



CITY OF
HAYWARD
HEART OF THE BAY

WS#2

DATE: May 20, 2008
TO: Mayor and City Council
FROM: Debra C. Auker, Director of Finance
SUBJECT: Budget Priorities, Initiatives, and Service Delivery Outcomes for FY 2009 and FY 2010

RECOMMENDATION

That the Council reviews and comments on the Budget Priorities, Initiatives, and Service Delivery Outcomes for FY 2009 and FY 2010. These items are contained in the draft City of Hayward Operating Budget.

BACKGROUND

This budget work session is designed to engage the Council and the public in a discussion of the priorities and outcomes planned for the next two fiscal years. Rather than focusing on revenues and expenditures, this session serves as an opportunity to discuss policies that articulate specific outcomes.

This is the first of several meetings related to the adoption of the Two-Year Operating Budget. The complete budget schedule includes the following meetings:

<p>Tuesday, May 20, 2008, 4:30pm to 7pm</p> <p>Work session is held in City Hall Council Chambers</p>	<p>Review Priorities, Initiatives and Service Delivery Outcomes in FY 2009 and FY 2010 Operating Budget</p> <p>Beginning in the following order:</p> <ul style="list-style-type: none">○ Mayor and City Council○ City Manager○ Community and Economic Development (including RDA)○ Library and Neighborhood Services○ Police and Fire○ Public Works○ Maintenance Services○ Other Administrative Departments
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<p>Thursday, May 22, 2008, 4:30pm to 7pm (if needed) Work session is held in City Hall Council Chambers</p>	<p>Continuation of Review Priorities, Initiatives and Service Delivery Outcomes in FY 2009 and FY 2010 Operating Budget Continuing in the following order:</p> <ul style="list-style-type: none"> ○ Mayor and City Council ○ City Manager ○ Community and Economic Development (including RDA) ○ Library and Neighborhood Services ○ Police and Fire ○ Public Works ○ Maintenance Services ○ Other Administrative Departments
<p>Tuesday, June 10, 2008, 4:30pm to 7pm Work session is held in City Hall Council Chambers</p>	<p>Financial Policies, 10 year Financial Plans, and Interim Update to Fee Schedule (complete master fee user study to be presented in July)</p>
<p>Tuesday, June 10, 2008, 8pm Public hearing is held in City Hall Council Chambers</p>	<p>Introduction of Two-Year Operating Budget for FY 2009 and FY 2010 for the City of Hayward and the Hayward Redevelopment Agency, Capital Improvement Program Budget, Interim Master Fee Schedule, Gann Appropriation Limit, Retirement Incentive Plan, and other Loan Agreements</p>
<p>Tuesday, June 24, 2008, 8pm Council meeting is held in City Hall Council Chambers</p>	<p>Adoption of Two-Year Operating Budget for FY 2009 and FY 2010 for the City of Hayward and the Hayward Redevelopment Agency, Capital Improvement Program Budget, Interim Master Fee Schedule, Gann Appropriation Limit, Retirement Incentive Plan, and other Loan Agreements</p>

DISCUSSION

During the current year the Council adopted a list of five priorities. These priorities are:

- Crime and Public Safety
- Cleanliness
- Organizational Health
- Land use and Sustainability
- Fiscal Stability

The City Manager has developed three initiatives to support these priorities. Each initiative outlines an action plan of six or more elements. These initiatives are:

- Neighborhood Services Initiative
- Fiscal Stability Initiative
- Organizational Change Initiative

The details of the Council Priorities and Initiatives (See Attachment A) can be found in the front section of the budget, on the City website (<http://www.hayward-ca.gov>), and posted in City Hall.

As noted in the budget message (See Attachment B), this budget brings a focus on outcomes that are directly linked to the Council Priorities and Initiatives. The budget is divided into thirteen departments. Each department includes a description of the core services provided, prior year departmental performance highlights, and service delivery outcomes identified for both FY 2009 and FY 2010. The budget includes over 226 departmental objectives for FY 2009 that focus on achieving the Council Priorities and Initiatives: Crime & Public Safety - 37, Cleanliness - 32, Neighborhood Services - 62, Land Use/Sustainability - 27, Fiscal Stability - 42, and Organizational Health - 26.

Items requiring Council Direction

Community Promotion Program – On April 8th the Council discussed the grants to be provided to various community groups. There seemed to be consensus in several areas including providing funds to the Dr. Martin Luther King Jr. Celebration Committee (\$2,000 requested in both 2009 and 2010), and the Cinco de Mayo Mexican Independence Program (\$2,800 requested in both 2009 and 2010). Adding these two groups will increase the total grant funding by \$4,800, bringing the total funding to \$139,800 for each year. This amount is available in the General Fund – Mayor and City Council budget. Approximately five programs, and up to \$65,000, may be able to be funded by the Redevelopment Agency.

