



**DATE:** December 13, 2016  
**TO:** Mayor and City Council  
**FROM:** Acting Director of Finance

**SUBJECT**

General Fund 10 Year Plan Review

**RECOMMENDATION**

No action required. Staff is requesting that the City Council reviews and comments on this report on the General Fund Ten-Year Plan as updated to include FY 2016 Preliminary Year End Results and known changes to FY 2017 revenues.

**BACKGROUND**

The results of the FY 2016 Comprehensive Annual Financial Report (CAFR) will be presented to Council later this evening. **Attachment II** to this report contains FY 2016 year-end results for the General Fund and an update to the General Fund Ten-Year Plan revenue projections.

The City Council adopted the FY 2016 Operating Budget on June 23, 2015, initially projecting a balanced budget for the General Fund. This projection was modified over the course of the fiscal year, projecting a \$5.8 million budget gap when updated in the second quarter (mid-year) as presented to City Council on March 15, 2016. The large increases to projected expenditures related to staffing expenses of approximately \$2.8 million (+\$1 million for new labor agreements, +\$1 million in overtime, +\$0.8 million for settlements & unbudgeted grant related staffing), \$1.5 million in litigation settlements, and another \$1.4 million in non-staffing and grant related expenses.

While the City did not finish the year with the projected gap of \$5.8 million, there was still a use of General Fund Reserves of approximately \$855 thousand in FY 2016. Currently, the General Fund Ten-Year Plan projects a deficit beginning in FY 2017 which increases in future years. Staff is currently reviewing the assumptions used in preparing the General Fund Ten-Year Plan for FY 2017 and beyond based on FY 2016 results and will recommend further adjustments to revenue and expenditure projections as part of the FY 2017 mid-year budget process.

## **DISCUSSION**

### Fiscal Year 2017 Projection Adjustments

#### **Revenues**

Staff has updated the General Fund Ten-Year Plan document as shown in **Attachment II** with known changes to key revenue sources as discussed below:

*Property Tax* – Based on the continued increase in property taxes received over previous fiscal years and increases to assessed valuation in preliminary property tax, projections for FY 2017 received from the County Auditor/ Controllers Office have been increased by \$1.015 million in the projection.

*Sales & Use Tax* – Sales tax revenues have been decreased slightly from previous projections. While the economy has continued to improve, the loss of key businesses within the City and the eroding sales tax base have not allowed this revenue source to see increases as one might expect.

*Charges for Services* – While the City may see a slight increase to this revenue source due to newly adopted rates for the City's user fees, the projection has not been adjusted to reflect these changes; at this time, there are too many variables to do so accurately.

Staff is working to identify new revenue sources and ways of augmenting existing revenues. Staff will be bringing to Council for consideration a variety of ways to attempt to increase revenue including the possibility of increasing the City's transient occupancy tax rate (Hayward's is one of the lowest in the area at 8.5%), an update to the City's Business License Tax Ordinance, a change in the Real Property Transfer Tax rate, application of Utility Users Tax for "over the top" television and possible applications of the recently voter approved taxation of adult use (non-medical) marijuana should Council decide to allow for this.

#### **Expenses**

The expenditures in this projection have not been adjusted, because the budgeted amounts have not changed. This will be done as part of the FY 2017 mid-year budget process.

### Fund Balance

**Attachment III** to this report shows historical and projected General Fund fund balance for fiscal years 2007-2026. Looking back, 2007 saw the lowest fund balance at \$23.5 million and fund balance peaked in FY 2011 at \$47.9 million. During the FY 2016 budget process, Council adopted a policy to maintain balances of at least 20% of General Fund annual expenditures. While this has been achieved from 2007-2016, projections do not show this as a continuing trend. Council is aware that expenditures are growing at a rate that is outpacing revenue growth. Changing this trend is one of the greatest challenges the City faces in the coming fiscal years.

Revenue increases from any of the above mentioned possibilities will not be enough to offset the drastic increase to expenditures in the out years of the projection to cover the rising costs of employee benefits, specifically those related to healthcare (including the possibility of the Cadillac Tax in FY 2020) and funding of CalPERS & OPEB liabilities.

Balancing the budget is a top priority for staff. Doing so without significant changes in service levels to the citizens of Hayward, although incredibly challenging, is an overarching principle considered in this effort.

### **PUBLIC CONTACT**

Staff presented a draft of the preliminary FY 2016 General Fund Year-End Review to the Council Budget and Finance Committee on November 16, 2016.

### **NEXT STEPS**

Staff will present the FY 2016 Comprehensive Annual Financial Report (CAFR) to City Council at the regularly scheduled December 13, 2016 Council meeting. Staff will also present an FY 2017 Mid-Year Review at the March 14, 2017 City Council meeting.

*Prepared and Recommended by:* Dustin Claussen, Acting Director of Finance

Approved by:



---

Kelly McAdoo, City Manager