



CITY OF
HAYWARD
HEART OF THE BAY

DATE: February 16, 2010
TO: Mayor and City Council
Redevelopment Agency Members
FROM: Director of Finance
SUBJECT: Mid-Year Review FY 2010

RECOMMENDATION

That the Council reviews and comments on the Mid-Year Budget Report and adopts the attached resolutions amending the FY 2010 Operating Budgets for the City and the Redevelopment Agency.

SUMMARY

This Mid-year Financial Report provides an overview of General Fund revenues, expenditures, and fund balances projected through the remainder of the fiscal year. These projections are developed by reviewing the actual revenues and expenditures recorded through December 31 of the fiscal year, and analyzing current economic information to project year-end receipts as well as reviewing expenditures to determine if additional appropriations are required at Mid-Year.

The result of this analysis for FY 2010 reflects a significant decline in revenues, mainly due to current economic conditions. Staff is recommending a net \$2.2 million reduction to revenues, offset by a \$700,000 increase in transfers to the General Fund. These budget amendments estimate a possible \$1.5 million use of contingency reserves. Detailed financial assumptions are discussed below.

Staff has also recommended amendments to the FY 2010 Redevelopment Agency budgets. These amendments include a \$1.2 million reduction to Agency revenues, mainly due to the decline in property assessed values; an increase to expenditures to cover the \$4.4 million payment due for Supplemental ERAF payments; and reductions to other expenditures, including a \$9.8 million reduction to the Agency Capital Projects budget.

DISCUSSION

FY 2010 General Fund Summary

as of December 2009 and Projected Through June 2010

Adopted Budget – The organization has been proactive in its efforts to stay financially solvent since before this recession began. As was conveyed in the budget message in June 2009, balancing the budget was made possible by a combination of one-time borrowing, salary concessions/furloughs from all bargaining units, the elimination of approximately forty-five General Fund, non-sworn positions, and the implementation of a new Master Fee Schedule based on a comprehensive study.

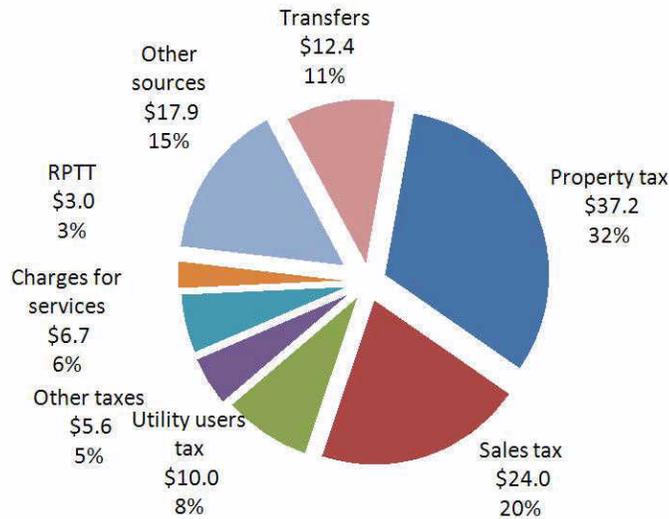
For FY 2010, staff was understandably conservative in their revenue projections, expecting negative growth in most revenue areas going into FY 2010. As FY 2010 has progressed, significant weakness in the overall economy pummeled city revenues, especially sales tax. The severity of this recession is likely to persist for another twelve months or more.

Revenue forecasts in the FY 2010 adopted budget incorporated economic factors such as a reduction in property tax revenue by almost 8%, and a 6% reduction in retail sales tax. However, the recession has been far deeper and far longer than anyone anticipated; with the added impact of an accelerating unemployment rate that is currently the highest in decades. Unemployment rates as of December 2009 for the City, the County, and the State are 12.1%, 10.9%, and 12.1% respectively, according to the California EDD. Compare this to December 2007, when Hayward's unemployment rate was 5.4%.

Of equal concern, are the unknown, but anticipated actions by the State of California, to continue to use local government as unwilling victims to solve the State's own internal budget crisis. The State is currently faced with a deficit of over \$20 billion dollars. Their past actions to defer Gas Tax payments, plus grab Redevelopment Funds, makes us very wary of what could be around the corner. The Governor's budget released earlier this month proposes a complicated tax swap scheme that may affect the sales tax cities receive on gasoline sales, by replacing it with a new excise tax. The State may be able to alter their Proposition 98 obligation by utilizing such a scheme, which could reduce the amount of educational funds that come to Hayward from the State. It appears that the State will continue to raid RDA funds and delay payments to local agencies for transportation. These are just a few of the issues staff will be tracking closely.

The following chart reflects the components of the \$116.9 million General Fund resources budgeted for FY 2010, including revenues and transfers into the General Fund. Property tax and sales tax are the two major revenues that have been most affected by the economic recession. These two revenues sources make up 52% percent of total General Fund resources. Total General Fund resources in the Adopted FY 2010 Budget are \$2.3 million less than the amounts originally presented in the FY 2009-FY 2010 two-year budget; and the current budget also includes \$10 million for the recently approved Utility Users Tax, which was not anticipated in the original two-year budget.