Social Services Grant for 2-1-1 Program – On May 6th, the Council discussed the social service grants to be provided to various community groups. There seemed to be consensus in several areas including providing additional funds to the Eden Information and Referral 2-1-1 Program. The draft budget includes an additional \$27,750 in the FY 2009 Social Services allocation and \$50,000 for FY 2010, which is listed independent of the social services grant allocation from General Fund reserves.

East Bay Regional Communication System (EBRCS) – During FY 2008, the City entered into a joint powers agreement (JPA) with other Alameda County jurisdictions to fund public safety communications. As a result, the City contributed \$75,000 in FY 2008 and has budgeted \$75,000 in both FY 2009 and FY 2010 in the General Fund Police Department budget. Staff is in the process of evaluating the benefits of our continued participation and will return to Council with a specific recommendation at a later time.

FISCAL IMPACT

The FY 2009 Operating Budget includes a total appropriation of \$206 million, of which \$116 million is appropriated from the General Fund. City-wide resources include \$175 million in current revenues, \$24 million in transfers, and the use of \$7 million in special or enterprise fund reserves.

<i>(\$'s in millions)</i>	General Fund	All Other Funds	City-wide Total
FY 2009 Resources:			
Current revenues	\$103	\$72	\$175
Transfers in from other funds	\$13	\$11	\$24
Use of reserves	\$0	\$7	\$7
FY 2009 Expenditures:			
Operating costs	(\$111)	(\$78)	(\$189)
Transfers to other funds	(\$5)	(\$12)	(\$17)
Total (net change)	\$0	\$0	\$0

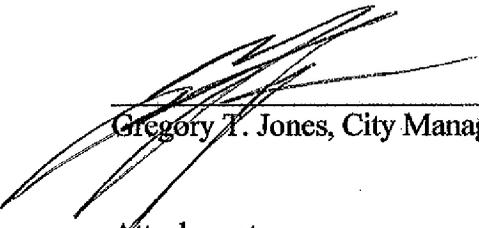
The General Fund operating budget does not include a use of reserves in FY 2009. However, approximately \$1.1 of the General Fund reserves is designated for payouts of accumulated leave payouts for retiring employees. Therefore, the City’s General Fund reserves are estimated to remain the same for fiscal year end 2008 and 2009.

<i>(\$'s in millions)</i>	FY 2008 General Fund End of Year Estimate	FY 2009 General Fund Recommended Budget
Reserved Payable Obligation	\$628	\$628
Economic Uncertainty	\$7,000	\$7,000
Liquidity	\$3,500	\$3,500
Hotel Conference Center	\$1,250	\$1,000
Retirement Reserve		\$1,122
Police Staffing	\$1,000	\$1,000
Contingencies	\$872	
Total	\$14,250	\$14,250

Prepared by:


Debra C. Auker, Director of Finance

Approved by:

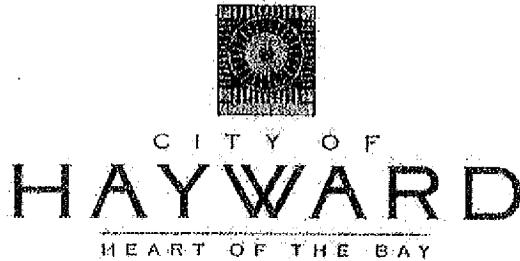

Gregory T. Jones, City Manager

Attachments:

A – Council Priorities and Initiatives

B – Budget Message by City Manager Jones

The draft FY 2008 and FY 2009 Operating Budget is available in the City Clerk's Office, at the Main Library and on the City website.



May 9, 2008

Honorable Mayor and City Council:

This year, I am presenting a two-year budget that makes significant changes in both how we manage financial planning as well as how we align our resources for service delivery. This budget represents major changes in the organization's structure, as well as a much different approach to achieving ongoing financial stability for the organization.

The budget document itself presents some significant changes, consistent with previous City Council direction through adopted programmatic priorities:

- The budget brings a focus on outcomes, including specific matrices that relate departmental outcomes to Council priorities and initiatives. Rather than focusing on expenditures, this budget serves as a policy document that articulates objectives and expected outcomes from meeting those objectives.
- Internal service funds are included along with their commensurate charges for service back to the operating departments. This is a first step in beginning to identify the true costs of providing services. This effort will be further refined in coming years, and will ultimately manifest itself in the development of a true performance-based budget in FY 2010.
- Draft Ten-Year Financial Plans are included to begin to show the longer range financial picture of various funds. They will service as roadmaps for future financial decision making.
- Departmental reorganizations are reflected within the budget structure. As previously described to Council in a work session, we are reorganizing some of our key service delivery program areas to more effectively deliver service. These changes include the realignment of various programs to form the new Department of Maintenance Services, the new Department of Library & Neighborhood Services, and the Department of Technology Services, which becomes a stand-alone department rather than being under the City Manager's Office.
- Some charges previously included in a somewhat vague "non-departmental" budget are now being allocated to more appropriate department/program areas.

