CITY OF HAYWARD

Hayward City Hall
777 B Street
Hayward, CA 94541
www.Hayward-CA.gov

Agenda

Monday, March 20, 2017

4:00 PM

City Hall, Conference Room 4A

Council Budget and Finance Committee

CALL TO ORDER

ROLL CALL

PUBLIC COMMENTS:

(The Public Comment section provides an opportunity to address the City Council Committee on items not listed on the agenda as well as items on the agenda. The Committee welcomes your comments and requests that speakers present their remarks in a respectful manner, within established time limits, and focus on issues which directly affect the City or are within the jurisdiction of the City. As the Committee is prohibited by State law from discussing items not listed on the agenda, any comments on items not on the agenda will be taken under consideration without Committee discussion and may be referred to staff.)

REPORTS/ACTION ITEMS

1. MIN 17-030 Approval of Meeting Minutes March 1, 2017

Attachments: Attachment I Draft Minutes March 1, 2017

2. RPT 17-038 Annual Review of City Issued Debt

Attachments: Attachment I Staff Report
Attachment II Debt Summary 2017

3. RPT 17-039 Annual City Benefit Liabilities and Funding Plan Review

Attachments: Attachment I Staff Report

4. FY 2018 budget framework (oral presentation)

5. RPT 17-037 FY 2017 Meeting Schedule & Work Plan

Attachments: Attachment I Meeting Schedule & Work Plan

FUTURE AGENDA ITEMS

COMMITTEE MEMBER/STAFF ANNOUNCEMENTS AND REFERRALS

ADJOURNMENT

NEXT REGULAR MEETING - 4:00PM, MONDAY, APRIL 17, 2017

CITY OF HAYWARD

Hayward City Hall
777 B Street
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File #: MIN 17-030

DATE: March 20, 2017

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT

Draft Meeting Minutes from March 1, 2017 Regular Meeting

RECOMMENDATION

That the Committee approves the meeting minutes from the March 1, 2017 Regular Meeting.

ATTACHMENT

Attachment I Draft Minutes March 1, 2017

CITY OF HAYWARD
HEART OF THE BAY

COUNCIL BUDGET & FINANCE COMMITTEE MEETING
Meeting Minutes of March 1, 2017

Call to Order: 4:05 pm

Members Present: Mayor Halliday, Councilmember Lamnin and Councilmember Salinas

Members Absent: None

Staff: Kelly McAdoo, Maria Hurtado, and Dustin Claussen

Guests: None

Public Comments: No public comments.

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1. Approval of Meeting Minutes January 25, 2017. *Action: unanimous approval as submitted.*

2. FY 2017 Mid-Year Budget Review & General Fund Ten-Year Plan Update. *The Committee reviewed and recommended for presentation to Council.*

3. FY 2018 Proposed Budget Discussion. *The Committee considered and provided comments.*

4. FY 2017 Meeting Schedule & Work Plan. *The Committee considered removing June 21, 2017 meeting from calendar, but a decision was not reached.*

Committee Members/Staff Announcements and Referrals: None.

Adjournment: The meeting was adjourned at 5:25 pm

Hayward City Hall
777 B Street
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File #: RPT 17-038

DATE: March 20, 2017

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT

Annual Review of City Issued Debt

RECOMMENDATION

That the Committee reviews and provides comment on this report.

ATTACHMENTS

Attachment I Staff Report
Attachment II Debt Summary 2017

DATE: March 20, 2017

TO: Council Budget & Finance Committee Members

FROM: Director of Finance

SUBJECT Annual Review of City Issued Debt

RECOMMENDATION

That the Committee reviews and provides comment on this report.

BACKGROUND

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 which include sections that summarize the City's debt. Throughout the year, this information comes in various forms to City Council and the Committee; however, this report is meant to provide a comprehensive summary of the entire portfolio.

DISCUSSION

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 2017 budget process or separate resolution. Debt service payments for 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

- Tax Allocation Bonds (Successor Agency only)
- Special Tax Bonds (CFD only) & Limited Obligation Improvement Bonds (LID only)
- Internal Fund to Fund Loans

City-Issued Debt

Attachment II provides a 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.

