



CITY OF  
**HAYWARD**  
HEART OF THE BAY

WS 2

**DATE:** February 24, 2009  
**TO:** Mayor and City Council  
**FROM:** Director of Finance  
**SUBJECT:** Mid-Year Budget Work Session

**RECOMMENDATION**

That the Council reviews and comments on the Mid-Year Budget Report and the attached Draft Resolutions amending the FY 2009 City Operating Budget and Redevelopment Agency Operating Budget. These resolutions will be provided to the Council/Agency Board for adoption at your regular March 3, 2009 meeting.

**SUMMARY**

This Mid-year Financial Report provides an overview of FY 2009 General Fund revenues, expenditures, and fund balance projected through the remainder of this fiscal year. These projections are developed by reviewing the actual revenues and expenditures recorded through December 31, 2008, and analyzing current economic information to project year-end receipts as well as reviewing expenditures to determine if additional appropriations are required at Mid-Year.

The result of this analysis reflects a significant decline from the original budget projections in funding sources/revenues of \$5.9 million, mainly due to current economic conditions. Additional appropriations approved during the first half of the year, necessary Mid-Year appropriations, and recent State takeaways increased the strain on the General Fund. Without corrective action, reserves will be negatively impacted by \$7.5 million at year end.

Such an impact is unacceptable as it is critical that the City maintain a reasonable level of emergency reserves in these economic times. Detailed financial assumptions are discussed below. Staff has proposed amendments to the FY 2009 General Fund operating budget in the attached resolutions (Attachment C) and FY2009 Redevelopment Agency operating budget (Attachment D).

## DISCUSSION

### FY 2009 Summary of General Fund as of December 2008 and Projected Through June 2009

**Adopted Budget** – The organization has been proactive in its efforts to stay financially solvent over the past 12 months. The City began with a projected \$14.5 million deficit when the budget process started last spring. However, by aggressively slashing expenses the Council adopted a budget that projected the use of zero reserves this current fiscal year and next. As was communicated in the budget message last June, this balanced budget was made possible by a combination of one time borrowing, salary concessions from Police, Fire, and Unrepresented employees, the elimination of approximately 50 General Fund, non-sworn positions, and the implementation of a new Master Fee Schedule.

We were understandably conservative in our revenue projections, expecting little or no growth in most revenue areas. As FY 2009 progressed, significant weakness in the overall economy pummeled our revenues, and will likely do so for the foreseeable future.

The adopted budget incorporated anticipated economic factors, such as a softening of the housing market and reduced retail sales. However, the collapse of the world-wide credit markets in October and the far reaching ramifications to the already beleaguered general retail, auto and housing markets were unexpected. The added impact of an unemployment rate that is the highest in decades does not bode well for the City, State, or the Nation.

Of equal concern are the unknown actions by the State of California to continue to use local government to help balance their own budgets. Their recent action to delay payment of local government motor vehicle fees, combined with considering to further delay Gas Tax payments, plus their grab of Redevelopment Funds (\$909K) this year, makes us very wary of what could be around the corner.

