



HAYWARD AREA RECREATION & PARK DISTRICT

SPECIAL MEETING AGENDA BOARD OF DIRECTORS

Thursday, February 23, 2017
5:00 P.M.

District Offices, 1099 'E' Street, Hayward, CA 94541
(510) 881-6700

Public Comments on Items on the Agenda

If you wish to speak on an item under discussion by the Board of Directors which appears on this Agenda, you may do so upon receiving recognition from the President of the Board. Please state your name and address and whether you are speaking as an individual, or are speaking for an organization, in which case, please state the name of the organization.

Public Comments on Items Not Appearing on the Agenda

Any citizen desiring to speak on a matter not appearing on this Agenda may do so under Public Comments at such time the President of the Board will request remarks from the audience. Those comments, by State Law, are limited to items of interest to the public that are within the subject jurisdiction of the Board of Directors. You should be aware that the law prohibits the Board from discussing or taking action at this meeting on items not on the Agenda except for very limited situations. Those situations are:

1. If an emergency exists. This generally requires the existence of work stoppage or a crippling disaster, which impairs the public health or safety. This requires the affirmative vote of three members of the Board;
or
2. The Board finds that the need to take action arose after the Agenda was posted. If five Board Members are present, this action will require a 2/3 Vote or four votes. If only three or four Board Members are present, this action will require a unanimous vote of all Board Members present; or
3. This matter had been placed on Agenda and posted previously at prior meeting within the last five-days and was continued until this meeting.

In order to provide an opportunity for all members of the public who wish to address the Board, a time allocation of 5 minutes for each individual speaker and 30-minutes total time for public testimony on a particular item has been established by the Board of Directors.

Americans with Disabilities Act

In compliance with the Americans with Disabilities Act, special assistance for participation in this meeting can be obtained by contacting the General Manager's Office at (510) 881-6711. A 48-hour notification will enable the District to make reasonable accommodations to ensure accessibility to this meeting (28 CFR 35.102-35.104 ADA Title II).

***Louis M. Andrade, President
Board of Directors***

1. CALL TO ORDER AND PLEDGE OF ALLEGIANCE TO THE FLAG

2. ROLL CALL

3. PUBLIC COMMENTS

(Note: For matters not otherwise listed on this agenda. The Board of Directors welcomes your comments under this section but is prohibited by State Law from discussing items not listed on the agenda. Your item will be taken under consideration and referred to Board of Directors' Committee(s) and/or Staff.) In order to provide an opportunity for all members of the public who wish to address the Board, a time allocation of 5 minutes for each individual speaker and 30-minutes total time for public testimony on a particular item has been established by the Board of Directors.

4. BUDGET STUDY SESSION

4.1 Quarterly Financial Report for the Six Months Ending December 31, 2016

Executive Summary: The Board of Directors will receive the second quarter financial report.

Financial Impact: Based on the actual revenues and expenditures during the first six-months of the Fiscal Year, no budget amendments are necessary at this time.

Staff Recommendation: Staff recommends the Board of Directors receive the report.

Description of Item: The purpose of this report is to inform the Board and community of the budget status compared to actual for revenues and expenditures and to provide an explanation of any significant budget variances as well as any other noteworthy financial events. This report has replaced the previous brief monthly financial report. This report covers the period July 1, 2016 to December 31, 2016.

Revenues

The operating revenues in the period amounted to \$16.76M or 55% of the annual budget, as shown in Table 1. Tax revenue was \$12.6M or 58% of the annual budget. Other operating revenues were \$4.16M or 49% of the budget. The pattern of revenue and expenditure versus budget was fairly consistent with that of the previous year. Overall revenues are on track to meet or slightly exceed the budget. Compared to last year the same period, actual operating revenues are up by 8%, as shown in Table 2.