Debt Limit & Margin

- The legal bonded debt margin is $2.9 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 $2.9 billion.

- The City's projected General Bonded Debt Outstanding as of June 30, 2017 will total about $100.5 million and represents .52% of taxable property value or $635 per capita.

Debt Limit Computation (projected as of June 30, 2017) –

Total FY 2017 assessed valuation (less other exemptions)	$ 19,438,445,561
Debt limit (15% of assessed value)	$ 2,915,766,834
Amount of debt applicable to the debt limit	$ 100,463,439
Legal debt margin (if Hayward were a general law city)	$ 2,915,766,834

New Debt

The City did not issue significant new debt in FY 17 other than what is noted in the Debt Refunding section below.

Debt Refunding

On June 1, 2016, the City issued $19.8 million of Refunding Certificates of Participation. The 2016 Certificates were issued to refund the 2007 Certificates of Participation which were used to refund previous issues for the 1996 Civic Center and 1997 Road and Seismic Retrofit COPs. The refunding resulted in an overall debt service savings of nearly $1.6 million.

On December 13, 2016, City staff, acting on behalf of the Redevelopment Successor Agency issued $35.3 million in Tax Allocation Refunding Bonds (TARBs). These TARBs were issued to refund series 2004 and 2006 Tax Allocation Bonds. This refunding will be paid entirely using funds the City receives as a portion of its annual ROPs payments from the State of California Department of Finance.

Credit Ratings

Credit ratings are opinions about credit risk 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. The City continues to receive very high ratings from the rating agencies, including a stable rating outlook from Fitch who upheld the AA rating for both the 2015 Certificates of Participation and the 2007 Certificates of Participation. Moody's Investor Service upgraded the 2005 Certificates of Participation (Solar Lease) to an Aa3 from an Aa2. The City's implied general obligation (issuer default) rating was AA+ with a stable outlook from Standard and Poor's and Fitch Ratings agencies.

The Successor Agency to the City of Hayward Redevelopment Agency also received a rating of AA- for its 2016 Tax Allocation Refunding Bonds; a significant improvement over previous ratings.

NEXT STEPS

Staff will continue to actively monitor the City's debt levels and report annually to City Council the funding status.

Prepared and Recommended by: Dustin Claussen, Director of Finance

Approved by:

