



DATE: February 26, 2019
TO: Mayor and City Council
FROM: Director of Finance
SUBJECT: FY 2019 Mid-Year Budget Review & General Fund Long Range Financial Model Update

RECOMMENDATION

That the City Council reviews the FY 2019 Mid-Year Budget and General Fund Long Range Financial Model Update, and adopts resolutions approving amendments to the previously adopted City of Hayward Operating and Capital Improvement Budgets for Fiscal Year 2019.

SUMMARY

This report presents the mid-year review of the FY 2019 Adopted Budget, and an update to the General Fund Long Range Financial Model (model) presenting proposed changes, and projected year-end results based on current trends and data. While staff considers the entire City budget in its mid-year review, this report focuses primarily on the General Fund.

FY 2019 mid-year expenditures net a total increase of \$5.3 million in the General Fund as shown in Table 2. Key changes in General Fund expenditures are as follows:

Fund transfer from the General Fund to the General Liability Fund	\$3 million
PERB settlement	\$ 979,357
One-time expenditures	\$1,082,352
Personnel related costs	\$ 214,876

FY 2019 General Fund revenues are expected to exceed the originally projected amount by \$16.1 million. Changes in revenue projections are detailed in Table 2 of the report. Key changes in the General Fund revenues are as follows:

Projected increase in Real Property Transfer Tax (RPTT) amount (Measure T)	\$ 5.6 million
Appropriation of Utility Users Tax (UUT) <i>(previously held in reserves in the City's UUT Capital Projects Fund)</i>	\$10.1 million

If mid-year requests are approved as proposed, the FY 2019 Revised Budget would result in a projected surplus, building reserves by \$7.8 million in the General Fund in FY 2019.

On February 20, 2019, the FY 2019 Mid-Year Budget Review & General Fund Long Range Financial Model Update was presented to the Council Budget and Finance Committee for review and feedback. The Committee did not make any substantial changes to the recommendations in this report.

BACKGROUND

On May 22, 2018, the City Council adopted the FY 2019 Operating Budget, projecting a use of \$3.0 million in General Fund Reserves¹. Since the time of adoption of the FY 2019 Budget, the City's fiscal position has changed significantly. By fall 2018, the Council approved labor agreements with all of its employee bargaining groups resulting in equitable benefits and cost savings for both the City and employees. In November 2018, Hayward voters passed Measure T to increase the City's Real Property Transfer Tax (RPTT) from the previous rate of \$4.50 per \$1,000 of property value to \$8.50 per \$1,000 of property value. This results in a projected increase in revenues of \$6-\$8 million annually. With the passage of Measure T and successful labor agreements, staff presented Council with an update to the General Fund model on January 22, 2019² to illustrate the long-term fiscal impacts to the General Fund outlook. At that time, the model no longer projected a use of General Fund Reserves in FY 2019, but rather that the City should close the year building reserves by \$0.5 million.

This report includes an update to the model as part of the FY 2019 mid-year review, reflecting additional proposed changes in revenue projections and expenditure adjustments since the January 22 update.

DISCUSSION

GENERAL FUND REVENUES

FY 2019 General Fund revenues are projected to be \$16.1 million higher than originally projected. This is primarily attributed to projected increases in RPTT (ongoing), and the appropriation of prior period UUT revenue (one-time).

The following analysis highlights key revenue variances as they pertain to FY 2019 mid-year projections and the impact on future year projections as outlined in the model.

Sales Tax (increase of \$1.15 million) – The amount projected at the time of adoption did not anticipate continued growth in the local economy and accounted for the loss of a significant sales tax generating business.

