



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 02/20/07

AGENDA ITEM _____

WORK SESSION ITEM ws #2b

TO: Mayor and City Council
FROM: Director of Finance and Internal Services
SUBJECT: Mid-Year Budget Review – FY 2006-07

RECOMMENDATION:

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

BACKGROUND:

This report reviews the status of the General Fund at the mid-year point for FY 2006-07 and provides an analysis of projected revenues and expenditures for year end.

General Fund Financial Analysis

FY 2005-06 General Fund balance ended as planned, utilizing approximately \$500,000 in contingency reserves, as approved by Council in the budget process.

Staff has analyzed General Fund revenues and expenditures for FY 2006-07, and based on actual data through December 31, 2006, estimates the General Fund to essentially breakeven at year-end.

Revenue analysis

Total revenue is projected to exceed the budget by over \$2 million. This increase is mainly due to unexpected, unbudgeted payments from the State for reimbursement of State mandated costs in the amount of \$1.5 million.

**General Fund - Summary of Performance
FY 2006-07 Year-End Estimate**

Revenue	Actual FY 2005-06	Approved (Adj) Budget FY 2006-07	Estimated FY 2006-07
Sales Tax	26,685,812	28,933,000	28,933,000
Sales Tax Revenue	21,096,622	21,507,204	21,507,206
Property Tax Revenue - State Backfill	5,589,190	7,425,796	7,425,794
Property Taxes	21,446,064	23,680,000	23,680,000
Real Property Transfer Tax	9,707,512	8,755,000	8,317,250
Other Taxes	13,681,534	13,377,000	13,477,000
Emergency Facilities Tax	1,942,949	1,700,000	1,750,000
All Other Taxes	4,636,567	4,750,000	4,800,000
Franchise Tax	7,102,018	6,927,000	6,927,000
All Other Sources	10,671,439	11,545,719	13,359,719
Licenses & Permits	3,058,982	3,513,650	3,647,650
Interest & Rents	429,557	640,300	640,300
Fines & Forfeitures	1,343,560	1,224,828	1,224,828
All Other from Agencies	3,130,923	3,011,841	4,506,841
Other Revenue	2,708,417	3,155,100	3,340,100
Vehicle In-Lieu	12,886,423	11,002,000	11,002,000
Charges for Service	<u>3,132,181</u>	<u>2,586,850</u>	<u>3,186,850</u>
Total Revenue	<u>\$98,210,965</u>	<u>\$99,879,569</u>	<u>\$101,955,819</u>
Transfers In	<u>\$4,966,074</u>	<u>\$5,059,000</u>	<u>\$5,009,000</u>
Total Resources Available	<u>\$103,177,048</u>	<u>\$104,938,569</u>	<u>\$106,964,819</u>

Sales Tax - Sales tax is the City's largest revenue source. The FY 2006-07 Budget projected a 6% increase in sales tax to \$28.9 million. This is still a viable projection. Staff expects revenue will be on target at year end, or slightly under.

In January the Association of Bay Area Governments (ABAG) forecast a 6% growth rate in retail sales for Alameda County. This forecast is based on strong job growth projections and an increase in the consumer confidence index. It should be noted however, that new vehicle sales make up a significant portion of our sales tax revenue. This category of retail sales has been low and the average national new car sales for December were reported to be the lowest since 1998. Therefore, staff will keep a close watch over sales tax.

Property Tax – Property taxes in the General Fund were budgeted at approximately \$23.7, a 6% increase from the prior year. Staff estimates that property tax revenue will meet or possibly exceed the budgeted projection. This estimate includes the restoration of the \$1.9 million that the City contributed to the Educational Revenue Augmentation Fund (ERAF III). As Council may remember, the State entered into an agreement requiring local governments to pay 2 years of additional ERAF III. Payments were made by the City in FY 2004-05 and FY 2005-06, and have now ended.

Real Property Transfer Tax – Real property transfer tax has made a significant contribution to the City's General Fund over the past several years. The current year budget projected 3% growth from the prior year's estimates. Based on analysis of the revenue received through December 31, 2006, the trend data related to property turnover and the economic forecast of the housing sector, staff expects to receive slightly less revenue than projected for the year over all.