Kelly McAdoo, City Manager

City of Hayward Debt Summary

Attachment II

	Issuance Date	Maturity Date	Original Debt	Debt as of 6/30/2017	Total Debt as of 6/30/2017	Annual P&I (FY 2018)
General Fund					**$ 27,985,380**	
16Refunding COP	FY2016	FY2027	$ 19,813,775	$ 17,891,383		$ 2,459,912
02ABAG/ABAG 33 Refunding	FY2002	FY2021	$ 1,309,835	$ 310,000		$ 88,578
15Fire Station #7/Firehouse Clinic	FY2015	FY2025	$ 5,500,000	$ 4,737,002		$ 452,854
15Fire Station #7 Loan from Water	FY2016	FY2035	$ 3,421,000	$ 3,312,644		$ 137,741
15Streetlight Conversion #05188	FY2015	FY2024	$ 2,488,880	$ 1,734,351		$ 276,262
Measure C Fund					**$ 67,535,000**	
15Library/Fire Stations/Streets	FY 2016	FY2034	$ 67,535,000	$ 67,535,000		$ 2,730,688
Internal Service Fund - Facilities					**$ 1,007,152**	
05Equip Lease/Solar Power Energy	FY2006	FY2030	$ 927,290	$ 650,037		$ 72,724
CEC Solar Energy Loan #7214	FY2012	FY2024	$ 666,330	$ 357,115		$ 95,414
Internal Service Fund - Fleet					**$ 2,622,251**	
09Equip Fleet Loan from Sewer	FY2010	FY2017	$ 1,000,000	$ -		$ -
11Equip Lease-Fire/Maint Vehicles	FY2011	FY2021	$ 3,170,082	$ 834,923		$ 299,728
13Equip Lease-PD Replacement Vehicles	FY2013	FY2017	$ 520,000	$ -		$ -
14Equip Lease-Fire Truck	FY2014	FY2024	$ 824,000	$ 602,420		$ 96,226
14Equip Lease-PD Vehicles	FY2014	FY2018	$ 535,000	$ 138,694		$ 141,259
15 TDA Fire Truck Loan	FY2015	FY2024	$ 1,272,000	$ 1,046,213		$ 147,594
Internal Service Fund - Technology					**$ 683,656**	
15Equip Lease/ Network Cisco Hardware	FY 2015	FY2020	$ 1,699,356	$ 683,656		$ 354,686
12Equip Lease/Comp ERP Cisco Hardware	FY2012	FY2017	$ 759,591	$ -		$ -
Water					**$ 4,980,000**	$ -
13Water Refunding Bonds	FY2014	FY2025	$ 7,245,000	$ 4,980,000		$ 697,448
Sewer					**$ 48,287,493**	$ -
07Sewer Refunding	FY2008	FY2018	$ 9,880,000	$ 485,000		$ 504,400
SWRCB Loan	FY2006	FY2029	$ 54,550,018	$ 32,730,011		$ 2,727,501
SWRCB Loan-17 Recycled Water ¥	FY2019	FY2048	$ 13,533,650	$ 13,533,650		$ -
CEC Solar Energy Loan #7505	FY2011	FY2025	$ 2,450,000	$ 1,538,832		$ 217,810
Total Governmental and Business Activity Debt					**$ 153,100,931**	
Fiduciary					**$ 6,128,070**	
13Community Facility District #1	FY2014	FY2033	$ 7,076,294	$ 6,128,070		$ 535,264
Successor Agency of the Hayward Redevelopment Agency					**$ 42,617,000**	
RDA Repayment Agreement with Gen.Fund	FY2016	FY2022	$ 11,156,841	$ 9,382,000	*	$ 800,000
16 RDA TABS	FY2017	FY2036	$ 35,270,000	$ 33,235,000		$ 3,235,975
Special Assessment Districts					**$ 630,000**	
LID 16	FY1994	FY2020	$ 2,815,000	$ 440,000		$ 161,448
LID 17	FY2000	FY2024	$ 396,014	$ 190,000		$ 31,025

¥ Financing agreement for this debt has not been executed. Amounts presented are for informational purposes only and are based on estimates.

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File #: RPT 17-039

DATE: March 20, 2017

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT

Annual City Benefit Liabilities and Funding Plan Review

RECOMMENDATION

That the Committee reviews and comments the status of the City's benefit liabilities and confirms current policies regarding funding the City's benefit liabilities.

ATTACHMENT

Attachment I Staff Report

DATE: March 20, 2017

TO: Council Budget & Finance Committee

FROM: Director of Finance

SUBJECT: Annual City Benefit Liabilities and Funding Plan Review

RECOMMENDATION

That the Committee reviews and comments the status of the City's benefit liabilities and confirms current policies regarding funding the City's benefit liabilities.

BACKGROUND

The City of Hayward, like all cities and municipal agencies, manages unfunded benefit liabilities as part of its financial picture. In 2013, staff began providing the Council Budget & Finance Committee and the City Council with an annual review of the City's benefit liabilities and funding plan for unfunded liabilities.

Unfunded liabilities are defined as identifiable obligations of an organization for which the organization does not have 100 percent of the funding (cash or other assets) set aside to cover the cost should all obligations become immediately and simultaneously due. Generally, an organization operates based on policies that attempt to find a responsible balance between funding the appropriate portion of these obligations, the associated risk that the unfunded portion of the obligations presents to the organization, and responsible and realistic management of the organization's resources.

Achieving this careful balance is considered the practical and responsible approach since payment demands of these obligations rarely, if ever, occur simultaneously. The alternative would be to fully fund the obligations, eliminating the liability for the present time; however, this would cause an unreasonable portion of the City's resources to be reserved making it unavailable for and impossible to fund on-going City services and operations.

