



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 12/17/02
AGENDA ITEM _____
WORK SESSION ITEM WS 2

TO: Mayor and City Council
FROM: City Manager
SUBJECT: Status Report Regarding Fiscal Year 2002-03 Budget

RECOMMENDATION:

It is recommended the City Council review and comment on this report.

BACKGROUND:

It is customary for the City Council to hold a worksession to review the status of the current budget and to provide direction to staff regarding the preparation of a budget for the upcoming fiscal year. Typically, such a worksession is scheduled for the February time period. With an anemic regional and state economy, combined with the fiscal crisis at the state level, it is prudent to begin reviewing the City's financial condition as early as possible. Doing so provides maximum flexibility with regard to any necessary mid-course adjustments. With the foregoing in mind, in November, the Council Budget Committee reviewed the attached report prepared by the Finance Director. In a nutshell, the report states that while some revenues are greater than forecast and others less than projected, the net result is an estimated decline of approximately \$1.5 million.

Obviously, it is still early in the fiscal year to draw hard and fast conclusions. However, given available information, it is reasonable to assume the economy will not fully rebound this year, yielding a decline in total income to the City. With income lower than expected, it becomes necessary to initiate cost containment measures to assure the City does not end the fiscal year in a deficit.

Building on the information contained in the October Financial Management Report presented to the Committee, staff projected revenues and expenditures for the remainder of this fiscal. As shown in Schedule A attached to this report, absent any action to reduce expenses, the City could end the current fiscal year with a deficit of \$2.6 million.

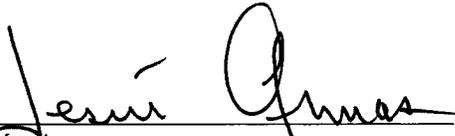
At my direction, department heads were instructed to review departmental expenditures for the purpose of identifying ways to effect overall savings equaling \$2.6 million. For the near term, I am able to report the necessary savings can be realized without significantly impacting services to the public and without the need for reduction in positions. Primarily, this can be accomplished in two ways.

First, although the City budgets the full cost of every authorized position, turnover and the time involved in filling positions means that some dollar savings will be realized. While we do not find it necessary to institute a job freeze, we are evaluating each vacancy on a case-by-case base to determine if the position should be filled right away or deferred for a period of time. Within this context, however, authorization is being granted to fill sworn public safety positions.

A second way to achieve savings is to reduce expenditures in the non-personnel categories. For the most part, this is made possible by reducing expenditures in the area of supplies and services, and to a lesser extent in maintenance and utilities as well.

In total, these two measures should be sufficient to offset the **projected** shortfall of \$2.6 million. Obviously, if the revenue situation becomes worse, or should the state government implement measures which results in less income being available to the City, additional cost savings may be necessary. By instituting belt-tightening measures now, the City is in a better position to respond to any continued decline in income later in the year. In turn, this will provide a better foundation from which to build and craft recommendations for your consideration with regard to the development of the next two-year budget.

Staff will continue to monitor the situation over the next couple of months, and continue to review monthly information with the Budget Committee. Finally, a worksession will be planned for February to update the entire Council and to receive direction regarding the budget for fiscal years 2003-05.



Jesús Armas
City Manager



CITY OF HAYWARD
STAFF REPORT

AGENDA DATE 11/26/02
AGENDA ITEM _____
WORK SESSION ITEM _____

TO: Council Budget and Finance Committee
FROM: Finance and Internal Services Director
SUBJECT: October 2002, Financial Management Report

RECOMMENDATION:

It is recommended that the Committee review and comment on this report.

BACKGROUND:

Attached is the October 31, 2002 Financial Management Report. The report consists of the General Fund Revenue By Source statement and the Operating Expenditures By Department statement, both for the General Fund. These two statements track revenue and expenditures for the General Fund and are for the period July 1, 2002 through October 31, 2002.

REVENUES

The General Fund Revenue by Source statement shows actual revenues through October 31, 2001 and 2002. In addition, the adjusted budget for 2002-03 is presented. After the Mid-Year budget review an Estimated Actual 2002-03 column will be added.

Overall revenues are down from this same period for last year by about \$1.5 million. More specifically, for the four months ended October 31, 2001 revenues stood at \$20.5 million and for the four months ended October 31, 2002 revenues are at \$19 million. In view of the general economic decline that has been developing the reduction in revenues is not unexpected.