The major contributing factors to transfer tax revenue remain unpredictable. Regional housing sales, while the activity has slowed from previous levels, remain strong; and housing prices reflect a similar picture. Locally, the City has housing development projects underway and in the pipeline. If the local housing market sustains its current strength and does not slow further, these new home sales may assist in maintaining this revenue close to amounts projected, although new home sales are only a small contribution to overall real property transfer tax.

In analyzing the trend data, staff noted that new residential sales have leveled off. In the recent year, staff has also noted a shift in new development from single family units to condominiums. Resales of residential properties have slowed and the average sale price is less than in prior years. Commercial real estate transactions are difficult to estimate. Trends do not reflect any consistency and staff must rely on local information provided by the business community as transactions occur. For example, in 2005, the average tax payment for a commercial property sale was \$25,000 and in 2006 the average tax payment was \$12,700.

Other Taxes – Franchise tax, transient occupancy tax, business tax, and emergency facilities tax are included in the \$13.5 million amount of Other Taxes. Franchise fees are expected to be on target. Transient occupancy tax is strong this year and expected to meet budget projections. Business tax and emergency facilities tax are estimated to be slightly greater than projected and staff projects that revenue will exceed the budget in this category.

All Other Sources - Included in this category are permit and license fees, revenue from fines, interest earned, and revenue from the State or other agencies. The most significant revenue source this year is the State reimbursement of mandated costs, referred to as SB 90 reimbursements. When the State had a deficit it stopped paying reimbursements to cities. The State committed to keeping track of payments in arrears and pay cities when they were able. This year the City received \$1.5 million in unexpected SB 90 reimbursements from prior years.

Increased revenue is projected for fees related to building permits. There are several subdivision developments in process. Due to the timing of development, the City was slightly below projections at the end of last year and slightly ahead of projections this year. There is no significant change in the expected development projects, just a variation in the timing of services

and permits being issued. Based on the timing variation of the permit revenue, staff expects this revenue to exceed the budgeted amount.

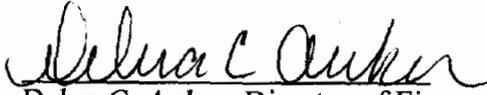
Charges for Services – City staff performs many services for those doing business with the City, based on a regularly adopted fee schedule. This year, two types of service revenue are expected to be greater than estimated. False alarm fees will be about \$300,000 greater than projected due to revisions in the ordinance and fee schedule. False alarms have decreased since the prior year; however, changes to the fee structure have generated additional revenue in the current year. Staff does not expect the same increase in future years. Plan checking services are also expected to generate approximately \$300,000 more than planned. Plan checking services are directly related to new development projects within the City, including the Cannery project and Eden Shores East. Staff estimates that revenue will exceed budget by \$600,000 in this category.

Expenditure Analysis		Approved	
Operating Requirements	Actual	(Adj) Budget	Estimated
	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2006-07</u>
Employee Services	81,323,229	84,542,512	85,696,284
Maintenance and Utilities	4,613,408	4,215,103	4,215,103
Supplies and Services	10,253,116	10,972,955	10,967,955
Capital Expense	<u>506,088</u>	<u>520,510</u>	<u>495,029</u>
Total Expenses	96,695,841	100,251,080	101,374,371
Transfers Out	<u>7,001,137</u>	<u>5,559,000</u>	<u>5,559,000</u>
Total Funds Required	<u>\$103,696,978</u>	<u>\$105,810,080</u>	<u>\$106,933,371</u>

Employee services make up the majority (80%) of the \$106 million General Fund expenditure budget. Over the past several years the City Council froze positions and delayed hiring to achieve financial stability. The current year budget projected that City finances were regaining that stability and the City Manager recommended restoring several positions. As a result, staff has performed recruitments for police officers, other public safety personnel, and community and economic development employees this year. At December 31, employee service costs were at 50% of the budgeted amount. However, increased costs, including labor costs will generally offset revenue gains.

In summary, the City's General Fund is seeing the positive impact of revenue diversity, a stable economy, and costs that are under control. Therefore, the General Fund is expected to end as planned, with revenue slightly exceeding expenditures by \$31,448.

Recommended by:



Debra C. Auken, Director of Finance and Internal Services

Approved by:



Jesus Armas, City Manager