



CITY OF
HAYWARD
HEART OF THE BAY

**COUNCIL BUDGET AND
FINANCE COMMITTEE**

NOVEMBER 26, 2012



Revised
CITY COUNCIL BUDGET AND FINANCE COMMITTEE
SPECIAL MEETING
Monday, November 26, 2012
Conference Room 4B 5:00 PM

CALL TO ORDER

ROLL CALL

PUBLIC COMMENTS: *(The Public Comment section provides an opportunity to address the City Council Committee on items not listed on the agenda. The Committee welcomes your comments and requests that speakers present their remarks in a respectful manner, within established time limits, and focus on issues which directly affect the City or are within the jurisdiction of the City. As the Committee is prohibited by State law from discussing items not listed on the agenda, your item will be taken under consideration and may be referred to staff.)*

DISCUSSION ITEMS

1. Preliminary FY 2012 General Fund year-end review

COMMITTEE MEMBER ANNOUNCEMENTS AND REFERRALS

ADJOURNMENT

NEXT MEETING— 3:00 PM, WEDNESDAY, DECEMBER, 19, 2012

****Materials related to an item on the agenda submitted to the Council after distribution of the agenda packet are available for public inspection in the City Clerk's Office, City Hall, 777 B Street, 4th Floor, Hayward, during normal business hours. An online version of this agenda and staff reports are available on the City's website.*

Assistance will be provided to those requiring accommodations for disabilities in compliance with the Americans Disabilities Act of 1990. Interested persons must request the accommodation at least 48 hours in advance of the meeting by contacting the Assistant City Manager at (510) 583-4300 or TDD (510) 247-3340.

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DATE: November 26, 2012

TO: Budget & Finance Committee Members

FROM: Director of Finance

SUBJECT: FY 2012 General Fund Year-end Review

RECOMMENDATION

That the Committee reviews and comments on this report.

BACKGROUND

Reviewing the City's financial results is critical to understanding its fiscal status and to making informed funding and program decisions. The Finance Department is currently working with the City's outside auditor to develop and finalize the financial statements for the period ending June 30, 2012 (FY 2012). The full results of the audit and the FY 2012 Comprehensive Annual Financial Report (CAFR) are currently scheduled to be presented to Council in January 2013.

In the meantime, staff would like to provide an update on the FY 2012 year-end performance of the General Fund. Attachment I (General Fund Statement of Revenues, Expenditures and Changes in Fund Balances) presents a section of the audit document that displays actual to budgeted revenues and expenditures for FY 2012 (fiscal year ending June 30, 2012). This chart is generally used to communicate year-end performance of the General Fund in the CAFR document.

Following considerable expenditure reductions and employee concessions, City Council adopted the FY 2012 budget in June 2011. As part of the budget, Council agreed to use \$4.2 million of the General Fund Reserve as a one-time measure to close the remaining budget gap. The initial revenue projections for FY 2012 were appropriately conservative, given the volatile economy and the rapid loss of Hayward sales and property tax revenues. In February 2012, Council revised its year-end outlook based on "year-to-date" revenue and expenditure projections, reducing the assumed use of the General Fund Reserve to \$3.4 million.

Preliminary FY 2012 year-end data indicate the need for use of the General Fund reserves of about \$1.73 million, which is a \$1.7 million improvement over the adjusted projections – entirely attributed to revenue. While there were a few positive revenue returns, which are discussed in detail later in this report, overall costs continue to exceed available revenues. The negative effects of the sluggish economy still are impacting City revenues; property tax revenues remained flat in FY 2012 over FY 2011 and ended 0.7% below revised projections. In addition, future revenue projections will assume very mild growth based on the current economic indicators. Given this fact and cost increases to operations, the City will face a structural gap or operating deficit in upcoming years.

DISCUSSION

FY 2012 ended the year with a \$1.73 million in use of reserves (compared to the \$3.4 million revised projection in February 2012). Table 1 compares the FY 2012 actuals to the FY 2012 Adjusted Budget to gauge performance against revised expectations. Given the uncertainty of the economy and its impacts on local revenues, a 2.3% variance is a relatively reasonable margin.

