



CITY OF
HAYWARD
HEART OF THE BAY

DATE: June 10, 2008

TO: Mayor and City Council

FROM: Debra C. Auker, Director of Finance

SUBJECT: Introduction and Public Hearing of the Operating Budget for FY 2009 and FY 2010, and the Capital Improvement Budget for FY 2009 through FY 2013 for the City of Hayward and the Hayward Redevelopment Agency; the preliminary FY 2009 Master Fee Schedule; the FY 2009 Gann Appropriations Limit; the PERS Two-Year Additional Service Credit Enhancement; and Other Agreements

RECOMMENDATION

Following public testimony, that the City Council reviews and comments on the Operating Budget for FY 2009 and FY 2010 and other related items. These items are contained in the recommended City of Hayward Operating Budget, the Five-Year Capital Improvement Program (CIP), and other attached documents. Comments from Council will assist staff in the preparation of the necessary resolution to implement Council budget decisions for action on June 24, 2008.

BACKGROUND

Adoption of the Annual Budget is outlined in Article XII of the City Charter. The Charter requires the City Manager to submit an annual budget to the City Council, at which time the Council shall schedule a noticed public hearing prior to adoption of the budget. For the past few years, the City's practice has been to present a two-year operating budget to the Council. Because of the Charter's requirement for annual budget adoption, the first year is adopted as the annual budget and year two is considered to be a spending plan. A two-year operating budget yields a number of benefits, not the least of which is the ability to develop priorities over two years rather than a single-year period. In addition, substantial staff time is saved with respect to the preparation of a budget in the second year. These two factors, alone, have made the two-year operating budget a success for Hayward.

The City held several Council work sessions prior to the official public hearing. These meetings are listed below:

Tuesday, May 20, 2008, 4:30pm to 7pm <i>City Hall Council Chambers</i>	Review Priorities, Initiatives and Service Delivery Outcomes in FY 2009 and FY 2010 Operating Budget
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Thursday, May 22, 2008, 4:30pm to 7pm <i>City Hall Council Chambers</i>	Continuation of Review Priorities, Initiatives and Service Delivery Outcomes in FY 2009 and FY 2010 Operating Budget
Tuesday, May 27, 2008, 4:30pm to 7pm <i>City Hall Council Chambers</i>	Continuation of Review Priorities, Initiatives and Service Delivery Outcomes in FY 2009 and FY 2010 Operating Budget and Capital Improvement Program (CIP)

DISCUSSION

Budget Overview - As noted in the City Manager's Budget Message (See Attachment A), this budget brings a focus on service delivery outcomes that are directly linked to the City Council Priorities and the three supporting Initiatives implemented by management.

Council Priorities

- Crime and Public Safety
- Cleanliness
- Organizational Health
- Land use and Sustainability
- Fiscal Stability

City Manager Initiatives

- * Neighborhood Services Initiative
- * Fiscal Stability Initiative
- * Organizational Change Initiative

The details of these Council Priorities and Initiatives can be found in the front section of the budget, on the City website (<http://www.hayward-ca.gov>), and posted in various locations within City facilities.

For FY 2009, the operating budget represents expenditures and transfers of \$206 million for all City funds. Of this total, \$117 million is in the General Fund; \$55 million is in the Enterprise Funds; with the balance distributed between the City's Special Revenue, Debt Service, and Internal Service Funds.

General Fund – FY 2009 General Fund expenditures and transfers to other funds are budgeted at \$117 million, which includes \$93 million for employee services; approximately \$19 million for supplies, services and maintenance; and \$5 million in transfers. These costs are offset by \$117 million in revenues and transfers from other funds, to provide a balanced General Fund budget. As noted in the budget message, this budget contains many one-time sources of revenue and \$6.8 million in operating savings that are expected to be obtained through the PERS early retirement enhancement program and other cuts to employee services.

Redevelopment Agency – The Redevelopment Agency (RDA) budget can be found within the Community & Economic Development Department. The FY 2009 RDA budget includes \$15 million in program expenditures and \$7 million in transfers to other funds for RDA eligible costs

and debt service on outstanding tax allocation bonds. The FY 2009 RDA resources include \$13 million in new tax increment revenues and the use of reserves.

Ten-year Financial Plans – The budget document includes draft ten-year financial plans for the major operating funds of the City, including the General Fund. Obviously, it is impossible to precisely predict revenues, expenses, etc. through a ten-year period of time. Assumptions are necessary to achieve planning at any reliable level. However, without planning, the City will find itself in a reactionary mode of operation that addresses only the most immediate needs rather than looking beyond the day-to-day tasks. The City Council reviewed the ten-year financial plans at a work session on June 10th.

Capital Improvement Program (CIP) - For FY 2009, the capital improvement budget represents expenditures of \$78 million. Of this total, \$29.7 million is for utility projects; \$41.7 million is for road and street projects; \$3.3 million is for livable neighborhood projects, including pedestrian and landscape projects; with the balance distributed between the airport, internal services, and miscellaneous projects. The City Council reviewed the CIP budget at a work session on May 27, and the Planning Commission previously reviewed the CIP on May 8th and confirmed that it is consistent with the City's General Plan. The City Manager's message related to the CIP is attached for your reference as Attachment B. Also attached as part of Attachment B are revised summary pages for the Airport Capital Improvement Fund – Fund 632. The change is due to a \$30,000 increase in the Airport Layout Plan Update project based on the recently negotiated consultant contract. The issue of the necessity of the Administrative Building, which is in the latter part of the CIP schedule, will continue to be evaluated. In the final CIP, Livable Streets Projects will be renamed Livable Neighborhoods.

City Council Comments related to Priorities, Initiatives, and Service Delivery Outcomes – During the three Council work sessions to review the recommended budget, Council members made several observations and comments. The comments that require changes to the draft budget document will be incorporated into the final published Adopted Budget and are summarized for Council review as Attachment C.

Community Promotion Program – On April 8th, the Council discussed the grants to be provided to various community groups under Community Promotions funding. There seemed to be consensus in several areas including adding two additional activities: the Dr. Martin Luther King Jr. Celebration Committee (\$2,000 requested in both FY 2009 and FY 2010), and the Cinco de Mayo Mexican Independence Program (\$2,800 requested in both FY 2009 and FY 2010). Adding these two groups will increase the total grant funding by \$4,800, bringing the total funding to \$139,800 for each year. This amount is available in the General Fund – Mayor and City Council budget. Approximately five programs, and up to \$65,000, may be able to be funded by the Redevelopment Agency. The Council has requested that a review committee be assigned to assist with making recommendations for future funding, based on set criteria. Staff will establish this process for the next Community Promotions cycle.

Social Services Grant for 2-1-1 Program – On May 6th, the Council discussed the social service grants to be provided to various community groups. There seemed to be consensus in several areas, including providing funds to an additional program: the Eden Information and Referral 2-

1-1 Program. The draft budget includes an additional \$27,750 in the FY 2009 Social Services allocation and \$50,000 for FY 2010 to fund the 2-1-1 program. This is listed independent of the social services grant allocation from General Fund reserves.

Resolutions and Other Agreements

PERS Two-year Additional Service Credit Enhancement - On May 23, 2008, the Council approved a two-year additional service credit provision to the City's contract with the California Public Employees Retirement System (PERS) for miscellaneous (non-safety), police, and fire employees.

Due to our current financial situation and in an effort to avoid mandatory transfers, demotions, and layoffs, staff will be requesting Council to approve at the June 24, 2008 Council meeting, a resolution to open two window periods. The first period from July 1, 2008 to September 30, 2008 and the second period from October 1, 2008 to December 31, 2008. The resolution will offer the enhancements to many miscellaneous and safety classifications as outlined in detail at Attachment D.

The cost associated with providing employees with two additional years of service credit if they retire during the designated periods will be included in the City's PERS employer contribution rates for the fiscal year that begins two years after the end of the designated period, which will be FY 2011. Based on PERS' cost formula, the percentage increase to the employer rates if all eligible employees were to retire during the two open window periods would be as follows:

Miscellaneous	1.480
Police	0.505 (1 st Window Period)
Police	0.130 (2 nd Window Period)
Fire	0.778 (1 st Window Period)
Fire	0.398 (2 nd Window Period)

While PERS requires that the City disclose the total maximum potential liability, staff does not anticipate that every eligible employee will retire during the two open window periods. Based on a review of the eligible employees, it is anticipated that approximately 20% of the eligible employees from each of the retirement groups will actually retire during the open window periods. Based on this assumption, it is anticipated that the percentage cost increases will be:

Miscellaneous	0.296
Police	0.101 (1 st Window Period)
Police	0.026 (2 nd Window Period)
Fire	0.156 (1 st Window Period)
Fire	0.081 (2 nd Window Period)

By offering these two open window periods, the City anticipates saving 6% (approximately \$3.8 million) in salaries and benefits annually for miscellaneous employees, 2% (approximately \$600,000) in salaries and benefits annually for fire employees and 1% (approximately \$500,000) in

salaries and benefits annually for police employees. These savings are well in excess of the minor additional cost associated with the retirement incentive.

Repayment Agreement between the Redevelopment Agency and the General Fund – In 1975, the City Council entered into a revolving loan agreement, in which the Redevelopment Agency (RDA) borrowed money from the City General Fund to fund redevelopment projects. As of June 2007, the loan balance has grown to \$11 million. To date the City has not implemented set repayment terms or collected interest on this loan. However, since the RDA has sufficient tax increment revenue to support redevelopment projects, pay debt obligations on Tax Allocation Bonds, and make payments to the General Fund, the City will amend this repayment agreement to establish the following terms:

1. Beginning in FY 2008, the RDA will make annual payments to the General Fund in the amount of \$800,000 on July 1 of each fiscal year.
2. Beginning July 1, 2008, interest will accrue on the remaining balance at the LAIF stated interest rate. The interest accrued will be added to the principal balance outstanding annually.