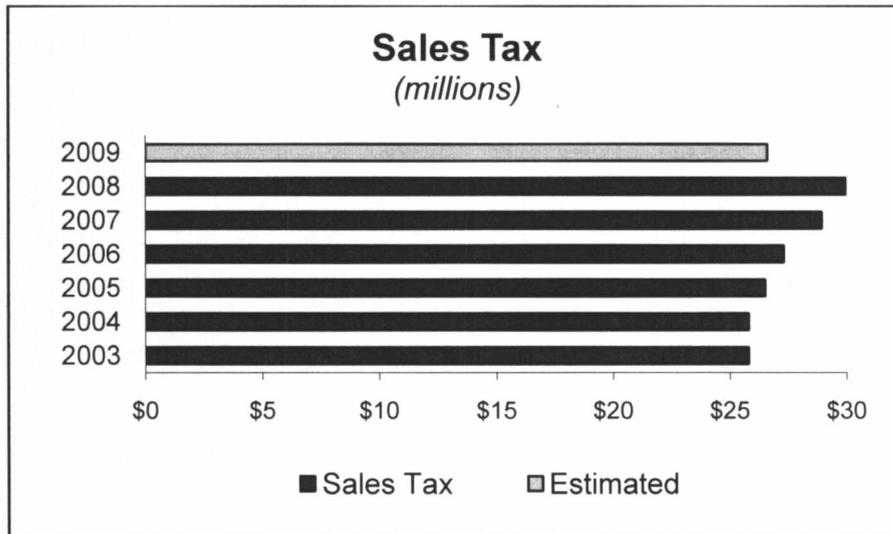
**Revenues** – Based on mid-year results, staff is projecting General Fund revenues to be \$4,857,485 less than estimated in the adopted budget. This shortfall in revenue is due primarily to the decline of sales tax, real property transfer tax, development related revenues, vehicle license fees, and franchise fees. The City's major revenue sources are discussed below. The anticipated net year-end total decrease in funding sources is \$5,912,485, which includes a decrease in available gas tax previously planned for transfer to the General Fund.

- **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 higher than this time last year. This increase is attributed to the 4.5% growth in Assessed Valuation between the FY 2007 and FY 2008 tax rolls. We anticipate being on target to meet our \$40 million budget estimate by year-end.

**Recommended action:** No action required.

- **Sales Tax** – Sales tax was budgeted to be flat this year; however, as of December, the revenue received is \$753,256 less than last year at this time. Based on receipts through December and projections from our sales tax consultant, MuniServices, staff is projecting sales tax revenue this

fiscal year will be 8% below target, or \$2.3 million below the \$28.9 million budget estimate. The following chart summarizes the historical receipt of Sales Tax Revenue.

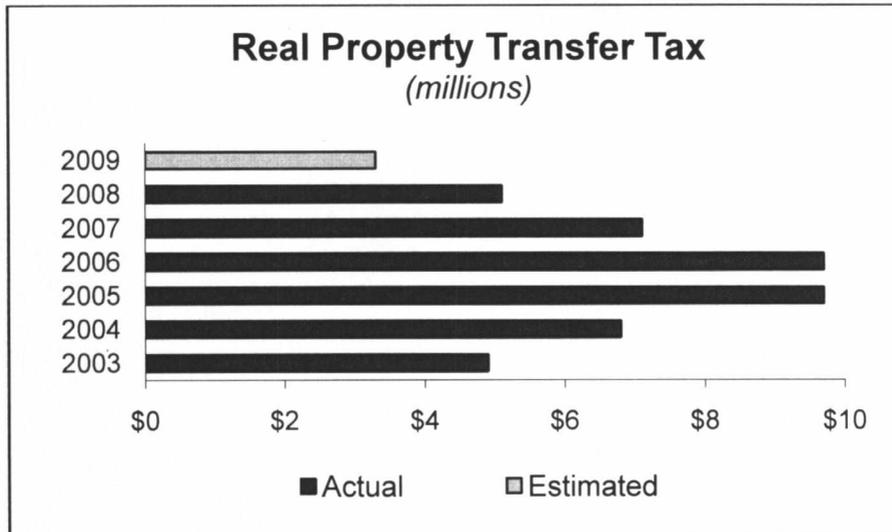


Although the Hayward sales tax base is diverse, the closure of Hayward Ford, Mervyns and Circuit City; the precipitous drop in new car sales; the decline in gas prices; the paralysis in the construction industry, will have a significant long-term impact on future retail sales. The decline in consumer confidence combined with increasing unemployment and the threat of closure of many other retailers will delay the recovery of this revenue source.

**Recommended Action: Reduce revenue estimate for sales tax by \$2.3 million for a year-end estimate of \$26.6 million.**

- Real Property Transfer Tax** – The FY 2009 adopted budget includes \$4.8 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 \$1.5 million less than was budgeted or \$3.3 million, by year end. The chart below shows that over the past seven years, real property transfer tax has had significant growth and is now experiencing continuing substantial declines due to the depressed housing market and demonstrates the volatility of this revenue source.

