

# **CITY OF HAYWARD**

Hayward City Hall  
777 B Street  
Hayward, CA 94541  
[www.Hayward-CA.gov](http://www.Hayward-CA.gov)



CITY OF  
**HAYWARD**  
HEART OF THE BAY

## **Agenda**

**Wednesday, March 21, 2018**

**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 18-036](#)     Approval of Meeting Minutes from March 7, 2018  
  
      **Attachments:**   [Attachment I Draft Minutes March 7, 2018](#)
2.     [RPT 18-063](#)     Annual Review of City Issued Debt  
  
      **Attachments:**   [Attachment I Staff Report](#)  
                          [Attachment II Debt Summary](#)
3.     [RPT 18-062](#)     Annual City Benefit Liabilities and Funding Plan Review  
  
      **Attachments:**   [Attachment I Staff Report](#)
4. Measure C Staffing for Police Department (Oral Presentation)
5.     [RPT 18-056](#)     FY 2018 Meeting Schedule & Work Plan  
  
      **Attachments:**   [Attachment I Meeting Schedule & Work Plan](#)

**FUTURE AGENDA ITEMS**

**COMMITTEE MEMBER/STAFF ANNOUNCEMENTS AND REFERRALS**

**ADJOURNMENT**

NEXT MEETING - 4:00P.M. WEDNESDAY, APRIL 18, 2018



# CITY OF HAYWARD

Hayward City Hall  
777 B Street  
Hayward, CA 94541  
[www.Hayward-CA.gov](http://www.Hayward-CA.gov)

---

**File #:** MIN 18-036

---

**DATE:** March 21, 2018

**TO:** Council Budget and Finance Committee

**FROM:** Director of Finance

**SUBJECT**

Approval of Meeting Minutes from March 7, 2018

**RECOMMENDATION**

That the Committee approves the meeting minutes from the March 7, 2018 Meeting.

**ATTACHMENT**

Attachment I Draft Minutes March 7, 2018



---

**COUNCIL BUDGET & FINANCE COMMITTEE MEETING**  
**Meeting Minutes of March 7, 2018**

**Call to Order:** 5:00 pm

**Members Present:** Mayor Halliday, and Councilmember Lamnin

**Members Absent:** Councilmember Salinas

**Staff:** Kelly McAdoo, Maria Hurtado, Dustin Claussen, Nicole Gonzales, and Monica Davis

**Guests:** None

**Public Comments:** No public comments.

---

1. Approval of Meeting Minutes January 25, 2018

*Action: Unanimous approval as submitted.*

2. Credit Card Fees.

- Director Claussen provided an overview regarding Credit Card Fees.

*Action: The Committee received the presentation and supported staff's recommendation to advance the item to the full City Council for consideration. No formal action was taken.*

3. FY 2019 Proposed Budget Discussion (Oral Presentation)

- Director Claussen provided information and facilitated a discussion regarding the upcoming FY 2019 budget.

*Action: The Committee discussed the presentation. No formal action was taken.*

4. Discussion on Mayor & City Council Department Budget

- Assistant City Manager Hurtado provided information regarding the Mayor & City Council Department budget narrative and financial details.

*Action: The Committee discussed and provided feedback on draft the Mayor & City Council Department budget. No formal action was taken.*

5. Meeting Schedule and Work Plan.

*Action: The Committee recommended adding “Discussion of Measure C Staffing at Police Department to the March 21, 2018 agenda.*

6. Future Agenda Items: None

**Committee Members/Staff Announcements and Referrals:** None.

**Adjournment:** The meeting was adjourned at 5:35 pm



# CITY OF HAYWARD

Hayward City Hall  
777 B Street  
Hayward, CA 94541  
[www.Hayward-CA.gov](http://www.Hayward-CA.gov)

---

**File #:** RPT 18-063

---

**DATE:** March 21, 2018

**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.

**ATTACHMENT**

Attachment I Staff Report  
Attachment II Debt Summary



DATE: March 21, 2018

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 2018 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
- 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 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.

### Debt Limit & Margin

- The legal bonded debt margin is \$3.04 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 \$3.04 billion.
- The City's projected General Bonded Debt Outstanding as of June 30, 2018 will total \$98.4 million and represents .49% of taxable property value or \$611 per capita.