As always, if there are changes in presentation that make the budget more understandable, please bring them to our attention. The budget should be a dynamic document that serves the Council and staff in carrying out our responsibilities. Any suggestions you might have will be much appreciated.

Earlier Actions

First, I want to acknowledge the previous actions taken by the City Council and staff that have provided the City fiscal strength. The foresight that put aside a healthy financial reserve has given the organization time to evaluate how best to move forward in the coming budget cycle. Without this foresight, the City would be in the position of having to make much more painful decisions about service reductions that would significantly impair our ability to serve the community. The City was fortunate to have had such strong and skilled leadership in the past. We begin this difficult process from a solid foundation moving into the future.

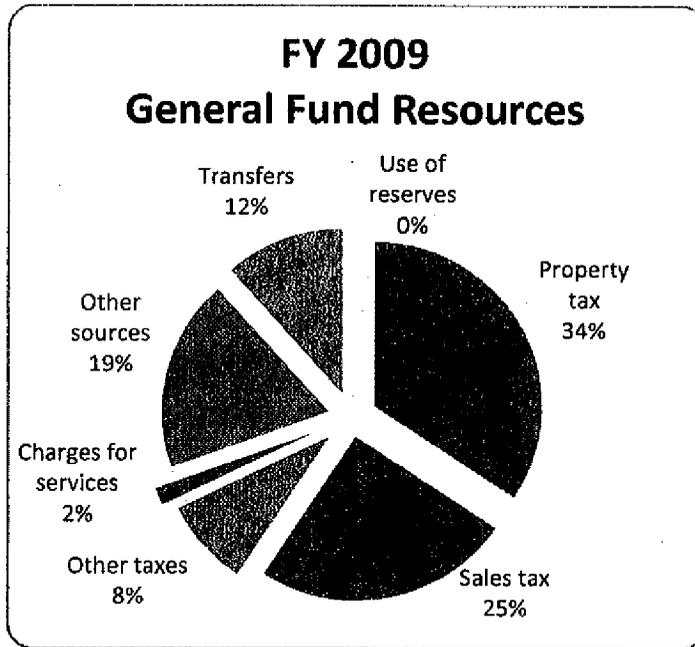
However, as we entered into this budget development process, it became painfully evident that we had a significant structural General Fund deficit that needed to be addressed. Our current level of expenditures, when compared to our decreasing revenue, was not sustainable, and both sides of the deficit had to be addressed: we had a projected \$14.5 million deficit for next fiscal year if all things remained the same.

In January 2008, immediate steps were taken to control FY 2008 expenditures, develop a realistic picture of FY 2008 revenues, and implement and communicate a response plan to Council. As part of the plan, expenditures were slowed significantly and staff began immediately assessing ways of enhancing our revenue picture, including (1) cost recovery in certain areas, (2) updated fee structures, (3) strengthening enterprise functions, and (4) looking at alternative funding sources other than the General Fund to support operations. A hiring freeze was placed on most General Fund positions.

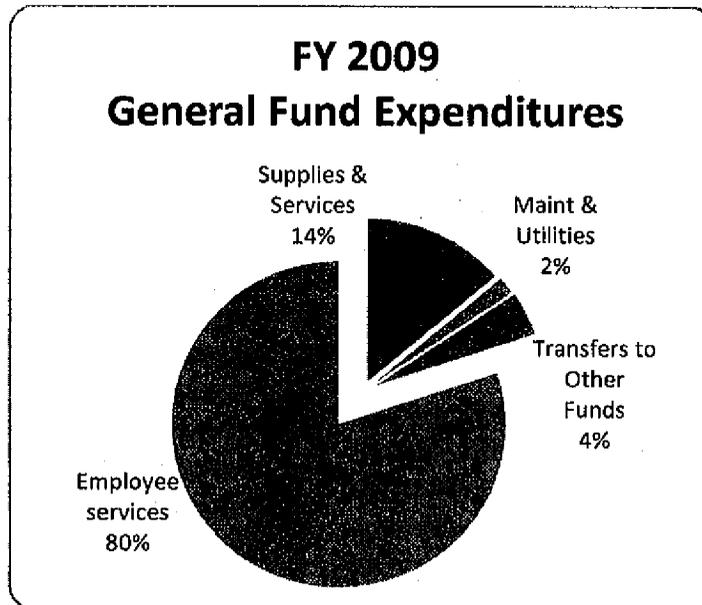
Staff was challenged to immediately begin identifying areas where innovation and creativity, process improvements, and elimination of non-value-added tasks could provide more efficiency. The Innovations Task Force was created for this specific purpose and has reviewed over two hundred ideas and suggestions in support of this effort. Estimated positive impact of these early actions is estimated to have reduced our use of reserves by approximately \$1.5 million in the last four months of the fiscal year. As a result, we are able to close FY 2008 year in better condition than originally projected at the start of this budget process; and to proactively manage the next two-years and beyond.

