



CITY OF  
**HAYWARD**  
HEART OF THE BAY

WS 26

**DATE:** January 29, 2008  
**TO:** Mayor and City Council  
**FROM:** Director of Finance and Internal Services  
**SUBJECT:** FY 2008 Mid-Year Financial Update

**RECOMMENDATION**

That the Council reads and comments on this Mid-Year Financial Report.

**SUMMARY**

This Mid-year Financial Report provides an overview of FY 2008 General Fund revenues, expenditures, and fund balance reserves projected through the remainder of this fiscal year. These projections are developed by reviewing the actual revenues and expenditures recorded through December 31, 2007, and analyzing current available financial assumptions, and other market trends.

The result of this analysis reflects a significant decline in revenue, which will increase the General Fund's use of reserves to approximately \$10.4 million for the year ended June 30, 2008 (FY 2008). Detailed financial assumptions are discussed below. Staff will be proposing certain amendments to the FY 2008 budget in this report. Staff will present a formal report for Council's formal approval of these proposed amendments at the February 19<sup>th</sup>, 2008 Council meeting.

**DISCUSSION**

**FY 2008 Summary of General Fund as of December 2007 and Projected Through June 2008**

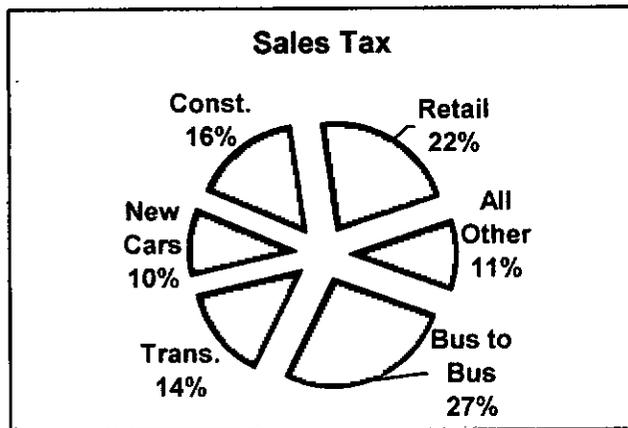
**Adopted Budget** - The FY 2008 General Fund Budget authorized a \$3.8 million use of reserves. The adopted budget incorporated economic factors, such as a softening of the housing market and reduced retail sales, into the revenue estimates. The adopted budget also incorporated estimates for the effect of the City-wide review of employee salaries. However, as noted below, economic conditions have been rapidly declining since August 2007, when the effects of the collapse of the sub-prime mortgage market began, therefore staff has proposed certain amendments to the budget.

**Revenue** - Revenue received through the first half of the current year is about 98% of the prior year at this same time, after removing \$1.46 million in state mandated reimbursements. When comparing revenue through December to the budget, about 90% of projected revenue has been received, or \$5,305,771 less than estimated. This shortfall in revenue is due primarily to the decline of sales tax, real property transfer tax, and development related revenues. The City's major revenue sources are discussed below:

- **Property Tax** – A significant portion of the property tax revenue is received semi-annually. The semi-annual secured property tax payments received in December came in on target, and general property tax revenue is projected to be slightly above the \$36.4 million budget estimate by year end. These projections include two additional components of property tax. 1) Property tax backfill from the State's trade of VLF is forwarded semi-annually from the County, per the requirements of the Triple Flip. The semi-annual payment came in above target. 2) Unsecured property tax is also received for the value of aircraft at the Hayward Airport. The additions in new aircraft have increased this revenue source.