**FY 2010
General Fund Resources - \$116.8 Million**



Economic Recession Continues

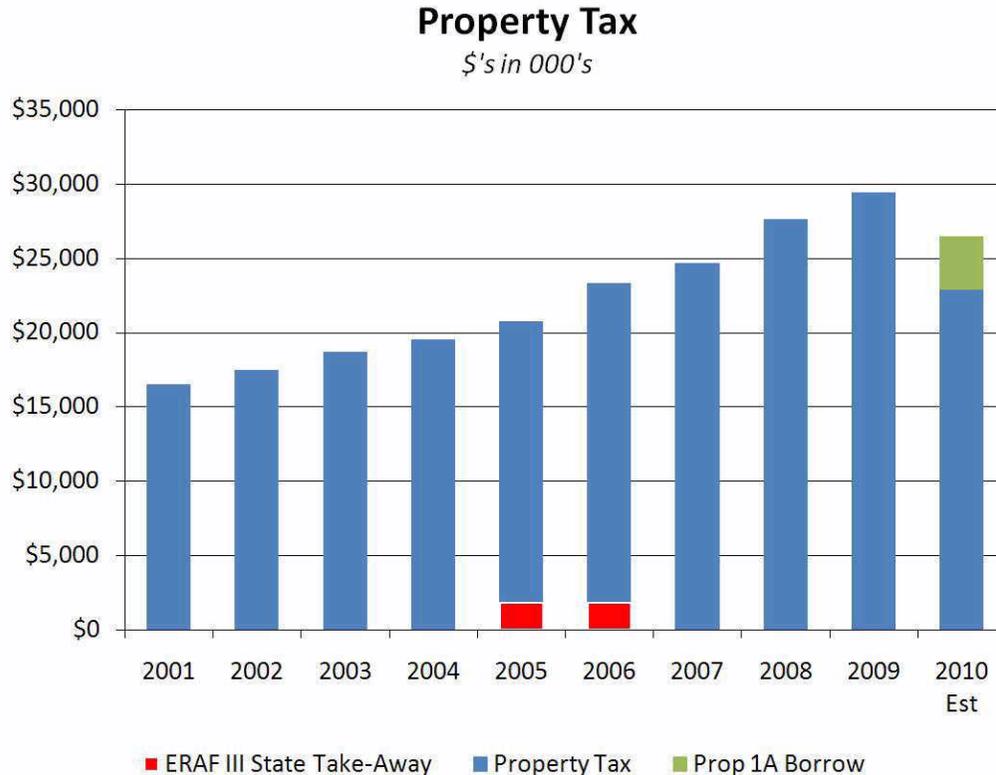
The broader meltdown of the economy over the last fifteen months due to the credit crisis, softening of the housing market, reassessments of real estate, and reduced consumer confidence has been much broader and deeper than most anyone had predicted; the result of which we are seeing in our revenue receipts.

General Fund Revenue Overview: By annualizing our revenues based on mid-year results, revenues are projected to be \$2.2 million less than estimated. This shortfall in revenue is due primarily to the decline of sales tax, aided by smaller declines in franchise fees, and licenses and permits; offset by gains in real property transfer tax and construction related revenues. The City's major revenue sources are discussed below.

- *Property Tax* –For FY 2010, staff estimated a 9% decline in property tax revenue, or \$3.5 million below the amount received last year. Staff's FY 2010 estimate planned for an assessed value reduction of \$1.3 billion, from \$14.9 to \$13.6 billion, and potential reassessments and foreclosures. The first large payment of this year's revenue was received in December 2009, and shows a 7% reduction over the same period last year.

The chart on the following page reflects the changes to property tax revenue over the past nine years. Between FY 2009 and FY 2010, the City experienced a \$1.3 billion decline in net assessed value (\$14.9 versus \$16.2 billion.) This is the first time the City has experienced a decline in total property values on record. It will take many years of appreciation to regain this loss in assessed value due to the Proposition 13 maximum growth rate being set at 2% per year. Staff is also concerned that the commercial property market is showing signs of weakness. Staff is closely monitoring this revenue; however it is expected that we will meet the \$37.2 million budget estimate by year end. **Recommended action: No action required.**

The following chart shows data for the past nine years.



- Sales Tax* – For FY 2010, staff estimated a 6% decline in sales tax revenue, or \$1.6 million less than the amount received last year. The first half of FY 2010 showed an unprecedented 21% decline in receipts over the same period last year. Staff is closely monitoring this revenue, and based on receipts through December and projections from our sales tax consultant, MuniServices, staff is projecting sales tax revenue this fiscal year to be 11% below target, or \$2.6 million below the \$24 million budget estimate. **Recommended Action: Reduce sales tax revenue by \$2.6 million for a year-end estimate of \$21.4 million.**

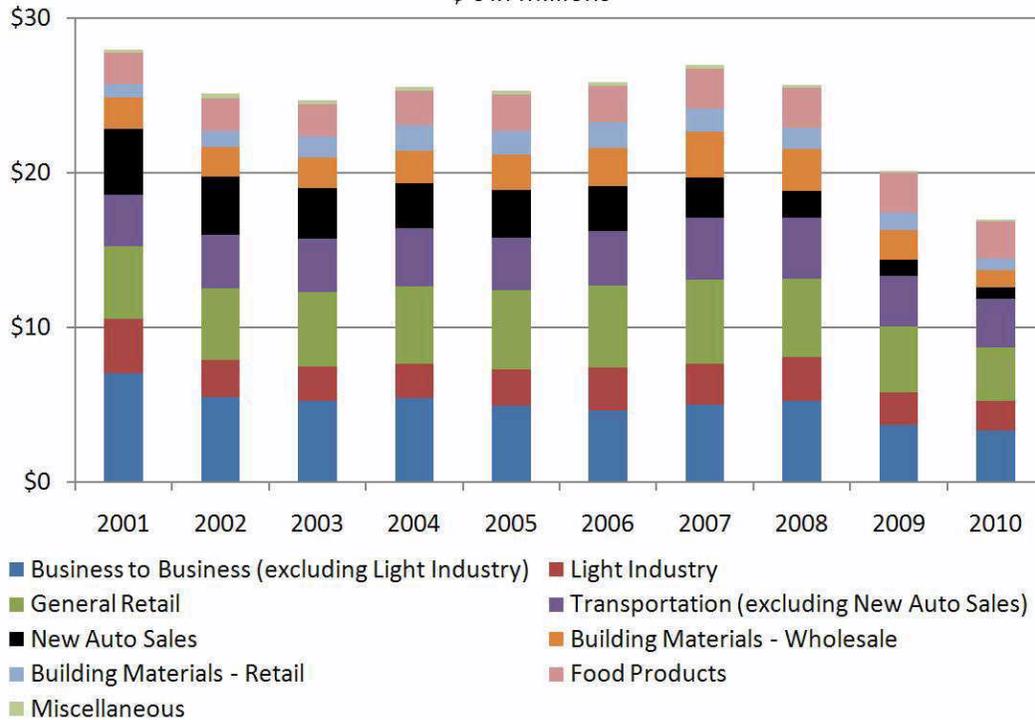
This recession has greatly affected sales tax revenues. Our sales tax consultants have stated that we are experiencing the worst decline of sales tax on record, which goes back to the Great Depression.

Losses in business-to-business related sales lead the current year decline in sales tax, followed by wholesale building materials, new auto sales, and service stations. Next quarter's sales tax receipts will see the results of the holiday shopping season, which is estimated to be lack luster. Next quarter receipts will also include sales tax from the new Costco, which opened in November 2009.

The following chart shows data for the past nine years. The most significant change during that time is the amount of revenue received from the sale of new auto sales and business-to-business transactions.