Table 1 – Net Change to Fund Balance

	FY 2012 Adopted	Mid Year		Variance	
		FY 2012 Adjusted	FY 2012 Actual	(Adjusted to Actual)	Variance %
Revenues	112,134	112,850	115,465	2,615	2.3%
Expenditures	113,625	113,574	113,994	(420)	0.4%
Transfers In/Out	(2,722)	(2,723)	(3,200)	(477)	17.5%
Net Change in Fund Balance	(4,213)	(3,447)	(1,729)	(1,718)	-49.8%

The net variance between FY 2012 actuals and the Adjusted Budget is \$1.72 million, and is largely attributed to revenues.

- ❑ Of the \$2.6 million in revenue variance from the Adjusted Budget, about \$1.3 million is considered to be non-recurring as explained later in the report.
- ❑ The \$420,000 in expenditure variance from the Adjusted Budget was caused by various factors, the most predominant being labor costs.
- ❑ The \$477,000 variance in transfers is primarily due to:
 - Transfers in to the General Fund were reduced due to the loss of cost allocation revenues from the former Redevelopment Agency & the loss of revenues due to an expired Byrnes Justice Grant that was incorrectly budgeted.
 - Transfers out of the General Fund increased due to adjustments to transfers to the Library Grant Fund, Equipment Maintenance Fund and the Capital Projects Fund for Council-approved expenses.

While the year-end use of Reserves is about half of what was anticipated, the City is still facing a General Fund structural gap. This outcome (and future year projections in the General Fund Ten-Year Plan) indicates the need for additional balancing measures to further preserve the City's critical General Fund reserves and to continue progress in the implementation of long-term structural financial balancing.

FY 2012 General Fund Revenues

Table 2 presents a summary of the General Fund revenues (exclusive of Transfers In) as categorized in the CAFR. Overall, City revenues performed \$2.6 million better than projected compared to the Adjusted Budget – a 2.3% positive variance.

This good news is tempered with the fact that much of this revenue is one-time in nature. In addition, the City's single largest revenue source, Property Taxes, continues to see a slight decline over revised projections due to the slowly recovering real estate market. Some of these revenues are considered one-time in nature and will not be included in future projections.

Table 2 – City General Fund Revenues

Revenue	Mid Year		Variance		
	FY 2012 Adopted	FY 2012 Adjusted	FY 2012 Actual	(Adjusted to Actual)	Variance %
Property Tax	36,654	35,960	35,716	(244)	-0.7%
Sales Tax	23,647	25,777	26,346	569	2.2%
Real Property Transfer Tax	3,491	3,500	4,778	1,278	36.5%
Utility Users Tax	14,800	14,800	14,797	(3)	0.0%
Business License Tax	2,400	2,400	2,483	83	3.5%
Other Taxes	12,049	12,193	13,366	1,173	9.6%
Licenses & Permits	3,056	3,056	3,178	122	4.0%
Fines & Forfeitures	2,410	2,488	2,403	(85)	-3.4%
Investment & Rental Income	526	450	510	60	13.3%
Intergovernmental	4,490	4,233	3,716	(517)	-12.2%
Fees & Charges for Services	4,918	4,265	4,375	110	2.6%
Other Revenue	3,693	3,728	3,797	69	1.9%
Total	112,134	112,850	115,465	2,615	2.3%

Variance Analysis

Sales Tax: +\$569,000 (one-time new revenue)

Sales Tax comprises about 23% of General Fund revenue. A recent meeting with MuniServices, the City’s Sales Tax audit consultant, affirmed the City’s current sales tax revenue projections – which reflect a modest growth in its Sales Tax revenues. As part of its audit efforts, in FY 2012 the City realized some one-time revenue from the resultant collection of “back taxes” and also received one-time use tax payments. Almost all of the \$569,000 is attributed to these one-time revenues and will not be considered in future revenue projections.

Property Transfer Tax: + \$1,278,000 (\$850K one-time revenue & \$428K in new recurring revenue)

Property Transfer Tax is a volatile revenue category directly linked to the performance of the real estate market. The substantial increase in FY 2012 was due primarily to the sale and transfer of a large parcel located in the Hayward Business Park (about \$850,000). This was an unusual and large transaction and is not expected to be recurring in nature. While future projections will not include this “spike,” the market seems to indicate a slight improvement and positive adjustments to future projections may be warranted.