DISCUSSION

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 set aside each year to fund its benefit-related financial obligations. It is critical that the City continue to manage and address its benefit liabilities to ensure long-term fiscal stability. 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 this places on the City. Failure to meet the minimum recommended funding levels or 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.

Table 1 provides a summary of the City’s benefit liabilities and current levels of funding based on the most recent actuarial valuations. Each of these benefit liabilities is unique in its structure and the degree of funding varies depending on the benefit.

Table 1: Summary of Benefit Liabilities (in millions)

(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

Acceptable or Best Practice levels of funding vary by liability type. In general, an appropriate range of funding would be 75 – 80 percent.

California Public Employee Retirement System (CalPERS)

Current Annual cost: $23.1 million
Unfunded Liability: $306.5 million

<u>Benefit Summary</u> – CalPERS is a defined benefit pension plan funded by a combination of employee and employer contributions. The City’s retirement benefit plans represent its largest benefit liability and CalPERS retirement rates continue to be one of the most significant citywide budgetary pressures. This same budgetary stress is felt by the State of California and the over 2,000 public entities statewide that contract with the California Public Employees’ Retirement System (CalPERS) for pension benefits. When CalPERS

performs its actuarial analysis, it uses data from two years prior; for example, the employer rates for Fiscal Year 2018 are based on data as of June 30, 2015.

The City contributes to three plans: Police Safety Plan, Fire Safety Plan, and Miscellaneous Employee Plan (all non-sworn employees). All full-time and part-time benefited employees are required to participate in CalPERS. The three plans are independent of one another with different contract plan amendments negotiated over the years through the collective bargaining process. Assets and liabilities of each plan are segregated with no cross subsidization from one plan to another.

CalPERS Retirement Rates – 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 percent for public safety plans and 7 percent or 8 percent 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 can be significant.

Most employee groups actually contribute beyond the Employee Contribution portion and pay a portion of the Employer Contribution: 6 percent for sworn police and fire personnel and 1 percent for all non-sworn personnel (with a phased-in increase to 3 percent). The Employer rates displayed in Table 1 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.

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, actually help the cities in the long-run, and should have been implemented long ago by CalPERS.

1. *March 2012 Change (effective FY 2014, two-year phase-in through FY 2015)*
   In March 2012, the CalPERS Board took action to reduce the assumed rate of investment return from 7.75 percent to 7.5 percent. The employer rate impact from this action was effective FY 2014, with a two-year phase-in, and a full rate impact by FY 2015. The actual rate impact resulting from this change was originally estimated to range from 2.4–4.6 percent of payroll.

2. *April 2013 Change (effective FY 2016, five-year phase-in through FY 2020)*
   On April 17, 2013, the CalPERS Board adopted significant rate methodology changes that directly impacted employer rates starting in FY 2016 and are phased in over five years, with the full impact by FY 2020. The anticipated rate impact resulting from this change is approximately 2–5 percent of payroll by FY 2020. These actuarial changes are designed to boost funding levels and make employer rates more predictable in the long-run:

- ✓ Shorter smoothing period[1] and shorter amortization period for gains/losses
- ✓ Closed instead of rolling thirty-year amortization
- ✓ Use market value of assets to determine rates[2]

3. *February 2014 Change (effective FY 2017, five-year phase-in through FY 2021)*
   On February 18, 2014, the CalPERS Board adopted additional rate methodology changes. While the Board voted to retain its current long-term assumed rate of return at 7.5 percent, they did adopt actuarial changes to assumed mortality rates. The new mortality assumptions will cost local agencies an average of 6–9 percent of payroll for safety classifications and 3–5 percent of payroll for miscellaneous employees by year five of the phase-in (FY 2021). Some municipal officials believe these estimates may be low because of the continued decline in the local government workforce in many cities, reducing the number of active employees contributing to CalPERS.

4. *November 2015 Funding Risk Mitigation Policy*
   The CalPERS Board adopted a funding risk mitigation policy that will incrementally lower the discount rate in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. Under the policy, a mechanism will be established to reduce the discount rate - or assumed rate of return - by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.5 percent, by at least four percentage points. The four percentage point threshold would work to offset increases to employer contribution rates that would otherwise increase when the discount rate is lowered, and help pay down CalPERS' unfunded liability.

