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**DATE:** May 25, 2010  
**TO:** Mayor and City Council  
Redevelopment Agency Board of Directors  
**FROM:** Interim Finance Director  
**SUBJECT:** City of Hayward and Hayward Redevelopment Agency Operating Budget for Fiscal Year 2011

**RECOMMENDATION**

That Council reviews and comments on the Recommended Operating Budget Fiscal Year 2011 and the proposed Operating Budget for FY 2012.

**SUMMARY**

Provided below is a brief summary of the resources and outlays recommended for FY2011. This information is broken down into summaries of the General Fund, Enterprise Funds, Internal Service Funds, and the Redevelopment Agency. Also included in the budget document is a synopsis of the proposed budget for FY2012.

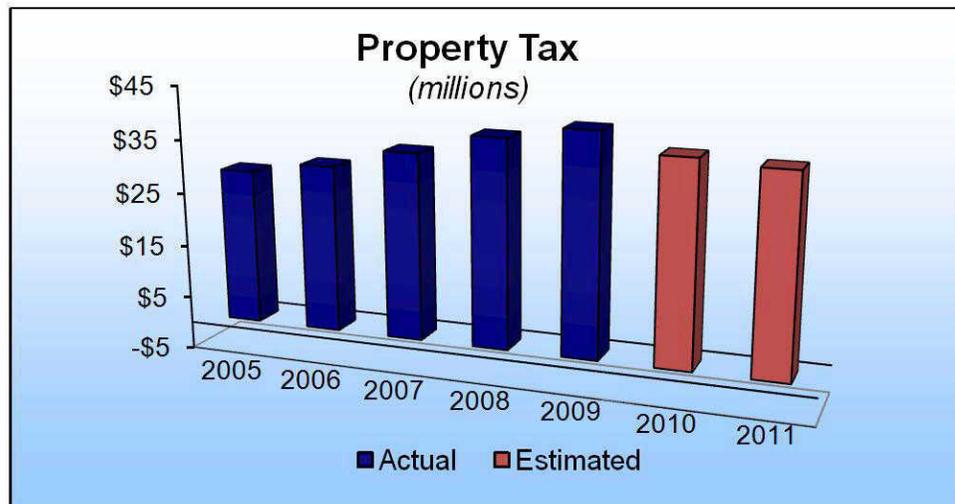
**DISCUSSION**

GENERAL FUND

Resources

Property Tax:

FY2009 Actual:	\$40.7 million
FY2010 End of Year Estimate:	\$37.2 million
FY2011 Recommended Budget:	\$36.3 million



Property taxes remain the City's single largest revenue source at slightly over 30% of total General Fund revenues. As reliable a source as this has been, we are seeing an almost 9% decline in FY2010 and anticipate an even further decline of 2.5% continuing into FY2011. This will amount to a cumulative two-year loss of almost \$5 million just over FY 2010 and FY 2011.

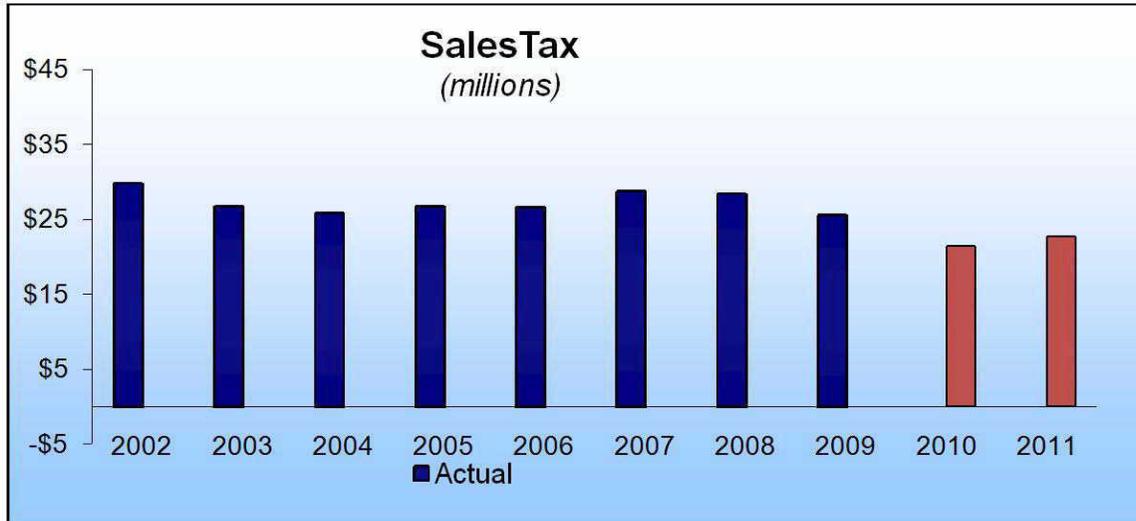
Several events have collided to contribute to the decline of property tax revenues. The following items primarily impact secured property values, but contribute to the net effect of decline in our estimated property tax for FY2011 of the approximately two and one-half percent.