Other Taxes: +\$1,173,000 (recurring new revenue)

This category relates to revenue received from Franchise Fees, Transient Occupancy Tax, Construction Tax, and Excise Tax revenue. Since most of these revenues are considered recurring in nature, staff will consider adjustments to future projections in accordance with these returns. Any revisions to current year revenues will be presented to City Council during the second quarter update in February 2013. Table 3 provides a summary of these other taxes and a brief variance analysis for the key revenue differences.

Table 3 – Other Taxes

Description	Variance
Franchise Fees	\$809,000
Transient Occupancy Tax	\$76,000
Construction Tax	\$114,000
Aggregate net total of all other taxes	\$174,000
Total Variance	\$1,173,000

Franchise Fees: +\$809,000

The majority of the increase in Franchise Fees revenue is derived from four main sources.

- Waste Management fees increased \$214,000 above projected.
- New Special Assessment on delinquent garbage bills brought in \$103,000.
- Cable TV generated \$217,000 above projected.
- Water Franchise Fees provided an increase of \$188,000 which can be attributed to the increase in water rates (October 2011).

Transient Occupancy Tax and Construction Tax: +\$114,000

The positive variance to these two taxes can be linked to a conservative rebound in the economy. Whether this revenue increase will be ongoing in nature is yet to be determined; however, staff will consider these increases as part of future projection analyses.

Intergovernmental: -\$517,000 (one-time loss of revenue)

This category reflects revenues received from State and Federal funding sources.

Table 4 – Intergovernmental Revenues

Description	Variance
Police TCS Checkpoint Program Grant	(217,000)
HPAY Grant Reimbursement	(246,000)
Aggregate net total of all other activities	(54,000)
Total Variance	(517,000)

Police TCS Checkpoint Program/HPAY Grant Reimbursement: -\$463,000

The combined negative variance of \$463,000 was due to grant funds budgeted in FY 2012 which were not permitted due to the expiration of these grant programs, resulting in overstated revenues.

FY 2012 General Fund Expenditures

Below is a summary table of the General Fund expenditures (exclusive of Transfers Out) as categorized in the CAFR. Attachment II provides a summary of Expenditures by Department and spending category as well.

Table 5 – General Fund Expenditure Summary

Expenditures	Mid Year			Variance	
	FY 2012 Adopted	FY 2012 Adjusted	FY 2012 Actual	(Adjusted to Actual)	Variance %
General Government	9,983	9,273	8,924	349	3.9%
Public Safety	88,135	89,082	89,879	(797)	-0.9%
Public Works/Transportation	1,732	1,576	1,539	37	2.4%
Library & Community Services	4,856	5,032	4,763	269	5.6%
Planning & Building	5,157	5,063	5,059	4	0.1%
Maintenance Services	3,762	3,548	3,830	(282)	-7.4%
Total	113,625	113,574	113,994	(420)	-0.4%

Of the approximately \$420,000 net overage (negative variance) between actual and budgeted expenditures, the majority can be directly attributed to salary and benefit related costs and savings. Key variances are discussed below.

General Government: +\$349,000 (savings)

Areas of significant variance under General Government occurred within the City Manager’s Office, the City Clerk’s Office, and the Human Resources Department. The City Manager’s Office came in \$133,000 over budget. The overage was due primarily to two unbudgeted positions: one of which was added after budget adoption, and a position that is shared with another department that was not appropriately budgeted. The funding for these positions was excluded from the budget in error and has been corrected in FY 2013.

However, both the Office of the City Clerk and the Human Resources Department had significant savings. The City Clerk was \$94,000 under budget due primarily to a less than expected Election Charge from the County, and the Human Resources Department was \$385,000 under budget due to a decrease in actual Unemployment Benefit costs.

Public Safety: -\$797,000 (over expenditure)

The major portion of the negative expenditure variance in Public Safety occurred in the Fire Department (\$775,000) – with the balance (\$22,000) attributed to the Police Department. These negative variances are almost entirely due to labor costs – and largely driven by elements not in the direct control of department management. An increase of about \$329,000 in revenues generated by the Fire Department help to offset the overall over-expenditure. These revenues are captured in the Licenses & Permits and the Fees and Service Charges revenue categories.