Sales Tax by Economic Sector

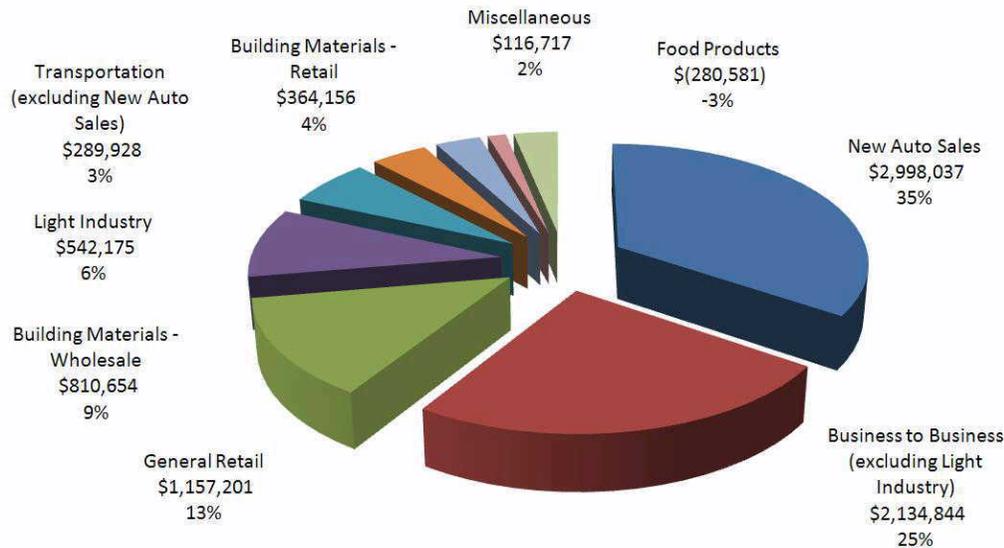
\$'s in millions



The City has seen a \$10 million decline in sales tax revenue from 2001 to 2010. New auto sales lead the way with the largest loss over the larger time span. The business-to-business category was holding steady until last year, when it began to decline, which is due to some businesses closing and relocating, but mainly due to the slowdown in businesses replenishing inventories. With additional losses this fiscal year, business-to-business is catching up to the loss felt by new auto sales. The only economic sector showing a positive change in the group is for food products, which includes some of the newly located food processing businesses, restaurants, and grocery stores.

The following chart represents the areas where the City has incurred the largest losses of sales tax over the past nine years.

Loss of Sales Tax Dollars By Economic Sector



Although the City's sales tax base is diverse, last year's closure of five car dealerships, including Hayward Ford, Hartzheim Dodge, Hayward Mazda, Hayward Chevrolet, and Hayward Lincoln & Mercury will have a long-term impact on Hayward's economy. Also, the closure of retail stores, such as Mervyns and Circuit City, the decline in gas prices, the paralysis in the construction industry, the tumble in consumer confidence combined with increasing unemployment, and the threat of closure of many other retailers has reduced the City's retail sales base to unprecedented levels. Rebuilding this base will take many years.

This year's loss of the Injex auto part manufacturer, as well as many other businesses in Hayward that supply auto parts, will also add to sales tax declines due to the impending closure of the Nummi plant. The recent opening of Costco will help to offset some of these sales tax losses.

- Real Property Transfer Tax*** – The FY 2010 adopted budget includes \$3.0 million in annual real property transfer tax. Based on sales activity so far this year, staff expects to receive approximately \$3.5 million by year-end as compared to \$3.8 million received last year. This is a \$500,000 adjustment from the conservative estimate in the adopted budget. The FY 2010 estimated decrease from the previous year is because the value of homes currently being sold is less than the value of homes that were sold last year. Although the number of units sold this year has increased, the average sales price has declined. The following chart shows that over the past seven years, real property transfer tax has had significant growth and is now experiencing continuing substantial declines due to the depressed housing market and demonstrates the volatility of this revenue source. ***Recommended Action: Increase real property transfer tax revenue by \$500,000 for a year-end estimate of \$3.5 million.***



- Construction-Related Fees** – Construction-related revenues include construction permits and inspections, plan check fees, and the supplemental improvement tax. The adopted budget projected a 13% decline from the prior year in this category. These revenues have been significantly affected by the economic recession, which affected the real estate and housing market. However, due to the construction of the new Costco, the City realized increased revenue from new construction inspections and supplemental improvement taxes. Due to this one time activity, staff expects revenue to be \$310,000 more than budgeted. **Recommended Action – Increase the estimated revenue for construction-related fees by \$310,000 for a year-end estimate of \$3.059 million.**

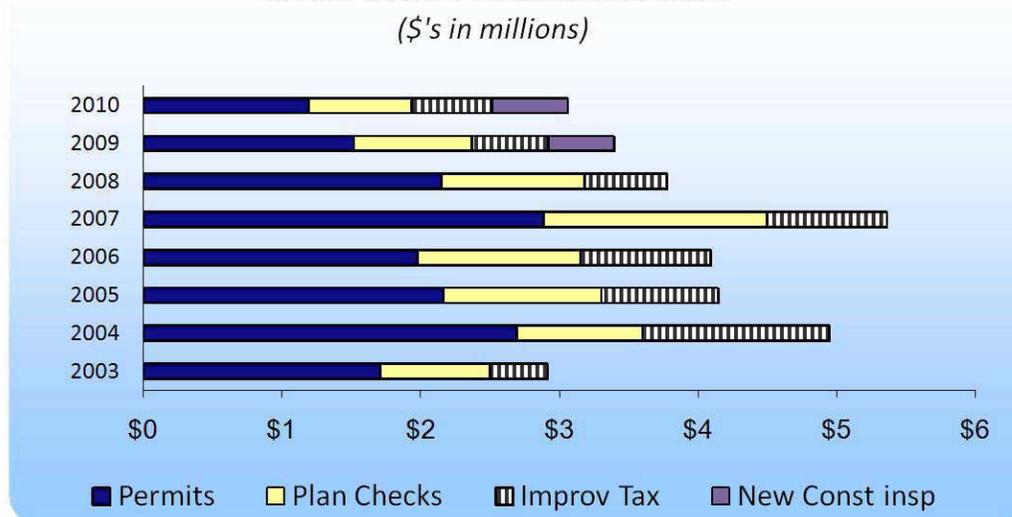
The following chart summarizes the original Budget, the year-end estimate, and the recommended adjustments to the Revenue Budget.