The following items are broken out to show their individual impact on the City's overall decline of Property Tax:

- The standard maximum increase in assessed valuation is linked to the annual CPI for October. October 2009 actually saw a county-wide decrease of a quarter percent.
- Changes in property tax rolls, or a property's market value change due to a sale / purchase, have resulted in a decline of over 1.6% for the City of Hayward.
- County-wide blanket property re-assessments due to declining market conditions resulted in an approximate 2.3% reduction for the City of Hayward.
- Property owners requesting their property be revalued downward to create a reduction on their property tax bill is pushing down the assessed values by another estimated one-half percent.
- Commercial properties are selling for less and when selling, are generating less value.
- Commercial property owners, like residential owners, are asking for and receiving revaluations.

Sales Tax:

FY2009 Actual:	\$25.6 million
FY2010 End of Year Estimate:	\$21.4 million
FY2011 Recommended Budget:	\$22.7 million



Sales tax receipts remain the second largest revenue source at slightly over 20% of total General Fund revenues. However, difficult economic times during recent years have seen a considerable drop in this revenue stream from a high of \$28.8 million in FY2007 to our current estimate for FY2011 of \$22.7 million. The addition of Costco in November 2009 has staved off some of the decline. Our sales tax consultants have advised us using a conservative four percent increase, along with the inclusion of Costco sales activity, would be the moderate conservative approach for FY2011. Therefore we are estimating approximately \$22.7 million in sales tax receipts for FY2011.

As we continue in the future to bring new businesses into town, sales tax will slightly improve. However, this is somewhat offset by the growing sales via the Internet, most of which do not generate sales tax, The on-line portion of consumer spending will continue to grow in the out years.

Utility Users Tax:

FY2009 Actual:	\$ 0.0
FY2010 End of Year Estimate:	\$10.0 million
FY2011 Recommended Budget:	\$13.8 million

Implemented in October 2009, the Utility Users' Tax is estimated to produce approximately 9.6% of total General Fund revenues in FY2010 (\$10.0 million), which is the first partial year of implementation. Due to some anticipated utility company rate increases and a full year of this resource, we are estimating FY2011 will see approximately \$13.8 million from this revenue source.

It should be noted, that without the Utility Users Tax (Measure A), the City would be facing an additional \$10.0 million dollars in deficit in FY 2010, and \$13.8 million in FY 2011. Measure A is allowing us to fund General Fund operations in support of Council priorities.

“Other Taxes”:

In the budget “all operating funds” summary schedules there is a line titled “Other Taxes” totaling \$9.4 million in FY2011. Included in this line item are Real Property Transfer Tax (\$4.1million), Business License Tax (\$2.4 million), Emergency Facilities Tax (\$1.7 million), and Transient Occupancy Tax (\$1.2 million). Overall this category will see an increase of approximately \$343,000 in FY2011. Highlighted below is a brief summary of FY2009, 2010, and 2011 Real Property Transfer Tax receipts.

Real Property Transfer Tax:

FY2009 Actual:	\$3.8 million
FY2010 End of Year Estimate:	\$3.5 million
FY2011 Recommended Budget:	\$4.1 million

Real property transfer taxes are experiencing a slight upsurge as the real estate market realizes and increase in sales activity. Although market prices are down thus impacting property taxes, more properties are being bought and sold, which drives this revenue stream.

Over the next two, two-year budget cycles, it is recommended that Council consider identifying a flat or base value of this extremely volatile revenue such as \$5.0 million for general operating expenses, and designate anything above that as a source to begin funding unfunded needs such as technology needs, facilities replacement, and fleet resources. This revenue cannot be well projected and behaves consistently in a volatile manner in direct correlation to property sales volume and pricing. As this revenue increases, Council can revisit and readjust the base at the start of a two-year budget cycle..

“Charges for Service”

In the budget “all operating funds” summery schedules there is a line titled “Charges for Service” totaling \$3.1 million in FY2011. Included in this line item are the City’s construction related revenues, which include Construction Permits (\$1.3 million), Plan Checking Fees (\$745,000), New Construction Inspections (\$550,000), and Supplemental Improvement Tax (\$591,000).