   CalPERS staff modeling anticipates the policy will result in a lowering of the expected portfolio volatility to 8 percent in about 21 years, improve funding levels gradually over time, and cut risk in the System by lowering the volatility of investment returns. While rates are expected to increase for CalPERS employers in the future, the policy is designed to minimize any increases above projected rates.

5. *December 2016 Lowering of Discount Rate (effective FY 2018, three year phase-in through FY 2020*

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[1] "Smoothing" and "Closed vs. Rolling Amortization" go hand in hand. Smoothing refers to the method by CalPERS plans to address the unpredictability of investment income and the impact that unpredictability has on employer rates. The revised "smoothing" plan determines the rate increase needed to reach a funding level of 100 percent in 30 years, phase in the rate increase over five years, and then to maintain those rates as steadily as possible or even lower them. In the past, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with the actual gains and losses experienced by the investment pool paid for over a rolling 30-year period. With the current change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly a five-year period.

[2] CalPERS has traditionally used the actuarial value of their investments in their financial calculations and rate projections (i.e., the investment assets fluctuate in value from one day to the next, so the administrators calculate an average value for the assets, over a given period of time, or the "actuarial value"). In accordance with new FY 2015 GASB provisions, CalPERS will only use "market value," which is using the actual value of the investment assets as determined by the market and adjusting the value up or down accordingly.

> The CalPERS Board recently lowered the discount rate from 7.5% to 7.0%. Lowering the discount rate, also known as the assumed rate of return, means that employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. 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 recent change to discount rates, which resulted in FY 2018 rates increasing over FY 2017 rates by 1.0– 8.0 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.

Estimated Rate Impacts and Projected Normal Cost Increases

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 2 provides a detailed summary of what the City's projected CalPERS employer rates and normal costs (employer contribution) 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 (i.e. 70%-80%, under 70%) for projecting in the model. The numbers shown in the green fields reflect projected amounts with the changes in discount rate. The numbers in the uncolored fields are the projected amounts should the discount rate have remained at 7.5%.

Immediately upon receipt of the CalPERS Actuarial Valuation Report (reportedly late July 2017), staff will return to the Committee with updated projections.

Table 2: CalPERS Rate Comparison & Growth

Miscellaneous

Current Discount Rate - 7.50%							
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Normal Cost Rate	8.5%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
TOTAL	$ 10,436,362	$ 11,436,968	$ 12,778,962	$ 14,197,397	$ 15,173,020	$ 16,212,382	$ 17,071,557
Projected Payroll	$ 39,549,245	$ 41,720,220	$ 42,972,000	$ 44,261,000	$ 45,589,000	$ 46,957,000	$ 48,366,000
Current "Rate"	26.4%	27.4%	29.7%	32.1%	33.3%	34.5%	35.3%

Revised Discount Rates			7.375%	7.25%	7.00%	7.00%	7.00%
		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Normal Cost Rate		8.4%	8.9%	9.4%	10.4%	10.4%	10.4%
TOTAL - New		$ 11,437,000	$ 13,223,000	$ 15,164,000	$ 17,503,000	$ 19,299,000	$ 20,965,000
Increase in cost		0.0%	3.5%	6.8%	15.4%	19.0%	22.8%
Revised "Rate"		27.4%	30.8%	34.3%	38.4%	41.1%	43.3%
Difference		0.0%	1.0%	2.2%	5.1%	6.6%	8.0%

Fire

Current Discount Rate - 7.50%							
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Normal Cost Rate	17.0%	16.9%	16.9%	16.9%	16.9%	16.9%	16.9%
TOTAL	$ 7,056,940	$ 9,550,755	$ 9,003,982	$ 10,109,928	$ 10,867,238	$ 11,675,066	$ 12,257,933
Projected Payroll	$ 16,365,149	$ 17,589,376	$ 18,117,000	$ 18,661,000	$ 19,221,000	$ 19,798,000	$ 20,392,000
Current "Rate"		54.3%	49.7%	54.2%	56.5%	59.0%	60.1%