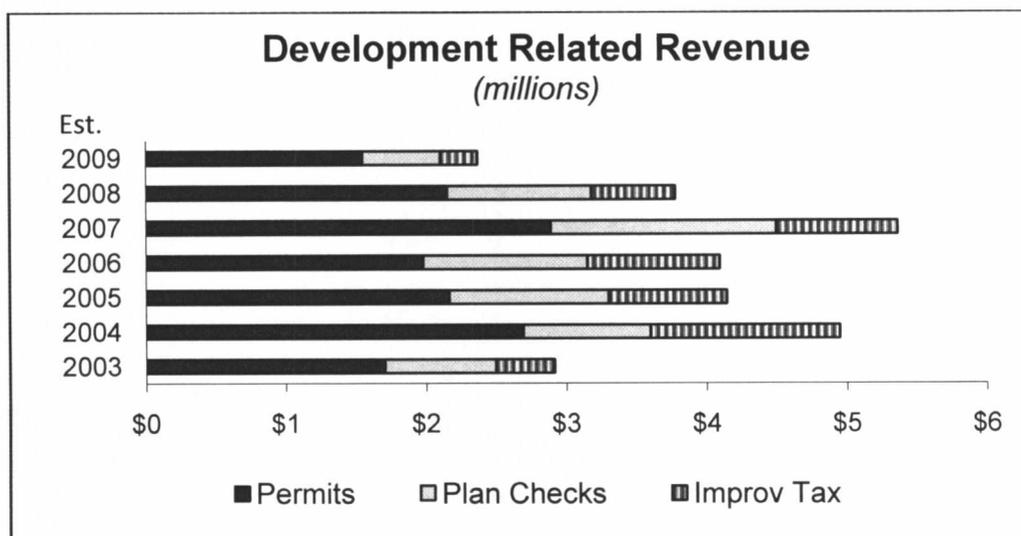
**Recommended Action: Reduce revenue estimate for real property transfer tax by \$1.5 million for a year-end estimate of \$3.3 million.**



- Development Related Fees** – Development related revenues have been significantly affected due to the changes in the real estate and housing market, and staff expects revenue to be \$650,000 less than budgeted. The following chart summarizes the original Budget, our year-end estimate, and the proposed adjustments to the Revenue Budget.

Development Related Revenue	Budget	Estimated Revenue	Proposed Adjustment
Construction permits	1,700,000	1,360,000	<340,000>
Plan checking fees	820,000	770,000	<50,000>
Supp. improvement tax	500,000	240,000	<260,000>
Total	\$3,020,000	2,370,000	<650,000>

Revenue received through December is at 60% of the same period last year. The expectation is that development activity will continue to be flat over the next six months. The chart below reflects the changes in development related revenues over the past seven years. FY 2009 reflects the year end estimates, which will require a total amendment to the budget of \$650K



**Recommended Action – Reduce the estimated revenue for construction related fees by \$650,000 for a year-end estimate of \$2,370,000.**

- **Vehicle License Fees:** The State stopped forwarding per capita Vehicle License Fee (VLF) monies in November due to the prescribed funding formula and overall decline in statewide VLF receipts. This State take will result in a revenue shortfall of approximately \$500,000.  
**Recommended Action – Reduce the estimated revenue for vehicle license fees by \$500,000 for a year-end estimate of \$190,000.**

- **Gas Tax** – This is another anticipated State take away. We have been told these revenues will be withheld for the remainder of this fiscal year. The City typically receives about \$225,000 per month in gas tax monies, although the numbers have varied of late due to fluctuating gas consumption and prices. Regardless, the net negative effect on our revenues will be approximately \$1.055 million for the remainder of the fiscal year. The State has indicated these funds will be repaid in the fall of 2009 (early next fiscal year). However, staff is not going to rely on that promise at this point in our projections. The withholding creates a shortfall in the current fiscal year that needs to be addressed.

**Recommended Action - It is not recommended to amend the amounts transferred from the Gas Tax Fund to the General Fund at this time. If the State does not withhold these funds we want to maintain the authority to transfer the funds into the General Fund if they become available.**

- **Franchise Fees:** Revenues for our Waste Management Franchise have declined due to overall slowdowns in business and construction accounts. The expected shortfall in this revenue is \$300,000 from projections this fiscal year.