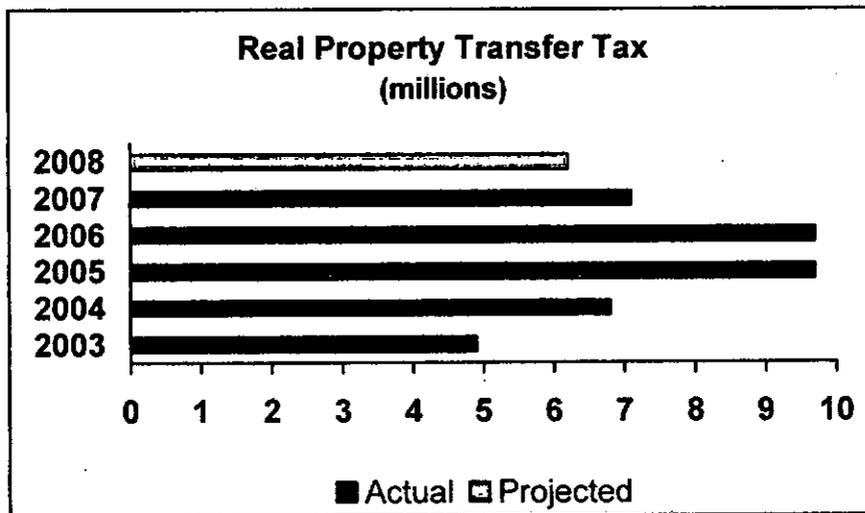
Staff is closely watching the effects of the housing and financial markets. In general, property owners request reassessments during periods when the housing markets encounter significant declines. Reassessments are processed by the County Assessor, and take a period of several months to process; therefore staff feels that the time delay will affect assessed valuation of properties in the next fiscal year if reassessments are granted. Staff is more concerned with possible delinquencies due to non-payment of property taxes. It is expected that when property owners are in the process of foreclosure, that they are also delinquent on payment of property taxes. Since foreclosure rates throughout the Bay Area have significantly increased, staff is working with the County to determine the effect on Hayward property taxes. After reviewing all the above factors, it is staff's expectation that property tax revenue will be greater than expected, and a budget adjustment to increase property tax by \$400,000 is proposed.

- **Sales Tax** – Sales tax was budgeted to grow by 5% this year, however, as of December this revenue has been flat. After receiving the payments through December, and analyzing local and State-wide trends, staff projects sales tax revenue to be 4% below target, or \$1.1 million below the \$30 million budget estimate.



Although the Hayward sales tax base is diverse (as reflected in the chart on the previous page) the concerns about consumer confidence, the reduction in new car sales, and the slow down in construction activity will all contribute to the decline in this revenue source. During the first quarter of this fiscal year, many business sectors experienced a decline in taxable sales, including the auto industry, construction related business, and retail that serves the housing and new construction markets, such as furniture stores. Department stores, the food related industries, business to business sales, and service stations showed single digit growth. Overall, the City is experiencing slightly greater declines in retail sales than the average of Alameda County cities and the Bay Area. Staff expects that sales tax revenue will be approximately the same as the prior year, and therefore a budget adjustment to decrease sales tax by 4% or \$1.1 million is proposed.

- **Real Property Transfer Tax** – The FY 2008 adopted budget includes \$8 million in annual revenue. However, the current year transfer tax revenue will be far below the prior year revenue due to the downturn in the housing market. Based on the revenue received so far this year, staff expects to receive approximately \$6.2 million, or \$1.8 million less than budgeted by year end. The chart below shows that over the past several years real property transfer tax has had significant growth and is now reflecting the reduction in residential housing turnover.

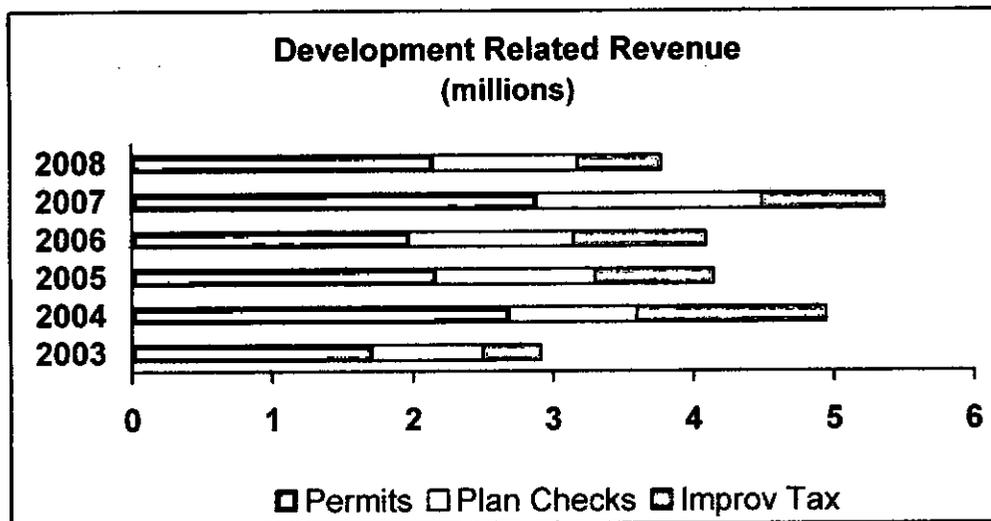


Based on the revenue received through December, the reduction in the turnover rate of residential properties and the overall real estate market crisis, a \$1.8 million reduction in real property transfer tax revenue is proposed.