The City Council will adopt a resolution amending this repayment agreement at the June 24th Council meeting.

Loan Agreement between the General Fund and the Route 238 Housing Fund – In order to minimize the reduction in service levels during this time of reduced revenues, the General Fund will borrow \$5 million each fiscal year from the Route 238 Housing Fund, for a total of \$10 million. The General Fund contributed \$5 million to fund housing and relocation needs related to the Route 238 Bypass, which is no longer planned by the California State Department of Transportation (Caltrans).

The terms of this non-interest bearing inter-fund borrowing include repayment beginning in FY 2012, based on the General Fund's ability to pay. In the event that the City participates in meeting any identified replacement housing and relocation needs of existing Caltrans tenants the amount remaining in the Fund, along with possibly funds from the RDA Low and Moderate Income Housing Fund will be available. As appropriate in the next few years, Council will be asked to review and amend the repayment terms of the inter-fund borrowing agreement as necessary.

Master Fee Schedule - The City is in the process of reviewing user fees to determine the true cost of providing City services. The results of this fees study will be presented to the City Council on July 22. The fee study does not include a review of utility related fees, and airport fees; therefore, these fees are included in the budget adoption process for your consideration. The details of these proposed fees are listed as Attachment E. No changes are proposed for wastewater usage charges or water usage charges. The fees are for water installation and account-related services, wastewater system permitting and monitoring, stormwater inspection activities, and development plan review. The methodology used to calculate these fees is based on the cost of staff productive hours and overhead expenses. Any changes that the Council may

wish to make as a result of the public hearing will be incorporated into the Master Fee Schedule and reflected in the June 24 agenda report.

Gann Appropriation Limit – As the Council will recall, the Gann Limit, or State Proposition 4 approved by California voters in November 1979, places limits on the amount of revenue that can be spent by government agencies. The limit is based on actual appropriations during FY 1979 (the “base” year) and is increased each year using population and inflation growth factors. The limit for FY 2009 is \$216 million. The City’s recommended annual budget has been far below the limit each year, which is the case again for FY 2009. The Gann Limit is attached for your reference as Attachment F.

FISCAL IMPACT

The FY 2009 Operating Budget includes a total appropriation of \$206 million, of which \$116 million is appropriated from the General Fund. City-wide resources include \$175 million in current revenues, \$24 million in transfers, and the use of \$7 million in special or enterprise fund reserves.

<i>(\$'s in millions)</i>	General Fund	All Other Funds	City-wide Total
FY 2009 Resources:			
Current revenues	\$103	\$72	\$175
Transfers in from other funds	\$13	\$11	\$24
Use of reserves	\$0	\$7	\$7
FY 2009 Expenditures:			
Operating costs	(\$111)	(\$78)	(\$189)
Transfers to other funds	(\$5)	(\$12)	(\$17)
Total (net change)	\$0	\$0	\$0

The General Fund operating budget for FY 2009 is balanced, and does not require the use of reserves. However, even though the City has taken many steps to manage spending diligently and conservatively over these next two years, several measures used to balance the budget are not sustainable and do not provide long term relief of the ongoing General Fund structural deficit. These short-term measures include two years of internal borrowing and the use of other one-time funds. Also, some employee groups, including Firefighters IAFF – Local 1909, Fire Management, Police-HPOA, Police Management, and other unrepresented employees have agreed to lower future salary increases, saving the City \$2.5 million in FY 2009 and \$4 million in FY 2010. This savings will go towards reducing the \$6.8 million and \$8.5 million operating savings targets identified in FY 2009 and FY 2010, respectively.

The table below reflects the General Fund reserves estimated for FY 2008 and FY 2009.

<i>(\$'s in millions)</i>	FY 2008 General Fund End of Year Estimate	FY 2009 General Fund Recommended Budget
Reserved Payable Obligation	\$628	\$628
Economic Uncertainty	\$7,000	\$7,000
Liquidity	\$3,500	\$3,500
Hotel Conference Center	\$1,250	\$1,000
Retirement Reserve		\$1,122
Police Staffing	\$1,000	\$1,000
Contingencies	\$872	
Total	\$14,250	\$14,250

NEXT STEPS

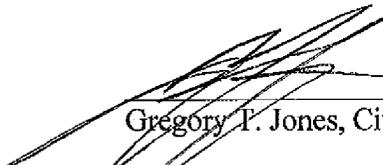
Public Hearing and Adoption of the Budget – The purpose of the June 10 public hearing is to provide an opportunity for the Council to receive testimony from the public on the FY 2009 Operating Budget for the City of Hayward and Redevelopment Agency, the FY 2009 Improvement Project Budget, the FY 2009 Master Fee Schedule, the FY 2009 Gann Appropriation Limit, and other related items.

Prepared by:



Debra C. Auker, Director of Finance

Approved by:



Gregory P. Jones, City Manager

Attachments:

- A – Budget Message by City Manager
- B – CIP Budget Message by City Manager
- C – Summary of Council Changes from Budget Work Session
- D – Classifications eligible for PERS Two-Year Additional Service Credit Enhancement
- E – Master Fee Schedule Changes
- F – Gann Appropriation Limit

The draft FY 2008 and FY 2009 Operating Budget is available in the City Clerk’s Office, at the Main Library, and on the City website.



May 9, 2008

Honorable Mayor and City Council:

This year, I am presenting a two-year budget that makes significant changes in both how we manage financial planning as well as how we align our resources for service delivery. This budget represents major changes in the organization's structure, as well as a much different approach to achieving ongoing financial stability for the organization.

The budget document itself presents some significant changes, consistent with previous City Council direction through adopted programmatic priorities:

- The budget brings a focus on outcomes, including specific matrices that relate departmental outcomes to Council priorities and initiatives. Rather than focusing on expenditures, this budget serves as a policy document that articulates objectives and expected outcomes from meeting those objectives.
- Internal service funds are included along with their commensurate charges for service back to the operating departments. This is a first step in beginning to identify the true costs of providing services. This effort will be further refined in coming years, and will ultimately manifest itself in the development of a true performance-based budget in FY 2010.
- Draft Ten-Year Financial Plans are included to begin to show the longer range financial picture of various funds. They will service as roadmaps for future financial decision making.
- Departmental reorganizations are reflected within the budget structure. As previously described to Council in a work session, we are reorganizing some of our key service delivery program areas to more effectively deliver service. These changes include the realignment of various programs to form the new Department of Maintenance Services, the new Department of Library & Neighborhood Services, and the Department of Technology Services, which becomes a stand-alone department rather than being under the City Manager's Office.
- Some charges previously included in a somewhat vague "non-departmental" budget are now being allocated to more appropriate department/program areas.

As always, if there are changes in presentation that make the budget more understandable, please bring them to our attention. The budget should be a dynamic document that serves the Council and staff in carrying out our responsibilities. Any suggestions you might have will be much appreciated.

Earlier Actions

First, I want to acknowledge the previous actions taken by the City Council and staff that have provided the City fiscal strength. The foresight that put aside a healthy financial reserve has given the organization time to evaluate how best to move forward in the coming budget cycle. Without this foresight, the City would be in the position of having to make much more painful decisions about service reductions that would significantly impair our ability to serve the community. The City was fortunate to have had such strong and skilled leadership in the past. We begin this difficult process from a solid foundation moving into the future.

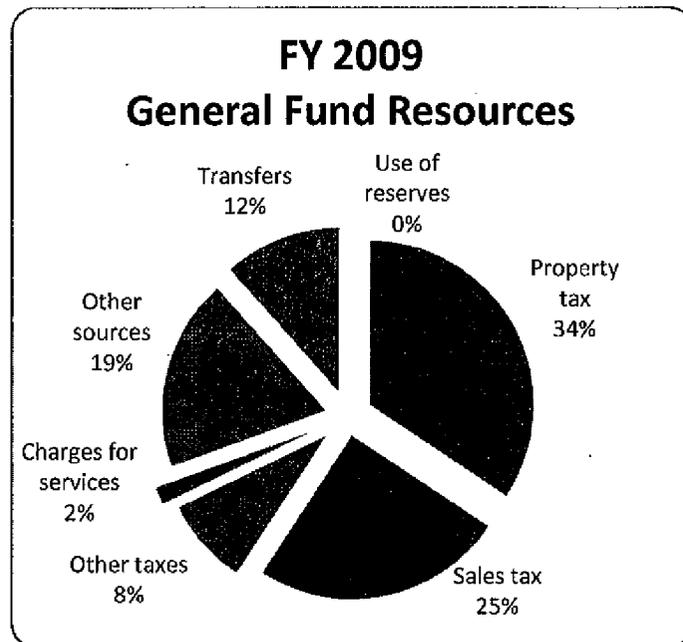
However, as we entered into this budget development process, it became painfully evident that we had a significant structural General Fund deficit that needed to be addressed. Our current level of expenditures, when compared to our decreasing revenue, was not sustainable, and both sides of the deficit had to be addressed: we had a projected \$14.5 million deficit for next fiscal year if all things remained the same.

In January 2008, immediate steps were taken to control FY 2008 expenditures, develop a realistic picture of FY 2008 revenues, and implement and communicate a response plan to Council. As part of the plan, expenditures were slowed significantly and staff began immediately assessing ways of enhancing our revenue picture, including (1) cost recovery in certain areas, (2) updated fee structures, (3) strengthening enterprise functions, and (4) looking at alternative funding sources other than the General Fund to support operations. A hiring freeze was placed on most General Fund positions.