TABLE 1 - Year to Date (YTD) Actual as a % of Budget - General Fund

	Adopted Budget FY 2016-17	YTD Actual as of 12/31/2016	% of Budget
Revenues			
Taxes	\$21,870,000	\$12,599,000	58%
<u>Other - Operating</u>	<u>\$8,550,000</u>	<u>\$4,160,000</u>	<u>49%</u>
Total Operating Revenues	\$30,420,000	\$16,759,000	55%
Expenditures			
Personnel	\$19,960,000	\$10,160,000	51%
<u>Other</u>	<u>\$9,140,000</u>	<u>\$4,120,000</u>	<u>45%</u>
Total Operating Expenditures	\$29,100,000	\$14,280,000	49%
Transfer from Capital Fund	\$2,384,000	\$2,224,000	
<u>Contribution to Reserves</u>	<u>\$3,704,000</u>	<u>\$4,703,000</u>	

Expenditures

Operating expenditures for the period were \$14.28M or 49% of the annual budget of \$29.10M (Table 1). The personnel component of these costs was \$10.16M or 51% of the annual budget of \$19.96M. Other operating expenses amounted to \$4.12M or 45% of the budget of \$9.14M. This is less than 50% and is mainly due to the budget for election of \$0.6M and for Other Post-Employment Benefits (OPEB) Funding of \$0.69M that have not been expended. The expenditures include encumbrances of \$155,000 at the end of the period. Overall expenditures are expected to stay within the adopted budget. Compared to prior year same period, operating expenditures decreased by 2% (Table 2). This is due some accounts showing a net reduction including personnel costs, repair and maintenance, utilities, and professional services. The full year's total operating budget was slightly (0.02%) higher than last year's budget.

TABLE 2 - Year over Year Actual Change for General Fund

	YTD Actual as of 12/31/2016	Prior YTD Actual as of 12/31/2015	Increase (Decrease)	% Change
Revenues				
Taxes	\$12,599,000	\$11,670,000	\$929,000	8%
<u>Other - Operating</u>	<u>\$4,160,000</u>	<u>\$3,860,000</u>	<u>\$300,000</u>	<u>8%</u>
Total Operating Revenues	\$16,759,000	\$15,530,000	\$1,229,000	8%
Expenditures				
Personnel	\$10,160,000	\$10,230,000	(\$70,000)	-1%
<u>Other</u>	<u>\$4,120,000</u>	<u>\$4,310,000</u>	<u>(\$190,000)</u>	<u>-4%</u>
Total Operating Expenditures	\$14,280,000	\$14,540,000	(\$260,000)	-2%
Transfer from (to) Capital Fund	\$2,224,000	(\$750,000)	\$2,974,000	
<u>Contribution to (Use of) Reserves</u>	<u>\$4,703,000</u>	<u>\$240,000</u>	<u>\$4,463,000</u>	

Capital Projects

The capital expenditure in the period, as shown in the table 3 below, was \$6.05M of which \$0.96M was from the current year's budget of \$2.74M, and \$5.09M from prior year's encumbered carry over budget of \$6.94M. Of the expenditures \$4.2M related primarily to San Lorenzo Community Park Renovation project. This project is substantially complete and the remaining work is expected to be completed by the end of Quarter Three.

TABLE 3 Capital Projects Status

	Carryover from FY 2015-16	Adopted Budget FY 2016-17	Total
Funding Sources			
Grants, In-Lieu Fees & Others	\$6,935,000	\$7,760,000	\$14,695,000
<u>Transfer to General Fund</u>	<u>\$0</u>	<u>(\$5,020,000)</u>	<u>(\$5,020,000)</u>
Total Capital Budget	\$6,935,000	\$2,740,000	\$9,675,000
Capital Expenditures YTD	\$5,089,000	\$962,000	\$6,051,000
Capital Encumbrances at 12/31/2016	\$1,846,000	\$97,000	\$1,943,000
<u>Remaining Capital Budget</u>	<u>\$0</u>	<u>\$1,681,000</u>	<u>\$1,681,000</u>

Cash Flow

A significant portion of the District's revenues are property taxes that are remitted to HARD by the County mostly in December and April. As a result, the District regularly borrows money to meet the expenses until the next tax payment. This fiscal year the District borrowed \$17 million from the County of Alameda in July in order to meet the cash flow needs pending the receipt of revenues, primarily the December property taxes and reimbursements from grants as well as bond proceeds held by the trustee for capital spending. As of December 31 the District has repaid the County \$10 million as planned, leaving a balance of \$7 million to be repaid. The full repayment is expected to occur in April 2017.

Cash and Investments

At the end of the period the total cash and investments amounted to \$17.1 million (excluding the bond debt service reserve of \$1 million held by the trustee BNY), which included \$6.2 million with Bank of the West, \$9.9 million invested in the County Pool, and \$1 million invested in certificates of deposit with UBS. Please note, against the \$17.1 cash and investment balances there is a \$7 million liability to the County for the balance of the loan as explained above.