- **Development Related Fees** – Development related revenues have been significantly effected due to the changes in the real estate and housing market, and staff expects revenue to be \$1.2 million less than budgeted.

Development Related Revenue	Budget	Estimated Revenue	Proposed Adjustment
Construction permits	2,600,000	2,050,000	550,000
Plan checking fees	1,300,000	1,050,000	250,000
Supp. improvement tax	1,000,000	600,000	400,000
Total			1,200,000

The FY 2008 budget projected \$2.6 million for construction permits, \$1.3 million for plan check revenue, and \$1 million for the supplemental improvement tax; staff estimates revenue to be \$2.1 million, \$1 million and \$0.6 million, respectively. Revenue received through December is at 61% of the same period last year. The expectation is that development activity will continue to slow over the next six months. The chart below reflects the changes in development related revenues over the past six years. FY 2008 reflects the year end estimates, which will require a total amendment to the budget of \$1.2 million. If activity continues to flatten, a thorough review of program expenditures will be necessary to bring them inline with anticipated revenues.



- **Other Revenue** - Interest earned on General Fund cash and investments is below expectation through December. Staff estimates that interest will be slightly less than budgeted by year end due to the reduction in interest rates.

The adopted FY 2008 budget projected \$932,000 in annual vehicle license fee revenue. The revenue through December is at 66% of prior year receipts. Staff estimates that this revenue source will be below target. In general, new vehicle sales have been slipping for the past year due to increased gas prices and overall constrained consumer spending. With less new car sales, the fees paid to the State do not show significant growth.

Last year, within the first two months of the fiscal year the City received over \$1.46 million in State reimbursements for animal control services and other required services that were performed in prior years. Reimbursement of State mandated costs are controlled by the State and the Governor. The City has no control over the timing of the receipts. Fiscal year-to-date we have received \$161,469 and do not expect much more through the end of the year due to the State budget crisis. Staff is not proposing budget adjustments in these areas at this time.

**Expenditures** - Expenditures through the first half of the current year are approximately 110% of prior year at this same time. When comparing expenditures to the revised budget, approximately 100% of projected spending has occurred through December.

Employee salaries and benefits represent 86% of the general fund expense. Three City unions are currently in contract negotiations (HAME, Local 21, and 1909). The HPOA, Local 1021, unrepresented employees, and Hayward Police Management contracts have recently been approved, with most of the retroactive salary increases included in the December numbers. Therefore, staff has estimated salary adjustment and retroactive payment for the groups that are currently completing the negotiations process. These salary adjustments are expected to be confirmed by March 2008. It is expected that the overall adjustment to employee services will exceed the budget, and therefore staff is proposing a budget adjustment to increase expenditures by 2% or \$2.1 million.

## **FISCAL IMPACT**

The FY 2008 year end estimates for the General Fund are summarized in Attachment A. The overall fiscal impact of the proposed budget adjustments add up to an additional \$5.575 million use of reserves, for a total of \$10.4 million. At the beginning of the 2008 fiscal year the General Fund reported reserves of \$23.5 million. The detailed breakdown of the General Fund reserves are outlined in Attachment B. After deducting the budgeted \$3.8 million, the additional appropriations of \$1 million, and the sum of the \$5.575 million proposed budget adjustments, the remaining fund balance is projected to be \$13.1 million. The remaining \$13.1 million includes the following designations:

Economic Uncertainty	\$ 7.0
Liquidity	\$ 3.5
Hotel Conference Center	\$ 1.1
Public Safety	\$ 1.0
Other Obligations	<u>\$ 0.5</u>
Total	\$13.1 million

## **NEXT STEPS**

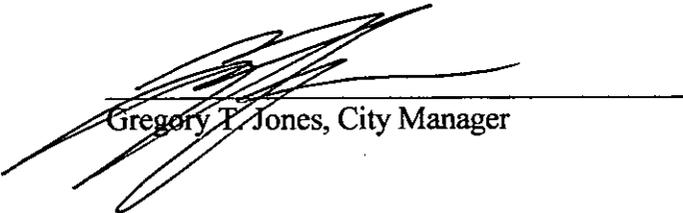
Staff will prepare a report for Council's review and approval to revise the FY 2008 Adopted Budget based on Council discussions and recommendations. Staff will continue to monitor the financial health of the organization and provide monthly financial reports to Council.