The FY 2009 budget recommendations include a balance budget, with revenue and transfer into the General Fund equaling expenditures and transfers out to other funds. The FY 2009 budget plans for no use of reserves for operational expenditures. A portion of current reserves (approximately \$1.1 million) is set aside for one-time costs related to employee vacation and sick leave payouts. Estimated use of reserves in FY 2008 is \$9.3 million.

The chart on the next page reflects the components of the \$116.5 million General Fund resources budgeted for FY 2009. Property tax and sales tax are two major sources of revenue, making up 59 percent of the total General Fund resources.



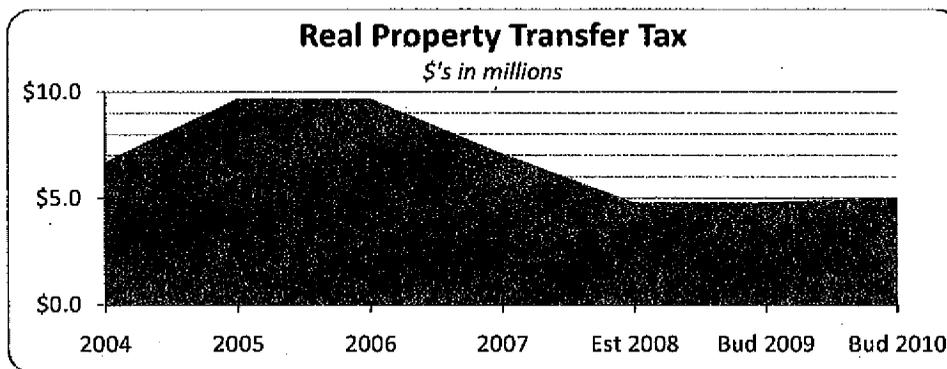
The majority of the FY 2009 General Fund expenditures, or 80 percent of the \$116.5 million, are designated for employee services, which is not surprising since the City is a service organization.



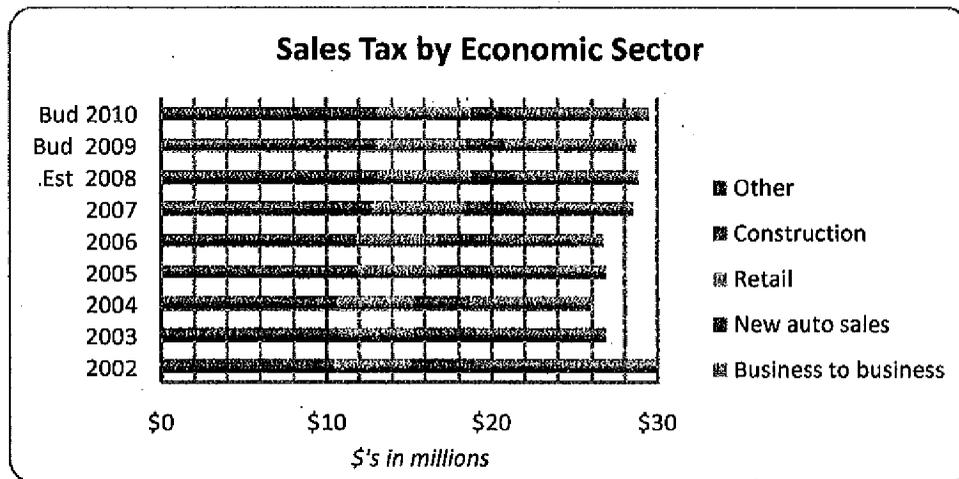
THE CHALLENGES

Economic conditions in Hayward are providing both challenges and opportunities for the upcoming budget. Three elements have hit our community very hard: the precipitous drop in the housing market, the steep decline in new car sales, and in business-to-business sales.

Hayward was in a dynamic growth mode related to housing, with 2800 housing units in the pipeline over the two fiscal years covered by this budget. The loss of momentum in the housing market due to the subprime mortgage crisis almost stopped both housing sales and new construction. This negatively affected both real property transfer tax (RPTT) revenue and business-to-business sales tax, most of which is related to construction materials in our community. As noted in the chart below, RPTT revenues are down from a high of \$9.7 million in FY 2005 to an estimated \$4.8 million in FY 2008. The housing slowdown has also impacted our collection of development fees, which directly support costs related to many of our staff employed to process development applications, conduct building inspections, and perform related work.