The following is a brief discussion of each of the General Fund's major revenue categories:

Property Tax Revenue Property tax accounts for approximately 20% of the General Fund's operating revenue budget. At this time last year collections were approximately \$1.2 million. For the period ended October 31, 2002 collections are at \$1.5 million a favorable variance of about \$300,000. If this trend continues then this revenue category will show a favorable variance from budget at year-end.

Sales Tax Revenue Sales tax accounts for approximately 36% of the General Fund's operating revenue budget. At October 31, 2001 collections stood at \$9.1 million and at October 31, 2002, \$7 million, a short fall of \$2.1 million from the prior year. A review of sales tax revenue for Hayward for the quarter April, May June of 2002, (the most recent quarter information available)

compared to the same quarter for 2001 shows a decline in revenue of about 13%. On an annual basis this percentage may prove to be different. Nonetheless, sales tax revenue is clearly on the decline. In fact, several other Alameda County cities have incurred sales tax revenue declines ranging from 15% to 20%.

In terms of sales tax revenue categories, Hayward has always had a strong Business-to-Business component, approximately 36% and a strong transportation segment, about 28%. Unfortunately, the Business-to-Business segment has been particularly hard hit by the economic slow down. This slowdown is reflected in the sales tax revenue to the City as noted above. On the other hand, the Transportation segment has done well and has "made up" part of the fall off in the Business-to-Business segment.

The Transportation segment is for the most part auto sales. Recent financial news indicates that this category is weakening, placing Hayward's sales tax revenue at further risk. A review of all other categories such as General Retail, Construction, etc. indicates that revenues are steady. Consequently, based on the known decline in the Business-to-Business sector and signs of weakening in the Transportation sector it is possible that this revenue will not meet budget for the year. Staff will be accessing this revenue at the mid-year budget review to determine if any changes in the revenue estimate should be made.

Real Property Transfer This revenue is up slightly from the same period last year, about \$80,000. The financial press indicates that the housing market is still strong, even though there is evidence that prices are softening. However, at this time this revenue is on target for 2002-03.

Emergency Facilities Tax This tax is levied on households, businesses and hotels/motels. Historically the amount raised is predictable and varies very little from year to year. At October 31, 2001 the amount of revenue was \$535,359 and at October 31, 2002, \$499,097 a variance of about \$36,000 which is not significant at this point.

All Other Taxes This category consists of budgeted revenues for the Business License tax, \$2,025,000, Transient Occupancy Tax, \$1,500,000 and the Supplemental Building, Construction and Improvement Tax, \$1,750,000, total \$5,275,000. The only category that is down from last year is the Supplemental Building Construction and Improvement Tax, by approximately \$425,000. This tax is levied at the time a certificate of occupancy is issued. Staff is doing additional research on this revenue but the work done to date indicates that this revenue will not meet budget for the year. This revenue will be assessed again at the mid-year budget review to determine if any change should be made in the 2002-03 revenue estimate.

Franchises For the most part franchise revenue consists of the Garbage franchise, Cable T.V and the P.G.&E. franchise. Revenues for this area for last year totaled \$1,010,418. Through October 31, 2002 revenues stand at \$775,080, a difference of about \$235,000. The short fall in the current year's revenue is due to the timing of quarterly payments for the Cable T.V. franchise. The cable company is currently behind in remitting payment to the City. The City has contacted the cable company and payment is scheduled for November 15, 2002.

Licenses and Permits At October 31, 2001 this revenue category stood at \$1,018,503 and at October 31, 2002, \$1,049,162 has been collected. The positive variance is about \$31,000. A review of the various revenue accounts that make up this category indicates that revenues are on track for 2002-03.

Interest and Rents This revenue category is slightly under the same period last year. This decrease is due primarily to lower interest rates. For example, for the year 2001-02 the City of Hayward earned an average portfolio rate of 4.11%. The current rate is just over 3%.

Fines and Forfeitures This category is up significantly from 2001-02. This increase is primarily due to the recognition of a one-time transfer of parking citation revenue from the Parking Fund to the General Fund of \$500,000. This one-time revenue is included in the budget for 2002-03. Otherwise this revenue category is generally on target for 2002-03.

Motor Vehicle In-Lieu This revenue is based on the total amount collected by the State, which is distributed, to the city based on population. This revenue is up over this same period last year by approximately \$390,000. A review of the monthly remittance advices indicates that this revenue may exceed the budget of \$7,800,000 for 2002-03.

