



**CITY OF HAYWARD**  
**AGENDA REPORT**

AGENDA DATE 03/06/07  
AGENDA ITEM \_\_\_\_\_  
WORK SESSION ITEM WS#2

**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**

Based on staff's analysis of General Fund revenues and expenditures for FY 2006-07, staff estimates that at year-end, revenues will exceed expenses by \$415,000, which is approximately the budgeted amount. Please refer to a complete overview of the estimated end of year amounts for FY 2006-07 at Attachment A.

Revenue analysis

Total revenue is projected to exceed the budget by over \$1.6 million. This increase is mainly due to unexpected, unbudgeted payments from the State for reimbursement of State mandated costs in the amount of \$1.4 million.

*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 January 31, 2007, 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 estimated \$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 \$1.4 million in unexpected SB 90 reimbursements from prior years. The majority of the expenses were related to animal control mandates.

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 permits issued, staff expects permit 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

Employee services make up the majority (85%) of the \$105 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 exceeding expenditures by \$415,000.

Recommended by:



Debra C. Auker, Director of Finance and Internal Services

Approved by:

  
Jesús Armas, City Manager

**FY 2006-07 General Fund Mid-Year Overview**  
 (\$ in 000's)

**Attachment A**

	<b>Actual FY 2005-06</b>	<b>Approved Adopted (Adj) FY 2006-07</b>	<b>Estimated FY 2006-07</b>
<b>Resources</b>			
Sales Tax	26,686	28,933	28,933
Property Tax	21,446	23,680	23,680
Real Property Transfer Tax	9,708	8,755	8,317
Other Taxes	13,682	13,377	13,477
All Other Sources	10,671	12,014	13,360
Vehicle License Fee	12,886	11,002	11,002
Charges for Services	3,132	2,587	3,187
Subtotal	98,211	100,348	101,956
Transfers to General Fund	4,966	5,059	5,009
Total Resources	103,177	105,407	106,965
<b>Operating Requirements</b>			
Employee Services	85,334	88,500	89,027
Maintenance & Utilities	4,613	4,215	4,215
Supplies & Services	10,253	10,973	10,973
Capital Expense	506	521	521
Inter-departmental charges	(4,010)	(3,958)	(3,745)
Subtotal	96,696	100,251	100,991
Transfers from General Fund	7,001	5,559	5,559
Use of Encumbrance	0	(874)	0
Total Expenditures	103,697	104,936	106,550
Excess Revenue (Expenditure)	(520)	471	415
Use of Contingency Reserve	520	0	0
Excess of Revenue/Reserves	0	471	415