Real Property Transfer Tax (RPTT) (increase of \$5.6 million) - On July 17, 2018, Council approved a resolution calling for a municipal election for an increase to the RPTT. In November

¹ City of Hayward Council on May 22, 2018

<https://hayward.legistar.com/LegislationDetail.aspx?ID=3508592&GUID=2D2BDF4E-8114-4B5D-BC9A-74C648C01B13>

² City of Hayward Council on January 22, 2019

<https://hayward.legistar.com/LegislationDetail.aspx?ID=3838793&GUID=E10E87A8-2F02-4ED5-892A-EC90162F10AF&Options=ID|Text|&Search=Outlook>

2018, Hayward voters passed Measure T, increasing the RPTT from its original rate of \$4.50 per \$1,000 of property value to \$8.50 per \$1,000 of property value. The prorated RPTT is expected to generate an additional \$5.6 million in FY 2019.

Utility Users Tax (UUT) (decrease of \$0.4 million) – The City has changed its projections based on current conditions.

Cannabis Tax (decrease of \$700,000) – The FY 2019 Adopted Budget projected Cannabis Tax revenue at \$750,000. A number of cannabis business operators are not fully operational, and the City has not begun collecting any Cannabis Sales Tax.

Transfer-In from Other Funds (\$10.1 million) – Prior period UUT revenue has been held in the Utility Users Tax Capital Projects Fund. The Transfer-In to the General Fund of prior period UUT revenue is a one-time transfer.

Permit & Fees (increase of \$480,000) – Increase in reimbursable services for contract consulting services related to development driven projects. Revenue projections are solely based on reimbursement of expenses incurred.

GENERAL FUND EXPENDITURES

FY 2019 General Fund total adjustments include FY 2018 carryforwards, previous Council approved appropriations, and mid-year requests. FY 2019 General Fund expenditures, including mid-year requests, are projected to be \$7.0 million higher than anticipated at the time the City adopted its budget. Of this amount, FY 2018 carryforwards (previously encumbered funds and contract expenses) total \$1.6 million, and \$163,845 in previously approved appropriations. The net amount of FY 2019 mid-year expenditure requests total \$5.3 million. Of this amount, \$5.1 million are one-time in nature. The following analysis highlights key expenditure variances as they pertain to FY 2019 mid-year projections and the fiscal impacts on future year projections, as illustrated in the model.

Staffing Expense

Overall, the staffing expense budget will increase by a net total of \$214,876. The following provides detail on the changes in the staffing expense budget:

- Staffing Changes (increase of \$165,811) – An addition of 3.0 FTE in the Police Department is included as part of the mid-year review. On January 22, 2019, the Council approved the addition of two (2.0) Lead Program Assistant positions and one (1.0) Counseling Supervisor³. In December 2017, the City was awarded additional grant funding from Delinquency Prevention Network (DPN) to fund the additional allocation of 1.0 FTE Counseling Supervisor. In April 2018, the City was awarded an increase in annual funding from the Alameda County Probation Department for a three-year period, to fund 2.0 FTE

³ City of Hayward Council on January 22, 2019

<https://hayward.legistar.com/LegislationDetail.aspx?ID=3838799&GUID=3DA5D3FD-2974-4D2A-A92E-76FE35F0FE0C&Options=ID|Text|&Search=policy>

Lead Program Assistants. The proposed positions will be part of the Youth and Family Services Bureau (YFSB) of the Police Department. Table 1 below summarizes the fiscal impact. Most, if not all, of this fiscal impact will be offset by the grant revenues being received.

Table 1: Staffing Changes Summary

POSITION CHANGE	FY 2019	FY 2020
<u>Police Department</u>		
Add 1.0 FTE Counseling Supervisor	\$ 69,587	\$ 167,009
Add 2.0 FTE Lead Program Assistant	\$ 96,224	\$ 230,937
Total Cost to General Fund	\$ 165,811	\$ 397,946

- Employee Labor Group Agreements (increase of \$49,065) – By fall 2018, agreements with all labor groups were approved by Council. As part of the FY 2019 budget process, staff included conservative budget projections related to employee costs, as labor negotiations and the budget process occurred concurrently. The FY 2019 Adopted Budget assumed similar employee costs congruent with FY 2018, with the exception of public safety groups, which included approved COLAs as outlined in those MOUs.