“Charges for Service” / Construction Revenues:

FY2009 Actual:	\$3.4 million
FY2010 End of Year Estimate:	\$3.1 million
FY2011 Recommended Budget:	\$3.1 million

Due to recent years decline in construction and development activity, our revenue projections for this activity are reflecting only a very minor increase (approximately

\$60,000) in potential revenues for FY2011. While the City recently continued its cost recovery policy, which increased fees, most of these fees are associated with applications related to smaller projects, generating smaller fees. While staff does expect to see a very mild growth in construction-related revenue in FY 2011, this will be somewhat dependent on the recovery of overall development activities within the City.

“All Other Sources”:

In the budget “all operating funds” summary schedules there is a line titled “All Other Sources” totaling \$24.1 million in FY2011. Included in this line item are Franchise Fees (\$9.1 million), Licenses & Fees (\$4.1 million), Other / Miscellaneous Revenue (\$3.8 million), Inter-Government Revenue (grants and reimbursements from other public agencies totaling approximately \$4.5 million), Fines & Forfeitures (\$2.3 million), and Interest Earned & Rental Income (\$80,000).

Franchise Fees:

FY2009 Actual:	\$8.8 million
FY2010 End of Year Estimate:	\$9.0 million
FY2011 Recommended Budget:	\$9.1 million

Franchise fees remain somewhat steady at approximately 8% of total General Fund revenues. However this area has seen some minor fluctuations, as businesses’ gross receipts are generally the basis for calculating the fee. FY2011’s estimate has been held almost flat with only a minor increase of a little over 1% or \$148,000 based on a projected minor increase in business activity and increased rates charged by franchisee, which then inflates gross receipts.

Licenses & Permits and Fees & Service Charges:

FY2009 Actual:	\$4.1 million
FY2010 End of Year Estimate:	\$3.8 million
FY2011 Recommended Budget:	\$4.1 million

While this revenue source saw a slight decline from FY2009 to FY2010, we are expecting a minor increase (approximately \$240,000) in FY 2011 as a result of the recent update to the Master Fee Schedule.

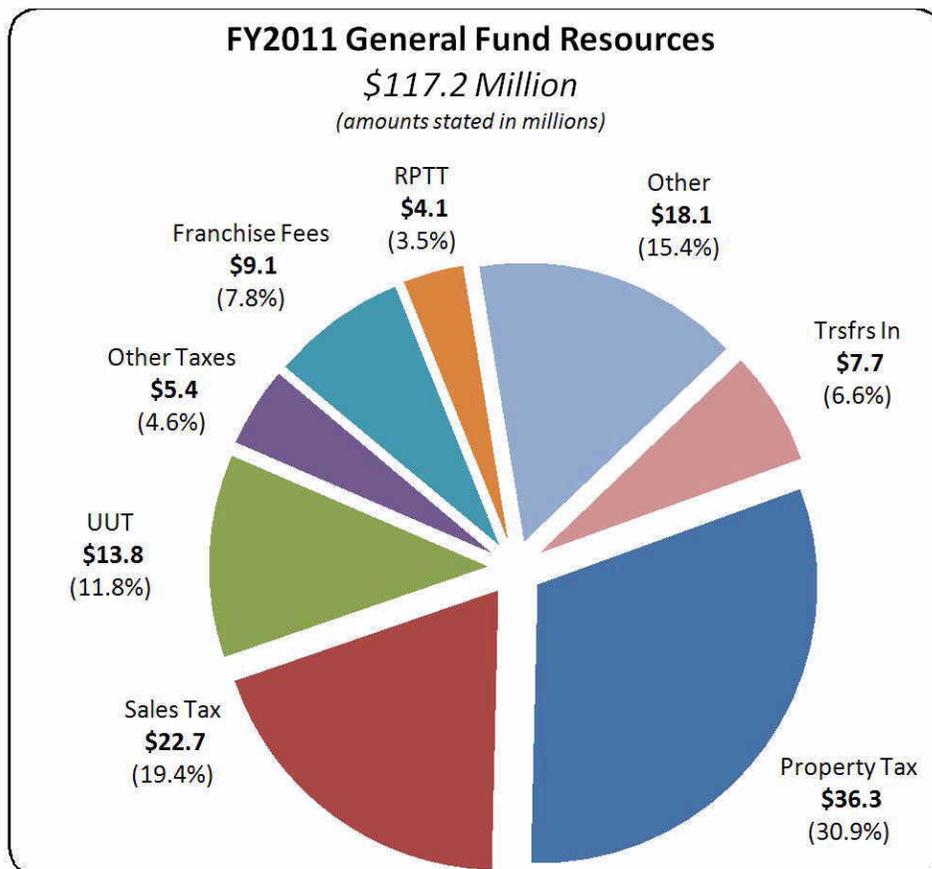
Transfers In or Transfers From Other Funds:

Transfers In will see a sharp decline in FY2011 as many of our one time funding sources have already been used in prior years. This area will drop from approximately \$13 million in FY 2010 to approximately \$7 million in FY2011. The change in this line item is mainly the result of elimination of FY2010’s one time transfer in of housing fund monies. FY2011’s \$7 million consists primarily of \$2.8 million in cost allocation reimbursements, \$2.2 million in Gas Tax revenues, and \$1.0 million reimbursement of prior year General Fund costs on behalf of an RDA bond issuance.