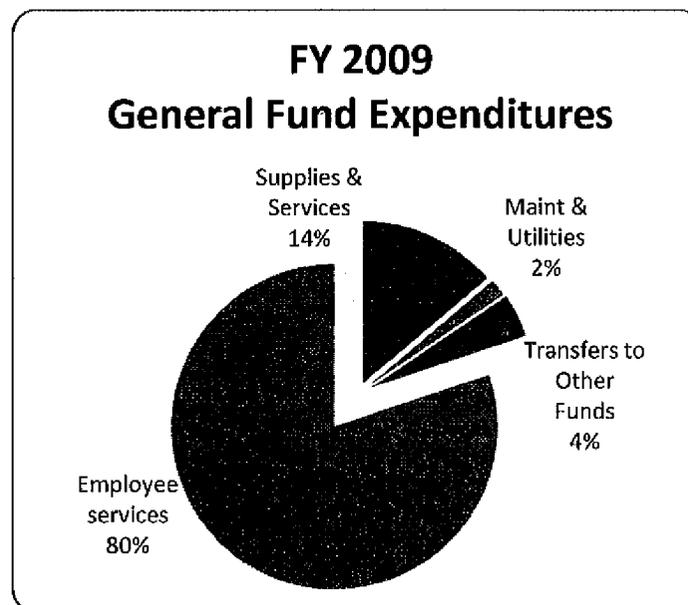
Staff was challenged to immediately begin identifying areas where innovation and creativity, process improvements, and elimination of non-value-added tasks could provide more efficiency. The Innovations Task Force was created for this specific purpose and has reviewed over two hundred ideas and suggestions in support of this effort. Estimated positive impact of these early actions is estimated to have reduced our use of reserves by approximately \$1.5 million in the last four months of the fiscal year. As a result, we are able to close FY 2008 year in better condition than originally projected at the start of this budget process; and to proactively manage the next two-years and beyond.

The FY 2009 budget recommendations include a balance budget, with revenue and transfer into the General Fund equaling expenditures and transfers out to other funds. The FY 2009 budget plans for no use of reserves for operational expenditures. A portion of current reserves (approximately \$1.1 million) is set aside for one-time costs related to employee vacation and sick leave payouts. Estimated use of reserves in FY 2008 is \$9.3 million.

The chart on the next page reflects the components of the \$116.5 million General Fund resources budgeted for FY 2009. Property tax and sales tax are two major sources of revenue, making up 59 percent of the total General Fund resources.



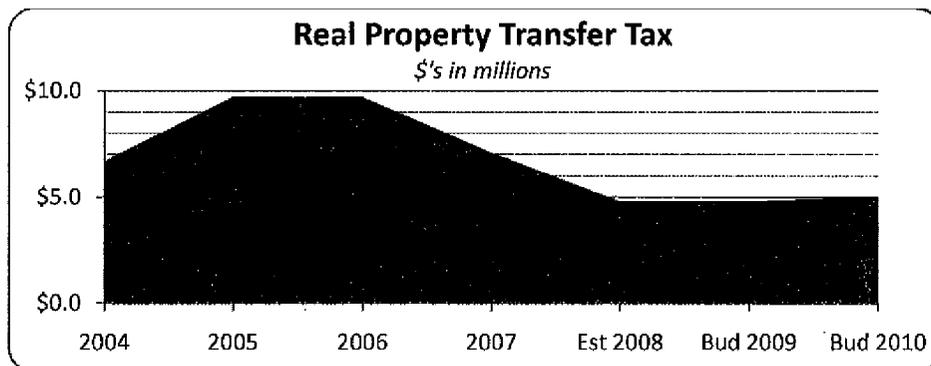
The majority of the FY 2009 General Fund expenditures, or 80 percent of the \$116.5 million, are designated for employee services, which is not surprising since the City is a service organization.



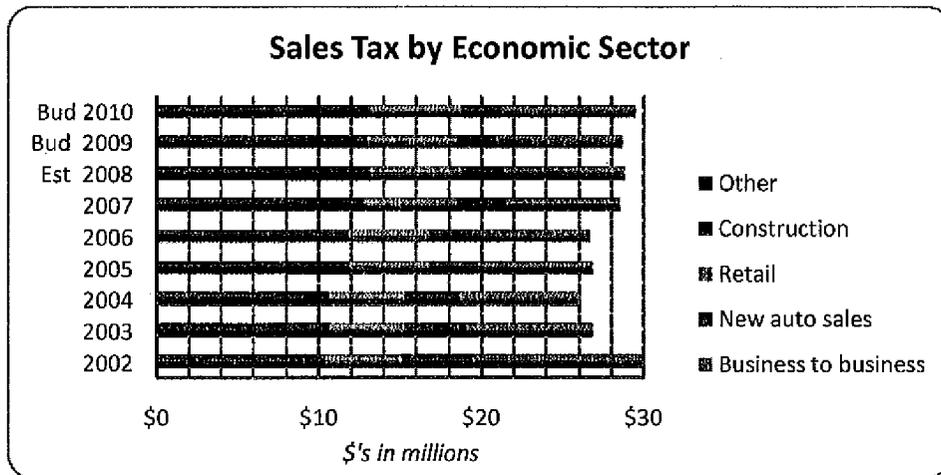
THE CHALLENGES

Economic conditions in Hayward are providing both challenges and opportunities for the upcoming budget. Three elements have hit our community very hard: the precipitous drop in the housing market, the steep decline in new car sales, and in business-to-business sales.

Hayward was in a dynamic growth mode related to housing, with 2800 housing units in the pipeline over the two fiscal years covered by this budget. The loss of momentum in the housing market due to the subprime mortgage crisis almost stopped both housing sales and new construction. This negatively affected both real property transfer tax (RPTT) revenue and business-to-business sales tax, most of which is related to construction materials in our community. As noted in the chart below, RPTT revenues are down from a high of \$9.7 million in FY 2005 to an estimated \$4.8 million in FY 2008. The housing slowdown has also impacted our collection of development fees, which directly support costs related to many of our staff employed to process development applications, conduct building inspections, and perform related work.



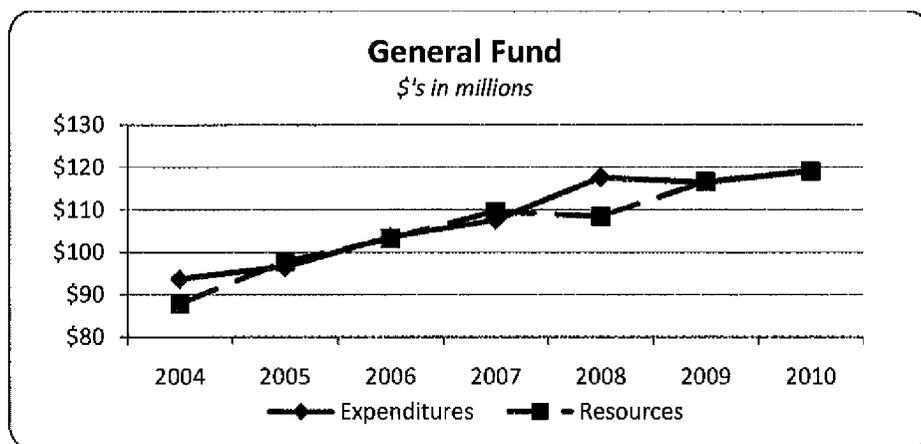
The City's economic improvement efforts have been somewhat successful, showing an overall strengthening of our sales tax, mostly through the addition of a Target Store and other retail. Further focus and effort in economic development is needed to maintain and improve Hayward's competitive industrial advantage in the area, as well as to expand the commercial/retail service needs for our residents. Recent Council approval of the South of Hwy 92/Legacy project is a prime example of the type of development the City should be pursuing and supporting, providing a balance of housing and retail space that supports the needed services and produces additional revenues and economic activity.



The chart above reflects a fairly flat trend in sales tax revenues, with FY 2008 revenues of \$28.9 million slightly less than FY 2002 revenues of \$30 million.

The economic picture is not expected to improve in this two-year budget period. Particularly troublesome is the extended financial market problems that have limited home-buying opportunities for lower income and first-time home buyers and the continuing threat of economic recession that could further impact economic activity in general.

While managing the dynamics of this economic picture has been, and continues to be challenging, it has also provided opportunity for the organization to look creatively at resource realignment, improved financial planning, and business process improvement. The goal continues to be to minimize the impact of our budget challenges on our community while ensuring we continue to deliver needed services. The following chart reflects the immediate crisis, as well as the positive impact of our current actions, and the stabilizing effect of our move to long-term financial planning: expenditures and resources are brought into alignment and systems are in place to prevent future similar resource disparities.



Finally, we really don't have any indications from the State regarding what actions they may be taking in the near future to balance their budget. Deficit estimates range from \$8 billion to \$14 billion. Regardless of the magnitude, there is no doubt the State will be looking far and wide for ways to balance their budget. Historically, Cities and Redevelopment Agencies have become unwilling participants in their plans. While there have been legislated protections implemented to stem their ability to do so, we need to remain vigilant on this issue and be prepared to respond, as necessary.

THE PLAN

Short-term solutions break the cycle of reacting to the immediate crisis only to create another crisis. We need to plan for the future in order to be ready for the unknown. In that regard, I have implemented three (3) major initiatives to help the organization prepare for and manage the future to avoid the "crisis-reaction-crisis" syndrome. These initiatives articulate and activate Council's vision in a strategic manner, and are targeted at fiscal stability, positive organizational change, and strengthened neighborhood services.