Operating Expenses

A number of adjustments are needed at mid-year to fund necessary and/or unanticipated expenditures, and to appropriate prior year encumbrances (contractually obligated expenses) that have carried forward into FY 2019.

- Encumbrances Carryforward and Budget Carryforward Request (increase of \$1.6 million)– The increase includes prior year encumbrances (purchase orders and contracts), and funds not encumbered in FY 2018, but intended for professional contracts and grant funded operations.
- New Appropriations (increase of \$163,845) – the City Council previously approved a new appropriation totaling \$163,845 for City and the Redevelopment Successor Agency assessment for the establishment of the Downtown Hayward Community Benefit District (CBD). The City’s annual assessment of \$163,845 is an ongoing expense that will be included in the FY 2020 Operating Budget.
- PERB Settlement (increase of \$979,357) – The City reached settlement terms with one of its labor groups in late 2018 to resolve a dispute stemming from negotiations in 2013.
- General Fund transfer to Facilities Capital Fund (increase of \$103,000) – A transfer from General Fund to the Facilities Maintenance Fund to cover the cost of office reconfigurations, and unanticipated City Hall security software upgrades.

- General Fund transfer to General Liability Fund (increase of \$3.0 million) – This transfer is to cover the costs associated with settlement of litigation that occurred in the fall of 2018.
- Contract Services (increase of \$786,810) – Additional contract services are necessary in multiple departments. The Development Services department has requested contract services for building inspection services and on-call planning services to provide staff augmentation due to staff vacancies, as well as to assist with the moratorium contemplated by the Council; the total of this request is \$600,000. Most of these costs will be reimbursed through developer payments. In addition, Development Services requests \$30,000 to address security concerns at the Maple/Main development project site. The increase in expenses for enhanced security measures are anticipated to be reimbursed by the developer. The City Manager’s Office is requesting \$156,810 to use for professional services related to the rent review program, translation services, and digitizing applications.
- Office/Operating Supplies (increase of \$4,000) – The Housing Division of the City Manager’s Office has a conservative operating budget and requests an increase in budget for promotional materials and postage related to the increase in participation in the City’s Rent Review Program.
- Maintenance Operations (increase of \$75,000)– The City operates two garbage transfer sites. This year, one of the properties was sold and the transfer site was closed. The City has secured an alternative site and funds are need to setup the new location.
- Downtown Hayward Improvement Association (DHIA) (increase of \$111,524) – To establish appropriate funding levels for the DHIA, the City agreed to advance 80% of the first-year total assessment. This adjustment is to appropriate the portion of funds not previously appropriated or received. The total amount being advanced to DHIA is \$476,516. The City will recover these funds once the assessments from property owners are received. Due to assessments received to date, staff is only requesting an additional appropriation of \$111,524.

The amounts shown below in Table 2 demonstrate the General Fund impact of the changes being proposed as part of the City’s FY 2019 Mid-Year Budget Review from the time that Council adopted the City’s Operating Budget in May of 2018. In total, the changes presented for consideration result in an increase in General Fund reserves of \$7.8 million for the fiscal year.