TOTAL General Fund Resources:

	<u>Revenues</u>	<u>Transfers In</u>	<u>Total Resources</u>
FY2009 Actual:	\$ 105.7m	\$ 14.3m	\$ 120.0m
FY2010 End of Year Estimate:	\$ 103.9m	\$ 13.1m	\$ 117.0m
FY2011 Recommended Budget:	\$ 109.4m	\$ 7.7m	\$ 117.2m

Of significant note here is the relatively static position of total resources from FY2010 to FY2011. Of greater importance is that while transfers in are necessarily dwindling from lack of further one time sources, the revenue base has grown. Primary growth in General Fund revenue is, of course, the Utility Users Tax (increases FY2011 by \$3.8 million) and Sales Tax as a result of Costco for a full year and modest overall anticipated growth.



EXPENDITURES

Net Staffing Expense

The challenge of funding City services continues. As with all service organizations, employee services is the largest expenditure of the General Fund. In recent years, employee services cost has

gone from approximately \$97 million in FY2008 to an estimated \$106 million in FY2011 (exclusive of charges to other programs). The FY2011 line item reflecting \$106 million represents the full impact of all current Memorandums of Understanding (MOU). Senior management and representatives from the employee groups are working together to find a mutually agreeable way to continue saving costs in this area. In what we feel is an unprecedented show of commitment, loyalty, and support, each and every employee group has stepped up to the plate and committed to reducing MOU related costs by 5% in each of the two upcoming fiscal years. That commitment totals to a \$4.5 million General Fund savings in FY2011 and \$4.7 million General Fund savings in FY2012.

To further address the deficit in FY2011 and FY2012, the following steps have been taken:

- Other employee services cost reductions will be seen through additional vacancy savings of approximately \$1.1 million in FY2011. This will be achieved through stringent management of vacant positions and careful consideration whether or not to refill a vacancy on a case by case basis.
- The final step to balance the FY2011 General Fund operating budget is the use of approximately \$2.5 million from General Fund Reserves & Designations (specifically from the designation for Economic Uncertainty).

Net Operating Expenses:

Operating expenditures for FY2011, when compared to FY2010, are estimated to decline by approximately \$821,000 due primarily to cost reductions in Supplies & Services.

Transfers Out:

Transfers Out will see a change (reduction) of over \$5 million due to the following one-time transfers out that occurred in FY2010 and will not occur in FY2011:

Reduction to Transfers Out as a result of FY2010 One Time Transfers:

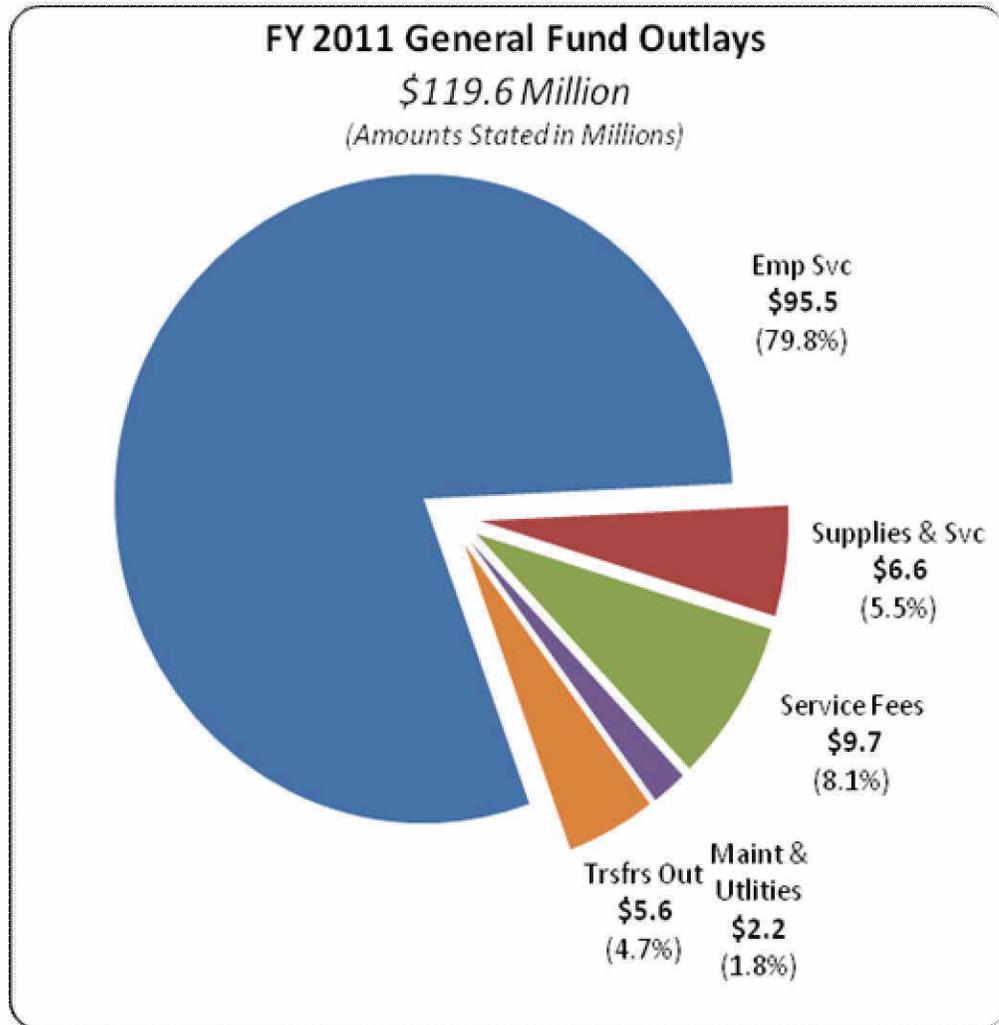
- \$2.5 million onetime transfer out to set aside funds for a financial management system
- \$2.1 million onetime transfer out to fund retiree medical payments (effective FY2011 this cost is reflected in each department's budget)
- \$1.0 million onetime transfer out to set aside funds for claims associated with risk management
- \$500,000 one time transfer out to set aside funds for various future equipment replacement
- \$250,000 last of the transfers out to support Centennial Hall activities

Transfers Out of the General Fund for FY2011 total \$5.6 million and is made up of the following actions:

FY2011 Transfers Out:

- \$2.8 million to be transferred out to fund debt service payments.
- \$2.3 million to be transferred out to met our liability insurance premium requirements.
- \$326,000 to be transferred out to fund Fire Department capital needs.
- \$163,000 to be transferred out to replenish facilities maintenance activities.

FY2011 General Fund Outlay Summary Graph:



GENERAL FUND SUMMARY OF RESERVED & DESIGNATED FUND BALANCES

Reserves represent a financial requirement ensuing from a legal obligation possibly resulting from a contract, purchase order, or even a loan. Designations reflect a commitment or obligation ensuing from a board policy or management decision. These may include items such as a “reserve policy” wherein guidelines are established setting financial goals to reserve monies against future

possibilities. The following schedule is provided to demonstrate the change in General Fund reserves and designations from year to year.

<b>General Fund Summary</b>					
<i>Reserved and Designated Fund Balance (FY 2008 - 2012)</i>					
<i>\$'s in 1000's</i>					
	FY 2008 Actual	FY 2009 Actual	June 30, 2010 Estimated	FY 2011 Recommended	FY 2012 Proposed
<b>Reserved for:</b>					
Encumbrances	776	974	776	700	600
Advances to other funds	10,386	9,841	9,223	8,593	7,950
Inventory	22	12	28	15	10
Prepaid expenses	30	1	-	-	-
<b>Total Reserved Fund Balance</b>	<b>\$11,214</b>	<b>\$10,828</b>	<b>\$10,027</b>	<b>\$9,308</b>	<b>\$8,560</b>
<b>Designated for:</b>					
Economic Uncertainty	7,000	7,000	9,350	6,874	4,005
Liquidity	3,500	3,500	4,675	4,675	4,675
Hotel Conference Center	1,000	1,000	1,000	1,000	1,000
Retirement Reserve	1,122	522	522	522	522
Police Staffing	1,000	1,000	1,000	1,000	1,000
Contingencies	1,696	8,737	1,492	1,492	1,492
<b>Total Designated Fund Balance</b>	<b>\$15,318</b>	<b>\$21,759</b>	<b>\$18,039</b>	<b>\$15,563</b>	<b>\$12,694</b>
<i>Change in Contingencies(Use)/Addition</i>	<i>(\$5,368)</i>	<i>\$6,441</i>	<i>(\$3,720)</i>	-	-
<i>Use of Retirement Reserve</i>	-	<i>(\$600)</i>	-	-	-
<i>Transfer from Contingency</i>	-	-	<i>(\$3,525)</i>	-	-
<i>Transfer To / (From):</i>					
<i>FY2010: Economic Uncertainty (to = 85%)</i>	-	-	<i>\$2,350</i>	-	-
<i>FY2010: Liquidity (to = 85%)</i>	-	-	<i>\$1,175</i>	-	-
<i>FY2011: Economic Uncertainty</i>	-	-	-	<i>(\$2,476)</i>	-
<i>FY2012: Economic Uncertainty</i>	-	-	-	-	<i>(\$2,869)</i>
<b>Total Reserved and Designated</b>	<b>\$26,532</b>	<b>\$32,587</b>	<b>\$28,066</b>	<b>\$24,871</b>	<b>\$21,254</b>