Fiscal Stability Initiative

Consistent with the Fiscal Stability Initiative introduced in January of this year, the following financial management tools were implemented in this two-year budget to strengthen the City's ability to manage the current economic crisis, and to better anticipate and absorb or "flatten" the negative effects of future economic fluctuations:

- Long-range, 10-year financial planning
- Providing a balanced budget that does not rely on the use of designated reserves, but rather begins to systematically develop and sustain these reserves at levels in line with Council policy and in response to city obligations
- Establish internal service funds to operate and maintain internal operations including vehicles, buildings, and technology
- Establish an integrated Ten-Year Capital Improvement Program (CIP) beginning in FY 2010 that is presented with the overall City budget, and which includes projected operating costs that are included in the Ten-Year Financial Plans approved by Council

Long-range planning: As part of this budget development process, all General Fund departments and Enterprise funds were required for the first time ever to complete a 10-year projection of revenues and expenditures. This assisted staff in identifying dangerous escalations in costs going out into the future; to identify an on-going structural deficit that could not be off-set solely by an improving economy; and to begin to plan for long-term programmatic resource needs. Long-range planning provides us early indicators of future problems. It also helps staff describe the long term financial impacts of decisions made today. Without this information, the impacts of financial decisions "accumulate" over time with often disastrous consequences.

This long range planning approach also provides a mechanism to evaluate "what if" scenarios, such as, what would the financial impact of opening a particular facility be and how will we ensure adequate funding over the long term? What would be the ongoing cost of adding police

officers on a permanent basis and how can we modify expenditures to support additional staff? What operating changes would be required to fund these and other organizational service-level directions?

Council will be provided a clearer understanding of impacts of these alternatives on a long-term basis. Likewise, if resources aren't immediately available, future added revenues can be earmarked in advance for use in a future year of the financial plan.

The financial plan will be referenced in communicating to the community so that as resources become available in the future, the plan will allocate resources to an identified purpose. This commitment assures the community of two things: first, that the City recognizes the "need" in advance; and two, that there is a plan in place to provide resources that support the identified need, if not immediately, then in the future. These two concepts must go hand-in-hand, or planning becomes just an exercise.

Internal Service Funds: As outlined in the Fiscal Stability Initiative, internal service funds have been established for technology services, facilities, and fleet management to better manage capital replacement needs, develop reserves, and identify these operating costs in each department and program. The cost centers for these services have been shifted to the General Fund so that each program is now correctly charged a technology, facilities, and vehicle service charge, if applicable. The reality is that over \$6.5 million has been moved out of the General Fund, but will be charged back to the General Fund and all other funds as these services are utilized by departments and programs. These changes are reflected in the *Supplies & Service* budgets of each department.

City Reserves: The Fiscal Stability Initiative includes adopting critical fiscal policies that will be presented and recommended to Council with the Budget. These policies include criteria for achieving a balanced budget each year and setting goals for strengthening the City's reserves for unforeseen circumstances, capital replacements, and long-term liabilities. The internal service funds will begin to generate capital replacement reserves beginning in FY 2011. The City also must recognize the long-term liabilities associated with *other post employment benefits* (OPEB); therefore, in FY 2009 the City will establish a retiree medical benefits trust fund in order to begin to set aside funding for these future benefit obligations, which the City currently pays annually based on actual costs. This is the first step in pre-funding the OPEB obligation, which is outlined in Governmental Accounting Standards Board (GASB) Statement No. 45. Finally, the proposed budget contemplates using designated reserves only for employee leave payouts related to the early retirement incentive program. This use of reserves is appropriate as a "one time" cost, rather than using reserves to fund ongoing operations.

Integrated Capital Improvement Program: The City will develop a Ten-year Capital Improvement Program (CIP) in FY 2010. The budgets in the CIP will identify all operating costs and long-term obligations associated with each project. Funding for these ongoing costs will be outlined in each project plan. The City and the Redevelopment Agency (RDA) will leverage available assets in a planned approach so that resources are available for necessary capital and infrastructure improvements on a consistent and planned timeline.

Economic Development: As was discussed above related to the impact of the economy on our ability to deliver services to the community, it is critical that the organization continue to look for opportunities to expand our industrial, retail, and commercial economic bases. To further this effort, I am recommending the addition of an Economic Development Manager position that will further focus our Economic Development efforts, revisit our Economic Development Strategic Plan, work on Hayward's "branding" efforts, and serve as an ombudsman for business applicants within our development process to expedite and facilitate commercial applications that support our business community. This position will be funded partially by the General Fund and partially from RDA funds.

In addition, I am recommending the allocation of \$100,000 to conduct a thorough outside audit and process analysis of our current building permit/development review process. Having a predictable, reliable, and efficient process will help those who want to do business in Hayward do so as smoothly and timely as possible. Our "open for business" sign needs to be polished up and displayed proudly. Improving the reception prospective businesses receive from the City is a key element of building such a reputation. This review will be managed from the City Manager's Office.

Organizational Change Initiative

City staff must reflect the change the community is trying to accomplish. To bring about needed culture change, Staff introduced the Organizational Change Initiative. The organization has a lot of work to do internally before we can provide superior services to our external customers in a manner consistent with community expectations and standards. A number of current cultural norms need to shift for the organization to be able to respond to our changing demands for service. And of course, we need to continue to provide service while in the midst of these changes: we can't close up shop to reinvent ourselves.

A shift in culture doesn't happen overnight, just as the changes we see in our community's needs didn't happen overnight. Leadership's job is to create conditions that allow the organization to become an outcome oriented, performance based, customer driven organization.

I don't believe our current organizational structure supports the needs of the community in the most effective way. Therefore, I am proposing a shift in organizational structure to better align our limited resources in support of this initiative by reallocating existing resources to create two new departments: Library & Neighborhood Services and Maintenance Services. The new structure and the associated personnel and supporting resource shifts are described in the respective department budgets. I believe this is the first of several organizational structure changes that will need to occur over the next few years to better support the needs of the community. As a baseline for our service development efforts, the City will be having a scientific survey of residents conducted in the coming year to determine their satisfaction with City services so we can shift our effort appropriately in response the community desires.

We also need to increase accountability within the organization. The Management Achieving Performance System (MAPS) has been implemented for all department heads, and will be rolled out to the rest of managers in the coming year. This performance planning and evaluation

system will link departmental goals to Council's priorities and initiatives, as well as link interdepartmental efforts to further outcomes.

Employee task forces, similar to the Innovations Task Force that is already underway, will work on developing an organization Mission, Ambitions, and Values statement. Another task force will focus on Customer Service to redefine our views on who our customers are and how we can serve them better.

Neighborhood Services Initiative

The third key initiative in support of Councils priorities is the Neighborhood Services Initiative. We have made some significant progress in connecting with our customers, particularly in our neighborhoods, but more, much more, needs to be done in this area. Even while we face significant financial challenges in our General Fund, we must find ways to provide resources to strengthen our neighborhood services programming. This focus will move the community much faster in its efforts to improve livability, making Hayward more attractive for the private investment required to strengthen our local economy.

Associated with neighborhood livability, are our efforts to improve the physical appearance of neighborhoods and commercial corridors: if it looks like nobody cares, nobody will, and conditions quickly decline. An area that is cared for is less apt to deteriorate and tends to attract investment. We need to be facilitators at one end of the spectrum in helping those who will partner with us and enforcers on the other end of the spectrum when voluntary compliance fails.

Improved Neighborhood Response: The new organizational structure identified above will assist the organization to better respond to neighborhood concerns related to quality of life issues (e.g., cleanliness, landscaping, repaired streets and sidewalks, traffic mitigation) and to public safety concerns. Through this proposed budget and the focusing and shifting of resources, the Library & Neighborhood Services Department will have increased resources to conduct Code Enforcement activities, with emphasis on neighborhoods and critical corridors within the City.

Consistent with Council's priorities related to neighborhoods and cleanliness, a new team dedicated to commercial corridors will be established. Additional code enforcement staff will provide strengthened enforcement activities both in these corridors as well as in neighborhoods. The new Neighborhood Services Division will also include a Neighborhood Partnership Manager position to enhance the City's ability to connect to our neighborhoods and develop leadership potential among residents.

The Hayward Police Department's upcoming strategic plan will be more community oriented with an emphasis on improved presence in the neighborhoods and a geographic orientation toward service delivery. This will improve connections between the department and residents, as well as increase accountability among staff. A specific program to address chronic "problem properties" within the community has been developed and will receive continuous support organization-wide for more sustainable impact. A significant area of concern to our residents, this tool will provide the City a means to address the pleas for help we receive at City Hall on a regular basis.

Establishing Neighborhood Partnerships: Neighborhood Partnerships have been forged to varying degrees with Fairway Park, Schafer Park, Eden Gardens, Mt. Eden/Palma Ceia-West, and other neighborhood areas. We have many other neighborhoods awaiting the same level of attention and interaction. Staff, in concert with the Mayor and Council, has developed the beginnings of a “neighborhood partnership model” to enhance communication with neighborhoods so that they are active partners in maintaining community livability standards and independence. This will become an even stronger programmatic focus in the next two years.

Public Art: I am proposing that the City establish a defined “public art” program to assist in defining and branding the City, and to create additional ambiance and character in the City, starting in the downtown. I am recommending the allocation of \$90,000 from the RDA budget to initiate this program in the first year. In the future, staff will also be developing recommendations regarding requirements to include public art in capital and commercial projects to support public art efforts and improve aesthetics in the community.