Construction Related Revenue	FY 2010	FY 2010	FY 2010
	Adjusted Budget	Recommended Amendments	End-of-Year Estimate
Construction permits	1,540,000	(350,000)	1,190,000
Plan checking fees	744,500	-	744,500
New Construction Insp	199,980	350,020	550,000
Supp. improvement tax	264,000	310,000	574,000
Total	2,748,480	310,020	3,058,500

Revenue received through December is at 45% of annual revenue or \$566,985 greater than the same period last year. The majority of construction related revenue generally comes in the spring and summer months. This increase over the prior year is due to the construction of Costco. The expectation is that development activity will continue to be flat over the next six months. The chart below reflects the changes in construction-related revenues over the past seven years.

Construction-Related Revenue

(\$'s in millions)



- Franchise Fees:** Revenues for the Waste Management franchise have increased at a slower pace than estimated. The adopted budget projected an 8% increase in Waste Management franchise fees. The expected shortfall in this revenue is \$400,000 below projections for this fiscal year. Waste Management revenues are very dependent on commercial and construction related accounts. These accounts have not been experiencing increases in activity. This estimated decline in revenue is estimated to be offset by an increase in revenue from the Comcast Cable franchise of \$240,000. This franchise revenue has seen increases since the State took over the franchise agreement for all cable companies. The net change to the adopted budget is estimated to be a decrease of \$160,000. **Recommended Action – Reduce the estimated revenue for franchise fees by \$160,000 for a year-end estimate of \$9.0 million.**
- Fees & Licenses -** With the FY 2009 implementation of the citywide full cost-recovery policy, FY 2010 fees & licenses are budgeted at \$4.1 million, which is approximately the amount reported last year. The first half of the year shows increases for public safety-related fees and licenses over the same period last year. However, rental inspections were not performed the first half of the year due to an injunction that prevented inspections and related fee collection since August 1. **Recommended Action: Decrease the estimated revenue for fees & licenses by \$296,000 for a year-end estimate of \$3.8 million.**

General Fund Revenue Adjustments Summary - Below is a summary of the recommended changes to General Fund. **Recommended Action: Reduce General Fund revenue by \$2.2 million.**

General Fund Revenue	FY 2010 Adjusted Budget	FY 2010 Recommended Amendments	FY 2010 End-of-Year Estimate
Sales Tax	23,991,000	(2,591,000)	21,400,000
Franchise Fees	9,147,000	(160,000)	8,987,000
Licenses & Fees	4,124,000	(296,000)	3,828,000
Real Prop Trsfr Tax	3,000,000	500,000	3,500,000
Construction Related	2,749,000	310,000	3,059,000
Total	43,011,000	(2,237,000)	40,774,000

General Fund Expenditures

Expenditures through the first half of FY 2010 are approximately \$1 million less than the prior year at this same time. The FY 2010 budget was formulated based on all bargaining units agreeing to 5% reductions in employee costs through concessions and furloughs for FY 2010. Staff expects to meet the adjusted expenditure budget by year-end, and does not recommend additional cuts.

Recommended action: No action required.

Looking to the future, General Fund expenditures are continuing to grow at a pace greater than revenues, which create a structural deficit in the General Fund. This is largely due to the growth in employee salaries and benefits. Employee salaries and benefits are established through the processes of collective bargaining between the labor groups and the City. Over the past several years, the employees have been educated about the City's financial position and have willingly agreed to salary concessions, furloughs, and other amendments to the Memorandum of Understanding (MOU) contracts in order to preserve city reserves.

The employee groups have been valuable team members to help the City deal with this financial crisis. Last year the City's savings target was \$6.8 million and by December 2008 an additional \$1.6 million in cuts were required. The City has achieved these targets through the help of salary reductions, furloughs, early retirements, and layoffs. During the current year, the original employee services savings target of \$8.5 million identified in the FY 2009-FY 2010 two-year budget, grew to \$14.5 million. The additional \$6 million in savings was achieved by employee's furlough/concessions and reductions in public safety overtime.

Despite all of these extraordinary cuts, the City continues to face future structural deficits due to the significant erosion of the City's general revenues. Therefore, the area of employee services must be closely examined, mainly because approximately 80% of general fund expenditures are designated for employee services.

Areas of concern – The preliminary projections for the next two-year budget cycle (FY 2011 & FY 2012) reveal an approximate shortfall of \$9 million. These projections include a 5% growth rate in revenues from this year's estimates, and a 7% growth rate in expenditures. The most significant change is the end of one-time funds available to the General Fund. In FY 2011, the City will not

have the \$5 million transfer from the remaining discretionary Housing Funds or the additional transfer of Gas Tax monies. For FY 2010, these two transfers totaled \$7 million. The majority of the reductions to employee services based on furloughs and concessions are also due to expire at the end of FY 2010.

The City Manager has been communicating this financial picture to employees and bargaining groups and will present possible solutions to reduce this projected deficit to Council during the budget process in May.

Employee Services Costs - The City is concerned with achieving competitive compensation packages in order to attract and retain the best employees in the Bay Area. As the City develops compensation packages it is important to look at total compensation, which includes benefits for medical, retirement, etc., rather than salary alone.

The City understands that benefit costs have been escalating and are projected to grow further over the next five years. In order to remain competitive and also develop compensation packages that can be sustainable, the City will be assessing how benefits are structured. In many cases, the City provides a range of benefits that have no cost ceilings. Therefore, as the costs increase, the City is obligated to absorb these increases without many options to negotiate better pricing or establish maximums to protect the City. Employee retirement benefits, health benefits, retiree medical benefits, and worker's compensation are some of the areas that fall into these categories.

Employee retirement benefits – The City offers CalPERS retirement benefits to all full-time employees. The cost of these benefits is calculated by PERS actuaries and can be highly complicated. The things that affect these costs include interest rates, employee salaries, the age at which employees retire, how long they live, and the agreed-upon defined benefit retirees receive. The reality is that the interest rate earned by PERS has greatly affected our future costs. PERS budgets and depends on a 7.75% rate of return; but last fiscal year alone they incurred a 24% loss on investments. Therefore, the costs for all PERS members will be increased over the next several years to absorb this investment loss.

Our cost is also affected by salary increases and the number of employees retiring. The City offered an early retirement program last year and over 50 longtime employees opted to retire knowing that the City was faced with budget cuts and layoffs. It was a win-win for the City and the dedicated employees of Hayward. The City did estimate a slight increase in PERS cost due to these retirements, however the total long-term savings to the organization in order to downsize outweighed the short-term cost for this program.

As previously mentioned the City is projecting increases to retirement costs due to many factors. Below are the projected rates (a percentage of salary) that the City will pay PERS over the next five years for retirement benefits: (these estimates are provided by PERS). During FY 2010, the City is paying from 11% to 28% of salaries for retirement costs.