It should be noted that the above June 30, 2010 estimated balances for Economic Uncertainty as well as for Liquidity will meet 85% of Council policy for these designations. Of further importance is the planned use of Economic Uncertainty monies in FY2011 and FY2012. The use of this designation, while planned and budgeted, will only be carried out if absolutely necessary as a last resort to balance the General Fund budget in those years.

## ENTERPRISE FUNDS

### Resources & Expenses

#### Water:

	<u>Revenue</u>	<u>Expenditures</u>
FY2009 Actual:	\$28.2 million	\$28.6 million
FY2010 End of Year Estimate:	\$29.1 million	\$30.2 million
FY2011 Recommended Budget:	\$29.3 million	\$32.8 million

The Water Fund is impacted by several factors requiring the use of fund balance to cover expenditures. Most significantly, the San Francisco Public Utilities Commission (SFPUC), the City's sole water supplier, has approved a 15.2% increase in the wholesale water rate for FY2011 and is expected to further adjust the rate by 10.2% in FY2012. Anticipated rate adjustments in the subsequent four years will average close to 17% per year.

The SFPUC wholesale rate increases are part of a multi-year rate strategy to implement the regional water system improvements. The wholesale cost of purchasing the City's water supply represents half of the entire Water Fund budget. The Water Fund is also affected by customer consumption, which has decreased in recent years due primarily to multiple years of drought conditions and consumer conservation, followed by significant precipitation this past winter, along with the economic decline and reduced business activity. This has resulted in lower water sales, while the fixed costs of maintaining and operating the Water Distribution System have continued to increase.

#### Wastewater:

	<u>Revenue</u>	<u>Expenditures</u>
FY2009 Actual:	\$20.1 million	\$18.9 million
FY2010 End of Year Estimate:	\$20.1 million	\$20.3 million
FY2011 Recommended Budget:	\$21.2 million	\$21.9 million

The Wastewater Fund is likewise affected by changes in business activity and decreased water consumption and will also require making use of fund balance in FY2011. The volume of wastewater discharge on which non-residential billings are based has decreased, as several major businesses have either reduced or ceased operations. Meanwhile, the fixed cost of maintaining and operating the Wastewater Collection System and Water Pollution Control Facility has continued to increase. The Wastewater Fund has also initiated repayment of the State Revolving Fund loan, beginning in FY2010, which the City obtained to implement needed improvements to the Water Pollution Control Facility.

Airport Operations:

	<u>Revenue</u>	<u>Expenditures</u>
FY2009 Actual:	\$3.2 million	\$3.0 million
FY2010 End of Year Estimate:	\$3.1 million	\$2.9 million
FY2011 Recommended Budget:	\$3.2 million	\$3.3 million

The airport has continued to see increased corporate jet operations and activity with a corresponding increase in jets being based at the Hayward Airport. As a result, revenue to both the Airport Fund and the General Fund (from Aircraft Personal Property taxes) has been increasing. Several new developments have also been approved on the airport including plans to redevelop the Air National Guard site. Recent update of the Airport Layout Plan includes significant capital projects needed to accommodate safety requirements associated with the larger and faster aircraft much of which will require FAA Funds.

Stormwater:

	<u>Revenue</u>	<u>Expenditures</u>
FY2009 Actual:	\$2.8 million	\$2.0 million
FY2010 End of Year Estimate:	\$2.7 million	\$2.6 million
FY2011 Recommended Budget:	\$2.7 million	\$2.7 million

In order to keep within existing revenues, several changes were implemented to reduce street sweeping costs (while maintaining service levels), and to prepare for future added costs as a result of new Regional Water Control Board Stormwater Permit requirements.