Measures for a Balanced Budget

We began the budget development process with a projected \$14.5 million deficit for next year, and \$16.5 million for year two of the upcoming budget cycle. Below is a description of the combination of additional mechanisms being used to bring this budget into balance.

In addition to the steps described above, we have taken several steps to assure that not only do we close out FY 2008 as balanced as possible, but that we also manage diligently and conservatively this next two years, and plan specifically to assure that the structural deficit is eliminated in the out years. By taking these measures, we gain needed time to realign resources toward priorities, find better ways of delivering services, increase our residents' satisfaction with the services we currently provide; and, hopefully, in June 2010 or sooner, gain community support for a revenue measure to strengthen the City's long-term fiscal picture.

I need to be clear: some of these measures are not sustainable and do not provide long term relief of our ongoing structural deficit. However, they are being recommended as a means to provide us additional time to shift resources in a planned way, rather than in a reactionary way.

On the expenditure side of the equation, departments were asked to submit expenditure reduction recommendations. These recommendations have been incorporated into the proposed budget. Other actions to reduce the employment costs of the organization are being taken.

Employee Contributions: Hayward Fire Department IAFF, Local 1909, the Hayward Police Officer's Association, Fire Management, Police Management, and the unrepresented employees have answered the challenge by agreeing to lower future salary adjustments, saving the City \$14 million dollars plus over the next four years. These savings will give the organization time to catch its breath and stop the deterioration of the budget over the short term. The savings total over \$2.5 million in the first year of the budget and \$4 million in the second year of the budget.

Retirement Incentive Program: I am also recommending that Council provide a retirement incentive as allowed under Public Employees Retirement System (PERS) law, which provides

two years of service credit to those otherwise eligible to retire. There are some immediate costs related to an employee's retirement, such as payout of sick leave and vacation leave which will be funded from current reserves; however the cost of the retirement enhancement itself is amortized over the expected lifetime of the retiree and included in our future employer contribution rates to PERS. Rates, however, are not impacted for two years after the incentive is offered. Rate impacts are generally negligible.

The savings derived from this program will be realized by freezing positions vacated to the fullest extent possible for the next two-year budget. Positions that are re-filled also realize some temporary cost reductions as new employees are generally brought in at a lower pay rate. The savings goal of offering this incentive is \$4 million per year, which will likely result in the freezing of approximately 35 positions organization-wide.

Layoffs: The presented budget includes no layoffs of existing employees. A commitment has been made that no public safety sworn positions will be reduced in this budget based on the savings realized through salary concessions. It is possible that layoffs will be necessary in other parts of the organization, dependent upon the success of the early retirement program. If employee reductions become necessary, staff will bring recommendations back to Council later in the fiscal year to meet the savings goals necessary to balance the remaining period of the two year budget. It is also likely that I will be bringing to Council additional reorganizations of services over the next two years for both the purpose of efficiencies and service level enhancements.

In total, the employee savings goal is \$6.5 million in the first year of the budget, and \$8.5 million in the second year of the budget. If we are able to meet these savings targets through negotiated salary reductions in combination with the freezing of positions vacated under the early retirement incentive program, layoffs can be averted for the time being.

Inter-fund Borrowing: The City currently has within the General Fund a sub-fund originally established as a mechanism to meet the City's previous obligation to provide relocation housing to those who would be ultimately displaced by the Route 238 Bypass Project. This fund was originally established under a certain legal framework in place at the time. The City continues to work with the California State Department of Transportation (Caltrans) and other interested parties on this issue; however the City's ultimate financial obligation to this process is expected to result in something significantly less than the balance of funds in the sub-fund.

I am recommending that the General Fund borrow \$5 million per year from this fund to maintain service levels in the short term. Further, I am recommending a loan agreement be made between the Redevelopment Agency(RDA) obligating housing set aside funds (current and/or future) as the basis for repayment to repay the loan when and if it is necessary in support of housing relocation/replacement agreements. The loan agreement will be brought forward as part of the overall budget approval process. Committing RDA set-aside funds for debt repayment in this fashion will provide some level of protection from their being "raided" by the State, which has been threatened in past State budget crisis, and may well be suggested this coming year.

Loan Repayment: The RDA has a long-term debt obligation to the General Fund due to previous borrowing from the General Fund by the Agency. This debt is in the range of \$13 million.

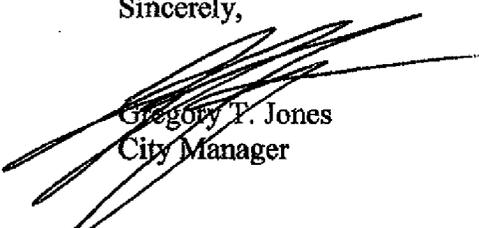
However, to balance the RDA's goals with the repayment of the debt, I am recommending the amortization of the loan over the next roughly 15 years. This will result in a debt service payment from the RDA back to the General Fund of approximately \$800,000 per year.

TRANSMITTAL AND THANKS

A great deal of work and organizational commitment has gone into developing this budget for presentation to you. I want to thank the employees who willingly contributed their salary increases back to the City; the staff members, who have put in long hours to work out the complex details of this budget package; and the entire organization for their commitment to the continuation of service delivery to the Hayward community. I particularly want to thank Fran David, Assistant City Manager, Debra Auker, Finance Director, Budget Administrator, Denise Blohm, and the entire Finance Department for their tireless work in pulling the document together from basic numbers to the completed budget book you see before you.

This has been an incredibly challenging budget to put together. Every effort has been made to maintain service levels, even in the face of significantly reduced revenue levels. I am proud to present and recommend to you the City of Hayward's FY 2009 & FY 2010 two-year budget for your consideration and adoption.

Sincerely,



Gregory P. Jones
City Manager



April 17, 2008

Honorable Mayor and City Council:

This letter serves to transmit the Five-Year Capital Improvement Program (CIP) for your consideration. The City Council will review this document during a work session later this month. Beforehand, the Planning Commission will have reviewed the document for conformance with the General Plan.

The draft before you contains description sheets for each current project, as well as identified future projects. In addition, an overview of program changes is offered in the "Project Changes and Modifications" section beginning on page 11.

Since the FY08 CIP represented the second year of a two-year planning cycle and only served to update the Council on existing projects, the CIP for FY09 includes a number of new projects that are planned for next year and beyond. It should be noted that the FY09 CIP also includes several new funds that will be described in greater detail later in this letter. Fund 454, the Tax Increment Bond Fund, has existed for some time, but is now included to consistently report all major capital projects to include those that are Redevelopment Agency funded. Fund 721 is the new Facilities Internal Service Fund, created to better address long-term maintenance needs for the City's buildings and associated structures. Finally, new Fund 726, which is the Technology Internal Service Fund, will serve the same purpose in addressing the City's Information Technology needs. Unlike in previous two-year budget cycles, development of next year's CIP document for FY10 will not just be an update, but will represent a new approach, as City staff will bring to Council a 10-year CIP in an effort to provide a longer-term view that looks to anticipate and address various needs throughout the community.

The CIP submitted for your consideration responds to direction provided by the City Council, specifically with an emphasis on upgrading the City's overall appearance and working with residents to identify areas that are in need of improvement. To this end, several of the highlighted projects address those needs, as well as the City's continuing efforts to upgrade Hayward's infrastructure, consistent with Council's priorities and adopted staff initiatives.

As mentioned above, improvements to the City's appearance is a high priority and reflected through several projects. In the Street System Improvements Fund, a project was created that will allocate \$260,000 per year to fund median landscape improvements. To better manage the City's urban forest, a project has been added using Gas Tax funds that will provide the Landscaping Division

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with a software program to better track and add to the City's inventory information regarding street trees. As a result of this program and associated inventory efforts, Landscaping staff can better respond to areas that are either without trees or in need of replacements. Additional funding is also provided for tree planting. The net effect is that the City's urban forest will be more easily managed and staff will be able to enhance some median and landscape areas along the sides of City streets that presently have empty planter strips. Another project that will support the neighborhood initiative is the Neighborhood Improvement Project. \$100,000 has been budgeted each year of this CIP to be able to address specific neighborhood needs identified by the community, such as traffic calming devices and lighting improvements. The addition of these new neighborhood improvement projects as well as initial funding of the two internal service funds rely on revenue derived from two surplus land sales, which are anticipated to occur during FY09 and FY10. However, it must be acknowledged that due to the unsettled economy and the housing market, the developers may delay or withdraw their interest in acquiring these properties. If this indeed happens, staff will need to adjust project expenditures accordingly. Work also continues towards the design and construction of a new library. The preliminary design is scheduled to be completed and reviewed by the Council and the community in FY09. With the planned donation of \$10 million from Calpine and \$5 million from Salem Communications, the City should be in a good position to establish a funding foundation from which to pursue bond or alternate funding for construction of the new library.

Another component of improving the City's appearance has to do with upgrading the City's infrastructure. Over the past several years, the CIP has made a concerted and successful effort to support the Council's goals and objectives related to livable streets and maintaining public infrastructure. As noted earlier, the newly created internal service fund will exclusively address the improvements and upkeep of many of the City's buildings, such as Centennial Hall, the Police Department, and various fire stations. Some of the more prominent projects in this fund include HVAC upgrades, roof repair and replacement, and the replacement of emergency generators. Another newly-established internal service fund will address the aging information technology infrastructure at the City's facilities, including the replacement of aging desktop computers and other business technology needs.