Table 2: Summary of Mid-Year Changes

<i>\$ in thousands</i>	FY 2019 Adopted	Change	FY 2019 Mid-Year Revised
Revenue			
Sales Tax		\$1,153	
Utility Users Tax		(\$400)	
Real Property Transfer Tax		\$5,609	
Cannabis Tax		(\$700)	
Transient Occupancy Tax			
Interest and Rent			
Permits & Fees		\$480	
Other Revenue		(\$156)	
Transfer In from Other Funds		\$10,095	
Total Revenue	\$159,748	\$16,081	\$175,828
Expenditures			
Supervising Counselor (1.0 FTE) - Police*		\$70	
Lead Program Assistant (2.0 FTE) - Police*		\$96	
Net Labor Agreements Adjustments (Salary, PERS, Other Benefits)		\$49	
Net Staffing Expenses	\$125,519	\$215	\$125,734
Contract Services - City Manager		\$161	
Contract Services (partially offset by revenue) - Development Services		\$630	
Site Setup - Garbage Transfer Site - Maintenance Services		\$75	
Spay & Neuter Program Fund Appropriation - Police		\$2	
PERB Settlement		\$979	
Advance to Downtown Hayward Improvement Association		\$112	
Net Operating Expenses	\$25,588	\$1,959	\$27,547
Transfer-Out to General Liability Fund		\$3,000	
Transfer-Out to Facilities Capital		\$103	
Transfers to Other Funds	\$11,684	\$3,103	\$14,787
Total Expenditures	\$162,789	\$5,277	\$168,067
Total Surplus/(Shortfall)		(\$3,042)	\$7,761

* Ongoing costs associated with the addition of 3.0 FTE is estimated at approximately \$397,946 in FY 2020.

Future General Fund Expenditure Requests for Consideration

In response to the passage of Measure T in November 2018, staff has begun preliminary discussions on potential service enhancements for Council consideration. As part of the FY 2020 Operating Budget process, staff will provide Council with quantification of a number of potential service enhancements for consideration. The proposed changes for consideration could include:

- Adding FTEs in the Maintenance Services Department to address homeless clean up and cleaning of major thoroughfares in the City;
- Implementation of Sunday hours and/or expanded staffing at the Library;
- Increase to Community Agency Funding;
- Funding an Emergency Preparedness Program in the Fire Department; and/or
- Creation of a two-year limited-term Homeless Services Coordinator.

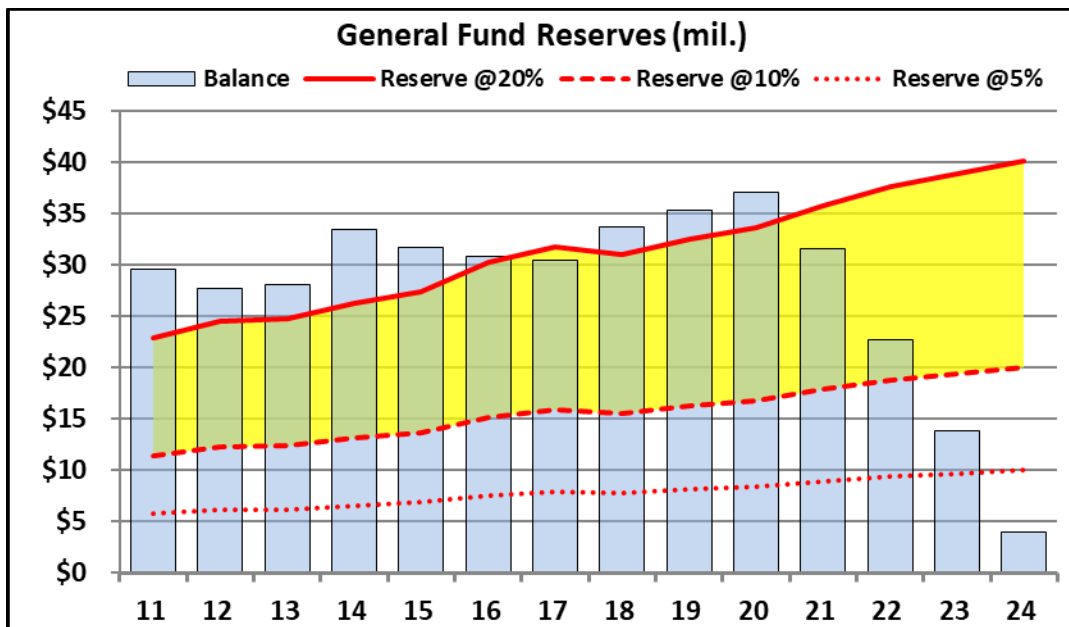
At this meeting, the Council can identify any other potential service enhancements for further staff research. The Council can also provide a preliminary prioritization of these enhancements.