For Plans with Funded Ratio under 70%

Revised Discount Rates			7.375%	7.25%	7.00%	7.00%	7.00%
		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Normal Cost Rate		16.9%	17.9%	18.9%	20.9%	20.9%	20.9%
TOTAL - New		$ 9,550,000	$ 10,950,000	$ 12,457,000	$ 14,145,000	$ 15,516,000	$ 16,689,000
Increase in cost		0.0%	2.8%	5.5%	12.1%	15.2%	18.3%
Revised "Rate"		54.3%	60.4%	66.8%	73.6%	78.4%	81.8%
Difference		0.0%	10.7%	12.6%	17.1%	19.4%	21.7%

Police

Current Discount Rate - 7.50%							
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Normal Cost Rate	21.6%	21.5%	21.5%	21.5%	21.5%	21.5%	21.5%
TOTAL	$ 10,845,563	$ 11,559,332	$ 13,788,104	$ 15,456,771	$ 16,510,198	$ 17,571,863	$ 18,389,567
Projected Payroll	$ 22,968,231	$ 24,277,717	$ 25,006,000	$ 25,756,000	$ 26,529,000	$ 27,325,000	$ 28,145,000
Current "Rate"		47.6%	55.1%	60.0%	62.2%	64.3%	65.3%

For Plans with Funded Ratio under 70%

Revised Discount Rates			7.375%	7.25%	7.00%	7.00%	7.00%
		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Normal Cost Rate		21.5%	22.5%	23.5%	25.5%	25.5%	25.5%
TOTAL - New		$ 12,204,000	$ 14,207,000	$ 16,369,000	$ 18,653,000	$ 20,421,000	$ 21,985,000
Increase in cost		5.6%	3.0%	5.9%	13.0%	16.2%	19.6%
Revised "Rate"		50.3%	56.8%	63.6%	70.3%	74.7%	78.1%
Difference		2.7%	1.7%	3.5%	8.1%	10.4%	12.8%

Purpose of Adopted Methodology Changes

While the revised methods are designed to create a sustainable CalPERS plan by improving funding levels and reducing the overall funding-level risk, the cumulative changes result in a significant increase in Hayward's employer contribution rates; and in the very long-term (absent additional assumption changes), result in stabilized employer rates.

Funding Status & Plan

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. See Attachment I for further discussion regarding funding policies.

Retiree Medical (OPEB)

Annual Required Contribution (ARC): $11.2 million
Unfunded Liability: $104.7 million

Components of OPEB $11.2 million ARC:
$3.0 million: Current Retirees ("pay as you go") – FY 2017
$8.2 million: Unfunded Actuarial Liability – FY 2017

The retiree medical benefit represents the second largest benefit liability, and is the most significantly underfunded of the City's benefit liabilities. By City Council resolution – and as agreed to with some bargaining groups – the City provides certain health care benefits for employees who retire directly from the City with at least five years of City service (most bargaining groups require ten years of service) and who are vested in the California Public Employees Retirement System (CalPERS). The City participates in the CalPERS health care plan, which is governed under the California Public Employees Health and Medical Care Act (PEMCHA).

The City contributes a fixed dollar amount for retiree medical benefits for all employees, except sworn police employees hired before June 12, 2012 (rate tied to Kaiser plan rates), with amounts varying by employee bargaining group and coverage level as governed by PEMCHA. Benefits continue for surviving spouses in amounts as required by PEMCHA. As of June 30, 2016, approximately 598 retirees were eligible and were receiving retiree health care benefits from the City at an annual cost of about $2.9 million, which is the "pay as you go" amount the City currently pays.

There are approximately 709 active employees that may be eligible to receive health care benefits upon retirement. This group of employees represents the number of eligible, current employees and it is the City's current maximum exposure; it does not necessarily mean all of these employees will either retire with the City or ultimately meet the requirements for receiving this benefit. Similar to the CalPERS retirement plan, the increased life longevity of retirees places a stress on the benefit. The updated actuarial valuation of our local Plan will consider these impacts within its analysis.