Measure F1 Capital Improvement Program

With the passage of Measure F1 by the District voters in November the District is authorized to issue up to \$250 million General Obligation bonds to finance numerous capital improvement projects, which will occur over the next six to eight years. Considering the size of the bond authorization and the time it will take to complete the projects, Staff will be recommending the Board issue the bonds in series to minimize the net interest expense. The law requires the District to reasonably expect to spend 85% of the proceeds of each bond within three years of issue. Therefore, the bond size will be determined by the estimated cost of the projects that can be undertaken over the ensuing three years. The following initial steps have been taken so far with startup of the bond program:

- The bylaws for the bond Oversight Committee have been prepared for Board adoption on February 13, 2017.
- The bond financing and legal team is in place and meeting bi-weekly.
- Work on debt and investment policies has started.
- The tentative bond financing schedule has been prepared, anticipating the first sale to take place in June 2017.
- The recruitment for the Capital Planning and Development Director, who will be the program manager for Measure F1 and a project manager, has begun and the finalists have been selected. This is a limited term position for eight years, the estimated time for the completion of the Measure F1 capital improvements.
- The Board's Bond Startup Ad-Hoc Committee has met to discuss the bylaws for the Oversight Committee. The Ad-Hoc also discussed initial project priorities. A special meeting will be scheduled with the Board in March to provide Staff with official direction on project priorities for the first bond issue. These priorities will then be reviewed with the Bond Oversight Committee to ensure project compliance with the ballot measure.

Over the next several months Staff will need to expend additional funds to support the startup of the bond program, some of which will be reimbursable from bond proceeds. This includes:

- Modifications to create additional office workstations for the project managers and support staff.
- Purchase of additional office furniture, equipment and supplies for new staff and contractors.
- Purchase of additional computers and phones.
- Purchase of project management and project accounting software.
- Additional costs for legal services by District Counsel related to bond issue.

Staff anticipates the additional costs will be covered primarily by budget savings; and any additional amount would come from the budget contingency.

4.2 Draft District Reserve Policy

Executive Summary: The Board of Directors will review a draft Reserve Policy.

Financial Impact: None

Staff Recommendation: Staff recommends the Board of Directors receive the report.

Description of Item: The Board established a strategic goal to update the District's Reserve Policy this Fiscal Year. The purpose of the proposed Reserve Policy is to have adequate designations for reserves, which are funds set aside for various District purposes. Reserves are critical to the successful and stable, short and long-term operation of the District. Adequate reserves ensure that both the public experience the level of service they are accustomed to, and the security that the District at all times will have sufficient funds available to meet its operating, capital and debt service obligations.

Attachment 1 is the District's current "Contingency Reserve Policy" that establishes a minimum level of contingency reserve that is required to be placed in the budget in order to protect the District from sudden unexpected changes in revenues and expenses. At the end of year any remaining contingency is rolled over into the following year's budget as revenue. The new Reserve Policy would deem any remaining contingency as surplus and transferred to the General Fund Reserve. Staff would still include a contingency in the budget to prepare for unforeseen circumstances; however year-end funds would be saved in one of four reserve funds including:

- Cash Flow Reserve
- Operating Reserve
- Liability Reserve
- Capital Replacement Reserve

Attachment 2 is the draft "Reserve Policy" proposed by Staff. At the meeting Staff will review the policy with the Board and seek feedback on the draft policy, as well as how aggressively the Board wants to reach the reserve goals. Staff will bring the policy back at a future Board Meeting for approval by the Board.

4.3 Potential Budget Decision Packages for Fiscal Year 2016-17

Executive Summary: The Board of Directors will discuss potential projects, initiatives and changes in service levels for Fiscal Year 2017-18.

Financial Impact: None

Staff Recommendation: Staff recommends the Board of Directors receive the report and provide direction on what Decision Packages to evaluate for the upcoming Fiscal Year.

Description of Item: Decision packages are a key set of building blocks to construct the annual budget request. The decision package is the place for the District to make a case for any proposed budget changes. Decision packages organize and describe proposed cost changes in a way that highlights and prioritizes the budget decisions. The decision package consolidates financial information, supporting justification and statement of impact for a specific action or policy proposed in the budget. Decision packages should represent significant, discrete decisions.

