

DATE: June 15, 2010

TO: Mayor and City Council
Redevelopment Agency Board of Directors

FROM: City Manager and Agency Director

SUBJECT: Public Hearing for City of Hayward and Hayward Redevelopment Agency Recommended Operating Budgets for FY 2011; for the Proposed Budgets for FY 2012 for City Operations and the Redevelopment Agency; and the proposed Capital Improvement Program Budget for Fiscal Years 2011 through 2020.

RECOMMENDATION

That Council receives the City Manager's Recommended FY 2011 and Proposed FY 2012 budgets for City operations and the Redevelopment Agency, and the proposed Capital Improvement Program budget for Fiscal Years 2011 through 2020; and conducts a Public Hearing on each.

BACKGROUND

All of the above identified budgets were presented to Council and the Agency Board at a work session on May 25, 2010 by the City Manager, the Interim Finance Director, and the Public Works Director. This presentation consisted of three Power Point presentations and two separate reports to Council. All of these documents can be accessed at:

<http://www.hayward-ca.gov/citygov/meetings/cca/2010/cca052510.htm> .

In addition, Council received reports and held a work session on the FY 2011 and FY 2012 Social Services funding recommendations on April 6, 2010; and conducted a Public Hearing on April 20, 2010.

<http://www.hayward-ca.gov/citygov/meetings/cca/2010/cca040610.htm> and
<http://www.hayward-ca.gov/citygov/meetings/cca/2010/cca042010.htm>

Council also held a work session on the FY 2011 Community Promotions funding recommendations on June 1, 2010. These respective reports can be accessed at:

<http://www.hayward-ca.gov/citygov/meetings/cca/2010/cca060110.htm>

Finally, Council received a report from the Interim Finance Director, conducted a public hearing, and adopted the Master Fee Schedule on April 27, 2010. That report is available at:

<http://www.hayward-ca.gov/citygov/meetings/cca/2010/cca042710.htm>

Any significant changes to each of the above budget elements, which may have occurred as a result of Council input on the above dates or final staff preparation between the above dates and this report, will be addressed in the report from the Interim Finance Director and the Director of Public Works, which follow on this agenda.

DISCUSSION

As Council begins its formal hearings on the next bi-annual budget for FY 2011 and FY 2012, it is important to take note that staff is not proposing any change in the organization's priorities. The budgets for the City continue to focus on the primary priorities of "safe", "clean" and "green" supported by the initiatives of "organizational health", "fiscal stability", and "sustainability". By staying focused on these elements over the last two years, the organization has accomplished a great deal despite tight resources.

Council and staff have also worked hard at reconnecting to our residents, businesses, and property owners in order to continually test our priorities and adjust the direction of the "ship of state" according to the expectation of our customers.

- ◆ The Council adopted a Neighborhood Partnership Strategic Plan
- ◆ Through the Neighborhood Partnership Program (NPP), the City convened and conducted forty-six neighborhood meetings resulting in
 - ⊕ Installation of sixty-two speed lumps
 - ⊕ Upgraded wattage on sixty street lights
 - ⊕ Installation of forty-eight new street lights
 - ⊕ Installation of eleven ladder-style crosswalks
- ◆ Staff held eight Crime-free Multi-housing training programs with over 200 participants
- ◆ The first Youth Leadership Summit of seventy participants was held
- ◆ The first Neighborhood Leadership Academy with forty participants was conducted
- ◆ And over 9,000 entries were made into Access Hayward with 90% achieving resolution

In reaching out to our business community and strengthening connections there, the City has

- ◆ Streamlined and improved the flow of timely information in the development review/permitting process
- ◆ Ramped up the Economic Development Program and created and filled a new position for Economic Development Manager
- ◆ Initiated a business visitation program with eighteen visits to date
- ◆ Developed and implemented Downtown music and film events throughout the summer
- ◆ Implemented a "Buy Hayward 1st" program
- ◆ Begun to create a perception of Hayward as a film destination with the filming of three commercials in City Hall or in town

And, with Council's leadership and direction, staff has accomplished the following actions and product delivery on Council's priorities:

Key Accomplishments –

Safe

- ◆ Achieved full Police staffing for the first time in many years; nine new uniform positions added through grant funding
- ◆ Decentralized Community Policing: Two District Offices under District Commanders
- ◆ Conducted successful SMASH operations – Twelve neighborhoods
 - ◆ Twenty-eight homes
 - ◆ Eight apartment buildings
 - ◆ One business
- ◆ Funded, procured, and implemented a new Computer Aided Dispatch/Records Management System (CAD/RMS)
- ◆ Set Commission on Accreditation for Law Enforcement Agency (CALEA) certification as a departmental goal and made significant progress in the certification process across the Police Department and all supporting services – on target for completion of certification
- ◆ Improved Emergency Medical services by increasing cardiac survivability from 7% to 30% through the use of LUCAS devices obtained through creative grant solicitation
- ◆ Established model After School Homework Program in our libraries with Federal funds; implemented a program model that can now be expanded into select school sites

Clean

- ◆ Developed and implemented a successful Keep Hayward Clean and Green Task Force (KHCG), which is now expanding into individual Neighborhood KHCG Task Forces
- ◆ Designed and implemented a successful and robust public art/mural program as an innovative deterrent to graffiti, which also brings quality public art to the community
 - ◆ Ten wall murals
 - ◆ Twenty-eight utility boxes
 - ◆ Eight Library book drop boxes
 - ◆ Twelve public benches
- ◆ Implemented other anti-graffiti efforts such as the Graffiti Reward Program
- ◆ Completed significant corridor improvements in landscaping on Jackson, A Street, Winton, and Mission
- ◆ Began one of the City's largest projects in roads and street improvements by issuing the bids for the first phase of the 238 Corridor (Mission) Improvement Project
- ◆ Developed and implemented an Anti-Smoking Ordinance throughout the city
- ◆ Implemented

Green and Sustainable

- ◆ Developed and adopted an extensive Climate Action Plan judged one of the best in California
- ◆ Continued implementation of water conservation efforts, including Bay Friendly Landscaping, resulting in one of the lowest per capita water use rates in the Hetch Hetchy system
- ◆ The City was honored with the Silicon Valley Water Conservation Award in the Government Agency Category for our community's efforts in leading the way in water conservation

- ◆ Developed and adopted “Green Building” ordinances for public buildings and private developments
- ◆ Awarded a design-build contract for a 1-MW solar generation project at the Wastewater Treatment Plant
- ◆ As a member of a public-private partnership, secured a \$47 million dollar state grant for a large Transit Oriented Development in the City at the South Hayward BART Station
- ◆ Developed and adopted an Historic Preservation Ordinance to encourage rehabilitation of historical properties through the community

The above accomplishments are only the highlights. Staff and Council together have accomplished many other important objectives in the last few years such as assisting the community in passing a Utility Users tax that has proven to be the organization’s lifesaver; completed the Mission Corridor Specific Plan and the adoption of form-based codes; and after two years of almost constant negotiations, the City and its partners, the State of California and the Public Interest Law Project, resolved the 50-year old 238 Corridor Bypass lawsuits and community controversy through legislation, joint legal action, and innovation..

Key Challenges –

Now it becomes even more important (and challenging) to keep the momentum going. The economy continues to lack energy and to remain in the doldrums. Our reserves are at the lowest acceptable point (or lower than) Council’s policy levels; and, we face daunting structural deficits in FY 2013. With that in mind, the following challenges must be dealt with in the coming months:

State Take-A-Ways – The State continues to erode local revenue. Through ERAF¹ I/II, the State has taken over \$90 million of local General Fund revenue since 1993. Through ERAF III, they took another \$3.9 million since FY 2005. And, they have taken \$7.8 million in Redevelopment Agency funds since 1993, with \$4.4 million in this year alone. This is in addition to borrowings, failure to reimburse for costs of state-mandated programs, and raids into transportation funds.

Weakened Property Tax – Property tax comprises 33.2% of the City’s General Fund Operating revenue. Staff is projecting approximately \$36.3 million in property tax revenue in FY 2011. This is down \$4.4 million from FY2009. This decline is caused by a drop in property values, County Assessor’s revaluations, appeals from taxpayers, particularly commercial owners and lessees. Because of the lower base and the 2% cap on increases related to assessed valuation, staff expects that it will take several years to again reach FY 2009 property tax levels.