Prepared by:



Debra C. Auken, Director of Finance and Internal Services

Approved by:



Gregory T. Jones, City Manager

Attachment:

- A - FY 2008 General Fund Summary, Revenue, June 30, 2008 Estimates
- B - FY 2008 Mid-year Review General Fund Reserves

## FY 2008 - General Fund Summary

June 30, 2008 Estimate

<b>Revenue</b>	Current Year				
	Adopted	Revised	FY 08 EOY	08 EOY Est. vs. 08 Budget	
	Budget	Budget		\$ Over/	EOY Est as %
	FY 2008	FY 2008	Projected	(Under)	of Budget
	(July 1, 2008)	(All changes from July 1 - Dec 31, 2007)			
35% Property Tax	36,410,000	36,410,000	36,810,000	400,000	101%
29% Sales Tax	30,030,000	30,030,000	28,930,000	(1,100,000)	96%
8% Real Prop Trsfr Tax	8,000,000	8,000,000	6,200,000	(1,800,000)	77%
8% Franchise Tax	8,347,550	8,347,550	8,347,550	0	100%
6% Other Taxes	6,530,000	6,530,000	6,130,000	(400,000)	94%
4% License & Permits	3,752,150	3,752,150	3,202,150	(550,000)	85%
4% Other Revenue	4,241,050	4,241,050	4,241,050	0	100%
3% Fees & Service Charges	3,179,809	3,179,809	2,929,809	(250,000)	92%
3% From Other Agencies	3,515,342	3,959,799	3,959,799	0	100%
1% Fines & Forfeitures	947,828	947,828	947,828	0	100%
100% <b>Total Revenues</b>	<b>104,953,729</b>	<b>105,398,186</b>	<b>101,698,185</b>	<b>(3,700,001)</b>	<b>96%</b>
<b>Expenditures</b>					
Salary and Benefits	96,845,133	97,097,306	98,916,440	1,819,134	102%
Charge/(Credit) from others	(4,064,305)	(4,064,305)	(3,783,439)	280,866	93%
86% Net Employee Services	92,780,828	93,033,001	95,133,001	2,100,000	102%
4% Maintenance & Utilities	4,138,202	4,159,672	4,159,672	0	100%
10% Supplies and Services	11,059,694	11,681,195	11,681,195	0	100%
0% Capital Expense	225,000	777,463	552,463	(225,000)	71%
	15,422,896	16,618,330	16,393,330	(225,000)	271%
100% <b>Total Expenditures</b>	<b>108,203,724</b>	<b>109,651,331</b>	<b>111,526,331</b>	<b>1,875,000</b>	<b>102%</b>
<b>Transfers</b>					
Transfers in	5,137,766	5,140,676	5,140,676	0	100%
Transfers out	(5,725,461)	(5,725,461)	(5,725,461)	0	100%
<b>Net Transfers</b>	<b>(587,695)</b>	<b>(584,785)</b>	<b>(584,785)</b>	<b>0</b>	<b>100%</b>
<b>Difference</b>	<b>(3,837,690)</b>	<b>(4,837,930)</b>	<b>(10,412,931)</b>	<b>(5,575,001)</b>	<b>215%</b>

**FY 2008 Mid-Year Review**  
**General Fund Reserves**  
(\$ in millions)

	Adopted Budget	Revised Budget (Proposed)
<b>General Fund Balances</b>		
Reserves:		
Inventories	\$ 28	
Encumbrances	474	
Liquidity	3,500	
Economic Uncertainty	7,000	
Public Safety	1,000	
Hotel Conference Center	1,250	
RDA Loan	1,336	
Total Reserved Fund Balance	<u>14,588</u>	
Unreserved Contingency		<u>8,936</u>
<b>Beginning Fund Balance at July 1, 2007</b>	<b>\$ <u>23,524</u></b>	

**Use of General Fund Reserves**

Use of Reserves per Adopted Budget	\$ 3,838
Approved New Appropriations and Prior Obligations	1,000
Use of Reserves Prior to Mid-year Adjustments	<u>\$ 4,838</u>
Proposed Adjustments:	
Reduction in Sales Tax	(1,100)
Increase in Property Tax	400
Reduction in Real Property Transfer Tax	(1,800)
Development Related Revenue:	
Decline in Construction Permits	(550)
Decline in Plan Check Services	(250)
Decline in supplemental improvement tax	(400)
Increase in Employee Services Costs	(2,100)
Decrease in Capital Outlay Spending	225
Sub-total of Net Proposed Adjustments	<u>\$ (5,575)</u>
<b>Total Reserve Requirement</b>	<b>\$ <u>10,413</u></b>

**Proposed Use of Fund Balance Reserves**

Contingency	\$ 8,936
RDA Reserve	1,336
Hotel/Conference Center	141
<b>Authorized Use of Reserves</b>	<b>\$ <u>10,413</u></b>