INTERNAL SERVICE FUNDS

Internal Service Funds Resources and Expenditures

Internal Service Funds obtain their resources from charges for service distributed throughout city departments and enterprise activities. The goal is to provide services that are common and best served from a centralized organization, or to provide a mechanism for common city costs to be appropriately allocated. The best models provide enhanced services at a reduced cost by offering economies of scale for a large organization such as the City of Hayward.

Below are four major Internal Service funds along with key financial information.

Technology Services:

	<u>Resources</u>	<u>Expenditures</u>
FY2009 Actual:	\$3.8 million	\$3.8 million
FY2010 End of Year Estimate:	\$4.3 million	\$4.1 million
FY2011 Recommended Budget:	\$4.8 million	\$4.8 million

Technology Services became an Internal Service Fund in 2009. Their primary purpose is to provide technology support and solutions throughout the City and its organizations. Most of the cost is employee service expense, but there are expenses for server and Voice-Over IP (VOIP) projects.

Maintenance Services:

	<u>Resources</u>	<u>Expenditures</u>
FY2009 Actual:	\$7.5 million	\$7.4 million
FY2010 End of Year Estimate:	\$7.8 million	\$7.0 million
FY2011 Recommended Budget:	\$8.0 million	\$7.7 million

The Internal Service Maintenance Budget consists of both Facilities Management Fund and Fleet Management Fund. These internal service funds are responsible for building maintenance for the various City of Hayward property and all city vehicles. The Maintenance Department has made several reductions during the economic slowdown to help control City-Wide costs. These include reducing non-essential services to facilities, deferral of any non-safety related replacements/repairs at City facilities, and continued deferred purchasing of City vehicles until revenues recover.

Employee Benefits & Workers Compensation Funds:

	<u>Resources</u>	<u>Expenditures</u>
FY2009 Actual:	\$6.7 million	\$7.4 million
FY2010 End of Year Estimate:	\$7.6 million	\$7.4 million
FY2011 Recommended Budget:	\$8.6 million	\$7.9 million

In FY2010, the City made a \$2.1 million transfer from the General Fund to the Employee Benefits Fund, designed to allow for sufficient funding for retiree medical payments. Effective with FY2011 forward, the retiree medical activity has been moved to this internal service activity whereby annual estimated costs will be allocated to the departments and transferred to this internal service fund for disbursement.

The Workers' Compensation Fund was established to account for costs specifically related to this activity. Workers' compensation injuries declined in FY2010. In FY2011, staff is conducting a comprehensive programmatic assessment to identify opportunities for further cost savings and improvement of program efficiencies. All insurance payments and claims are processed through this fund.

Both of the above activities are administered by the City's Human Resources Department.

Risk Management:

	<u>Resources</u>	<u>Expenditures</u>
FY2009 Actual:	\$2.6 million	\$4.4 million
FY2010 End of Year Estimate:	\$3.9 million	\$3.5 million
FY2011 Recommended Budget:	\$3.3 million	\$2.8 million

In FY2010 a onetime transfer of \$1.0 million was made to fund the liability account for settling any outstanding obligations. This activity is administered by the City Attorney's Office.

REDEVELOPMENT AGENCY (RDA)

Agency Resources

During FY2010, the Agency's total annual property tax increment revenue – including both low/moderate income housing set-aside funds and non-housing funds - declined from \$12.6 million received in the prior fiscal year to an estimated \$10.5 million, resulting in a 17% reduction in revenue. The reduction is attributed to the effects of the economic recession, as the assessed value of properties in the Project Area declined for the first time in over a decade.

In addition, last July the State approved Assembly Bill 26 authorizing Supplemental Educational Revenue Augmentation Fund (SERAF) payments from redevelopment agencies statewide in the total amount of \$2.05 billion over both FY2010 and FY2011. This resulted in obligations for the Hayward RDA in the amount of \$4.4 million in FY2010 and \$909,000 for FY2011. While this payment to the State was legally challenged by the California Redevelopment Association and others, the courts rendered a decision on May 4<sup>th</sup> that upheld the State's right to take the funds, and the FY2010 payment was subsequently made. The California Redevelopment Association will appeal the court's decision.

The Alameda County Assessor's office has estimated that assessed values will decline by approximately 5% for the next year, lowering the Agency's total property tax increment to approximately \$10.0 million for FY2011. Of that amount, 20%, or approximately \$2 million is set aside for the Low/Moderate Income Housing fund. Staff projects that tax increment will start to grow at a rate of 1.5% in FY2012, and will continue to slowly increase in following years.