Funding Status & Plan
The current annual required contribution (ARC) was determined as part of a May 1, 2015 actuarial valuation by Bickmore, the City's OPEB Actuary. This valuation analysis considered benefits that are expected to be earned in the future as well as those already accrued, and is required by the Governmental Accounting Standards Board (GASB) to be completed every two years, the most recent actuarial report was completed in June 2016.

The City's OPEB unfunded actuarial accrued liability is amortized as a level percentage of projected payroll using a closed thirty-year amortization period that has twenty-four years remaining as of the latest valuation date. The minimum funding target is the Annual Required Contribution (ARC), currently estimated at $11.2 million. Payments for both components of the ARC are built into payroll to spread the cost appropriately across all City funding sources. The City has funded only the "pay as you go" portion of the plan for fiscal year 2017 after having made payments toward funding the UAL of $2 million FY 2015 and $1.1 million in FY 2016.

City ARC Contributions		
FY 2013		-
FY 2014		-
FY 2015		$ 2,060,000.00
FY 2016		$ 1,106,000.00
FY 2017 (projected)		-
FY 2018 (projected)		$ 1,000,000.00

The City's Ten-Year General Fund Plan includes phasing this cost in until the full ARC 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. Because the City has not fully funded the ARC, the City will not meet this goal without additional funding allocations.

Workers' Compensation

Current Annual Cost: $4.8 million
Unfunded Liability: $9.9 million

The City is self-funded for Workers' Compensation and began its program on July 1, 1975. While the City fully funds present day costs, it does not fully fund future liability. Payments are made to the Workers' Compensation Self-Insurance Fund by transfers from all City funds through established rates assessed against payroll pursuant to classification type. The amount of payments made by the City into the Workers' Compensation Self Insurance Fund is determined by an actuarial analysis conducted by an outside actuary (Bickmore). These accruals represent estimates of amounts to ultimately be paid for reported claims, past experience, recent claim settlement trends, and other information. Funds are available to pay claims and administrative costs of the program on a pay-as-you-go basis.

It is important to understand that payments on indemnity claims may be made over a long period of years. Indemnity claims are those in which future medical care is projected to be needed for the injured worker and the cost is largely dependent on the type and severity of the injury, as well as whether or not the claimant is a sworn employee.

Funding Status & Plan
Pursuant to the current actuarial valuation conducted for the program, a funding status of 70–85 percent is recommended. Table 1 shows that the City is currently at about a 42.9 percent funding level, which is a decrease from previous years. Staff recommends funding at the 80 percent level and beginning in FY 2013, however, the implemented plan to build the fund balance toward achieving that funding level has fallen short given recent claims. The City plans to fund this liability by charging departments (as a component of payroll) for Workers' Compensation at a rate that includes a component of cost (about $1 million/year) toward funding the unfunded liability. Once the 80 percent funding level is reached (about $10 million in fund balance reserved for future liability), the Workers' Compensation rates will be adjusted downward. Staff recommends that the City continue with this plan and consider increasing the allocation towards the unfunded future liability.

Accrued Leave Payouts (Compensated Absences)

Current Annual Cost: varies
Unfunded Liability: $7.7 million

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. The City records the cost of vacation and sick leave as "earned." Earned vacation and sick leave that is taken during the year is payable from the fund(s) to which the employee's salary or wage is charged. When an employee retires or otherwise leaves the City, vacation balances are paid out to the employee, and in some cases, some of the accumulated sick leave is also paid out (pursuant to bargaining unit agreements). These payouts are paid through a department's budget from vacancy salary savings – and are not specifically budgeted for as a separate line item.

Funding Status & Plan
Staff has taken strong action to lower this liability during the past three 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 2016 balance of $7.7 million – a significant reduction in liability.