The purpose of this agenda item will be to get feedback and direction from the Board on what potential projects, studies, initiatives, capital outlay or changes in service levels that Staff should evaluate during preparation of the budget. Therefore, Board Members should come prepared to propose their ideas for potential decision packages. In particular, new initiatives should be focused on the Board's strategy areas that were adopted in April 2016 including:

- Strategic Area 1:** Achieve Fiscal Sustainability
- Strategic Area 2:** Communicate Bond Information
- Strategic Area 3:** Strengthen External Relationships
- Strategic Area 4:** Maintain Workforce Morale
- Strategic Area 5:** Maintain Parks and Facilities to be Safe, Clean and Green

Following the meeting Staff will spend time evaluating the needs, costs and outcomes and report back to the Board for further discussion and prioritization prior to the final adoption of the Budget.

5. OTHER BUSINESS

Brief informational-only reports from the Board of Directors and/or Staff, including Board Member activities, Committee Reports and Reports by the Board of Directors related to meetings attended on behalf of the District or at the District's expense (AB1234).

6. ADJOURNMENT

The next Regular Meeting of the Board of Directors will be held on Monday, February 13, 2017, at 6:30 P.M. at the District Offices (1099 'E' Street, Hayward, CA 94541).

This AGENDA is posted in accordance with Government Code Section 54954.2(a)

NOTICE: DISCLOSABLE PUBLIC RECORDS RELATING TO THE OPEN SESSION AGENDA ITEMS:
Documents that are disclosable public records required to be made available under California Government Code Section 54957.5 (b)(1) and (2) are available to the public for inspection at no charge during business hours at our Administrative Offices located at 1099 'E' Street, Hayward, California.

ATTACHMENT 1

HAYWARD AREA RECREATION AND PARK DISTRICT POLICIES AND PROCEDURES

POLICY 3000: CONTINGENCY RESERVE POLICY

Adopted:

Approved By: _____
Board President

Purpose:

The purpose of this policy is to establish a minimum level of contingency reserve that is required to be placed in the budget in order to protect the District from sudden unexpected changes in revenues and expenses, provide for adequate cash flow and serve as an emergency fund for any unforeseen expenses that may arise.

Policy:

The District will maintain a minimum target for contingency reserves of five percent (5%) of Operating Expenses, with an amount of ten percent (10%) being maintained whenever possible. In addition, the amount may be increased to higher levels as necessary due to economic conditions, natural disaster, or any other circumstance deemed appropriate by the Board.

Responsibility:

During budget preparation the Business Manager will be responsible for placing the appropriate level of contingency reserves into the budget.

ATTACHMENT 2

HAYWARD AREA RECREATION AND PARK DISTRICT DRAFT RESERVE POLICY

PURPOSE OF RESERVE POLICY

Adequate designations of reserves--funds set aside for various District purposes--are critical to the successful and stable, short and long-term operation of the Hayward Area Recreation and Park District (HARD). Adequate reserves for District operations ensure that both the public experience level of service they are accustomed to and the security that the District can respond to unexpected adverse circumstances. Adequate reserves ensure that the District will at all times have sufficient funds available to meet its operating, capital and debt service obligations.

The District manages its working capital in a manner that allows the District to fund expenditure consistent with the adopted budget and that avoids or minimizes borrowing to finance operations. The ability of HARD to maintain reserve funds is a critical factor in providing reliable service, mitigating undue fee increases, and ensuring overall financial strength.

Adequate reserves directly affect the District's bond rating and ultimately the ability to access debt markets at favorable interest rates, thereby ensuring the ability to finance and construct the facilities necessary to meet current and future service level needs.

Classification of Fund Balances in the Annual Audited Financial Reports

The accounting standards as established by the Governmental Accounting Standards Board (GASB) require fund balances/reserves of the District to be classified in a certain manner. These classifications are listed and explained in detail in the ATTACHMENT. The reserves included in this policy will be classified in the annual audit, subject to independent auditor's review, in accordance with the GASB 54 requirements as applicable as noted below.

RESERVES ESTABLISHED BY THE BOARD

These reserves are typically required by GASB to be classified as committed or assigned fund balances in the annual audit (see ATTACHMENT).

Cash Flow Reserve (Committed)

This reserve is for the purposes of providing necessary funds to allow the District to continue operate until the next semi-annual (December and April) property tax installment is received from the County of Alameda. With this reserve, when funded, the District will no longer need to borrow funds each year in order to maintain operations until the next property tax installment is received.