Fire Department Summary

In addition to the significant cost savings realized through labor concessions generated by the Firefighters Association (Local 1909), the department as a whole incurred additional budget reduction measures in FY 2012:

- ❑ The FY 2012 Adopted Budget included a target vacancy savings (for all department staff) and furlough savings (for non-sworn staff) totaling \$369,000 as a budget balancing measure.

- The FY 2012 Adopted Budget included a reduction of about \$314,000 to Fire Department overtime over FY 2011 adopted levels as a budget balancing measure.

During FY 2012, the department experienced a significant amount of used leave by sworn employees (Workers' Compensation, vacation, etc.) that necessitated the backfilling of these positions through the use of overtime. The requirement for minimum sworn staffing drives the need to maintain staffing at a certain level. When employees are on leave, their positions are filled by other employees on overtime. The net impact of the increased amount of used leave and the overtime budget reduction caused the department to exceed budgeted overtime by \$690,000. Although the Fire Department recorded approximately \$148,000 in net salary savings (including the target savings of \$369,000), it was not enough to offset the overtime costs.

The Fire Department's overtime budget was restored in FY 2013 to prior year levels to be reflective of normal staffing trends. Although the FY 2013 Adopted Budget does include \$500,000 in target vacancy savings, staff believes this is a realistic target giving current staffing. The restoration of the overtime budget will fund the appropriate levels of required overtime.

In addition to the increased overtime costs, the department experienced a number of retirements and incurred payouts totaling \$241,000 for accrued leave. ¹These payout costs were not directly budgeted and the department has no control over these retirement costs.

Library & Community Services: +\$269,000 (savings)

The \$269,000 positive variance shown for the Library & Community Services is due to the relocation of grant expenditures from the General Fund into a new separate grant fund. The associated revenues were transferred as well. These budgeted expenditures should have been reduced when the program was moved out of the General Fund – but this failed to occur – hence the budget variance.

Maintenance Services: -\$282,000 (over expenditure)

Labor costs accounted for the majority of the negative variance in Maintenance Services:

1. three positions were budgeted at lower pay steps, but filled at higher pay steps due to bumping rights or transfers;
2. Acting, Special Assignment, and Differential Pay, which is unbudgeted, also contributed to a small portion of the variance, and
3. a general target vacancy savings amount was divided among the departments in the General Fund; however Maintenance Services realized no vacancy savings.
4. The department earned revenues from parking citations above adjusted expectations by about \$127,000 that helps offset the overall over-expenditure.

¹ Leave payouts have historically been unbudgeted and absorbed within department salary savings generated by position vacancies. As staffing has reduced, these savings are no longer a realistic mechanism to fund this liability expense. As part of the FY 2014 budget process, staff is reviewing a way to fund accrued leave payouts within the budget to mitigate this unfunded liability.

FISCAL IMPACT

For FY 2012, the City ended with a \$1.73 million gap or deficit. This gap resulted in the use of the General Fund Reserve to balance the budget.

NEXT STEPS

The full FY 2012 audit report will be submitted to City Council in January 2013. Financial statements developed as part of the audit are critically important as they serve to set the groundwork for future financial planning, such as the City's ten-year financial plan and establishing the baseline budget for FY 2014.

Staff will be providing Council with a comprehensive FY 2013 second quarter update and General Fund Ten-Year Plan review in February. It is important to note that staff will carefully and thoroughly evaluate future revenues and expenditures to ensure that any one-time "spikes" to projections (i.e. deferred payments from the State, large developments, one-time reimbursements, etc.) are not included in projections unless verified as warranted.

Prepared and Recommended by: Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

Attachment I: FY 2012 Statement of Revenues, Expenditures and Changes in Fund Balance