EXPENDITURES

The last page of the Operating Expenditures by Department provides a quick overview of the General Fund at October 31, 2002. This page shows that the General Fund is at 29% of budget with four months of the current fiscal year completed. Compared to a time elapsed percentage of 33% this places the General Fund on target for 2002-03. A review of General Fund expenditures for this same period last year shows that the General Fund was at 32% of budget.

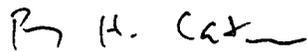
In terms of major categories, Employee Services was at 33% of budget in 2001-02 and is at 30% of budget for the current year. It should be noted that for the prior fiscal year nine of 27 pay periods or 33% had occurred. For the current fiscal year eight pay periods of 26 or 31% have occurred through October 31, 2002. Viewing employee services from the basis of pay periods places this expenditure category on target for 2002-03. The category Maintenance and Utilities was at 27% of budget in 2001-02 and is at 26% of budget for the current year, a favorable variance. The category Supplies and Services was at 33% of budget in 2001-02 and is at 28% in 2002-03, again a favorable variance. Given the City's historical expenditure patterns, these categories are on target for 2002-03. The last two major categories, Capital Expense and Net Interdepartmental Charges and Credits are also in line with expected results and are on target for 2002-03.

Capital expense items have not been researched for additional information. This is due to the fact that capital items can be acquired at any time during the year and applying an elapsed time test is not always meaningful.

There were no departments that met the excess of 10% test established for further review.

The October 31, 2002 Financial Management Report, followed by Schedule A is attached for your review.

Prepared by:



Perry H. Carter
Perry H. Carter, Finance and Internal Services Director

Approved by:



Jesús Armas
Jesús Armas, City Manager

Attachment

**Financial Management Report
 General Fund Revenue by Source
 Periods Ending October 31, 2001 and October 31, 2002
 33% of Year Completed**

	ACTUAL 10/31/01	ACTUAL 10/31/02	APPROVED & ADJUSTED BUDGET 2002/2003
REVENUE			
Property Taxes	\$ 1,237,644	\$ 1,456,700	\$ 17,850,000
Sales Taxes	9,104,048	7,020,405	31,059,000
Real Property Transfer Tax	1,542,218	1,620,366	4,500,000
Emergency Facilities Tax	535,359	499,097	1,750,000
All Other Taxes	1,173,882	730,623	5,275,000
Franchises	1,010,418	775,080	5,575,000
Licenses & Permits	1,018,503	1,049,162	2,204,178
Interest & Rents	174,048	104,019	1,400,000
Fines & Forfeitures	98,254	703,651	1,210,000
Motor Vehicle In-Lieu	2,558,405	2,946,943	7,800,000
All Other From Agencies	726,942	753,064	3,089,605
Fees & Service Charges	810,728	854,471	2,499,885
Other Revenue (See Note Below)	489,601	504,328	2,597,007
	<u>\$ 20,480,050</u>	<u>\$ 19,017,909</u>	<u>\$ 86,809,675</u>

**Financial Management Report
 Operating Expenditures by Department
 Period Ending October 31, 2002
 33% of Year Completed**

	ACTUAL 10/31/2002	APPROVED & ADJUSTED BUDGET 2002/2003	PERCENT YTD
MAYOR AND COUNCIL DEPARTMENT			
Employee Services	111,588	352,565	32%
Maintenance & Utilities	273	2,971	9%
Supplies and Services	9,194	80,103	11%
Capital Expense	-	-	0%
Subtotal	121,055	435,639	28%
Net Interdepartmental	-	-	0%
Total	121,055	435,639	28%
CITY MANAGER DEPARTMENT			
Employee Services	623,518	2,013,706	31%
Maintenance & Utilities	40,104	409,296	10%
Supplies and Services	230,292	1,241,185	19%
Capital Expense	32,896	250,898	13%
Subtotal	926,810	3,915,085	24%
Net Interdepartmental	-	-	0%
Total	926,810	3,915,085	24%
NON DEPARTMENTAL DIVISION			
Employee Services	-	-	0%
Maintenance & Utilities	-	-	0%
Supplies and Services	226,153	563,822	40%
Capital Expense	-	-	0%
Subtotal	226,153	563,822	40%
Net Interdepartmental	-	-	0%
Total	226,153	563,822	40%
CITY ATTORNEY DEPARTMENT			
Employee Services	208,047	801,009	26%
Maintenance & Utilities	347	992	35%
Supplies and Services	18,356	131,985	14%
Capital Expense	-	-	0%
Subtotal	226,750	933,986	24%
Net Interdepartmental	-	(13,984)	0%
Total	226,750	920,002	25%