¹ **ERAF** = Education Realignment Augmentation Fund. In 1992, facing a serious deficit position (again), the State of California began shifting local property tax revenues from cities, counties, and some special districts into these funds to reduce the cost of education to the state general fund. To meet its obligations to fund education at specified levels under Proposition 98, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to “educational revenue augmentation funds” (ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools. Since their inception, the ERAF shifts have deprived local governments in California of nearly \$90 billion.

Sluggish Sales Tax – Sales tax comprises 21% of the City’s General Fund Operating revenue. Staff is projecting approximately \$22.7 million in sales tax revenue in FY 2011. This is down \$6.3 million from FY 2007. This decline is caused by a loss of our new car dealerships and growing sales over the internet offset slightly by improved retail sales through our “big box” stores.

The New Norm – The economy will take some time to rebound and show growth. Sales tax will likely never return to previous highs in FY 2001 unless and until both Federal and State governments restructure the sales tax system to either allow/force online sales to be taxed, the tax system is reoriented to tax services rather than goods, or both. While these are possibilities, neither is likely in the next five years. Property taxes will continue to lag for at least five years. While Utility Users Tax has been a life saver and will likely continue to grow slightly in the future, the City must adjust to the reduced revenue stream, perhaps permanently.

The Structural Gap – While the City has survived the ragged economy over the last three years better than most Bay Area municipalities, we cannot continue to plug the gap with short-term measures using one-time sources like reserves, asset sales, revenue transfers, and others. By carefully balancing the recommended and proposed budgets for FY 2011 and 2012 respectively, we have bought time to address the structural deficit looming in FY 2013. Meeting this last challenge will be a rigorous test of our organization and our community, and one I have little doubt we can and will meet as we face it together.

As we turn to meet the challenge, we must find ways to align expenditures with revenue without losing momentum in service delivery. We need to define ways to keep our organization healthy through strong reserves; efficient use of current technology; prudent stewardship of our assets such as buildings, equipment, and fleet; responsible fiscal management; and fair and equitable market compensation for our employees so that we can attract and keep the “best and the brightest” as we strive to fully realize our potential and take our place as the strong Heart of the Bay.

FISCAL IMPACT

The recommended FY 2011 started with a projected \$9.8 million dollar deficit, which has been addressed by:

Starting Deficit	(9,800,000)
a. Savings or extractions from Operations	2,800,000
b. Participation from employees	4,500,000
c. Use of Reserves	<u>2,500,000</u>
TOTAL	0

The proposed FY 2012 budget started with a projected \$8.9 million dollar deficit, which has been addressed by:

Starting Deficit	(8,900,000)
a. Savings or extractions from Operations	1,300,000
b. Participation from employees	4,700,000
c. Use of Reserves	<u>2,900,000</u>
TOTAL	0

It is important to note that balancing either fiscal year would not be possible without the continued support and good will of the City's employees. Each group of employees has stepped up to assist in meeting these challenges by "giving back" 5% of their contracted salaries and/or benefits through extensive unpaid furlough hours or other means. A balanced budget in either year would not have been possible without this employee participation, and the City would be looking at significant reduction in resources and service levels in the most critical priority areas.

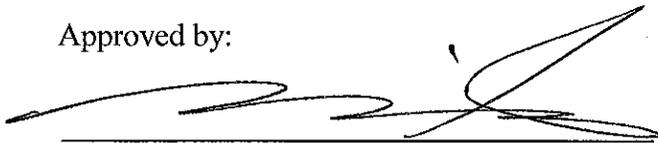
The same debt of gratitude must also be paid to the community we serve. Without the passage of Proposition A, our Utility Users Tax, we would be struggling to close an additional \$13.8M gap in FY 2011 and \$14.5M in FY 2012.

SCHEDULE

Council is scheduled to adopt the FY 2011 recommended budgets and FY 2012 proposed budgets on June 22, 2010.

Prepared by: Fran David, City Manager

Approved by:



Fran David, City Manager