The City's sidewalk rehabilitation program includes \$4.5 million in projects through FY13 and will continue to cycle through the City's street-tree districts to repair damaged sidewalks consistent with Council-adopted policies for the program. Approximately 15% of each sidewalk rehabilitation project is dedicated towards installing trees or improving the landscaping in the project area. A more recent program, which provides for the installation of new sidewalk along roadways that are near schools or are along heavily traveled pedestrian thoroughfares, will be expanded during this five-year CIP with a total funding of approximately \$2.7 million over the next five years. In addition, ADA-accessible sidewalk ramps also continue to be a point of emphasis, with annual projects totaling in excess of \$600,000. These and other expenditures designed to benefit and encourage pedestrian and other non-vehicular activity are highlighted in the Livable Streets section of the CIP.

Projects related to upgrades of the City's system of streets and roadways are well-represented within the CIP; much of the funding towards this effort is derived from federal and local sources such as Gas Tax, Proposition 42, and Measure B. Proposition 1B, a bond that was

approved by the voters in 2007, will provide the City with approximately \$4.7 million over the next three years for street-related projects. Both the reconstruction and rehabilitation of the City's streets continue to be major priorities with approximately \$30.5 million scheduled to be spent over the next five years. As Council may be aware, due to the State's budget crisis, the Governor declared a fiscal emergency and as part of this emergency the State will withhold Gas Tax payments to cities and counties from April through August 2008. While the City is expected to receive the total amount of the withheld payments during September, the delay will create temporary cash flow issues within the Gas Tax Fund and payment is not necessarily guaranteed even in September. City staff has evaluated both revenues and expenditures within this fund and have developed a contingency plan that would delay the quarterly transfer of Gas Tax revenue to the General Fund from June to September, allowing the City to continue work on all pavement-related projects during the summer months. One of the major street rehabilitation projects scheduled for FY09 and FY10 involves street improvements in the Old Highlands Homeowners Association (OHHA) neighborhood of Hayward. The project is dependent on homeowners' approval of an assessment district, but the City is able to provide funding towards this project in an amount exceeding \$2 million as a result of the added Proposition 1B and Proposition 42 funding.

Besides the regular, ongoing projects that are committed to maintaining the City's streets and roads, a couple of major transportation improvement projects are scheduled to commence within the coming fiscal year. The first project, which is the first phase of the 880/92 Reliever Route project, includes construction of the West "A" Street and Whitesell Street extensions. The project will cost approximately \$25 million and is anticipated to be completed by FY13; funding for this project will be wholly provided through Measure B funds administered by the Alameda County Transportation Improvement Authority (ACTIA). The second major project is the Route 238 Corridor Improvement Project. In FY07, the City Council adopted the Final Environmental Impact Report and approved this project. Staff's efforts will now be directed towards developing the detailed design for the improvements and right-of-way acquisition, which is expected to take approximately two years to complete. Construction expected to commence during the latter part of FY10.

As noted earlier, the CIP now includes capital improvement projects that are located in the City's redevelopment area. Funded primarily through tax allocation bonds, two of the major projects currently under construction include the new Burbank school and improvements to and the expansion of Cannery Park. Both of these projects are expected to be finished before school opens to students in August of this year.

Water distribution and wastewater collection, treatment, and disposal are essential parts of any municipal infrastructure system and are also addressed in the CIP. Notable sewer capital improvement and water pollution control facility projects scheduled to begin next year include the conversion of an existing gravity thickener into a fourth primary clarifier to provide for additional needed treatment capability; rehabilitation and seismic retrofit of the existing trickling filter to ensure reliability; and enclosure of the treated effluent conveyance channel to the East Bay Dischargers Authority pump station. Also significant is the Solar Panel Feasibility/Design project which will look at the possibility of adding solar panels over part of the City's treatment ponds. This project has the potential to further reduce the carbon footprint of our wastewater treatment

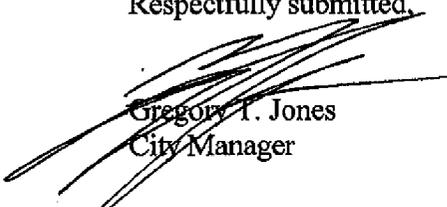
processes. Other sewer-related projects allow for various improvements to the City's sewer system, most notably sewer line replacements to ensure adequate hydraulic capacity or renovation of old pipelines.

Major water system projects will focus primarily on the replacement and renovation of existing storage reservoirs to increase storage capacity in certain zones and to improve the reliability of the structures. Design is expected to start on the replacement of two reservoirs: 1) replacement of the 1-million gallon Highland 1000 Reservoir off of La Mesa Drive with a new 2-million gallon structure; and 2) a 3-million gallon replacement for the existing 1-million gallon High School Reservoir above City Center Drive. In addition, the Highland 250, D Street, and Maitland reservoirs are scheduled to undergo a seismic retrofit during FY09 and FY10. The new reservoirs and retrofit work address seismic concerns and storage needs identified in previous studies.

The Airport Fund continues to include funding for numerous upgrades to the City's Airport per the adopted Airport Master Plan. Many important projects are scheduled over the course of this five-year CIP, with several expected to occur over the next two years. One such project, an update to the Airport Layout Plan, is necessary to better reflect FAA Runway and Taxiway design requirements for future projects. Another project in FY09 will reconstruct the existing ramp between the west t-hangar buildings. Funding is provided in FY09 to take advantage of an opportunity to bid on a used airport crash rescue vehicle for use at Fire Station No. 6. In order to meet requirements of changing aircraft use at the Airport, it is anticipated that a new project will be needed in FY10 to address safety areas off the end of the existing runway. By FY12, work will commence on a new administration building, as well as a new exit taxiway and the construction of an apron. All told, expenditures at the Airport will exceed \$12 million through FY13. Much of the funding for these projects will come from projected Federal Aviation Administration (FAA) grants under the Airport Improvement Program as well as transfers from the Airport operating fund.

On the whole, the FY09-FY13 CIP makes a concerted effort to take into consideration the priorities of both the City Council and the needs of the residents of Hayward, specifically as it relates to improving both the appearance of the community and upgrading significant portions of the City's infrastructure. As noted previously, future editions of the CIP will take a future-looking view into the overall needs of the community, thereby allowing for better planning and use of resources towards successfully implementing and reaching long-term goals. Attached to this letter is a summary of the key assumptions (Attachment A) that were used in preparing the Five-Year CIP. The staff and I look forward to discussing projects and issues embodied in this capital plan.

Respectfully submitted,



Gregory I. Jones
City Manager

Attachment A - Assumptions

ATTACHMENT A

FY09 Five-Year Capital Improvement Program Working Assumptions

1. Interest Rates: Rate of return on existing fund balances - 1% for FY09, 2% for FY10, 3% for FY11, and 4% for FY12 & FY13.
Projected interest rate on City borrowing - based on current market information - 4.0% per year.
2. Construction Inflation Rate: 4% per year.
3. Monies received from Gas Tax, which includes Proposition 111 (Gas Tax), have been escalated by 1% for FY09, 2% for FY10, 3% for FY11, and 4% for FY12 & FY13. Transfers to the General Fund from the Gas Tax Fund to support eligible expenditures will increase by \$750,000 per year in FY09 and FY10; commencing in FY09, the transfer to the General Fund will be reduced by \$30,000 per year to offset the addition of the New and Replacement Streetlights project, an annual project which was previously in Fund 422 and financed through a "transfer in" from the General Fund.
4. As noted in Assumption 3, transfers of Gas Tax Fund monies to the General Fund will increase by \$750,000 in FY09 and FY10, to \$2,103,000 and \$2,116,000 respectively; after eliminating the increase to the transfer in FY09 and FY10, future years of the transfer to the General Fund will increase by 1% per, resulting in a transfer of \$1,392,000 in FY13.
5. Based on projections provided by the Alameda County Transportation Authority, anticipated revenue from the Measure B program is assumed to be \$1,869,000 in FY08 and \$1,871,000 in FY09 (an increase of less than 1 percent); future increases are estimated at 2% in FY10, 3% in FY11 and 4% in both FY12 and FY13.
6. Monies received from the Measure B Non-Motorized Fund for pedestrian and bicycle improvements are assumed to be \$398,000 in FY08 and \$400,000 in FY09 (an increase of less than 1 percent); future increases are estimated at 2% in FY10, 3% in FY11 and 4% in both FY12 and FY13.
7. Increase transfer by \$260,000 per year from the Route 238 Trust Fund to the Street System Improvements Fund in FY09 through FY13 to support the new Median Landscaping Improvement Project.
8. The City's share of monies received from Proposition 1B, a bond measure which provides funding to cities for streets and roads improvements, will amount to approximately \$2.38 million each in FY08 and FY10.
9. The Governor's Traffic Congestion Relief Program (TCRP) established under Proposition 42 was suspended during FY08 but is expected to be funded once again during FY09 at an annual amount of \$1.42 million; funds received under this program will be applied towards street

maintenance projects. The budget assumes this level of funding will continue, uninterrupted, beyond FY09.