### Debt Limit Computation (projected June 30, 2018) –

Total FY 2018 projected assessed valuation (less exemptions)	\$ 20,277,062,542
Debt limit (15% of assessed value)	\$ 3,041,559,381
Amount of legal debt applicable to the debt limit	\$ 98,394,354
<u>Legal debt margin (if Hayward were a general law city)</u>	<u>\$ 3,041,559,381</u>
Amount above or (below) Legal Debt Margin	(\$ 2,943,165,027)

\* This amount includes debt that has been approved by Council, but has not been issued as of the time of this report.

### New Debt

The City has not issued new debt in FY 2018.

### 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. In December 2017, Fitch Ratings affirmed an AA rating for the Certifications of Participation (COPs) (Capital Projects). The City has an implied general obligation (issuer default) rating of AA+ with a stable outlook from Fitch Ratings agency.

## NEXT STEPS

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

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

Recommended by:     Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', is positioned above a horizontal line.

---

Kelly McAdoo, City Manager

# City of Hayward Debt Summary

Attachment II

	Issuance Date	Maturity Date	Original Debt	Debt as of 6/30/2018	Total Debt as of 6/30/2018	Annual P&I (FY 2019)
<b>General Fund</b>					<b>\$ 25,237,379</b>	
16Refunding COP	FY2016	FY2027	\$ 19,813,775	\$ 15,870,374		\$ 1,973,506
02ABAG/ABAG 33 Refunding	FY2002	FY2021	\$ 1,309,835	\$ 235,000		\$ 84,875
15Fire Station #7/Firehouse/Clinic	FY2015	FY2025	\$ 5,500,000	\$ 4,416,419		\$ 452,854
15Fire Station #7 Loan from Water	FY2016	FY2035	\$ 3,421,000	\$ 3,240,798		\$ 137,741
15Streetlight Conversion #05188	FY2015	FY2024	\$ 2,488,880	\$ 1,474,787		\$ 276,262
<b>Measure C Fund</b>					<b>\$ 67,535,000</b>	
15Library/Fire Stations/Streets	FY 2016	FY2034	\$ 67,535,000	\$ 67,535,000		\$ 2,730,688
<b>Internal Service Fund - Facilities</b>					<b>\$ 887,590</b>	
05Equip Lease/Solar Power Energy	FY2006	FY2030	\$ 927,290	\$ 615,809		\$ 72,724
CEC Solar Energy Loan #7214	FY2012	FY2024	\$ 666,330	\$ 271,780		\$ 102,915
<b>Internal Service Fund - Fleet</b>					<b>\$ 2,011,684</b>	
11Equip Lease-Fire/Maint Vehicles	FY2011	FY2021	\$ 3,170,082	\$ 559,395		\$ 234,749
14Equip Lease-Fire Truck	FY2014	FY2024	\$ 824,000	\$ 523,975		\$ 96,226
15 TDA Fire Truck Loan	FY2015	FY2024	\$ 1,272,000	\$ 928,314		\$ 147,594
<b>Internal Service Fund - Technology</b>					<b>\$ 46,044</b>	
15Equip Lease/ Network Cisco Hardware	FY 2015	FY2020	\$ 1,699,356	\$ 46,044		\$ 354,686
<b>Water</b>					<b>\$ 4,420,000</b>	
13Water Refunding Bonds	FY2014	FY2025	\$ 7,245,000	\$ 4,420,000		\$ -
<b>Sewer</b>					<b>\$ 44,902,064</b>	
SWRCB Loan	FY2006	FY2029	\$ 54,550,018	\$ 30,002,510		\$ -
SWRCB Loan-Recycled Water	FY2017	FY2049	\$ 13,533,650	\$ 13,533,650		\$ 3,059,007
CEC Solar Energy Loan #7505	FY2011	FY2025	\$ 2,450,000	\$ 1,365,904		\$ -
<b>Total Governmental and Business Activity Debt</b>					<b>\$ 145,039,760</b>	
<b>Fiduciary</b>					<b>\$ 5,840,789</b>	
13Community Facility District #1	FY2014	FY2033	\$ 7,076,294	\$ 5,840,789		\$ 535,019
<b>Successor Agency of the Hayward Redevelopment Agency</b>					<b>\$ 40,130,526</b>	
RDA Repayment Agreement with Gen.Fund *	FY2016	FY2022	\$ 11,156,841	\$ 8,580,526		\$ 800,000
16 RDA TABS	FY2017	FY2036	\$ 35,270,000	\$ 31,550,000		\$ 3,235,975
<b>Special Assessment Districts</b>					<b>\$ 475,000</b>	
LID 16	FY1994	FY2020	\$ 2,815,000	\$ 305,000		\$ 161,508
LID 17	FY2000	FY2024	\$ 396,014	\$ 170,000		\$ 29,800

\* Outstanding balance according to State of California Department of Finance approved ROPS 15-16B Determination.