Other significant revenues include a projected "withhold" of \$143,000 from the Hayward Unified School District tax increment pass through payment under the Burbank School/Cannery Park Public Facilities Development Agreement, and \$116,900 in lease revenue and garage maintenance fees from the Cinema Place development. The following is a summary of significant expenditure categories identified in the Agency's proposed budget for FY2011. Due to projected revenue reductions, the Agency's ability to undertake projects in the coming years is severely limited, and priorities must be carefully considered. The Agency's FY2011 year-end balance in Fund 451 is currently projected to be approximately \$490,000.

## Agency Expenditures

### *Recommended RDA Operating Expenditures – Fund 451*

- Agency Bond Debt Service - \$3.94 million
- Pass-Through Payments to Taxing Entities - \$1.4 million
- Agency Administration, and Indirect Cost Allocation - \$1.36 million
- State SERAF Payment - \$450,000
- Loan Repayment to General Fund - \$800,000
- Predevelopment Activities - \$250,000
- Public Art, Community Promotions, Downtown BIA - \$220,000
- Property Maintenance - \$165,000

### *Recommended RDA Project Activities:*

- Downtown Retail Attraction Program/Foothill Boulevard - \$1.0 million
- Completion of Mission Boulevard Specific Plan - \$250,000
- South Hayward BART TOD Project design of public improvements - \$300,000

### *Recommended Low/Moderate Housing Operating Expenditures – Fund 452 & 453*

- Administration, and Indirect Cost Allocation - \$557,000
- State SERAF Payment (five-year borrowing) - \$459,401

### *Recommended Low/Moderate Housing Activities*

- First Time Homebuyer Loans City-wide - \$600,000
- Minor Home Repair Program (carry-over from FY 2010) - \$250,000
- South Hayward BART TOD Affordable Housing - \$3.0 million

It should also be noted that in FY2010, the Agency allocated \$2.0 million for first-time homebuyer loans to tenants in the Route 238 corridor, and this amount will be available for expenditure in FY2011.

## **FISCAL YEAR 2012**

While FY2012 budget is not scheduled for formal City Council adoption, it is presented in the budget document to consider the ongoing financial condition of the City. FY2012 is expected to see some economic recovery, and General Fund revenues are forecasted to increase overall by slightly less than \$2 million: it will be yet another challenging year.

Property Tax revenue has been especially hard hit by the economic slowdown beginning in 2008, and will only increase slowly as we recover from the recession. Other traditionally strong sources of revenue, Sales Tax for example, have been “reset” as consumers change their behavior. These once healthy revenues are unlikely to grow as quickly as historical record might have predicted even two short years ago.

In light of these revenue issues, it is critical to control spending and make only the most prudent use of reserves, and then only when absolutely necessary and as a short term plan, not a long term fix. Again it is important to mention the continued cooperation and support of our Employee Groups,

who have committed to another year of 5% MOU savings totaling approximately \$4.7 million in FY2012.

However, even including the employee savings commitment and judicial refilling of vacancies, the City's total General Fund outlay will increase by \$2.4 million. Once again this will require a use of fund balance (\$2.9 million) to close the gap between FY2012 total resources versus total outlay.

This also forces us to ponder the need to fund both replacement of aging equipment and maintenance of existing assets. The sad but true story is a common one amongst public agencies across the nation today. Many of the onetime fixes that were used to weather the storm are no longer available, and postponed maintenance and replacement items will need to be addressed in the not very distant future. One need only to look at the 10 Year Plan (page 16 & 17 of the budget document) to see the potential devastation of our General Fund reserves in FY2013 & FY2014.

This picture will force some new ways of doing business as we go into FY 2013. Looking to the future, the entire City staff, management and employees, will be working together to address the projected deficits, present Council with balanced budgets according to our responsibilities, and assure that the City remains financially solvent with reasonable reserves.

## **PUBLIC CONTACT**

A public hearing is scheduled for the June 15, 2010 City Council meeting at which time will be set aside specifically to receive public input regarding the operating budget.

## **SCHEDULE**

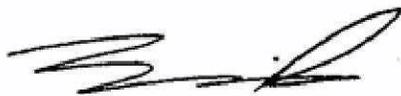
The recommended operating budgets for the City and the Agency will be adjusted in accordance with Council's direction at this work session and brought back for consideration and public hearing process at the June 15, 2010 regular City Council/Agency meeting. Final adoption may occur at that time, or at the regular City Council/Agency meeting on June 22, 2010.

*Prepared by:*

Maret Bartlett, Redevelopment Director  
Robert Bauman, Public Works Director  
Susan M. Stark, Interim Director of Finance

*Recommended by:* Susan M. Stark, Interim Director of Finance

Approved by:



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Fran David, City Manager