Retirement Rate Projections	Actual FY 2011	Est FY 2012	Est FY 2013	Est FY 2014	Est FY 2015
Non-Safety: Misc	11.90%	12.60%	14.60%	17.60%	17.90%
Safety: Police	30%	30.80%	33.10%	37%	37.40%
Fire	27.50%	28.50%	31.30%	36.10%	36.50%

Employee health benefits – The City provides medical, dental, vision, life, and disability insurance to full-time employees. The cost of medical insurance has increased 20-40% over the past five years. These are typical increases throughout the healthcare industry. It is difficult to predict how the National Healthcare Reform will affect our benefit costs, but we do believe there is the potential this could increase the City’s costs. We are analyzing the affects of these reforms as we receive information. Based on what we are hearing there may be a need to review how we provide these benefits in order to manage the total costs required.

Retiree medical benefits – The City provides certain, vested retirees with contributions towards medical insurance premiums. These benefits are based on negotiated terms that may differ by bargaining unit. In the past the City has paid these reimbursements as they become due (the pay-as-you-go basis). Recently the City established a new fund in order to begin accumulating reserves to fund these long-term obligations. However, it will take many years to accumulate the reserves to fund these benefits at the levels recommended by our actuaries.

Workers compensation benefits – The City has made a lot of progress over the past two years to reduce the number of injuries on the job and to conclude longstanding cases. Since the City is self insured for workers compensation, this is very positive. However, workers compensation is mainly linked to the cost of medical treatments and as noted above these costs have been escalating over the past several years. Currently we contribute approximately 1% and 14% of salaries to fund the miscellaneous and safety employees’ workers compensation program, respectively. We estimate these costs will continue to grow by a minimum of 2% per year.

Operating Transfers In

The City budgeted \$12.4 million in operating transfers into the General Fund. These transfers include \$5 million of one-time funds from the Housing Fund as well as transfers from gas tax revenue, repayment of RDA loans, grants, and other indirect costs. Due to the Route 238 Settlement Agreement with Caltrans and other parties, the City will be transferring back the remaining discretionary funds from the original housing money for the 238 project, to the General Fund. There is approximately \$700,000 remaining after all obligations of the Settlement Agreement have been set aside into a special fund. Therefore, the remaining fund balance of Fund 431 estimated at \$700,000 will be transferred into the General Fund at mid-year. ***Recommended action: Increase General Fund Transfers In by \$700,000.***

FY 2010 Redevelopment Agency Summary

as of December 2009 and Projected Through June 2010

On September 19, 2009, staff provided Council with an update regarding State Assembly Bill 26-4X - Supplemental Educational Revenue Augmentation Fund Payments, (SERAF) and Impacts to the Hayward Redevelopment Agency. This mid-year report is a follow-up on the modifications recommended to the FY 2010 Budget that were presented in September 2009.

Review of AB 26 4X - SERAF: In July 2009, the State approved Assembly Bill 26 4X, which authorizes the collection of \$2.05 billion statewide in redevelopment funds, including \$1.7 billion in FY 2010 and \$350 million in FY 2011. These funds are to be deposited in county SERAF to be distributed to meet the State's Proposition 98 obligations to schools. As a result of the passage of AB 264X in July 2009, the State is requiring the Agency to make a special payment by May 10, 2010 in the total amount of \$4,421,374. The Agency may borrow the funds needed from its Low/Moderate Income Housing Fund for a period of five years.

In order to make the SERAF payment and meet its priority obligations and commitments in both funds, staff recommends that the Council appropriate \$1,000,000 from the RDA Operating Fund (Fund 451), and \$3,421,374 from RDA Low and Moderate Housing Fund (Fund 452). The proposed payment "split" between the two funds will allow the Agency to meet its commitment to provide \$7.1 million from Fund 452 to the South Hayward BART affordable housing developments from FY 2010 to FY 2012. The State's SERAF payment requirement is being legally challenged, and in the event the payment is not necessary, the funds will be returned to fund balance for re-allocation to priority projects in the next budget year.

Reductions in Tax Increment in FY 2010 and Effects of Economic Recession: In late July 2009, the Alameda County Auditor-Controller released the Assessed Valuation Report for the Redevelopment Agency for FY 2010. Based on the new assessed values, the Agency's projected tax increment revenue is now approximately \$900,000 lower for the current fiscal year than was presented in the FY 2010 budget, and constitutes a 17% drop in tax increment revenue from FY 2009. While staff previously included all property assessment appeals that had been filed with the County, and had otherwise taken measures to be reasonably conservative in its estimates, the County's reduction in property tax assessed values extended much further than previously thought, as a result of overall economic conditions.

Finally, there is continuing uncertainty about the timing of the recovery in the housing and commercial development markets. In recognition of these economic uncertainties, staff has worked with its consultants to correct its tax increment projections going forward, and has further reduced its projected revenues by assuming that certain school and park fee revenues, as well as the sale of the Burbank School surplus property, are postponed for several years. As a result of these further projected revenue reductions, and without corresponding modifications to the Agency's adopted budget, and unless changes are made, staff projects that the Agency's Operating and Capital Fund 451 will have a \$2.7 million deficit by the end of the current fiscal year, and growing deficits in future years.

The following revenue and expenditure changes are being proposed to the Redevelopment Agency Operating budget (Fund 451):

- Changes to revenue – ***Proposed reduction of \$1,015,195***

A reduction of \$1,015,195 million in revenue includes a \$772,983 reduction in property tax increment (TI) revenue. An additional \$54,112 revenue estimate reduction has to do with a reduction of the agency's pass thru payment withhold from HUD, which is tied to the reduction in TI revenue. An additional \$194,400 revenue estimate reduction is due to a reduction of impact fee due to the slowdown of development in the RDA area.

- Changes to expenditures – **Proposed reduction of \$599,995.**

An additional budgeted expenditure of \$1 million is being requested for the SERAF. This additional budget is offset by a \$1,599,995 expenditure budget reduction for the Retail Attraction Program, Pass Through Payments (due to lowered revenues), and deferment of loan repayments to the Sewer and Water funds.