Table 3: Accrued Leave Liability History

	Unfunded Liability	Change from prior Year
FY 2007	7,003,161	
FY 2008	7,685,961	682,800
FY 2009	7,477,214	(208,747)
FY 2010	9,250,970	1,773,756
FY 2011	10,497,994	1,247,024
FY 2012	10,701,569	203,575
FY 2013	8,589,354	(2,112,215)
FY 2014	7,230,041	(1,359,313)
FY 2015	7,104,541	(125,500)
FY 2016	7,660,340	555,799

Accrued Leave payouts are currently absorbed within each department's budget appropriation. In practice, the salary savings achieved through normal attrition and the vacancy created by the exiting employee cover the cost of these payouts. In general, departments have had enough salary savings to accommodate this cost.

A possibility to further fund this liability is to build a funding mechanism into payroll as a component of the fringe benefit rate (e.g., 1% of payroll for non-sworn and 2% of payroll for sworn positions). While this might provide a segregated funding source that would prevent spikes to department payroll budgets for large payouts, it does increase the overall City payroll budget. Given the City's fiscal challenges, it does not seem a prudent use of City resources at this time to add this cost. Staff recommends maintaining the current methodology of actively managing employee's leave balances to lower the overall liability. This has been successful these past several years as demonstrated in Table 3.

NEXT STEPS

Staff will continue to actively manage benefit liabilities and report annually to the Council Budget & Finance Committee and the City Council on the funding status of these benefit liabilities, including review of existing Council policies regarding funding.

Prepared and Recommended by: Dustin Claussen, Director of Finance

Approved by:

Kelly McAdoo, City Manager

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File #: RPT 17-037

DATE: March 20, 2017

TO: Council Budget and Finance Committee

FROM: Director of Finance

SUBJECT

FY 2017 Meeting Schedule & Work Plan

RECOMMENDATION

That the Committee receives and comments on the FY 2017 Council Budget and Finance Committee Meeting Schedule & Work Plan.

ATTACHMENT

Attachment I Meeting Schedule & Work Plan

Attachment I

COUNCIL BUDGET AND FINANCE COMMITTEE
FY 2017 Meeting Schedule & Workplan
March 20, 2017

Meeting Location: 777 B STREET - CITY HALL - 4TH FLOOR CONFERENCE ROOM 4A HAYWARD, CALIFORNIA
Meeting Time: 4:00 P. M.
Meeting Dates: The Council Budget & Finance Committee generally meet monthly on the 3rd Wednesday of the month, except for August, due to City Council Break. Special meetings will be scheduled as determined necessary by the Committee or the City Manager.

DATE	SUGGESTED TOPICS (subject to change)
September 28, 2016	FY 2016 annual audit process (external auditor) User Fee Study Update
October 26, 2016	Investment portfolio update (external investment manager) Review of the 2016 Community Survey Questionnaire (external consultant)
~~November 23, 2016~~ November 16, 2016 (special)	FY 2017 Statement of Investment Policy Review and Delegation of Authority General Fund Ten-Year Plan Review incl FY 2016 Preliminary YE Results FY 2018 Budget Process Plan and Development Calendar
~~December 28, 2016~~ ~~December 21, 2016 (special)~~	FY 2018 Budget Development Process
January 25, 2017	Review of Proposal from Management Partners to Update General Fund Ten-Year Plan Model Discussion of FY 2018 Budget Process and Worksession Framework Update on CalPERS
~~February 22, 2017~~ March 1, 2017	FY 2017 Mid-Year Review & General Fund Ten-Year Plan Update FY 2018 Proposed Budget Discussion
~~March 22, 2017~~ March 20, 2017 (Monday)	Annual Review of City Issued Debt Annual City Benefit Liabilities and Funding Plan Review FY 2018 budget framework
~~April 26, 2017~~ April 17, 2017 (Monday)	Preview of FY 2018 CIP & Ten-Year CIP Discussion on Mayor and City Council Department budget FY 2018 budget process update
~~May 24, 2017~~ May 17, 2017	FY 2018 Proposed Budget discussion Discussion of a Potential Resident Satisfaction Focus Group
~~June 28, 2017~~ June 21, 2017	TBD
~~July 26, 2017~~ July 19, 2017	FY 2018 budget process debrief Biennial budget process discussion Measure C Annual Report

Non-scheduled future agenda topics:
- Performance Measurement
- Affordable Care Act – Health Care Exchange