

**DATE:** June 17, 2014

**TO:** Mayor and City Council  
Redevelopment Successor Agency Board of Directors  
Housing Authority Board of Directors

**FROM:** Director of Finance

**SUBJECT:** Public Hearing for the Proposed FY 2015 Annual Operating Budget for the City of Hayward, Hayward Redevelopment Successor Agency, and Hayward Housing Authority; and the FY 2015 Capital Improvement Program Budget

### **RECOMMENDATION**

That the City Council consider the Proposed FY 2015 Annual Operating Budget, and the FY 2015 Capital Improvement Program Budget, including changes made through the Council Work Session process; conducts a Public Hearing on each; and that following public testimony and in preparation for adoption on June 24, 2014, the Council and Agency Board Members further review and comment on the:

- FY 2015 Annual Operating Budget
- FY 2015 Capital Improvement Program (CIP) Budget

### **BACKGROUND**

The City Manager presented the Proposed FY 2015 Annual Operating Budget to City Council on May 13, 2014. The City operating budget is comprised of a number of different funding sources<sup>1</sup>, with the General Fund representing the largest single fund for which the City Council has the most discretion. The total City expenditure budget for the Proposed FY 2015 Annual Budget as presented on May 13, 2014, was \$256.1 million, with a General Fund budget of \$132.8 million.

Even after implementing significant balancing measures, making considerable adjustments to revenue projections, and assuming all employee concessions hit the Council-established target and are on-going, the remaining operating *structural* General Fund gap, as presented on May 13, was projected at \$4.5 million in FY 2015.

Since May 13, Council has held three budget work sessions (May 20, May 27, and June 10) to further discuss the proposed budget. These work sessions included a presentation of the proposed CIP budget, presentations on department/program budgets and operations, and a time for public input and Council discussion. As a result of these discussions, staff recommends several changes to

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<sup>1</sup> The budget is comprised of the General Fund and Other Funds, which include all non-General Fund revenue sources with key funds including the City's enterprise funds (Water, Sewer, Airport, etc.) and Internal Service Funds (Facilities, Equipment, Technology, Workers' Compensation).

the FY 2015 Proposed Annual Operating Budget – as detailed in this report. Tonight’s meeting has been advertised as a public hearing on the proposed annual operating and CIP budgets and is another opportunity to receive public input. Upon closure of the public hearing, Council will provide any additional comments and direction to staff before adopting the operating and CIP budgets on June 24, 2014.

The changes from the May 13 submission of the FY 2015 Proposed Budget, as included in this report, result in an increase to General Fund expenditures of \$745,000. With no recommended changes to General Fund revenue projections, the projected FY 2015 General Fund gap grows from \$4.5 million to \$5.2 million.

*It should be noted that the City is in open contract negotiations with SEIU Local 1021 and IFPTE Local 21, and is just concluding concession discussions with the Hayward Police Officers’ Association. Any resulting budget impacts from these discussions/negotiations are not reflected in the budget projections at this point. The budget currently includes prior assumptions related to the labor concessions of these bargaining groups.*

## DISCUSSION

The budget process is very dynamic; however, the Proposed FY 2015 Annual Operating Budget and CIP documents provide the foundation for these budget discussions. As the budget process has progressed, both City Council and staff have recommended several expenditure changes to the proposed budget. This report contains a summary of the key changes to date, and the resultant impacts to both the General Fund and other revenue funds for FY 2015. At this point, staff is not recommending any changes to the General Fund revenue projections.

Both Tables 1 and 2 compare the Proposed FY 2015 Budget presented on May 13, 2014 and tonight’s (June 17, 2014) revision – as well as a comparison to the FY 2014 Adopted Budget.

**Table 1 – Citywide Expenditure Budget Changes**

| <i>in the 1,000's</i>    | <b>FY 2014<br/>Adopted</b> | <b>FY 2015<br/>Proposed<br/>5/13/14</b> | <b>FY 2015<br/>Proposed<br/>6/17/14</b> | <b>Change<br/>from<br/>5/13/14</b> | <b>\$ Change<br/>from<br/>FY 2014</b> | <b>% Change<br/>from<br/>FY 2014</b> |
|--------------------------|----------------------------|---|---|------------------------------------|---------------------------------------|--------------------------------------|
| General Fund             | 127,482                    | 132,748                                 | 133,493                                 | 745                                | 6,011                                 | 4.7%                                 |
| All Other Funds          | 121,728                    | 123,317                                 | 122,828                                 | (489)                              | 1,100                                 | 0.9%                                 |
| <b>Total City Budget</b> | <b>249,210</b>             | <b>256,065</b>                          | <b>256,321</b>                          | <b>256</b>                         | <b>7,111</b>                          | <b>2.9%</b>                          |

Table 1 summarizes the net impacts from the proposed expenditure changes for the General Fund and all other funds. The change to the citywide expenditure budget is a net increase of \$256,000 from what was proposed on May 13. Additional expenditures to the General Fund result in an increase of \$745,000 as described below. The decrease in other funds of \$489,000 is entirely related to an adjustment to citywide debt service payment amounts.