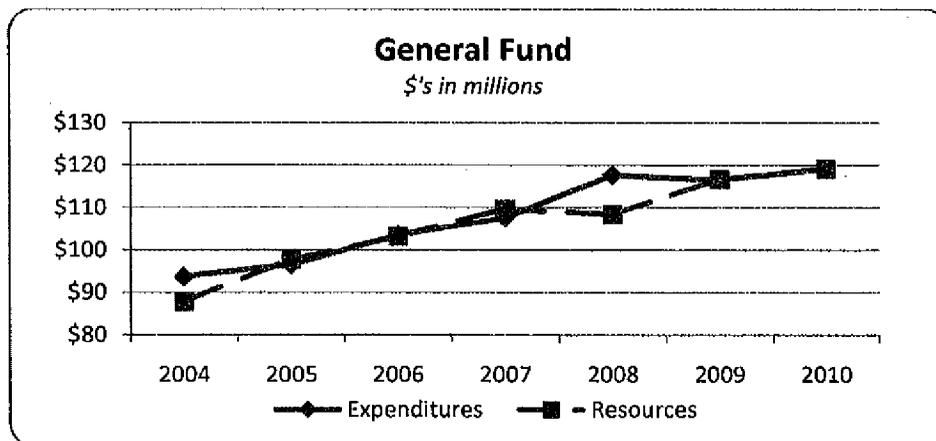
The City's economic improvement efforts have been somewhat successful, showing an overall strengthening of our sales tax, mostly through the addition of a Target Store and other retail. Further focus and effort in economic development is needed to maintain and improve Hayward's competitive industrial advantage in the area, as well as to expand the commercial/retail service needs for our residents. Recent Council approval of the South of Hwy 92/Legacy project is a prime example of the type of development the City should be pursuing and supporting, providing a balance of housing and retail space that supports the needed services and produces additional revenues and economic activity.



The chart above reflects a fairly flat trend in sales tax revenues, with FY 2008 revenues of \$28.9 million slightly less than FY 2002 revenues of \$30 million.

The economic picture is not expected to improve in this two-year budget period. Particularly troublesome is the extended financial market problems that have limited home-buying opportunities for lower income and first-time home buyers and the continuing threat of economic recession that could further impact economic activity in general.

While managing the dynamics of this economic picture has been, and continues to be challenging, it has also provided opportunity for the organization to look creatively at resource realignment, improved financial planning, and business process improvement. The goal continues to be to minimize the impact of our budget challenges on our community while ensuring we continue to deliver needed services. The following chart reflects the immediate crisis, as well as the positive impact of our current actions, and the stabilizing effect of our move to long-term financial planning: expenditures and resources are brought into alignment and systems are in place to prevent future similar resource disparities.



Finally, we really don't have any indications from the State regarding what actions they may be taking in the near future to balance their budget. Deficit estimates range from \$8 billion to \$14 billion. Regardless of the magnitude, there is no doubt the State will be looking far and wide for ways to balance their budget. Historically, Cities and Redevelopment Agencies have become unwilling participants in their plans. While there have been legislated protections implemented to stem their ability to do so, we need to remain vigilant on this issue and be prepared to respond, as necessary.

THE PLAN

Short-term solutions break the cycle of reacting to the immediate crisis only to create another crisis. We need to plan for the future in order to be ready for the unknown. In that regard, I have implemented three (3) major initiatives to help the organization prepare for and manage the future to avoid the "crisis-reaction-crisis" syndrome. These initiatives articulate and activate Council's vision in a strategic manner, and are targeted at fiscal stability, positive organizational change, and strengthened neighborhood services.

Fiscal Stability Initiative

Consistent with the Fiscal Stability Initiative introduced in January of this year, the following financial management tools were implemented in this two-year budget to strengthen the City's ability to manage the current economic crisis, and to better anticipate and absorb or "flatten" the negative effects of future economic fluctuations:

- Long-range, 10-year financial planning
- Providing a balanced budget that does not rely on the use of designated reserves, but rather begins to systematically develop and sustain these reserves at levels in line with Council policy and in response to city obligations
- Establish internal service funds to operate and maintain internal operations including vehicles, buildings, and technology
- Establish an integrated Ten-Year Capital Improvement Program (CIP) beginning in FY 2010 that is presented with the overall City budget, and which includes projected operating costs that are included in the Ten-Year Financial Plans approved by Council

Long-range planning: As part of this budget development process, all General Fund departments and Enterprise funds were required for the first time ever to complete a 10-year projection of revenues and expenditures. This assisted staff in identifying dangerous escalations in costs going out into the future; to identify an on-going structural deficit that could not be off-set solely by an improving economy; and to begin to plan for long-term programmatic resource needs. Long-range planning provides us early indicators of future problems. It also helps staff describe the long term financial impacts of decisions made today. Without this information, the impacts of financial decisions "accumulate" over time with often disastrous consequences.