- Changes to transfers out – **Proposed reduction of \$3 million.**

A transfer of \$3.2 million from Fund 451 to the Agency Capital Projects Fund 455 was adopted in the FY 2010 budget to fund Capital Improvement Projects in the redevelopment area. A budget reduction of \$2.2 million to Fund 455 is being proposed due to declines in property TI revenue. In addition, the annual RDA General Fund loan repayment of \$800,000 has been budgeted in the expenditure area for FY 2010 (as opposed to in the transfer section), therefore, the fund transfer amount of \$800,000 is no longer needed and will be reduced by \$800,000

The following table highlights recommended changes to the Redevelopment Agency Operating Fund:

Redevelopment Agency Operating Fund (Fund 451)	FY 2010 Adjusted Budget	FY 2010 Recommended Amendments	FY 2010 End-of-Year Estimate
A. Revenues	9,767,749		
Property Tax Increment		(772,983)	
Additional Revenue		6,300	
Pass Thru Payments		(248,512)	
		(1,015,195)	8,752,554
B. Expenditures	8,128,472		
ERAF Payment		1,000,000	
RDA Prop Tax Pass Through		(52,417)	
Retail Attraction Program		(500,000)	
Water & Sewer Loan Repayment		(1,047,578)	
		(599,995)	7,528,477
C. Projects	607,101	-	607,101
D. Transfers Out	8,850,326		
GF Loan repmt budgeted in supplies line		(800,000)	
Reduction of various CIP Projects		(2,200,000)	
		(3,000,000)	5,850,326

The following revenue and expenditure changes are being proposed to the Redevelopment Agency Low & Moderate Housing Fund budget (Fund 452):

- Changes to revenue – ***Proposed reduction of \$174,202***
A reduction of \$174,202 in revenue is due to a reduction in the property tax increment (TI) revenue, due to a 17% decline in assessed value between the 2009 and 2010 years.
- Changes to expenditures – ***Proposed increase of \$2,205,874.***
An additional budgeted expenditure of \$3,421,374 is being requested for the SERAF, along with an additional budget of \$50,000 for Affordable Housing. This increase is offset by a \$250,000 reduction in the Minor Home Repair.

The following table highlights recommended changes to the Redevelopment Agency Low & Moderate Housing Fund (Fund 452):

Redevelopment Agency Low & Moderate Housing Fund (Fund 452)

FY 2010 Adjusted Budget	FY 2010 Recommended Amendments	FY 2010 End-of-Year Estimate
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A. Revenue	2,413,059		
Property Tax Increment		<u>(174,202)</u>	2,238,857
B. Expenditures	3,651,214		
ERAF Payment		2,405,874	
Affordable Housing Program		50,000	
Minor Home Repair Program		<u>(250,000)</u>	
		2,205,874	5,857,088

The following expenditure budget changes are being proposed to the Redevelopment Agency Capital budget (Fund 455).

- Changes to revenue – ***Proposed reduction of \$7.8 million***
A reduction of \$7.8 million in revenue is due to the decline in RDA property tax increment revenue, which makes a \$7.8 million bond financing not feasible at this time.
- Changes to projects – ***Proposed decrease of \$9.8 million***
Since bond financing is not feasible at this time, funds allocated for various capital projects have been reduced.
- Changes to transfers in – ***Proposed reduction of \$2.2 million.***
A reduction in the RDA Operating Fund (fund 451) transfer in is being recommended due to a decline in RDA property tax increment revenue. This reduction in transfer in has reduced funding for various capital projects.

Redevelopment Agency Capital Fund (Fund 455)

	FY 2010 Adjusted Budget	FY 2010 Recommended Amendments	FY 2010 End-of-Year Estimate
A. Revenue	7,800,000		
2010 TABS		<u>(7,800,000)</u>	
B. Projects	10,800,000		
Upper Foothill		(3,000,000)	
Sycamore/Pinedale		(5,300,000)	
South Hayward BART		500,000	
Sycamore/Harder		<u>(2,000,000)</u>	
		(9,800,000)	1,000,000
C. Transfers In	3,200,000		
Transfer from RDA Op Fund 451		<u>(2,200,000)</u>	1,000,000

FEDERAL ECONOMIC STIMULUS DOLLARS - UPDATE

In support of Council's stated priorities and to augment our limited local funds, the City has been pursuing all available and relevant Federal stimulus grant funding provided by the American Recovery and Reinvestment Act (ARRA), and expects to receive grants in the areas of transportation, community development block grants, police services, energy efficiency, and energy conservation.

The City of Hayward has been awarded the following stimulus grant awards:

Department	Grant	Amount
Development Services	<i>Energy Efficiency and Conservation Block Grant</i> -To fund initial implementation of the Climate Action Plan and to support Stopwaste.org's Green Packages	1,361,900
Police Department	<i>COPS Hiring Recovery Program</i> - Funds nine police officers over three years	4,032,027
Police Department	<i>Byrne ARRA Grant</i> - Funds the cost of a new CAD/RMS system	353,270
Neighborhood Services	<i>CDBG-R</i> - To be used in the minor home repair program, the small business revolving loan program, and renovations at Weekes Park	460,000
Public Works	<i>Local Streets and Roads</i> - Seeking regional ARRA funding through MTC for rehabilitation of pavement on certain arterial streets	450,000
City Manager's Office	<i>Emergency Shelter Grant Program</i> - To carry out eligible homelessness prevention and re-housing	703,342
City Manager's Office	<i>Neighborhood Stabilization Program</i> - To acquire, rehabilitate and sell foreclosed homes in a specified "target" area of high foreclosure incidence in the South Hayward area	1,554,489

CONTINUING NEED FOR FISCAL PRUDENCE

The overall economic picture is not expected to improve quickly. It is predicted that economic recovery will not be noticeable for twelve months or more. The goal continues to be to minimize the impact of the budget challenges on the community, while ensuring we continue to deliver needed services.

The upcoming two-year budget will require further expenditure reductions in both FY 2011 and FY 2012. We will need to continue to work with our employee groups to find ways to reduce costs, improve revenues, and innovate. A selective hiring freeze will continue through FY 2010 as we monitor our revenue picture and the overall economy. We are by no means "out of the woods" regarding our fiscal condition.

Additionally, the City has significant funding needs for replacement of fleet, technology, and facilities. Examples include replacement of City vehicles, a new Financial system, and improvements to our facilities. These costs have not been funded in the current budget and will unlikely be adequately addressed in FY 2011. The City will continue to earmark one-time funds for these needs until revenues stabilize.