**Recommended Action – It is recommended to reduce the estimated revenue for franchise fees by \$300,000 for a year-end estimate of \$3.8 million.**

- **Increased Fees and Revenue from Other Agencies** – In support of Council’s adopted fiscal policy related to cost recovery, staff brought forward a set of new fees and fee structure that accurately reflected the costs of various services. Additionally, increased parking enforcement consistent with Council’s priority of public safety and cleanliness, have resulted in cost-offsetting revenues. The City also received monies from other agencies for mutual aid and mandated costs. We expect to receive additional revenues in these areas in the amount of approximately \$392,000 by the remainder of this fiscal year.

**Recommended Action – It is recommended to increase estimated revenue by \$392,000 in various.**

**Expenditures** - Expenditures through the first half of the current year are approximately \$1 million less than the prior year at this same time. When comparing expenditures to the revised budget, approximately 94% of projected spending has occurred through December, reflecting that City’s efforts to curtail expenditures are on target.

- **Furlough Savings:** Recognizing that we began to experience significant revenue shortfalls as sales tax data came in October, we began working on cost saving measures immediately.

Employee bargaining groups rose to the challenge and agreed to a 52-hour holiday furlough over the last two weeks of December. This was the first time the City of Hayward implemented a furlough. It will result in an estimated savings of \$600,000 in the General Fund and almost \$1 million on an all funds basis.

- *Cost Cutting:* Additional departmental savings are being realized by continued detailed review of expenditures, implementation of best practices in various program areas, and overall awareness of our budget challenges. In total, we expect by year's end to have reduced expenditures by an additional \$2.2 million. (This is in addition to the \$6.8 million projected savings this current year through cost cutting, position reductions, and employee concessions).

To address the most recent declines in revenue within the current fiscal year, we took the following immediate actions to further reduce expenditures:

- Comprehensive review of vehicle and other fleet assignments and equipment related costs
- Evaluation of any possible capital equipment or land sales (one time monies) that could help support the General Fund short-term
- Continued restrictions on the purchase of non-mission critical supplies and services
- Continued restriction on recruitment and hiring, with City Manager approval required prior to any hiring
- Working with all departments to eliminate all non-minimum staffing required overtime
- Development of contingency plans for reduced service levels in various departments
- Mandatory holiday furloughs were implemented for certain bargaining groups that did not participate in previous concessions

### **City Budget Mid-Year Budget Adjustments (Attachment C)**

Council will be asked to approve some mid-year adjustments to expenditures at your March 3, 2009 Council meeting. A brief description of these is below:

- *Election Costs:* It is recommended that the City Clerks budget be increased by \$17,600 to cover billed election costs from the June 2008 election.
- *Employee Separation Costs:* Separation costs include the pay out of accrued vacation, sick leave, and comp time at separation. Expenditure savings are being used to cover these costs in departments with available funds. Net unfunded one-time costs for separations due to the reduction in force earlier this fiscal year total \$600,000. The Council earmarked \$1 million in reserves to cover these costs.
- *Outside Counsel:* An additional \$150,000 will be needed to pay outside Counsel for litigation services in the City Attorney's budget.
- *Retiree Medical:* Due to more retirements than projected, we are projecting additional costs of \$210,000 in this account. It is therefore recommended the Human Resources budget for Retiree Medical be increased by \$210,000.
- *Worker's Compensation:* Staff is recommending transferring \$300,000 from the General Fund to the Workers Compensation Fund to pay current and projected claims.

## Redevelopment Agency Budget Adjustments (Attachment D)

- *Redevelopment ERAF IV* – Last year the State passed AB 1389 which authorizes a one-time raid of a total of \$350 million in Redevelopment Funds. The Hayward Redevelopment Agency's portion of this obligation is \$909,401 for this fiscal year. It is therefore recommended that the Redevelopment Agency's budget be increased by this amount.

