2019 estimates expenses of $9 million for staffing (police and maintenance) and estimated debt service. The FY 2019 Proposed Budget also includes a change in Measure C staffing. Staff presented a recommended change in Police staffing at the March Council Budget and Finance Committee. Due to the high levels of Call Taker vacancies (Measure C Funded), it was the recommendation that to better utilized Measure C funding, that Call Takers (8.0 FTE) be reallocated to the General Fund, and Communications Operators (7.0 FTE) be reallocated to Measure C. The Council Budget and Finance Committee supported the recommendation.

UNFUNDED NEEDS & LIABILITIES

While the FY 2019 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 2017 and 2018 reviewing its benefit liabilities and considering funding plans toward adequately funding the unfunded portions of these liabilities.

Unfunded Capital Needs

The FY 2019 Capital Improvement Program reflects “Identified Capital Needs” totaling approximately $410 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 7 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 7: 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	6/30/2016	$ 354.59	$ 209.91	59.2%	$ 144.68	40.8%
CalPERS Fire Safety Plan	6/30/2016	$ 272.37	$ 166.80	61.2%	$ 105.57	38.8%
CalPERS Miscellaneous Plan	6/30/2016	$ 418.59	$ 268.64	64.2%	$ 149.95	35.8%
Total Cal PERS		**$ 1,045.55**	**$ 645.36**	**61.5%**	**$ 400.20**	**38.5%**
OPEB - Retiree Medical Police Officers	6/30/2015	$ 55.69	$ 1.36	2.4%	$ 54.33	97.6%
OPEB - Retiree Medical Fightfigters	6/30/2015	$ 22.47	$ 0.94	4.2%	$ 21.53	95.8%
OPEB - Retiree Medical Miscellaneous	6/30/2015	$ 30.18	$ 1.38	4.6%	$ 28.80	95.4%
Total OPEB-Retiree Medical		**$ 108.34**	**$ 3.68**	**3.7%**	**$ 104.66**	**96.3%**
Workers' Compensation	6/30/2017	$ 16.64	$ 8.63	51.9%	$ 8.01	48.1%
Accrued Leave Payouts (1)	6/30/2017	7.89	0	0.0%	$ 7.89	100%
TOTAL		**$ 1,178.42**	**$ 657.67**	**55.8%**	$ 520.76	**44.2%**

Retirement Annual cost (annual cost: $27.1 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.

Workers' Compensation (annual Cost: $5.05 million) – Pursuant to the current actuarial valuation conducted for the program, a funding status of 70 – 85% is recommended. Table 7 shows that the City is currently at about a 48.1% 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 million/year) toward unfunded liability. Once the 80% funding level is reached (about $10 million in fund balance reserved for future liability), the Workers' Compensation rates will be adjusted downward.

Retiree Medical – OPEB (annual cost: $3.1 million "pay go") – The estimated actuarial calculation of the City's ARC is $12.2 million ($3.1 million "pay go" and $9 million toward future unfunded liability). The City is not funding the full ARC due to its budget pressures but is fully funding the annual $3.1 million “pay go” portion for active retirees. Contributions towards the ARC were made in FY 2014 of $1 million and FY 2015 of $2 million; however, in an effort to reduce the use of reserves in FY 2016 and FY 2017, additional voluntary contributions were not made. In FY 2018, the City began contributing towards the ARC with a $1 million contribution. The FY 2019 Proposed Budget includes a $2 million contribution to the ARC. The City’s General Fund Long Range Financial Model includes phasing this cost in until the full ARC payment is achieved. Pursuant to the valuation, if the City fully funded the ARC, the City would pay for current costs and fund the future liability by the end of the amortization period. The phase-in of costs included in the Model will allow the City to fully fund the ARC by FY 2022.

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 2012 balance of $10.7 million to the FY 2017 balance of $7.89 million – a significant reduction in liability.