# CITY OF HAYWARD

Hayward City Hall  
777 B Street  
Hayward, CA 94541  
[www.Hayward-CA.gov](http://www.Hayward-CA.gov)

---

**File #:** RPT 18-062

---

**DATE:** March 21, 2018

**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 on 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 21, 2018

TO: Council Budget & Finance Committee Members

FROM: Director of Finance

SUBJECT: Annual City Benefit Liabilities and Funding Plan Review

## RECOMMENDATION

That the Committee reviews and comments on 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. During recent fiscal years, and at the October 14, 2017 Fiscal Sustainability Work Session, Council continued with its directive for the City to establish a funding plan for all unfunded liabilities. As a result of Council's recommendations from the work session, staff has established a more definitive funding plan for some of the City's unfunded liabilities. Staff will continue to provide updates on the funding status of the City's Unfunded Liabilities.

## DISCUSSION

The City actively manages its benefit liabilities and completes actuarial valuations for all benefit liabilities except for 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 or wish to finance existing 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	6/30/2016	\$ 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%

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: \$27.7 million

Unfunded Liability: \$400.2 million

Benefit Summary – CalPERS is a defined benefit pension plan funded by a combination of employee and employer contributions. The City’s retirement benefit plans represent the 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 2019 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 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 long-term sustainability of CalPERS retirement plans, helping cities in the long-run. Many of these changes 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 acted 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 ranged from 3 - 5 percent of payroll depending on the plan type.

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, phased in over five years, with the full impact being felt 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<sup>1</sup> and shorter amortization period for gains/losses
  - ✓ Closed instead of rolling thirty-year amortization
  - ✓ Use market value of assets to determine rates<sup>2</sup>
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 recently 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

---

<sup>1</sup> “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.

<sup>2</sup> 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.

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): 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 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 change to discount rates, which resulted in FY 2018 rates increasing over FY 2017 rates by 1.0– 8 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.

6. February 2018 Change to Amortization Period for New Members: The CalPERS Board recently voted to shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years for all new members. The change in amortization period will speed up the rate of debt payments to CalPERS, and likely increase cities' annual pension costs. The new policy will become effective as of the June 30, 2019 actuarial valuations, with the first payments due in FY 2021.

#### Estimated Rate Impacts and Projected Normal Cost Increases:

The new valuations the City received 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) would be based on CalPERS recent change to the discount rate from 7.5% to 7%. Per the CalPERS rate projections, by FY 2023, rates for Miscellaneous Plans are estimated to be 42.7 percent, rates for Police Safety Plans are projected to be 78.1 percent of payroll, and Fire Safety Plans are projected to be 72.8 percent of payroll.

**Table 2: CalPERS Rate Comparison & Growth**

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>Miscellaneous</b>									
Employer Contribution (\$)	\$ 9,192	\$ 9,754	\$ 10,436	\$ 11,437	\$ 13,183	\$ 15,067	\$ 17,227	\$ 19,000	\$ 20,648
Change over prior year	\$ 492	\$ 562	\$ 682	\$ 1,001	\$ 1,746	\$ 1,884	\$ 2,160	\$ 1,773	\$ 1,648
Employer Contribution Rate	22.10%	24.47%	26.39%	27.40%	30.70%	34.00%	37.80%	40.50%	42.70%
Change over prior year	2.36%	2.37%	1.92%	1.01%	3.30%	3.30%	3.80%	2.70%	2.20%
<b>Police</b>									
Employer Contribution (\$)	\$ 9,024	\$ 9,910	\$ 10,846	\$ 12,204	\$ 14,207	\$ 16,369	\$ 18,653	\$ 20,421	\$ 21,985
Change over prior year	\$ 364	\$ 886	\$ 936	\$ 1,358	\$ 2,003	\$ 2,162	\$ 2,284	\$ 1,768	\$ 1,564
Employer Contribution Rate	39.80%	42.40%	47.22%	50.30%	56.80%	63.60%	70.30%	74.70%	78.10%
Change over prior year	4.61%	2.60%	4.82%	3.08%	6.50%	6.80%	6.70%	4.40%	3.40%
<b>Fire</b>									
Employer Contribution (\$)	\$ 6,168	\$ 6,559	\$ 7,057	\$ 7,953	\$ 9,304	\$ 10,762	\$ 12,399	\$ 13,717	\$ 14,836
Change over prior year	\$ 542	\$ 391	\$ 498	\$ 896	\$ 1,351	\$ 1,458	\$ 1,637	\$ 1,318	\$ 1,119
Employer Contribution Rate	37.15%	40.40%	43.12%	45.20%	51.40%	57.70%	64.50%	69.30%	72.80%
Change over prior year	2.36%	3.25%	2.72%	2.08%	6.20%	6.30%	6.80%	4.80%	3.50%