GENERAL FUND LONG RANGE FINANCIAL MODEL UPDATE

Attachment II is an updated version of the model that includes a reduction in the projected structural budget gap in FY 2019. The FY 2019 Adopted Budget projected a use of \$3.0 million in General Fund Reserves. With the passage of Measure T and successful labor agreements, staff presented Council with an update to the model on January 22, 2019 to illustrate the long-term fiscal impacts to the General Fund. At that time, the updated model projected the City would close the year building the reserves by \$0.5 million.

As part of the mid-year review process, the model is updated to include mid-year expenditure requests and revenue projections as discussed in this report. The updated model, as shown in this report, projects the City will close the fiscal year building the reserves by \$7.8 million in the General Fund; a significant increase from the model projection recently presented in January. The variance is primarily attributed to a change in projected revenues: an increase in sales tax revenues; an increase in RPTT revenue due to the successful passage of Measure T (ongoing); and the appropriation of one-time revenue from prior period UUT revenue.

The current adopted General Fund Reserve policy is to maintain 20 percent of General Fund expenditures in reserves. Based on the updated Model and current projections, the City is projected to be in compliance with the policy, ending the fiscal year with a projected General Fund reserve balance of 23.9%. The graph below depicts revised General Fund revenues and expenditures based on updated FY 2019 projections.



MEASURE C FUND

Measure C Operating

The City Council, as well as the ballot language for Measure C, established a number of spending priorities for these funds. These priorities include a mix of capital projects and funding allocations toward operating services. While Measure C revenues are to primarily be used to fund capital projects, operating activities including police services, addressing illegal dumping, litter control, and graffiti abatement, also fulfill the promises of Measure C.

FY 2019 Measure C operating fund total adjustments include FY 2018 carryforwards, previous Council approved appropriations, and mid-year requests. FY 2019 Measure C expenditure related requests total an increase of \$89,091. Of this amount, FY 2019 carryforwards total \$3,000, and \$86,091 in total net requests. FY 2019 Measure C revenue is projected to be \$1.0 million higher than originally projected. The following details the additional requests:

- Annual Measure C Report (increase \$27,881)
- October Dedication event for the 21st Century Library and Community Learning Center (increase \$11,675).
- PERB Settlement (increase \$61,721)
- Employee Labor Group Agreements (decrease \$15,186)

Due to the nature of these requests, staff recommends that Measure C resources be used to fund these expenditures as opposed to the General Fund.

Measure C Capital

While Measure C funds operating programs and related expenses, Measure C funds are primarily used to fund capital projects. FY 2019 Measure C capital total adjustments include prior year carryforwards, previous Council approved appropriations, and mid-year requests.

FY 2019 Council adopted expenditure appropriations of \$20.5 million in the Measure C capital fund. Total adjustments included in the mid-year review are \$29.3 million. Included in these adjustments are:

- \$26.6 million in prior year carryforwards;
- \$2.6 million in previously approved appropriations; and
- \$42,823 in proposed mid-year requests

FY 2019 Measure C capital mid-year requests include a replenishment of funds used to repair damaged fiber optic lines within the median along the Tennyson Corridor. During the Tennyson Corridor Initiative - Median Landscape Improvement project, an outside contractor damaged fiber optic lines during construction demolition. The fiber optic lines have been repaired, and staff is working to recover the costs from the outside contractor (totaling \$42,823).

Attachment VI is an update to the Measure C 20-Year Financial Forecast, including the proposed requests reflected in this report.