**Financial Management Report
 Operating Expenditures by Department
 Period Ending October 31, 2002
 33% of Year Completed**

	ACTUAL 10/31/2002	APPROVED & ADJUSTED BUDGET 2002/2003	PERCENT YTD
CITY CLERK DEPARTMENT			
Employee Services	111,264	344,172	32%
Maintenance & Utilities	202	1,698	12%
Supplies and Services	12,177	55,059	22%
Capital Expense	-	-	0%
Subtotal	123,643	400,929	31%
Net Interdepartmental	80	264	30%
Total	123,723	401,193	31%
HUMAN RESOURCES DEPARTMENT			
Employee Services	195,675	706,608	28%
Maintenance & Utilities	1,161	3,142	37%
Supplies and Services	498,446	1,525,588	33%
Capital Expense	-	9,900	0%
Subtotal	695,282	2,245,238	31%
Net Interdepartmental	(12,623)	(40,492)	31%
Total	682,659	2,204,746	31%
FINANCE DEPARTMENT			
Employee Services	880,490	3,153,475	28%
Maintenance & Utilities	506,480	1,586,036	32%
Supplies and Services	216,932	861,332	25%
Capital Expense	11,206	45,328	25%
Subtotal	1,615,108	5,646,171	29%
Net Interdepartmental	(32,728)	(23,506)	139%
Total	1,582,380	5,622,665	28%
POLICE DEPARTMENT			
Employee Services	9,772,148	32,841,687	30%
Maintenance & Utilities	226,101	673,161	34%
Supplies and Services	932,167	2,978,336	31%
Capital Expense	46,056	215,014	21%
Subtotal	10,976,472	36,708,198	30%
Net Interdepartmental	2,340	8,799	0%
Total	10,978,812	36,716,997	30%

**Financial Management Report
 Operating Expenditures by Department
 Period Ending October 31, 2002
 33% of Year Completed**

	ACTUAL 10/31/2002	APPROVED & ADJUSTED BUDGET 2002/2003	PERCENT YTD
FIRE DEPARTMENT			
Employee Services	5,472,545	17,392,558	31%
Maintenance & Utilities	26,118	110,736	24%
Supplies and Services	382,554	1,237,121	31%
Capital Expense	79,779	172,644	46%
Subtotal	5,960,996	18,913,059	32%
Net Interdepartmental	(1,099)	(14,929)	7%
Total	5,959,897	18,898,130	32%
PUBLIC WORKS DEPARTMENT			
Employee Services	1,987,567	6,911,360	29%
Maintenance & Utilities	275,387	1,373,548	20%
Supplies and Services	302,071	926,377	33%
Capital Expense	-	-	0%
Subtotal	2,565,025	9,211,285	28%
Net Interdepartmental	(814,509)	(2,403,493)	34%
Total	1,750,516	6,807,792	26%
LIBRARY DEPARTMENT			
Employee Services	841,298	2,896,809	29%
Maintenance & Utilities	74,094	224,049	33%
Supplies and Services	180,604	559,258	32%
Capital Expense	2,104	12,925	16%
Subtotal	1,098,100	3,693,041	30%
Net Interdepartmental	(719)	-	0%
Total	1,097,381	3,693,041	30%
COMMUNITY & ECON. DEV. DEPARTMENT			
Employee Services	1,454,962	5,155,886	28%
Maintenance & Utilities	4,077	10,927	37%
Supplies and Services	300,478	1,734,538	17%
Capital Expense	2,972	102,757	3%
Subtotal	1,762,489	7,004,108	25%
Net Interdepartmental	(167,742)	(413,840)	41%
Total	1,594,747	6,590,268	24%

**Financial Management Report
 Operating Expenditures by Department
 Period Ending October 31, 2002
 33% of Year Completed**

	ACTUAL 10/31/2002	APPROVED & ADJUSTED BUDGET 2002/2003	PERCENT YTD
TOTAL GENERAL FUND BY DEPARTMENT			
Total General Fund	25,270,883	86,769,380	29%
TOTAL GENERAL FUND BY OBJECT			
Employee Services	21,659,102	72,569,835	30%
Maintenance & Utilities	1,154,344	4,396,556	26%
Supplies and Services	3,309,424	11,894,704	28%
Capital Expense	175,013	809,466	22%
Subtotal	26,297,883	89,670,561	29%
Net Interdepartmental	(1,027,000)	(2,901,181)	35%
Total	25,270,883	86,769,380	29%