This long range planning approach also provides a mechanism to evaluate "what if" scenarios, such as, what would the financial impact of opening a particular facility be and how will we ensure adequate funding over the long term? What would be the ongoing cost of adding police

officers on a permanent basis and how can we modify expenditures to support additional staff? What operating changes would be required to fund these and other organizational service-level directions?

Council will be provided a clearer understanding of impacts of these alternatives on a long-term basis. Likewise, if resources aren't immediately available, future added revenues can be earmarked in advance for use in a future year of the financial plan.

The financial plan will be referenced in communicating to the community so that as resources become available in the future, the plan will allocate resources to an identified purpose. This commitment assures the community of two things: first, that the City recognizes the "need" in advance; and two, that there is a plan in place to provide resources that support the identified need, if not immediately, then in the future. These two concepts must go hand-in-hand, or planning becomes just an exercise.

Internal Service Funds: As outlined in the Fiscal Stability Initiative, internal service funds have been established for technology services, facilities, and fleet management to better manage capital replacement needs, develop reserves, and identify these operating costs in each department and program. The cost centers for these services have been shifted to the General Fund so that each program is now correctly charged a technology, facilities, and vehicle service charge, if applicable. The reality is that over \$6.5 million has been moved out of the General Fund, but will be charged back to the General Fund and all other funds as these services are utilized by departments and programs. These changes are reflected in the *Supplies & Service* budgets of each department.

City Reserves: The Fiscal Stability Initiative includes adopting critical fiscal policies that will be presented and recommended to Council with the Budget. These policies include criteria for achieving a balanced budget each year and setting goals for strengthening the City's reserves for unforeseen circumstances, capital replacements, and long-term liabilities. The internal service funds will begin to generate capital replacement reserves beginning in FY 2011. The City also must recognize the long-term liabilities associated with *other post employment benefits* (OPEB); therefore, in FY 2009 the City will establish a retiree medical benefits trust fund in order to begin to set aside funding for these future benefit obligations, which the City currently pays annually based on actual costs. This is the first step in pre-funding the OPEB obligation, which is outlined in Governmental Accounting Standards Board (GASB) Statement No. 45. Finally, the proposed budget contemplates using designated reserves only for employee leave payouts related to the early retirement incentive program. This use of reserves is appropriate as a "one time" cost, rather than using reserves to fund ongoing operations.

Integrated Capital Improvement Program: The City will develop a Ten-year Capital Improvement Program (CIP) in FY 2010. The budgets in the CIP will identify all operating costs and long-term obligations associated with each project. Funding for these ongoing costs will be outlined in each project plan. The City and the Redevelopment Agency (RDA) will leverage available assets in a planned approach so that resources are available for necessary capital and infrastructure improvements on a consistent and planned timeline.

Economic Development: As was discussed above related to the impact of the economy on our ability to deliver services to the community, it is critical that the organization continue to look for opportunities to expand our industrial, retail, and commercial economic bases. To further this effort, I am recommending the addition of an Economic Development Manager position that will further focus our Economic Development efforts, revisit our Economic Development Strategic Plan, work on Hayward's "branding" efforts, and serve as an ombudsman for business applicants within our development process to expedite and facilitate commercial applications that support our business community. This position will be funded partially by the General Fund and partially from RDA funds.

In addition, I am recommending the allocation of \$100,000 to conduct a thorough outside audit and process analysis of our current building permit/development review process. Having a predictable, reliable, and efficient process will help those who want to do business in Hayward do so as smoothly and timely as possible. Our "open for business" sign needs to be polished up and displayed proudly. Improving the reception prospective businesses receive from the City is a key element of building such a reputation. This review will be managed from the City Manager's Office.

Organizational Change Initiative

City staff must reflect the change the community is trying to accomplish. To bring about needed culture change, Staff introduced the Organizational Change Initiative. The organization has a lot of work to do internally before we can provide superior services to our external customers in a manner consistent with community expectations and standards. A number of current cultural norms need to shift for the organization to be able to respond to our changing demands for service. And of course, we need to continue to provide service while in the midst of these changes: we can't close up shop to reinvent ourselves.

A shift in culture doesn't happen overnight, just as the changes we see in our community's needs didn't happen overnight. Leadership's job is to create conditions that allow the organization to become an outcome oriented, performance based, customer driven organization.