FISCAL IMPACT

General Fund

The FY 2010 end-of-year estimates for the General Fund are summarized below and in Attachment A. The overall fiscal impact of the recommended budget revenue adjustments of \$2.2 million and the additional transfer in of \$700,00, result in a decrease to the ending fund balance of \$1.5 million. The total undesignated fund balance at year-end is estimated to be \$18.1 million, or \$1.1 million less than projected in the FY 2010 Adopted Budget. However, the current FY 2010 end-of-year estimate shows a net change to fund balance as a surplus of \$1.6 million, before factoring in prior year obligations and transfers to reserves. Therefore, no additional reductions to General Fund expenditures are being proposed. Our continuing goal to maintain adequate reserves is being maintained with these recommendations.

The following table shows the changes to the General Fund balance from FY 2010 adoption to FY 2010 end-of-year estimate. The breakdown of the fund balance amounts are shown at Attachment B.

General Fund <i>(\$ in millions)</i>	FY 2010 Adopted Budget	FY 2010 Adjusted Budget	FY 2010 End-of-Year Estimate	FY 2010 Recommended Amendments
Revenues	\$ 104.5	\$ 106.2	\$ 104.0	\$ (2.2)
Expenditures	(106.3)	(108.4)	(108.4)	
Transfers In	12.3	12.4	13.1	0.7
Transfers Out	(7.1)	(7.1)	(7.1)	-
Net Change to Fund Ba	3.4	3.1	1.6	(1.5)
Beginning Fund Balance	15.8	21.7	21.7	
Prior Year Obligations	-	(1.2)	(1.2)	
Transfer Out	-	(4.0)	(4.0)	
Net Change to Fund Ba	<u>3.4</u>	<u>3.1</u>	<u>1.6</u>	<u>-</u>
Designated Ending Fund Balance	\$ 19.2	\$ 19.6	\$ 18.1	\$ (1.5)

Redevelopment Agency

Staff recommends an equal reduction to both revenues and expenditures/transfers out in the amount of \$9 million. The overall fiscal impact of the recommended budget amendments to the Redevelopment Agency are summarized in the following chart.

Redevelopment Agency

FY 2010 Recommended Amendments

Reduction to Revenues:

Property Tax Increment	(950,000)
Other Revenue including Pass thru Payments	(240,000)
Bond proceeds from Tax Allocation Bonds	<u>(7,800,000)</u>
	(8,990,000)

Changes to Expenditures/Transfers Out:

ERAF Payments	3,406,000
Reduction to Program Expenditures	(752,000)
Deferral of Debt Service Payments	(1,048,000)
Defferal of Capital Projects	(9,800,000)
Decrease to Transfers Out	<u>(800,000)</u>
	(8,994,000)

PUBLIC COMMENTS

Staff presented the Mid-year Review to the Council Budget & Finance Committee January 27, 2010.

NEXT STEPS

Staff will post the budget amendments per the approved resolution and update the end-of-year estimates over the next several months as new information is obtained during the budget process.

Prepared by: Denise Blohm, Budget Administrator

Reviewed by: Debra C. Auker, Director of Finance

Approved by:



Gregory T. Jones, City Manager

Attachments:

I - FY 2010 General Fund Summary, June 30, 2010 Revenue and Expenditure Estimates

II - FY 2010 General Fund Summary, June 30, 2010 Ending Fund Balance Estimate

III – Resolution to Amend FY 2010 City Operating Budget

IV – Resolution to Amend FY 2010 RDA Budgets

FY 2010 General Fund
End-Of-Year Estimate

General Fund

\$'s in 1,000's

		Previous	This Year				
			P - Yr 1		Audit		
			Adopted	Adjusted	EOY Estimate	Adj vs EOY Est	
		FY 2009	FY 2010	FY 2010	FY 2010	\$ Diff	% Diff
Resources							
<i>% FY 10 Adj</i>							
36%	Property Tax	40,699	37,167	37,167	37,167	-	-
21%	Sales Tax	25,630	23,991	23,991	21,400	(2,591)	-11%
10%	UUT	-	10,000	10,000	10,000	-	-
9%	Franchise Fees	8,760	9,147	9,147	8,987	(160)	-2%
5%	Other Taxes	5,686	5,600	5,600	5,600	-	-
4%	Licenses & Fees	4,148	4,038	4,124	3,828	(296)	-7%
3%	Other Revenue	6,111	3,462	3,462	3,462	-	-
5%	Inter-Governmental	4,854	3,330	4,904	4,904	-	-
3%	Real Property Trsfr Tax	3,853	3,000	3,000	3,500	500	17%
3%	Construction Related	3,394	2,749	2,749	3,059	310	11%
2%	All Other	2,522	2,014	2,014	2,014	-	-
100%	Total Revenue	105,657	104,498	106,158	103,921	(2,237)	-2%
	Transfers in	13,520	12,325	12,411	13,099	688	6%
Total Resources		119,177	116,823	118,569	117,020	(1,549)	-1%
Outlays							
<i>% FY 10 Adj</i>							
82%	Salary & Benefits	88,433	88,217	89,428	89,428	-	-
5%	Overtime	4,888	5,377	5,250	5,250	-	-
-4%	Charge/(Credit) from other progs	(5,116)	(4,657)	(4,397)	(4,397)	-	-
	Net Employee Services	88,206	88,937	90,281	90,281	-	-
2%	Maintenance & Utilities	2,089	2,357	2,357	2,357	-	-
7%	Supplies & Services	7,810	5,933	7,422	7,422	-	-
8%	Internal Service Fees	8,433	9,113	9,113	9,113	-	-
0%	Capital	388	-	495	495	-	-
	Net Operating Expense	18,719	17,403	19,387	19,387	-	-
100%	Total Expenditure	106,925	106,341	109,668	109,668	-	-
	Transfers out	6,286	7,101	11,072	11,072	-	-
Total Outlays		113,211	113,441	120,740	120,740	-	-

**General Fund
Reserve & Designations**
\$'s in 1,000's

	FY 2009 Audit	FY 2010 Adopted	Mid-Year Change	FY 2010 Recommended
Reserved for:				
RDA Loan Repayment	9,841	-	-	-
Encumbrances	974	776	-	485
Prepaid Expenses	13	28	-	28
Inventory				
Total Reserved Fund Balance	10,828	804	-	513
Designated for:				
Economic Uncertainty	7,000	7,000	-	7,000
Liquidity	3,500	3,500	-	3,500
Hotel Conference Center	1,000	1,000	-	1,000
Retirement Reserve	522	-	-	-
Police Staffing	1,000	1,000	-	1,000
Contingencies	8,737	6,684	(1,549)	5,135
Total Designated Fund Balance	21,759	19,184	(1,549)	17,635
Total Reserved and Designated Fund Balance	32,587	19,988	(1,549)	18,148

HAYWARD CITY COUNCIL

RESOLUTION NO. 10-_____

Introduced by Council Member _____

RESOLUTION AMENDING RESOLUTION 09-082, AS AMENDED, THE BUDGET RESOLUTION FOR THE CITY OF HAYWARD OPERATING BUDGET FOR FISCAL YEAR 2010, RELATING TO AN APPROPRIATION OF FUNDS,

BE IT RESOLVED by the City Council of the City of Hayward that Resolution No. 09-082, as amended, the Budget Resolution for the City of Hayward Operating Budget for Fiscal Year 2010, is hereby amended by approving the General Fund changes indicated below.