**Recommended Action** – Increase RDA appropriations to include the \$909,401 obligation.

**Additional Savings and Solutions** – In addition to the \$600,000 in Furlough Savings and the additional Departmental Operational Savings of \$2,200,000 identified above, staff recommends two additional actions to offset the shortfall in the current year budget.

- *Asset Transfer*: The City currently owns a 5-acre site near Industrial and Hesperian. The land is available to use for storage and materials currently, primarily for utilities enterprise functions. Staff is recommending that this asset be transferred from the General Fund to the Water Utility at the recently appraised value of \$3.485 million. The Utilities will transfer cash in the amount of \$3.485 million to the General Fund for the land transfer. The land will be held and used by the Water Utility Enterprise. The asset will belong to the enterprise for future use and/or disposition.
- *Employee Concessions*: The City Manager is working with employee groups with the goal of saving an additional \$1 million this fiscal year. Progress is being made on this goal and will hopefully be implemented by April 1 to realize savings in the last quarter of the fiscal year.

### **Budget Reconciliation Summary**

#### **FY09 Budget Shortfall**

Projected Revenue Shortfall:	\$4,857,485
Reduction in Gas Tax Transfer	1,055,000
Appropriations approved by Council since July 1 to December 31, 2008	348,886
Additional Allocations (see above)	<u>1,277,600</u>
<b>Total Estimated Budget Shortfall</b>	<b>\$7,538,971</b>

#### **FY09 Budget Solutions**

Employee Furlough	\$600,000
Departmental Year-End Saving Measures	2,200,000
Asset Transfer to Utilities	3,485,000
Additional Employee Savings	<u>1,000,000</u>
<b>Total Estimated Budget Solutions</b>	<b>\$7,285,000</b>

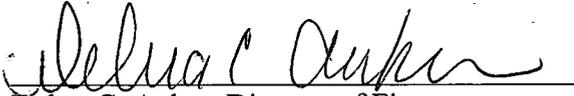
## FISCAL IMPACT

The overall fiscal impact of the proposed budget adjustments result in an estimated use of reserves of \$254,323, dependent on actual year end revenues and expenditures. More refined estimates will be provided when staff brings the FY2010 budget forward for Council's consideration in May. The total undesignated reserve fund balance at year end is estimated to be \$15,063,604, or 13% of our General Fund Operating Budget. The FY 2009 budget revisions for the General Fund and Redevelopment Agency are summarized in the draft resolutions (Attachments C and D). The FY 2009 General Fund Summary (Attachment A) outlines all the proposed changes to the budget.

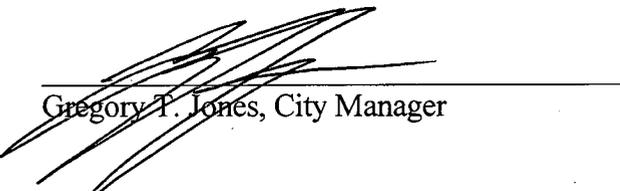
## NEXT STEPS

The attached draft resolutions will be brought to Council for formal action at your March 3, 2009 regular meeting. Preparation of FY2010 budget adjustments are in progress and will be brought to Council in work session in May.

Prepared by:

  
Debra C. Aufer, Director of Finance

Approved by:

  
Gregory T. Jones, City Manager

Attachments:

- A - FY 2009 General Fund Summary
- B - FY 2009 Mid-year Review General Fund Reserves
- C - Draft Resolution - General Fund Appropriations
- D - Draft Resolution - Redevelopment Agency Appropriation
- E - Draft Resolution - Land Transfer