I don't believe our current organizational structure supports the needs of the community in the most effective way. Therefore, I am proposing a shift in organizational structure to better align our limited resources in support of this initiative by reallocating existing resources to create two new departments: Library & Neighborhood Services and Maintenance Services. The new structure and the associated personnel and supporting resource shifts are described in the respective department budgets. I believe this is the first of several organizational structure changes that will need to occur over the next few years to better support the needs of the community. As a baseline for our service development efforts, the City will be having a scientific survey of residents conducted in the coming year to determine their satisfaction with City services so we can shift our effort appropriately in response the community desires.

We also need to increase accountability within the organization. The Management Achieving Performance System (MAPS) has been implemented for all department heads, and will be rolled out to the rest of managers in the coming year. This performance planning and evaluation

system will link departmental goals to Council's priorities and initiatives, as well as link interdepartmental efforts to further outcomes.

Employee task forces, similar to the Innovations Task Force that is already underway, will work on developing an organization Mission, Ambitions, and Values statement. Another task force will focus on Customer Service to redefine our views on who our customers are and how we can serve them better.

Neighborhood Services Initiative

The third key initiative in support of Council's priorities is the Neighborhood Services Initiative. We have made some significant progress in connecting with our customers, particularly in our neighborhoods, but more, much more, needs to be done in this area. Even while we face significant financial challenges in our General Fund, we must find ways to provide resources to strengthen our neighborhood services programming. This focus will move the community much faster in its efforts to improve livability, making Hayward more attractive for the private investment required to strengthen our local economy.

Associated with neighborhood livability, are our efforts to improve the physical appearance of neighborhoods and commercial corridors: if it looks like nobody cares, nobody will, and conditions quickly decline. An area that is cared for is less apt to deteriorate and tends to attract investment. We need to be facilitators at one end of the spectrum in helping those who will partner with us and enforcers on the other end of the spectrum when voluntary compliance fails.

Improved Neighborhood Response: The new organizational structure identified above will assist the organization to better respond to neighborhood concerns related to quality of life issues (e.g., cleanliness, landscaping, repaired streets and sidewalks, traffic mitigation) and to public safety concerns. Through this proposed budget and the focusing and shifting of resources, the Library & Neighborhood Services Department will have increased resources to conduct Code Enforcement activities, with emphasis on neighborhoods and critical corridors within the City.

Consistent with Council's priorities related to neighborhoods and cleanliness, a new team dedicated to commercial corridors will be established. Additional code enforcement staff will provide strengthened enforcement activities both in these corridors as well as in neighborhoods. The new Neighborhood Services Division will also include a Neighborhood Partnership Manager position to enhance the City's ability to connect to our neighborhoods and develop leadership potential among residents.

The Hayward Police Department's upcoming strategic plan will be more community oriented with an emphasis on improved presence in the neighborhoods and a geographic orientation toward service delivery. This will improve connections between the department and residents, as well as increase accountability among staff. A specific program to address chronic "problem properties" within the community has been developed and will receive continuous support organization-wide for more sustainable impact. A significant area of concern to our residents, this tool will provide the City a means to address the pleas for help we receive at City Hall on a regular basis.

Establishing Neighborhood Partnerships: Neighborhood Partnerships have been forged to varying degrees with Fairway Park, Schafer Park, Eden Gardens, Mt. Eden/Palma Ceia-West, and other neighborhood areas. We have many other neighborhoods awaiting the same level of attention and interaction. Staff, in concert with the Mayor and Council, has developed the beginnings of a “neighborhood partnership model” to enhance communication with neighborhoods so that they are active partners in maintaining community livability standards and independence. This will become an even stronger programmatic focus in the next two years.

Public Art: I am proposing that the City establish a defined “public art” program to assist in defining and branding the City, and to create additional ambiance and character in the City, starting in the downtown. I am recommending the allocation of \$90,000 from the RDA budget to initiate this program in the first year. In the future, staff will also be developing recommendations regarding requirements to include public art in capital and commercial projects to support public art efforts and improve aesthetics in the community.

Measures for a Balanced Budget

We began the budget development process with a projected \$14.5 million deficit for next year, and \$16.5 million for year two of the upcoming budget cycle. Below is a description of the combination of additional mechanisms being used to bring this budget into balance.

In addition to the steps described above, we have taken several steps to assure that not only do we close out FY 2008 as balanced as possible, but that we also manage diligently and conservatively this next two years, and plan specifically to assure that the structural deficit is eliminated in the out years. By taking these measures, we gain needed time to realign resources toward priorities, find better ways of delivering services, increase our residents' satisfaction with the services we currently provide; and, hopefully, in June 2010 or sooner, gain community support for a revenue measure to strengthen the City's long-term fiscal picture.

I need to be clear: some of these measures are not sustainable and do not provide long term relief of our ongoing structural deficit. However, they are being recommended as a means to provide us additional time to shift resources in a planned way, rather than in a reactionary way.

On the expenditure side of the equation, departments were asked to submit expenditure reduction recommendations. These recommendations have been incorporated into the proposed budget. Other actions to reduce the employment costs of the organization are being taken.