### **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.

#### **Retiree Medical (OPEB)**

Annual Required Contribution (ARC): \$12.2 million

Unfunded Liability: \$104.7 million

#### **Components of OPEB \$12.2 million ARC:**

\$3.1 million: Current Retirees (“pay as you go”)

\$9.1 million: Unfunded Actuarial Liability

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 \$3.1 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 will have a new actuarial valuation completed later this year.

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 \$12.2 million. Pursuant to City Council direction, the City began contributing toward the cost of the UAL both through direct City contributions, as well as employee contributions pursuant to some bargaining unit agreements. Payments for both components of the ARC are built into payroll to spread the cost appropriately across all City funding sources. 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 plans to return to its practice of contributions toward the ARC, in the amount of \$1 million.

The City's General Fund Long Range Financial Model (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.

### Workers' Compensation

Current annual cost: \$5.05 million

Unfunded Liability: \$8.01 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 very 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 51.9 percent funding level, which is an increase from previous years. Staff recommends funding at the 80 percent level. However, the implemented plan to build the fund balance toward achieving that funding level has fallen short given recent claims. Workers' Compensation rates charged against live payroll include a component of cost (about \$1 million/year) toward 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: \$7.89 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 2017 balance of \$7.89 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
FY 2017	\$7,894,439	\$234,099

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

Recommended by: Dustin Claussen, Director of Finance

Approved by:



---

Kelly McAdoo, City Manager



# CITY OF HAYWARD

Hayward City Hall  
777 B Street  
Hayward, CA 94541  
[www.Hayward-CA.gov](http://www.Hayward-CA.gov)

---

**File #:** RPT 18-056

---

**DATE:** March 21, 2018

**TO:** Council Budget and Finance Committee

**FROM:** Director of Finance

**SUBJECT**

FY 2018 Meeting Schedule & Work Plan

**RECOMMENDATION**

That the Committee receives and comments on the FY 2018 Council Budget and Finance Committee Meeting Schedule & Work Plan.

**ATTACHMENT**

Attachment I Meeting Schedule & Work Plan



**COUNCIL BUDGET AND FINANCE COMMITTEE**  
**FY 2018 Meeting Schedule & Workplan**  
**March 21, 2018**

**Meeting Location:** 777 B STREET - CITY HALL - 4<sup>TH</sup> FLOOR CONFERENCE ROOM 4A  
 HAYWARD, CALIFORNIA

**Meeting Time:** 4:00 P. M.

**Meeting Dates:** The Council Budget & Finance Committee generally meet monthly on the 3<sup>rd</sup> 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 20, 2017	FY 2017 Annual Audit Process (Oral Presentation by External Auditor) Employee Budget Focus Group
October 18, 2017	Investment Portfolio Update (External Investment Manager) FY 2018 Statement of Investment Policy Review and Delegation of Authority Review of Research Scope for Survey of Hayward Voters
<del>November 15, 2017</del> December 6, 2017 at 5 p.m.	Review of Results from Survey of Hayward Voters and Discussion of Next Steps FY 2019 Budget Process Plan and Development Calendar
<del>December 20, 2017</del> January 10, 2018	Presentation of FY 2017 Audit Home Assistance Purchase Program for Employees
<del>January 17, 2018</del> January 25, 2018 at 5 p.m. (Thursday)	Discussion of FY 2019 Budget Process and Worksession Framework FY 2018 Mid-Year Review & General Fund Long Range Financial Model Update
<del>February 21, 2018</del> March 7, 2018 at 5 p.m.	Credit Card Fees FY 2019 Proposed Budget Discussion Discussion on Mayor & City Council Department Budget
March 21, 2018	Measure C Staffing at Police Department Annual Review of City Issued Debt Annual City Benefit Liabilities and Funding Plan Review
April 18, 2018	FY 2019 Budget process update CalPERS
May 16, 2018	Public Banking Review-Oakland Fees Report
June 20, 2018	Measure C Annual Report
July 18, 2018	FY 2019 budget process debrief

**Non-scheduled future agenda topics:**

- Performance Measurement
- Affordable Care Act – Health Care Exchange