OTHER FUNDS

Total adjustments for FY 2019 Other Funds include FY 2018 carryforwards, previous Council approved appropriations, and mid-year requests. Expenditure increases in Other Funds total \$13.6 million, and revenue projections increase by \$3.8 million. Of this total, FY 2018 budget carryforwards total \$6.3 million; and appropriations previously approved by City Council total \$3.0 million. Increase in expenditure requests at mid-year amount to \$4.3 million. Detail of mid-year requests are as follows:

Services & Supplies (increase of \$4.3 million) - City's membership with East Bay Dischargers Authority (EBDA) JPA (increase of \$100,000); appropriate donations from fund balance for Police programs (increase of \$82,855); additional security at the Watkins parking garage (increase of \$18,000); additional expenditures related to maintenance costs within LLDs & MDs (increase of \$256,460); restore facility related budget due to administrative oversight during the budget process (increase of \$73,000); PERB Settlement (increase of \$738,893); and settlement payment (\$3.0 Million).

CAPITAL IMPROVEMENT FUNDS

Total adjustments for FY 2019 Capital Improvement Funds include FY 2018 carryforwards, previous Council approved appropriations, and mid-year requests. The FY 2019 Capital Improvement Budget adjustments total a net increase of \$211.9 million. Of this amount, FY 2018 carry forwards for contracts and encumbrances total \$195.8 million; and prior Council approved appropriations total \$4.1 million. Mid-year adjustments reflect an increase in projected expenditures in the amount of \$12.0 million. Table 3 provides detail of the FY 2019 CIP mid-year changes.

Table 3: Mid-Year CIP Changes

Mid-Year CIP Changes	FY 2019 Mid-Year Changes
Facilities Capital - City Hall security software upgrade (Fund 726)	53,000
Facilities Capital - Office Reconfigurations (Fund 726)	50,000
Reduce Fleet Capital Budget (over-allocation) (Fund 736)	(536,000)
Fleet Capital - Replacement of two police vehicles due to vehicle accidents (Fund 736)	150,000
Fleet Capital - Replacement of Multi-functional vehicle (Fund 737)	50,000
Fleet Capital - Replace vehicle damaged in vehicle accident (Fund 737)	50,000
Maintenance - Rt. 238 Surplus property weed abatement (Fund 410)	150,000
Reduce Project 05219 - Pavement Rehabilitation (Fund 210)	(250,000)
Increase project 05216 - Pavement Rehabilitation (Fund 212)	250,000
Airport Capital - Install additional fencing (Fund 621)	10,000
Airport Capital - Sulphur Creek maintenance and new airfield signs (Fund 621)	115,000
Airport Capital - Pavement improvements (Fund 621)	50,000
Grant appropriation- Prop 1 - DACIP for Tennyson Water needs (Fund 603)	50,000
Rt. 238 Property Development - Funds needed for demolition of remaining vacant homes in Parcel Group 5 (Bunker Hill), legal services, and personnel costs (Fund 411)	1,665,000
Replace damaged fiber optic lines in median along Tennyson Corridor (Fund 406)	42,823
Transfer UUT Capital Projects Fund reserves to the General Fund (Fund 400)	10,094,789
Total Net Change	\$11,994,612

FISCAL IMPACT

The overall fiscal impact of the proposed mid-year adjustments is an increase to General Fund revenue of \$16.1 million, and an increase to General Fund expenditures of \$7.0 million (\$5.3 million in proposed requests; \$1.6 million in carry forwards; and \$0.1 million in previously approved appropriations). All Other Funds adjustments will result in an increase of \$4.3 million in newly requested expenditures, and Capital Improvement Funds will result in a net increase in expenditures of \$12.0 million.

SUSTAINABILITY FEATURES

The actions in this report do not have an impact on sustainability. Sustainability elements are more directly identified with specific projects as they are carried out.

PUBLIC CONTACT/NEXT STEPS

Upon approval by Council of the recommendations contain herein, staff will post the budget amendments per the approved resolution. Staff will continue to refine the General Fund Long Range Model as part of the upcoming FY 2020 budget process.

Prepared by: Nicole Gonzales, Budget Officer

Recommended by: Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written in a cursive style.

Kelly McAdoo, City Manager