BE IT FURTHER RESOLVED by the City Council of the City of Hayward that the following revenue estimate amounts are hereby amended:

I. CHANGE OF REVENUE ESTIMATE TO THE GENERAL FUND

<u>Fund</u>	<u>Revenue</u>	<u>Amendment</u>
100	Sales Tax	(2,591,000)
100	Franchise Fees	(160,000)
100	Fees & Licenses	(296,000)
100	Real Property Transfer Tax	500,000
<u>100</u>	<u>Construction Related</u>	<u>310,000</u>
	Net Change to Revenue Estimate	(2,237,000)

BE IT FURTHER RESOLVED by the City Council of the City of Hayward that the Director of Finance is hereby authorized to transfer the following amounts from one fund to another as indicated below at such time as he/she may determine, giving consideration to the intended purposes for which the transfers are made and available balances in each of the funds. The Finance Director will transfer the entire remaining balance of fund 431 to fund 100, including any interest accrued.

II. FUND TRANSFERS INTO GENERAL FUND

<u>Fund</u>	<u>Revenue</u>	<u>Amendment</u>
431	Housing Fund	1,041,000
<u>273</u>	<u>Byrnes Grant Fund</u>	<u>(353,000)</u>
	Net Change to Transfers In	688,000

The Director of Finance is hereby authorized and directed to distribute the above revised revenue estimates and transfers to the various accounts of the City in accordance with generally accepted accounting principles and consistent with the purposes and objectives as outlined in the approved budget.

IN COUNCIL, HAYWARD, CALIFORNIA _____

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

RESOLUTION NO. RA 10-

Introduced by Agency Member

RESOLUTION AMENDING RESOLUTION RA 09-16, AS AMENDED, THE REDEVELOPMENT BUDGET RESOLUTION FOR FISCAL YEAR 2010, RELATING TO AN APPROPRIATION OF FUNDS FROM THE REDEVELOPMENT AGENCY'S FUNDS 451 AND 452, FOR SERAF PAYMENT, AND FUND 455

WHEREAS, Chapter 21, Statutes of 2009 Fourth Extraordinary Session (AB 26 4X) added Sections 33690 and 33690.5 to the Community Redevelopment Law (Health and Safety Code Section 33000 et seq.), requiring redevelopment agencies to make certain payments to its county Supplemental Educational Revenue Augmentation Fund ("SERAF") in fiscal years 2010 and 2011; and

WHEREAS, Health and Safety Code Section 33690(d) requires that by March 1, 2010, the City of Hayward (" City ") shall report to the Alameda County Auditor-Controller as to how the Hayward Redevelopment Agency (" Agency ") intends to fund the SERAF payment. The funds are to be deposited with the county SERAF by May 10, 2010, or that amount will be deducted from property tax revenues apportioned to the redevelopment agencies' respective cities; and

WHEREAS, the State Director of Finance has notified the Agency that its share of the fiscal year 2010 special payment is \$4,421,374; and

WHEREAS, the Agency may borrow the funds needed from its Low/Moderate Income Housing Fund for a period of five years. As a condition of borrowing from the Low and Moderate Income Housing Fund, the Agency must make a finding that there are insufficient other moneys to make the required payment; and

WHEREAS, in order to make the SERAF payment, balance its budget, and meet its highest priority obligations and commitments in both funds, the Agency finds that it is prudent to appropriate \$1,000,000 from its General Operating Fund 451, and to borrow the remaining \$3,421,374 from its Low and Moderate Income Housing Fund 452 (LMIHF); and

WHEREAS, the State's SERAF payment requirement is being challenged in court proceedings filed by the California Redevelopment Association and other parties, and, in the event the payment is not necessary, the funds will be returned to the fund balances for re-allocation to priority projects in the next budget year.

BE IT RESOLVED by the Board Members of the Hayward Redevelopment Agency that the Agency hereby finds that it does not have sufficient unencumbered funds in Fund 451 to make the required SERAF payment for fiscal year 2009-2010. The revenue to be received by the Agency in fiscal year 2009-2010 is required for the payment of Agency debt service, Agency administration and existing programs and projects and is not available to make the SERAF Payment. This finding is supported by the information and documents provided by Agency staff to the Redevelopment Agency Board Members.

BE IT FURTHER RESOLVED that the Hayward Redevelopment Agency hereby authorizes a loan of \$3,421,374 (the "LMIHF Loan") from the Agency's Low and Moderate Income Housing Fund to the Agency for the sole purpose of making the SERAF payment for fiscal year 2009-2010. The LMIHF Loan shall bear no interest, and the Agency shall repay the LMIHF Loan to the Low and Moderate Income Housing Fund on or before June 30, 2015. The LMIHF Loan shall not be made until such time that the Agency is required to pay the SERAF Payment into the Alameda County SERAF.

BE IT FURTHER RESOLVED that the Hayward Redevelopment Agency Board Members report to the Alameda County Auditor-Controller that the Agency intends to fund a portion of the SERAF payment from the LMIHF Loan.

BE IT FURTHER RESOLVED by the Board Members of the Hayward Redevelopment Agency to appropriate \$4,421,374 million (\$1 million from the Redevelopment Agency General Operating Fund, Fund 451, and \$3,421,374 from the Redevelopment Agency Low & Moderate Housing Fund, Fund 452) for the SERAF Payment.

BE IT FURTHER RESOLVED by the Board Members of the Hayward Redevelopment Agency that Resolution No. RA 09-019, the Budget Resolution for the Hayward Redevelopment for Fiscal Year 2010, is hereby amended by approving the following Hayward Redevelopment Agency changes:

ABSTAIN: AGENCY MEMBERS:

ABSENT: AGENCY MEMBERS:

ATTEST:
Secretary of the Redevelopment Agency
of the City of Hayward

APPROVED AS TO FORM:

General Counsel