Attachment II: Summary of FY 2012 Expenditures by Department & Category

CITY OF HAYWARD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Adjusted Budget Positive (Negative)
	Adopted	Adjusted		
REVENUES:				
Property taxes	\$36,654,000	\$35,960,000	\$35,716,000	(\$244,000)
Real Property Transfer Tax	3,491,000	3,500,000	4,778,000	1,278,000
Sales taxes	23,647,000	25,777,000	26,346,000	569,000
Utility users tax	14,800,000	14,800,000	14,797,000	(3,000)
Business License Tax	2,400,000	2,400,000	2,483,000	83,000
Other taxes	12,049,000	12,193,000	13,366,000	1,173,000
Licenses and permits	3,056,000	3,056,000	3,178,000	122,000
Fines and forfeitures	2,410,000	2,488,000	2,403,000	(85,000)
Investment & Rental Income	526,000	450,000	510,000	60,000
Intergovernmental	4,490,000	4,233,000	3,716,000	(517,000)
Fees and charges for services	4,918,000	4,265,000	4,375,000	110,000
Other revenue	3,693,000	3,728,000	3,797,000	69,000
Total Revenues	112,134,000	112,850,000	115,465,000	2,615,000
EXPENDITURES:				
Current:				
General government	9,983,000	9,273,000	8,924,000	349,000
Public safety	88,135,000	89,082,000	89,879,000	(797,000)
Public works and transportation	1,732,000	1,576,000	1,539,000	37,000
Library and community services	4,856,000	5,032,000	4,763,000	269,000
Planning and building	5,157,000	5,063,000	5,059,000	4,000
Maintenance services	3,762,000	3,548,000	3,830,000	(282,000)
Capital outlay	0	0	0	0
Debt Service:	0	0	0	0
Principal	0	0	0	0
Interest and fiscal charges	0	0	0	0
Total Expenditures	113,625,000	113,574,000	113,994,000	(420,000)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,491,000)	(724,000)	1,471,000	2,195,000
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	0	0	0	0
Transfers in	5,607,000	5,606,000	5,314,000	(292,000)
Transfers (out)	(8,329,000)	(8,329,000)	(8,514,000)	(185,000)
Total Other Financing Sources (Uses)	(2,722,000)	(2,723,000)	(3,200,000)	(477,000)
NET CHANGE IN FUND BALANCE - BUDGET BASIS	(4,213,000)	(3,447,000)	(1,729,000)	\$1,718,000

FY 2012 Expenditures by City Department and Expense Category

Expenditures by Department

Expenditures	Mid Year			Variance	
	FY 2012 Adopted	FY 2012 Adjusted	FY 2012 Actual	(Adjusted to Actual)	Variance %
Mayor & Council	506	503	495	8	1.6%
City Manager	2,912	2,622	2,755	(133)	-5.1%
City Attorney	1,019	975	963	12	1.2%
City Clerk	763	858	764	94	11.0%
Development Services	5,157	5,063	5,059	4	0.1%
Human Resources	1,871	1,380	995	385	27.9%
Finance	2,912	2,935	2,952	(17)	-0.6%
Police	58,037	58,804	58,826	(22)	0.0%
Fire	30,098	30,278	31,053	(775)	-2.6%
Public Works-Engineering & Transportation	1,701	1,545	1,510	35	2.3%
Public Works-Utilities & Env Services	31	31	29	2	6.5%
Library & Community Services	4,856	5,032	4,763	269	5.3%
Maintenance Services	3,762	3,548	3,830	(282)	-7.9%
Total	113,625	113,574	113,994	(420)	-0.4%

Expenditures by Category

Expenditures	Mid Year			Variance	
	FY 2012 Adopted	FY 2012 Adjusted	FY 2012 Actual	(Adjusted to Actual)	Variance %
Employee Services	96,233	96,871	97,935	(1,064)	1.1%
Salaries	62,972	63,847	62,615	1,232	-1.9%
Overtime	3,811	4,397	4,493	(96)	2.2%
Target Vacancy Savings	(1,303)	(1,303)	-	(1,303)	-100.0%
Medical Benefits	8,911	8,512	8,515	(3)	0.0%
Retiree Medical	2,560	2,560	2,560	-	0.0%
Other Benefits	7,473	7,928	7,592	336	-4.2%
PERS	18,447	18,278	17,492	786	-4.3%
Interdepartmental (ID) Charges	(5,021)	(5,731)	(5,332)	(399)	-7.0%
Furlough Savings	(1,617)	(1,617)	-	(1,617)	-100.0%
Maintenance & Utilities	1,017	690	810	(120)	17.4%
Supplies & Services	7,080	6,178	5,898	280	-4.5%
Internal Service Fees	9,280	9,280	9,280	-	0.0%
Capital	14	43	71	(28)	65.1%
FY 2012 Mid-Year Adjustments	-	511	-	511	-100.0%
Total	113,624	113,573	113,994	(421)	0.4%