Employee Contributions: Hayward Fire Department IAFF, Local 1909, the Hayward Police Officer's Association, Fire Management, Police Management, and the unrepresented employees have answered the challenge by agreeing to lower future salary adjustments, saving the City \$14 million dollars plus over the next four years. These savings will give the organization time to catch its breath and stop the deterioration of the budget over the short term. The savings total over \$2.5 million in the first year of the budget and \$4 million in the second year of the budget.

Retirement Incentive Program: I am also recommending that Council provide a retirement incentive as allowed under Public Employees Retirement System (PERS) law, which provides

two years of service credit to those otherwise eligible to retire. There are some immediate costs related to an employee's retirement, such as payout of sick leave and vacation leave which will be funded from current reserves; however the cost of the retirement enhancement itself is amortized over the expected lifetime of the retiree and included in our future employer contribution rates to PERS. Rates, however, are not impacted for two years after the incentive is offered. Rate impacts are generally negligible.

The savings derived from this program will be realized by freezing positions vacated to the fullest extent possible for the next two-year budget. Positions that are re-filled also realize some temporary cost reductions as new employees are generally brought in at a lower pay rate. The savings goal of offering this incentive is \$4 million per year, which will likely result in the freezing of approximately 35 positions organization-wide.

Layoffs: The presented budget includes no layoffs of existing employees. A commitment has been made that no public safety sworn positions will be reduced in this budget based on the savings realized through salary concessions. It is possible that layoffs will be necessary in other parts of the organization, dependent upon the success of the early retirement program. If employee reductions become necessary, staff will bring recommendations back to Council later in the fiscal year to meet the savings goals necessary to balance the remaining period of the two year budget. It is also likely that I will be bringing to Council additional reorganizations of services over the next two years for both the purpose of efficiencies and service level enhancements.

In total, the employee savings goal is \$6.5 million in the first year of the budget, and \$8.5 million in the second year of the budget. If we are able to meet these savings targets through negotiated salary reductions in combination with the freezing of positions vacated under the early retirement incentive program, layoffs can be averted for the time being.

Inter-fund Borrowing: The City currently has within the General Fund a sub-fund originally established as a mechanism to meet the City's previous obligation to provide relocation housing to those who would be ultimately displaced by the Route 238 Bypass Project. This fund was originally established under a certain legal framework in place at the time. The City continues to work with the California State Department of Transportation (Caltrans) and other interested parties on this issue; however the City's ultimate financial obligation to this process is expected to result in something significantly less than the balance of funds in the sub-fund.

I am recommending that the General Fund borrow \$5 million per year from this fund to maintain service levels in the short term. Further, I am recommending a loan agreement be made between the Redevelopment Agency(RDA) obligating housing set aside funds (current and/or future) as the basis for repayment to repay the loan when and if it is necessary in support of housing relocation/replacement agreements. The loan agreement will be brought forward as part of the overall budget approval process. Committing RDA set-aside funds for debt repayment in this fashion will provide some level of protection from their being "raided" by the State, which has been threatened in past State budget crisis, and may well be suggested this coming year.

Loan Repayment: The RDA has a long-term debt obligation to the General Fund due to previous borrowing from the General Fund by the Agency. This debt is in the range of \$13 million.

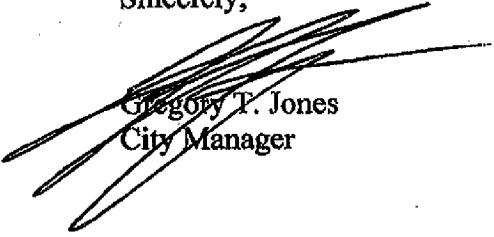
However, to balance the RDA's goals with the repayment of the debt, I am recommending the amortization of the loan over the next roughly 15 years. This will result in a debt service payment from the RDA back to the General Fund of approximately \$800,000 per year.

TRANSMITTAL AND THANKS

A great deal of work and organizational commitment has gone into developing this budget for presentation to you. I want to thank the employees who willingly contributed their salary increases back to the City; the staff members, who have put in long hours to work out the complex details of this budget package; and the entire organization for their commitment to the continuation of service delivery to the Hayward community. I particularly want to thank Fran David, Assistant City Manager, Debra Auker, Finance Director, Budget Administrator, Denise Blohm, and the entire Finance Department for their tireless work in pulling the document together from basic numbers to the completed budget book you see before you.

This has been an incredibly challenging budget to put together. Every effort has been made to maintain service levels, even in the face of significantly reduced revenue levels. I am proud to present and recommend to you the City of Hayward's FY 2009 & FY 2010 two-year budget for your consideration and adoption.

Sincerely,



Gregory T. Jones
City Manager