### **General Fund**

The increase in General Fund cost over the originally proposed budget for FY 2015 is related to staffing additions totaling \$545,000, and an increase in the transfer from the General Fund to the

Transportation System Improvement Fund in the amount of \$200,000 to fund a Traffic Impact Fee Study. While this study was included in the FY 2015 CIP budget, the operating budget transfer was not adjusted accordingly.

| Department  | Budget Change   | Amount         |
|---|---|----------------|
| Development Services                              | Addition of 1 FTE Senior Plan Checker   | 151,000        |
|   | Increased funding for 3 FTE vacant positions  | 82,000         |
| Information Technology                            | Addition of 1 FTE Network/Microcomputer Specialist  | 130,000        |
| City Clerk  | Addition of 1 FTE Administrative Clerk II   | 96,000         |
| Public Works E&T                                  | Addition of 1 FTE Survey Engineer - 50% funding in FY 2015  | 86,000         |
| Capital Improvement Program                       | Increased transfer from General Fund to Transportation System Improvement Fund for Traffic Impact Fee Study | 200,000        |
| <b>Total Expenditure Changes to General Fund:</b> |   | <b>745,000</b> |

Table 2 summarizes total proposed staffing – as it has been modified over the past couple months. In short, following the May 13 budget submission, four positions funded by the General Fund have been added for a total citywide staffing of 828.20 for FY 2015 – a total increase of 24.65 FTE (3.1%) over the FY 2014 Adopted Budget. Even with these staffing additions in FY 2015, overall city staffing remains significantly reduced from prior year highs (e.g., FY 2003 total staffing was 936.8 FTE).

**Table 2 – Citywide Position Changes**

|                          | FY 2014<br>Adopted | FY 2015<br>Proposed<br>5/13/14 | FY 2015<br>Proposed<br>6/17/14 | Change<br>from<br>5/13/14 | \$ Change<br>from FY<br>2014 | % Change<br>from FY<br>2014 |
|--------------------------|--------------------|--------------------------------|--------------------------------|---------------------------|------------------------------|-----------------------------|
| General Fund             | 629.05             | 642.70                         | 646.70                         | 4.00                      | 17.65                        | 2.8%                        |
| All Other Funds          | 174.50             | 181.50                         | 181.50                         | -                         | 7.00                         | 4.0%                        |
| <b>Total City Budget</b> | <b>803.55</b>      | <b>824.20</b>                  | <b>828.20</b>                  | <b>4.00</b>               | <b>24.65</b>                 | <b>3.1%</b>                 |

***Other Budget Considerations***

***Measure C:*** Subsequent to the submittal of the FY 2015 Proposed Operating and CIP budget, the Hayward voters overwhelmingly approved Measure C, a twenty-year half-cent sales tax. The measure as approved by the voters is intended to restore and maintain Hayward city services and facilities, including firefighting/emergency medical services; improving police protection for neighborhoods, replacing the aging downtown library; repairing streets; updating aging neighborhood fire stations; and other city services. This half cent district sales tax is anticipated to generate about \$10 million per year for twenty years and is effective October 1, 2014.

The proposed budget does not include Measure C revenues and expenditures for FY 2015, which are estimated to be approximately \$4-\$5 million, and which the City will begin to receive in January 2015. Staff recommends beginning the discussions related to the FY 2015 prorated Measure C revenue and the related expenditures in early Fall to be approved during the FY 2015 mid-year budget review. This will allow Council and staff time to appropriately present and discuss programs and services to be funded; and for Council to allocate the funds consistent with the

promise to voters. The FY 2016 budget will include the first full year of Measure C revenue and expenses and will be part of that budget preparation cycle.

*Hotel Conference Center:* During the budget work sessions it was requested by City Council that staff consider how best to fund feasibility study for a possible Hotel and Business Conference Center, in town, particularly on the Old Mervyn’s site. The cost of such a study is estimated to be between \$50-\$100,000, depending on the scope and geographic areas to be included. This is not yet included in the proposed budget. If Council chooses to add it, the funding for the study would come from Fund Balance (reserves).

**Capital Improvement Program (CIP) Budget**

There are no changes to the recommended CIP budget as initially presented to Council on May 27, 2014.