**FY 2009 - General Fund Summary**  
 End Of Year Estimate for  
 June 30, 2009

<i>% of FY 2009 Revised Budget</i>	January 2009 Actual	FY 2009 Adjusted Budget	Mid-Year Change More (Less)	FY 2009 Revised Budget
<b>Revenue</b>				
40% Property Tax	21,288,086	40,077,000		40,077,000
27% Sales Tax	14,296,764	28,900,000	(2,300,000)	26,600,000
3% Real Prop Trsfr Tax	2,110,682	4,800,000	(1,500,000)	3,300,000
9% Franchise Tax	3,767,356	9,006,500	(300,000)	8,706,500
6% Other Taxes	2,073,096	5,500,000		5,500,000
2% Construction Related	1,368,845	3,020,000	(650,000)	2,370,000
0% Vehicle License Fee (VLF)	190,000	690,000	(500,000)	190,000
12% All Other	7,949,117	11,890,971	392,515	12,283,486
<b>100% Total Revenues</b>	<b>53,043,946</b>	<b>103,884,471</b>	<b>(4,857,485)</b>	<b>99,026,986</b>
<b>Expenditures</b>				
91% Net Employee Services	51,175,917	99,694,802		99,694,802
18% Operation & Maintenance	11,063,618	20,396,292	(775,737)	19,620,555
<i>Reductions</i>				
-6% Operating Savings		(6,862,000)		(6,862,000)
-1% Furlough Savings			(600,000)	(600,000)
-1% Add'l MOU Savings			(1,000,000)	(1,000,000)
-2% Add'l Dept Op Savings			(2,200,000)	(2,200,000)
<i>Additions</i>				
1% Mid-Year Appropriations			977,600	977,600
-9% Mid-Year Changes	0	(6,862,000)	(2,822,400)	(9,684,400)
<b>100% Total Expenditures</b>	<b>62,239,535</b>	<b>113,229,094</b>	<b>(3,598,137)</b>	<b>109,630,957</b>
<b>Transfers</b>				
Transfers in	9,618,830	13,576,812		13,576,812
Land Sale			3,485,000	3,485,000
Gas Tax Reduction			(1,055,000)	(1,055,000)
Transfers out	(4,105,979)	(5,357,164)		(5,357,164)
Worker's Comp			(300,000)	(300,000)
<b>Net Transfers</b>	<b>5,512,851</b>	<b>8,219,648</b>	<b>2,130,000</b>	<b>10,349,648</b>
<b>Difference</b>	<b>(3,682,738)</b>	<b>(1,124,975)</b>	<b>870,652</b>	<b>(254,323)</b>
<b>July 1, 2008 Beginning Fund Balance</b>				
				<b>15,317,927</b>
<b>Estimated FY 2009 use of reserves</b>				
				<b>(254,323)</b>
<b>Estimated June 30, 2009</b>				
				<b>15,063,604</b>

**GENERAL FUND****Reserve & Designations***\$'s in 1000's*

<b>Reserved for:</b>	<u>FY 2008 Actual</u>	<u>Mid-Year Change</u>	<u>FY 2009 Revised</u>
Advances to Other Funds	10,386	-	10,386
Encumbrances	776	(776)	-
Prepaid Expenses	30	0	30
Inventory	<u>22</u>	<u>0</u>	<u>22</u>
<i>Total Reserved Fund Balance</i>	<u><b>\$11,214</b></u>	<u><b>(\$776)</b></u>	<u><b>\$10,438</b></u>
<b>Designated for:</b>			
Economic Uncertainty	7,000	0	7,000
Liquidity	3,500	0	3,500
Hotel Conference Center	1,000	0	1,000
Retirement Reserve	1,122	(600)	522
Police Staffing	1,000	0	1,000
Contingencies	<u>1,696</u>	<u>346</u>	<u>2,042</u>
<i>Total Designated Fund Balance</i>	<u><b>\$15,318</b></u>	<u><b>(\$254)</b></u>	<u><b>\$15,064</b></u>
<b>Total Reserved and Designated</b>	<u><b>\$26,532</b></u>	<u><b>(\$1,030)</b></u>	<u><b>\$25,502</b></u>

## HAYWARD CITY COUNCIL

## RESOLUTION NO. 09-\_\_\_\_\_

**DRAFT**

Introduced by Council Member \_\_\_\_\_

RESOLUTION AMENDING RESOLUTION 08-097, AS AMENDED, THE BUDGET RESOLUTION FOR THE CITY OF HAYWARD OPERATING BUDGET FOR FISCAL YEAR 2009, RELATING TO AN APPROPRIATION OF FUNDS,

