



**REVISED**

**DEPARTMENT OF FINANCE**

**SPECIAL MEETING**

**Council Budget and Finance Committee**

Date: July 14, 2011  
Time: 4:00pm  
Room: 4A, City Hall  
777 B Street  
Hayward, CA 94541

**AGENDA**

Public Comments: *(Note: For matters not otherwise listed on the agenda. The Committee welcomes your comments under this section, but is prohibited by state law from discussing items not listed on this agenda. Your item will be taken under consideration and referred to staff.)*

1. Presentation from Auditors
2. Discussion and Analysis of 2012 Budget Process
3. Next Meeting Date: July 27, 2011 at 4:00pm in Conference Room 4B

**Distribution:**

Mayor and City Council	Development Services Director	Maintenance Services Director
City Manager	Fire Chief	Accounting Manager
City Attorney	Human Resources Director	Budget Officer
City Clerk	Police Chief	Daily Review
Assistant City Manager	Public Works Director	Interested Parties
Director of Finance	Director of Library and Community Services	Post

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**DATE:** July 14, 2011

**TO:** Budget and Finance Committee Members

**FROM:** Interim Director of Finance

**SUBJECT:** Discussion and Analysis of FY2012 Budget Process

### **RECOMMENDATION**

That the Committee reviews the report and provides additional feedback on the FY2012 budget process.

### **BACKGROUND**

FY 2012 is the second of a two-year operating budget. The last two-year budget was presented to Council in May of 2010 with the Council adopting the first fiscal year (FY 2011) and confirming the second fiscal year (FY 2012) on June 22, 2010.

Since FY 2012 was the second year of a bi-annual budget, normal process would dictate an update of current assumptions vs. a full blown budget process. However, due to the ongoing economic downturn, severe rise in personnel related costs, and continual changes in estimated bargaining contract costs, it quickly became imperative to re-examine the entire FY 2012 operating budget as well as the potential financial impact on future years.

The FY 2012 budget review was initiated in August 2010 with the formation of executive management committees tasked with revisiting the previous revenue and expenditure estimates, reviewing current conditions, and analyzing the financial impact to both FY 2012 operations and future years. This analysis was documented in the form of a Ten-Year General Fund Financial Plan and presented to the Budget & Finance Committee in October 2010.

During the following months, the Ten-Year Plan estimates were frequently updated and fine tuned as additional information and analysis was received. Concurrent analysis and adjustments were also developed and submitted to Council on February 22, 2011 for the FY 2011 Mid-Year Review.

During January, February, and March 2011, numerous budget exercises were undertaken. All department heads were tasked with several exercises including projections for staffing reductions

and several scenarios using ten and twenty percent operating expenditure reductions. As part of the budget process, departments were also reviewing and updating the Master Fee Schedule, which was presented for public hearing on May 3, 2011 and became effective July 4, 2011 potentially providing the City with additional revenues of approximately \$220,000. Continuous discussions were being held with all ten bargaining groups from which potential concessions were developed along with preparation of related cost analysis in attempts to reduce both the FY 2012 budget gap as well as the structural deficit impacting future years. Historical data was simultaneously analyzed to help us understand how we got here and included reviews of ten and twenty years of staffing levels, how budget gaps were addressed, and fund balance / reserves were impacted.

The State budget process this year also introduced a separate and challenging set of issues into the City's operating budget process. In addition to the proposed and eventual elimination of redevelopment agencies throughout the State, there were a myriad of other State issues that impacted the City's budget process until the eleventh hour. The proposals impacting local governments in the State budget seemed to change by the day and sometimes the hour, requiring staff to monitor State activities to an extent that hadn't been necessary in previous years. The lack of transparency regarding State budget proposals often caused last minute rush analyses by City staff once the proposals became public.

Many of the same staff involved in the budget preparation process were also tasked with understanding and analyzing the impact of the Governor's January proposal to eliminate redevelopment agencies. The team working on these issues involved staff from the City Manager's Office, Finance, the City Attorney's Office, and the Redevelopment Agency. This team dealt with a great deal of uncertainty and speculation throughout the Spring as they first prepared strategies to protect the Agency's assets (presented to Council in early March 2011) and then as they developed various contingency budget plans for the Redevelopment Agency in FY 2012. In addition, with the reactivation of the City's Housing Authority in February 2011, this was the first year that staff had to prepare an operating budget for the Authority. This required a great deal of research and analysis to ensure that appropriate reporting and accounting procedures were met.

Throughout all of the above, the FY 2012 operating budget was constantly evolving. On May 25, 2011 the FY 2012 Recommended Operating Budget was delivered to Council. Budget work sessions and presentations ensued on May 31, June 7, and June 14 with final budget adoption occurring on June 21, 2011.

## **DISCUSSION**

As the organization and community move into the next two-year budget cycle, it is imperative that staff and Council assess the last budget process to determine what worked and what needs improvements. This is particularly necessary given that we face yet again another \$20 million gap or more, and will be doing it with fewer resources throughout the organization in a continuing environment of concession bargaining with employee groups.