10. Reduced transfer of \$220,000 in FY09 and FY10 and continuation of the \$350,000 per year transfer from the General Fund to the Transportation System Improvement Fund in FY11 through FY13 is assumed and provides funding for transportation projects.
11. Although not shown as a specific project since PG&E will fund the work, use of an estimated \$7.2 million in Rule 20A monies allotted to the City will allow for completion of the undergrounding of utilities on Mission Boulevard from Sycamore Avenue to Arrowhead Way which will be completed as part of the Route 238 Corridor Improvement Project. Based on Rule 20A allocations to date, it is projected that this will use our allocation through the year 2012.
12. The Street Lighting Fund will be discontinued starting in FY09 and the remaining annual project related to new and replacement streetlights will be funded out of the Gas Tax Fund. As a result, the remaining leftover balance at the end of FY08 (approximately \$320,000) will be transferred back to the General Fund, which was the primary source of revenue for the projects in this fund. The net result of this restructuring is that the General Fund will realize a per-year savings of \$290,000, which was the amount of the annual transfer into Fund 422 minus the Gas Tax adjustment.
13. Planned transfers from the sewer and water operating funds to the capital funds allows for critical capital projects identified in the Sewer and Water System Master Plan Updates, plus the Water and Sewer Seismic Study, to be accomplished.
14. Continued transfers from the Airport Operations Fund provide funding for Airport Capital Improvement Projects identified in the Airport Master Plan.
15. Two new funds have been established for FY09 -- the Facilities Internal Service Fund and the Technology Services Internal Services Fund. Both funds will initially rely on transfers in from the Capital Improvement Fund, as all of the projects were previously located in this fund. The amount of the transfer will equal the proposed amount of expenditures (per year). Future funding will come from service fee revenue. Adequate on-going funding sources remain to be identified.
16. The Program reflects expected cash flow in future program years and Council appropriations carried forward in the current year.

AIRPORT CAPITAL IMPROVEMENT FUND - FUND 632

PROJ. NO.	PROJECT DESCRIPTION	PROJ. TOTAL	PRIOR YEARS	EST FY08		FY09		FY10		FY11		FY12		FY13	
				Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.	Rev.
6891	Miscellaneous Pavement/Building/Grounds Repairs	585	N/A	85		100		100		100		100		100	
6898	Noise Monitoring Equipment Upgrade	350	50	50		50		50		50		50		50	
6893	New Exit Taxiway "Foxtrot"	1,700	0	0		0		1,700							
	<i>(AIP 16) FAA</i>	1,500						1,500							
NEW	Runway Safety Area Improvements	1,700	0	0		0		1,700							
TBD	Corsair Executive Apron Phase I-Construction	1,250	0	0		0		0		1,250					
	<i>(AIP 17) FAA</i>	1,100								1,100					
TBD	Relocate Taxiway Zulu - Construction	1,947	0	0		0		0		0		1,947			
	<i>(AIP 18) FAA</i>	1,706										1,706			
NEW	New Administration Building - Design	309	0	0		0		0		0		309			
TBD	Install Runway End Identifier Lights 10L/28R	350	0	0		0		0		0		0		350	
	<i>(AIP 19) FAA</i>	332													332
TBD	Relocate/Pave West Perimeter Service Road	700	0	0		0		0		0		0		700	
	<i>(AIP 19) FAA</i>	665													665
NEW	New Administration Building - Construction	1,753	0	0		0		0		0		0		1,753	
	TOTAL PROJECT COSTS			2,638		1,778		3,580		1,430		2,436		2,983	
	TOTAL EXPENDITURES			2,638		1,778		3,580		1,430		2,436		2,983	
	REVENUES:														
	Interest				135		27		33		37		58		34
	Reimbursements				1,200		150		1,650		1,100		1,706		997
	Land Sale (Rigatoni's)				261		0		0		0				
	REVENUE SUBTOTAL:				1,596		177		1,683		1,137		1,764		1,031
	TRANSFERS IN FROM:														
	Fund 631 (Airport Operation Fund)				600		700		700		700		700		700
	TRANSFERS SUBTOTAL:				600		700		700		700		700		700
	REVENUE TOTALS:				2,196		877		2,383		1,837		2,464		1,731
	BEGINNING FUND BALANCE:				3,599		3,157		2,256		1,059		1,466		1,494
	ENDING FUND BALANCE:				3,157		2,256		1,059		1,466		1,494		242

Summary of Council Changes to Service Delivery Outcomes from Budget Work Sessions

City Attorney

1. Add "Risk Management Services" to the Liability Insurance program core services.

Community and Economic Development

1. Add "Provide staff support for Economic Development Committee and the Downtown Committee" to departmental core services.
2. Add service delivery outcome for FY 2009 to "Update the HIRE Economic Indicators Report."

Police

1. Add service delivery outcome for FY 2009 to "Complete a contract with CALEA by December 2008 to begin the three-year law enforcement accreditation process."

Technology Services

1. Add service delivery outcome for FY 2009 to "Replace our existing Reverse 911 system."

PERS TWO YEAR ADDITIONAL SERVICE CREDIT ENHANCEMENT – ELIGIBLE CLASSIFICATIONS

On May 23, 2008, the City added a two year additional service credit provision to the City's contract with the California Public Employees Retirement System (PERS) for miscellaneous (non-safety), police and fire employees. Due to our current financial situation and in an effort to avoid mandatory transfers, demotions, and layoffs, at the June 24, 2008 Council meeting, staff will be requesting approval of a resolution to open two periods, in which the eligible employees may retiree with enhanced retirement benefits.

The first period is from July 1, 2008 to September 30, 2008 for the following classifications:

- All PERS miscellaneous classifications (non-safety) in the following organizational units:
 - City Attorney Department
 - City Clerk Department
 - City Manager Department
 - Community and Economic Development Department/Administration Division
 - Community and Economic Development Department/Building Division
 - Community and Economic Development Department/Planning Division
 - Finance Department
 - Fire Department
 - Human Resources Department
 - Library and Neighborhood Services Department/Administration Division
 - Library and Neighborhood Services Department/Library Services Division
 - Library and Neighborhood Services Department/Neighborhood Services Division
 - Maintenance Services Department
 - Police Department
 - Public Works Department/Administration Division
 - Public Works Department/Engineering and Transportation Division
 - Technology Services Department
- Administrative Secretary and Technical Assistant in the Mayor and Council Department
- Administrative Analyst I, Administrative Analyst II, Administrative Analyst III, Administrative Clerk I, Administrative Clerk II, Administrative Secretary, Airport Maintenance Worker, Electrician I, Electrician II, Maintenance Worker, Secretary, Senior Secretary, Storekeeper, and Water Meter Reader in all Departments
- Utility Worker in Public Works/Water Collection Division
- Police Sergeants, Police Lieutenants, Police Captains and Police Chief
- Fire Marshal, Fire Captains and Fire Inspectors

The second period is from October 1, 2008 to December 31, 2008 for the following classifications:

- Police Officers and Inspectors
- Firefighters and Apparatus Operators

City of Hayward

PROPOSED MASTER FEE SCHEDULE CHANGES

Effective July 1, 2008

Each year, staff reviews the master Fee Schedule to ensure that the various fees and service charges are appropriate and within State Guidelines. This year, the City is in the process of reviewing user fees with the assistance of outside experts, to determine the full cost of providing City services. The results of this fees study will be presented to the City Council on July 22. The fee study does not include a review of utility related and airport fees; therefore these fees are included in the budget adoption process for your consideration. No changes are proposed for wastewater usage charges or water usage charges. The affected fees are for water installation and account-related services, wastewater system permitting and monitoring, stormwater inspection activities and development plan review. The methodology used to calculate these fees is based on the cost of staff productive hours and overhead expenses. Any changes that the Council may wish to make as a result of the public hearing will be incorporated into the Master Fee Schedule and reflected in the June 24 agenda report.

The details of these proposed fees are listed below:

WATER FEES

Various water service fees have be updated to reflect FY 2009 hourly and overhead rates. The types of water-related fee adjustments included in this effort are for service installations and account and payment delinquency activities.

Water Service Installations - Water installation fees are charged for the field work that must be performed by City crews to install new water meters and service lines. Meter and service line fees for this service were last adjusted in FY 2007. The proposed adjustments range from 15% to 24% and primarily reflect updated employee service costs.

Manifold Service - With the exception of a 5/8" x 5/8" meter on a 1" service line, fees for this service have not been reviewed for a number of years, at least since the mid-1990s, and hence the fee calculations result in substantial percentage increases ranging up to 120%, depending on the size, with most of the increases in the neighborhood of 50%. Fees are proposed for installation of up to 2-inch service lines with two meters. Services that require a larger line or more than two meters would be charged on a time and materials basis. Manifold services are not installed very often; thus this fee is rarely used.

Meter Sets on Existing Services - As with manifold services, the fees for meter sets only have not been addressed since the mid-1990s. The proposed fees have been calculated based on the current level of effort required, and the equipment and materials costs, and result in adjustments ranging up to 50%. In one case, the installation of a 3/4" meter set, the cost is actually

decreased, and there is very little change in the 1” meter. Over the last two years, about 150 meters, 2” or smaller, have been installed each year.

Miscellaneous Water Fees - Miscellaneous water fees cover a range of services associated with account establishment, payment delinquency, and meter accuracy testing. The fees were last adjusted in FY 2007; however, in order to reduce the impact on customers, adjusted fees did not full recover the City’s costs. The fees proposed have been updated with FY 2009 salary and overhead rates and are presented with the amount that represents full cost recovery.

WASTEWATER FEES

Various wastewater-related fees, associated with discharge permitting and inspection and sampling activities, have been updated with FY 2009 salary and overhead rates. Most the fees listed below were last updated in FY 2007.

Wastewater Discharge Permits - Permit fees recover the costs of issuing and maintaining wastewater discharge permits, issued to industrial customers who have potential to significantly impact the wastewater system. The City currently has about 100 permitted users, and the permits have durations of one to five years. The proposed fees increases range from 19% to 49%. The higher percent increases are related to fees for which full cost recovery was not achieved previously.

Compliance Inspection and Sampling - Fees have been established for inspection and sampling activities performed in response to wastewater discharge violations or at the request of customers. Work involved in these services may include setting up and processing additional wastewater samples, meeting with industries to discuss the source of the violations and possible remedies, evaluating plans to correct violations.