This target for reserve will be \$10M, representing one of property tax installment amount.

The use of this reserve does not require specific Board approval because of the recurring nature of the need that it is intended to meet.

Operating Reserve (Assigned)

The purpose of this reserve is to provide contingency funds to cover shortfalls in revenue, unexpected expenditures, and emergencies. The amount of this reserve shall be three months of operating expenses (excluding depreciation) or \$7.5M based on the 2016-17 operating budget.

The use of this reserve requires Board approval.

Liability Reserve (Committed)

The liability reserve is maintained to meet unforeseen liability costs. This reserve will be maintained at the current \$1M, which is equivalent to approximately one year's liability and workers' compensation insurance costs.

The use of this reserve requires Board approval.

Capital Replacement Reserve (Committed)

This fund pays for the replacement of equipment and for major repairs to facilities. This reserve will be funded with \$1M annual transfer from the General Fund to accumulate funds for this purpose. HARD currently does not have a set aside fund for this purpose and as a result pays for such costs on a pay-as-you-go basis. The downside to the current practice is that maintenance is often deferred that would ultimately be costlier.

The use of this reserve requires Board approval

Guidelines for Use of Funds in Excess of the Budget.

In the absence of specific Board action, staff shall use the following guidelines to allocate discretionary funds that may become available. Any excess funds will be allocated to the following reserves based on how far each reserve is from the target set by this Policy as well as the short term need at the time:

1. Transfer to Cash Flow Reserve until it reaches the Policy limit.
2. Transfer to Operating Reserve until it reaches the Policy limit.
3. Transfer to Liability Reserve until it reaches the Policy limit.
4. Transfer to Capital Replacement Reserve until it reaches the Policy limit yet to be established.
5. Transfer to the Capital Projects Fund for appropriation within the Capital Improvement Program.
6. Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.
7. It is the intent of the Board to limit use of reserves to address one-time needs.
8. Reserves shall not be used to fund recurring annual operating expenditures.

RESERVES MANDATED BY LAW OR CONTRACT

These reserves are required by GASB to be classified as "Restricted" fund balances in the annual audit (see ATTACHMENT).

Capital Reserve (Restricted)

The purpose of this reserve is to hold funds that are intended for Capital projects. The funds come from sources such as contributions from other agencies, grants, developer contributions and impact fees, or bond proceeds. This fund is spent solely on capital expenditures over the current or future years' capital budget.

This Capital Reserve is drawn down annually as needed to fund the capital budget. At the end of each fiscal year any unspent budgeted capital amount will be carried forward and used in the following year's capital budget until the related projects are completed.

The use of this reserve requires Board approval.

Debt Service Reserve (Restricted)

This fund is governed by legal bond covenants for the District's revenue bonds. Bond covenants require that this fund be maintained at a level sufficient to fund up to maximum annual debt service payments. These funds are held by the bond trustee during the term of the bonds and are to be used in the event that the District is unable to meet its required semi-annual debt service obligation. Reserve funds for each revenue bond issue will be used to make the last two semi-annual debt service payments for that

issue. Annual interest earnings on bond reserve funds shall be applied to each year's debt service payments.

The use of this reserve is specified in the bond documents that require Board approval at the time of the bond issuance.

Unassigned Reserves

Unassigned reserves represent a remainder balance of fund balance that is not yet designated or set aside for some use by the Board of Directors.

SUMMARY

The reserve fund policy states that reserves will be maintained to allow for funding of the District's cash flow, operating, capital, and debt service obligations, as well as funding for unforeseen events. Reserves will be established, replenished, and used only in a manner which allows the District to fund costs consistent with the approved operating and capital budgets. The District's reserve fund policy shall be periodically reviewed and adjusted to meet the needs of the District.

EXHIBIT A TO DRAFT RESERVE POLICY

Classification of Fund Balances/Reserves in the Annual Audited Financial Reports

The accounting standards as established by the Governmental Accounting Standards Board (GASB) require fund balances of the District to be classified as follows:

Nonspendables represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by resolution of the Board which may be altered only by resolution of the Board. Nonspendable amounts subject to Board commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board or its designee and may be changed at the discretion of the Board or its designee. This category includes encumbrances; Nonspendables, when it is the District's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed. Through a Board Resolution, the Board has designated the General Manager to determine the amount of assigned fund balances.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.