What follows is a preliminary analysis of the just-completed process for the Committee's review and discussion:

## **Positives**

1. The use of an improved ten-year financial plan identified potential issues early in the process.
2. All departments and Bargaining Groups were involved in the discussion. Presentations were made to all bargaining groups early in the process and again during the process. Employees were given all known information regarding both projected revenues and expenditures.
3. Department heads and other key staff played a more direct and immediate role in solidifying both revenue and expenditure projections, and in determining budgeting strategy to hit target.
4. Council had four full work sessions on the budget, including presentations for all departments.
5. At least twelve Closed Sessions were held with Council to keep them apprised of progress with employee group negotiations/concessions; and to assure that staff and Council were in synch.
6. Budget “insights” were given at every Neighborhood Partnership meeting throughout the year so that the large budget gap did not come as a surprise to many participants.

## **Areas for Improvement**

1. Timeline of Budget was too compressed.

Below is a table comparing the Operating Budget Calendars from various Bay Area cities. As you can see, Hayward clearly conducted additional public work sessions. However, compressing the third meeting of June 14 to hold both a work session and a public hearing resulted in an extended meeting which, in the future, should be improved by moving the public hearing to a separate meeting even if that means adding a fifth meeting to the process.

<b><u>City</u></b>	<b><u>Operating Budget Published for Public Review</u></b>	<b><u>Adopted</u></b>
Berkeley	May 3 Workshop & May 17 Public Hearing with Staff Report	June 28, 2011
Hayward	Public Work Sessions: May 31 & June 7; Public Work Session & Public Hearing: June 14, 2011	June 21, 2011
Oakland	May 2011 Public Workshops	By June 30, 2011
San Jose	May 2, 2011	June 21, 2011
Santa Clara	May 24, 2011 Public and Council Workshop	June 14, 2011

The other item constraining the timeline was work with the Bargaining Groups that literally lasted up to the budget adoption. These ongoing discussions required changes to the budget document much later in the process than staff would normally have experienced. In addition, revenue forecasts for both Sales Tax and Property Tax are released the first two weeks of May. Many agencies wait until these outside forecasts are completed to finalize their local revenue estimates.

The table below reflects key City of Hayward Budget Council dates comparing FY2012 to FY2011. Two extra work sessions were inserted this year to accommodate the Department presentations.

<b>Item</b>	<b>FY2011 Budget</b>	<b>FY2012 Budget</b>
Operating Budget Book Distributed to Council	May 20, 2010	May 25, 2011
Work sessions	May 25, 2011	May 31; June 7; & June 14, 2011
Public Hearing	June 15, 2010	June 14, 2011
Adoption	June 22, 2010	June 21, 2011

Identified Improvements:

- a. Improve and elongate public discussion time for the budget in front of Council.
  - b. Deliver recommended budget book to Council by first week in May.
  - c. Allow at least four work sessions with Council in May and early June; separate the work sessions from the public hearings.
2. Allow separate work session for discussion of RDA & Housing Authority budgets; and, if not substantial enough, at least separate them from other General Fund discussions and departments.
  3. CDBG, Social Services, and Community Promotions Funding Allocations Were Confusing. While it is expected that all three funding processes are likely to undergo dramatic change in the next year, the following should be kept well in mind.
    - a. Even though completed earlier than the budget, these should be thoroughly reviewed at the time the budget is adopted.
    - b. They should be discussed separately from departmental operations.
  4. Public Notification Could Be Improved.
    - a. More public notification was given this year than in the past. However, better use can be made of the web site, twitter, and other communication mechanisms.
    - b. All agendas should be clearly marked as to which part of the budget is being discussed at which meeting.

- c. Schedules should be made public as early as possible and update frequently and timely when things change.
- d. Better use can be made of print media, as well as the broadcast abilities of KHRT.

## 5. ERP System

The City of Hayward is in the process of upgrading the ERP (Financial Software) system. The current system is very dated and does not allow basic budget analysis, such as scenario planning or multiyear modeling. This greatly impacts the budget process by creating the need for extensive manual calculations, cross checking, and document preparation for even relatively small changes. Almost all of this work is done manually via spreadsheets and the data must be verified constantly to ensure accuracy. The upcoming installation of a new ERP system for the City will greatly enhance the budget preparation process. Unfortunately, due to the magnitude of an ERP implementation effort, staff anticipates that the system will not be in place until the FY2014 budget preparation process, which begins in the winter of calendar year 2013.

## 6. Bargaining Group Participation was on-going, complex, and continued right up to budget adoption

While the participation of the Bargaining Groups was critical in achieving a balanced budget, one key difference between FY2011 and FY2012 was the degree of the concessions and the various responses by each group. The level of complexity of each agreement meant that staff could no longer use a simple method to reflect employee concessions. Every change and approach needed to be quickly and accurately modeled individually for each group.

In addition, many of the groups did not complete their version of concessions until shortly before the Recommended Budget was prepared. Human Resources did a good job in obtaining multi-year concessions and defining the “buffet” of options for each Bargaining Group. In addition, HR staff worked closely with the IT and Finance staff to define the details and calculate the cost impact of each concession as early and quickly as possible. Combined with an inflexible ERP System, changes were very labor intensive and the risk for error and delay was magnified.

### Identified Improvements:

- a. The installation of the new ERP system will create efficiencies for the staff working to model various bargaining group scenarios. In addition, it will help the negotiating team provide more and better data to assist in informing the bargaining groups about the magnitude of the budget challenges facing the City. Enhanced education and information sharing with City employees will be a critical element of the budget process in the future.

- b. Concession bargaining will start in September 2011 for the FY 2013 – FY 2014 budget years.

*Prepared by:* Jay McGowan, Interim Accounting Manager

*Recommended by:* Susan Stark, Interim Finance Director

Approved by:

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Fran David, City Manager

Attachments: none