Stormwater Inspections - One of the requirements of the City’s permit to discharge stormwater into public waters is to perform inspections of industrial and commercial facilities with potential for non-stormwater discharges. Fees are charged for this activity according to the type of facility. A fee is also charged for inspection of stormwater treatment measures implemented in new development projects. The fees have been updated with FY 2009 salary and overhead rates, and vehicle and supplies costs have been added.

Development Plan Review - A new fee is proposed to recover the costs of Water Pollution Source Control (WPSC) review of development plans. Typically WPSC reviews plumbing plans for various types of facilities, ensures that adequate wastewater monitoring structures are included, and makes a determination regarding permitting requirements. The proposed fees reflect the typical level of effort required for most industrial, commercial and residential projects.

AIRPORT FEES

See attached memo.

**Water Distribution and Account Establishment Services
Proposed 2009 Fees**

	Proposed Fee	Current Fee	% Change	Reasons for Change
Water Service Installations				
Meter Size/Service Line				Increased staff costs
5/8" x 3/4"	\$2,880	\$2,510	15%	
3/4" x 3/4"	\$2,880	\$2,510	15%	
3/4" x 1"	\$3,230	\$2,710	19%	
1" x 1"	\$3,230	\$2,710	19%	
1" x 1 1/2"	\$4,000	\$3,220	24%	
1 1/2" x 1 1/2"	\$4,000	\$3,220	24%	
1 1/2" x 2"	\$4,300	\$3,610	19%	
2" x 2"	\$4,300	\$3,610	19%	
Larger than 2"	Actual Cost	Actual Cost		
Manifold Service				Increased staff costs
5/8" x 5/8" meter/1" service	\$3,940	\$3,100	27%	
3/4" x 3/4" meter/1" service	\$3,980	\$1,810	120%	
1" x 1" meter/1 1/2" service	\$4,050	\$2,720	49%	
1" x 1 1/2" meter/2" service	\$4,210	\$2,720	55%	
1 1/2" x 1 1/2" meter/2" service	\$4,370	\$2,880	52%	
1 1/2" x 2" meter/2" service	\$4,500	\$2,880	56%	
2" x 2" meter/2" service	\$4,620	\$4,520	2%	
More than 2 meters	Actual Cost	Actual Cost		
Meter Sets Only				Increased staff costs
5/8"	\$180	\$120	50%	
3/4"	\$200	\$300	-33%	
1"	\$310	\$300	3%	
1 1/2"	\$470	\$420	12%	
2"	\$580	\$420	38%	
Larger than 2"	Actual Cost	Actual Cost		
Miscellaneous Services				
Account Establishment	\$35	\$25	40%	Increased staff costs
After-Hrs Meter Activation	\$60	\$60	0%	Increased staff costs
Meter Lock	\$70	\$45	56%	Increased staff costs
Meter Removal	\$70	\$45	56%	Increased staff costs
Meter Test up to 1 1/2"	\$60	\$45	33%	Increased staff costs
Meter Test 2" or larger	\$260	New Fee		Increased staff costs

(Prep 5-12-08)

**Water Pollution Source Control
Proposed 2009 Fees**

	Proposed Fee	Current Fee	% Change	Reasons for Change
Wastewater Discharge Permits				Increased staff costs
Categorical - New	\$1,970	\$1,440	37%	
Categorical - Renewal	\$1,340	\$960	40%	
Categorical - Amendment	\$510	\$420	21%	
Non-Significant Categorical - New	\$1,480	\$1,140	30%	
Non-Significant Categorical - Renewal	\$1,050	\$810	30%	
Non-Significant Categorical - Amendment	\$450	\$370	22%	
Non-Categorical - New	\$1,260	\$1,010	25%	
Non-Categorical - Renewal	\$910	\$610	49%	
Non-Categorical - Amendment	\$370	\$305	21%	
Groundwater - New	\$660	\$550	20%	
Groundwater - Renewal	\$400	\$335	19%	
Groundwater - Amendment	\$240	\$200	20%	
Non-Sewered Credit - New	\$360	\$300	20%	
Non-Sewered Credit - Renewal	\$360	\$300	20%	
Special Purpose (One-time)	\$350	\$290	21%	
Inspection and Sampling				
Composite Sample (w/ Lab Costs)	\$530	Act Cost	New Fee	Cost of requested samples
Composite Sample (w/o Lab Costs)	\$270	Act Cost	New Fee	Cost of requested samples
Grab Sample	\$170	\$50	240%	Increased staff costs 4 hrs lab time (previously billed separately)
Violation Follow-up Sampling (w/Lab Cost)	\$530	\$175	203%	Increased staff costs
Violation Follow-Up Sampling (wo/Lab Cost)	\$270	\$175	54%	Increased staff costs
Violation Follow-up Inspection	\$310	\$225	38%	Increased staff costs
Compliance Schedule	\$620	\$390	59%	Increased staff costs
Sampling Equipment Fee	\$25	N/A	New Fee	Cost of requested samples
Stormwater Inspections				Increased staff costs
Industrial (under State Permit)	\$170	\$125	36%	
Industrial (not under State Permit)	\$130	\$95	37%	
Restaurant	\$120	\$85	41%	
Commercial	\$100	\$70	43%	
Stormwater Treatment Measure	\$250	\$190	32%	
Development Plan Review				
Industrial	\$150	N/A	New Fee	Costs of plan checks
Commercial	\$80	N/A	New Fee	Costs of plan checks
Residential	\$40	N/A	New Fee	Costs of plan checks

HAYWARD EXECUTIVE AIRPORT

Master Fee Schedule for FY 2009

The following are the proposed airport's Master Fee Schedule for FY 2009:

1. Monthly and Daily Fees for Aircraft Parking and Storage

Fee Description	Current Fee FY 2008	Recovery Cost	Proposed FY 2009
a. Hangar Space:			
Row "A" Hangar	\$214.00	N/A	\$ 214.00
T-Hangar	300.00	N/A	300.00
Large T-Hangars	412.00	N/A	412.00
Exec	750.00	N/A	750.00
Executive Hangars	977.00	N/A	1,080.00
b. Storage Rooms:			
Small	63.00	N/A	63.00
Medium	80.00	N/A	80.00
Large	154.00	N/A	154.00
Extra Large	196.00	N/A	196.00
c. Tiedowns:			
Single-Engine 3,500 lb less than 40 ft	60.00	N/A	60.00
Twin-Engine 12,500 lb less than 50 ft	75.00	N/A	75.00
12,501 lb - 25,000 lb more than 50 ft	108.00	N/A	108.00
25,001 lb - 75,000 lb	161.00	N/A	161.00
Excess if 75,000 lbs.	216.00	N/A	216.00
d. Transient Overnight Tiedowns:			
Single-Engine 3,500 lb less than 40 ft	5.00	N/A	5.00
Twin-Engine 12,500 lb less than 50 ft	7.00	N/A	7.00
12,501 lb - 25,000 lb more than 50 ft	10.00	N/A	10.00
25,001 lb - 75,000 lb	23.00	N/A	23.00
Excess if 75,000 lbs.	29.00	N/A	29.00
Lighter-than air Airships	20.00	N/A	20.00

- e. Effective July 1, 1997, a late charge of \$15.00 or 5% of the monthly rent per month whichever is greater, shall be assessed if rent is not paid within ten (10) days of its due date (does not apply to daily rent).
- f. Beginning July 1, 1999 and continuing every other year (biennially) on odd numbered years (e.g., July 2001, July 2003), all aircraft parking and storage charges, (excluding outside tiedowns), for the ensuing twenty-four (24) month period shall be adjusted proportionally upward 75 percent (75%) of the percentage increase in the All Urban Consumers Price Index (CPI) for the San Francisco-Oakland-San Jose area of the United States Department of Labor, Bureau of Labor Statistics, from December to two years prior to December of the applicable year. The computed adjusted rates shall be rounded to the nearest dollar.

- g. Every four (4) years, staff will conduct a market analysis to ensure that hangar rents are consistent with the prevailing market rates. If analysis demonstrates that hangar rents require modification, such shall be accomplished during the next hangar adjustment period. Such rates shall be charged unless otherwise directed by Council.
- h. Effective July 1, 1997, if the service of a member firm of the California Association of Photocopies and Process Servers must be utilized, a \$50 fee shall be charged to the individual or business necessitating said process service.
- i. The City shall charge a fee equal to the sum of the following: Five cents for each gallon of petroleum products delivered during the previous calendar month from the Leased Premises, or an amount equal to a 3 percent (3%) of the gross receipts (including fuel and gasoline taxes for which Lessee sold fuel products during the previous calendar month on or from the Airport, whichever amount is greater.
- j. All month-to-month Airport leases shall include a security deposit equal to one month's rent.

2. <u>Permits:</u>	<u>Annual</u>
Per Ordinance 07-23, Hayward Executive Airport Code, Commercial Aviation Permit is referred to as:	
Airport Business Temporary Permit	\$100.00

3. Airport Land Values:

Airport Land Value is on file in the Airport Administration Office and available for review.

**CITY OF HAYWARD
FY 2009 GANN APPROPRIATION LIMIT**

The following is provided as the result of calculations performed based on applicable state law and information provided in the FY 2009 Recommended Operating and Capital Improvement budget documents.

FY 2009 Gann Appropriation Limit is:	\$215,816,566
Appropriations subject to the Gann Limit:	(\$77,285,005)
Under/(Over) the Gann Appropriation Limit by:	\$138,531,561