BE IT RESOLVED by the City Council of the City of Hayward that Resolution No. 08-097, as amended, the Budget Resolution for the City of Hayward Operating Budget for Fiscal Year 2009, is hereby amended by approving the following General Fund changes:

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the following revenue estimate amounts are hereby amended:

## I. CHANGE OF REVENUE ESTIMATE

<u>Fund</u>	<u>Revenue</u>	<u>Amount</u>
100	Sales Tax	(2,300,000)
100	Real Property Transfer Tax	(1,500,000)
100	Construction Related	(650,000)
100	Vehicle License Fee	(500,000)
100	Waste Mgmt Franchise	(300,000)
100	Other Revenues	<u>392,000</u>
		(4,858,000)

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the following amounts are hereby appropriated for expenditure:

## II. OPERATING EXPENDITURE APPROPRIATIONS

<u>Fund</u>	<u>Department</u>	<u>Purpose</u>	<u>Amount</u>
100	City Clerk Department	Election Expense	17,600
100	Various	Employee Separation	600,000
100	Human Resources	Retiree Medical	210,000
100	City Attorney Department	Attorney Expense	<u>150,000</u>
			977,600

**DRAFT**

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the following appropriations are hereby reduced:

### III. OPERATING EXPENDITURE APPROPRIATION REDUCTIONS

<u>Fund</u>	<u>Department</u>	<u>Purpose</u>	<u>Amount</u>
100	Various	Furlough Savings	(600,000)
100	Various	Dept Year-End Savings Measures	(2,200,000)
100	Various	Employee Concessions	<u>(1,000,000)</u>
			<u>(3,800,000)</u>

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the Director of Finance is hereby authorized to transfer the following amount from one fund to another as indicated below at such time as he/she may determine, giving consideration to the intended purposes for which the transfers are made and available balances in each of the funds.

### IV. FUND TRANSFERS

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
100-GF	710-ISF	Worker's Comp Expense	300,000
622-EF	100-GF	Land Transfer	<u>3,485,00</u>
			3,785,000

The Director of Finance is hereby authorized and directed to distribute the above revised revenue estimates, appropriations, and transfers to the various accounts of the City in accordance with generally accepted accounting principles and consistent with the purposes and objectives as outlined in the approved budget.

IN COUNCIL, HAYWARD, CALIFORNIA \_\_\_\_\_

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:

MAYOR:

NOES: COUNCIL MEMBERS: None

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: \_\_\_\_\_  
City Clerk of the City of Hayward

APPROVED AS TO FORM:

**DRAFT**

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City Attorney of the City of Hayward



ABSENT: AGENCY MEMBERS:

**DRAFT**

ATTEST:  
Secretary of the Redevelopment Agency  
of the City of Hayward

APPROVED AS TO FORM:

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General Counsel

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 09-\_\_\_\_\_

Introduced by Council Member \_\_\_\_\_

RESOLUTION AUTHORIZING THE TRANSFER OF LAND FROM THE GENERAL FUND TO THE WATER UTILITY FUND AND THE TRANSFER OF FUNDS FROM THE WATER SYSTEM CAPITAL IMPROVEMENT FUND TO THE GENERAL FUND

BE IT RESOLVED that the City Council of the City of Hayward hereby authorizes the transfer of a City-owned five acre parcel of real property, located near Industrial and Hesperian boulevards, from the General Fund to the Water System Capital Improvement Fund, at the recently appraised value of \$3.485 million, such transfer to be made prior to the end of FY 2009.

BE IT FURTHER RESOLVED by the City Council of the City of Hayward that the Director of Finance is hereby authorized to transfer \$3.485 million from the Water System Capital Improvement Fund (Fund 622) to the General Fund (Fund 100), as consideration for the transfer of the above-referenced real property, prior to the end of FY 2009.,

IN COUNCIL, HAYWARD, CALIFORNIA \_\_\_\_\_

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:  
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: \_\_\_\_\_  
City Clerk of the City of Hayward

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney of the City of Hayward