**Notice of Gann Appropriation Limit**

State Proposition 4, commonly known as the Gann Initiative, was approved by California voters in November 1979. Proposition 4 created Article XIIB of the State Constitution, which places limits on the amount of revenue that can be spent by government agencies. This is referred to as the Gann Appropriation Limit, or Gann Limit. Each year the City is required to complete its Gann Limit calculation to be adopted by City Council. This public hearing provides notice that the City Council will adopt the appropriations limit for FY 2015 on June 24, 2014. The City is well within the appropriations limit. The calculations used to establish the Gann limit are available for review in the Office of the City Clerk.

**FISCAL IMPACT**

The above items reflect the major proposed changes received to date for the City of Hayward’s Proposed Operating Budget for Fiscal Year 2015 – with Table 1 (on page 2) summarizing the expenditure changes to the City’s General, Special Revenue, and Enterprise Funds should all proposed changes be approved. Table 3 below provides a summary of the overall impact to the City’s General Fund.

**Table 3 – General Fund Summary**

| <i>in the 1,000's</i>                   | <b>FY 2014<br/>Adopted</b> | <b>FY 2015<br/>Proposed<br/>5/13/14</b> | <b>FY 2015<br/>Proposed<br/>6/17/14</b> | <b>Change<br/>from<br/>5/13/14</b> |
|---|----------------------------|---|---|------------------------------------|
| Operating Revenues                      | 124,903                    | 128,288                                 | 128,288                                 | -                                  |
| Operating Expenditures                  | 127,482                    | 132,748                                 | 133,493                                 | 745                                |
| <b>Total Annual Surplus/(Shortfall)</b> | <b>(2,579)</b>             | <b>(4,460)</b>                          | <b>(5,205)</b>                          | <b>745</b>                         |

The total General Fund projected gap for FY 2015 is increased from the original projection of \$4.46 million to the current projection of \$5.2 million. Should revenues perform beyond current projections and/or expenditures are further reduced, this projected gap will shrink. As in past years, expenditures in excess of revenues will be taken from the City’s General Fund Reserve. While Council and staff have been relatively successful in past years in keeping that gap to less than budgeted, that will be a much tougher challenge going forward due to the extreme projected rise in employee benefit costs, particularly retirement and health care.

As noted in the City Manager's Budget Message for FY 2015, this will be the last year that staff can comfortably recommend use of reserves to close the identified structural gap. Reserves are intended to "smooth" the negative impact of short-term economic downturns or meet critical one-time expenditure needs. It is now clear beyond any doubt that, despite all that we have done to manage expenses and improve revenue, the escalation of employee-related expenditures will continue to put immense pressure on the City's General Fund and other operating funds; and that as a result, expenses will outstrip projected and received revenue, even with an improving economy, unless curtailed. Therefore, beginning with FY 2016, as a long-term fiscal strategy, we must balance the General Fund and other funds without using reserves for on-going operating expenses.

## **PUBLIC CONTACT**

The Proposed FY 2015 Operating Budget has been discussed by City Council over the last couple of months. A public notice was published in The Daily Review on June 7 and June 14, 2014 announcing the date, time, location, and subject matter of this public hearing. A notice advising residents about the Planning Commission's public hearing on the CIP was published in the *Daily Review* newspaper more than the requisite ten days in advance. Furthermore, staff members from Alameda County Transportation Commission (ACTC) were contacted in the event that any members from the organization's Measure B Citizen Watchdog Committee were interested in learning more about City projects funded through Measure B.

The FY 2015 Proposed Operating Budget is currently available for public review in the City Clerk's Office at City Hall, at the Main Library and the Weekes Branch, and on the City's website at: [http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/documents/2014/FY2015\\_Proposed\\_Annual\\_Operating\\_Budget.pdf](http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/documents/2014/FY2015_Proposed_Annual_Operating_Budget.pdf)

A schedule of the FY 2015 Proposed Operating Budget work sessions is available for public information on the City's website at: <http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/FINANCE/>

The FY 2015 Capital Improvement Program Budget is currently available for public review in the City Clerk's Office at City Hall, at the Main Library and the Weekes Branch, and on the City's website at: [http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/PUBLIC-WORKS-ET/documents/2014/FY15-FY24\\_CIP\\_Revised\\_for\\_Council\\_Work\\_Session.pdf](http://www.hayward-ca.gov/CITY-GOVERNMENT/DEPARTMENTS/PUBLIC-WORKS-ET/documents/2014/FY15-FY24_CIP_Revised_for_Council_Work_Session.pdf)

## **NEXT STEPS**

Council's direction from this Public Hearing will be incorporated into the budget and will be reflected in the resolutions prepared for formal budget adoption at the City Council meeting of June 24, 2014.

*Prepared and Recommended by:* Tracy Vesely, Director of Finance

*Approved by:*



Fran David, City Manager