

May 2026

Honorable Mayor, Members of the City Council and Residents of Hayward:

Over the past eight months, the City has taken significant actions to both balance the Fiscal Year 2025-26 budget, present a balanced General Fund budget for Fiscal Year 2026-27, and work towards building a fiscally sustainable organization. The FY 2026-27 proposed budget is balanced and reflects the City's commitment to balancing the needs of the community and striving for long-term fiscal sustainability. At the same time, we recognize there is much more work ahead to stabilize the City's finances.

The attached budget demonstrates the partnership of elected officials, multiple bargaining groups, unrepresented employees, and executives as we seek to resolve our structural deficit and meet the demands of the future. I want to thank our labor groups for agreeing to concessions that were critical to balancing this budget. I also want to thank the Mayor and Council for their leadership in making challenging decisions during my time as City Manager and before. Finally, I want to thank the Finance Director and team for their tireless work to update budget processes to reflect up-to-date actuals and to build this budget book, as well as the midyear budget for FY 2025-26. This partnership enabled the City to reach a place of clarity that paves a pathway forward.

The attached budget is realistic about our expenses and revenue and honest about the challenges we face. Staff recognizes that difficult decisions remain in the City's future. The Fiscal Year 2026-27 budget continues to use significant short-term or one-time sources, as in the previous two fiscal years. This approach allows the City to implement revenue strategies, such as a tax measure on the November ballot, and to see if the economy improves before taking further actions that substantially impact services. Staff is deeply committed to monitoring and reporting frequently on fiscal health indicators and will return to City Council with options if changes are needed or external factors do not improve.

I look to a bright future as we work our way back toward fiscal stability and continue to provide core services to Hayward residents and businesses. Thank you for the honor and privilege of being your City Manager and the opportunity to lead such a fantastic organization in service to our community.

Sincerely,

Jennifer Ott
City Manager

Attachment: Fiscal Year 2026-27 Budget Overview



CITYWIDE BUDGET OVERVIEW

BUDGET CONTEXT FOR FY 2026-27

The Fiscal Year 2026-27 budget was prepared as the City transitions out of a year of change, both in City leadership, and in budgeting practices. The resulting budget is balanced, but continues to use short-term and one-time sources as the City moves towards long-term fiscal sustainability.

In June 2025, Council proposed a General Fund budget for FY 2025-26 that included an assumed \$8.9 million deficit and reflected a \$30 million fund balance. At that time, Council directed staff to identify solutions to balance the FY 2025-26 budget. In August, staff reported that due to overstated revenues and significant overspending in FY 2024-25, the fund balance in the General Fund had been reduced to near zero.

In November 2025, staff presented an updated forecast for FY 2025-26 reflecting a \$26.4 million deficit. In response, Council authorized the City Manager to take actions to reduce that deficit to zero. This was achieved through a combination of activities including the use of Measure C funding, use of OPEB Trust funding, transfers from other funds such as Information Technology Internal Services and Worker’s Compensation, employee concessions, layoffs, and department savings on services and supplies.

Since November, staff has closely tracked actuals for revenue and expenses, with a particular focus on salaries and benefits. Based on these actuals, staff has adjusted the FY 2025-26 budget within the City Manager’s authority to ensure it will be balanced at the close of the Fiscal Year. For FY 2025-26, staff anticipates a reduction of approximately \$6 million in General Fund expenditures compared to FY 2024-25, even with cost-of-living adjustments of 3.5% for miscellaneous units. Staff also anticipates using approximately \$25 million in short-term or one-time sources to balance the FY 2025-26 budget.

CITYWIDE FINANCIALS

The City’s operating budget is comprised of several funding sources, including Enterprise Funds like Water and Sewer, and internal service funds like Facilities and Information Technology. The focus for the past six months has been on the general fund. Staff is continuing to evaluate budgets for funds outside of the General Fund using updated budgeting practices.

The General Fund is the largest fund and represents the resources over which the City Council has the most discretion. The total proposed City expenditure budget excluding capital funds for FY 2026-27 is approximately \$539.8 million, with a General Fund budget of \$248.5 million.

Table 1: City Expenditure Budget Summary - All Funds

Expenditures

<i>in 1,000's</i>	FY 2025 Actual	FY 2026 Projected*	FY 2027 Proposed	\$ Change from FY2025 Actual	% Change from FY025 Actual
General Fund	247,733	241,261	248,583	850	— %
All Other Funds	301,944	213,414	291,193	(10,751)	(3.6)%
Total City Budget	549,677	454,675	539,776	(9,901)	(1.8)%

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**In Table 1, staff has focused on the General Fund, so has not yet completed a projection for All Funds for FY 2026. The All Funds number for FY 2026 is the adopted budget from June 2025 and likely does not reflect actuals.*

The FY 2026-27 adopted budget reflects a General Fund expenditure increase over the FY 2025-25 actuals of \$851,000, or 0.0%. The FY 2026-27 adopted budget also shows a decrease of \$10.7 million, or (3.6)% to All Other Funds and an overall decrease of (1.8)% for all funds combined over FY 2025-26. This decrease is primarily associated with reduced spending on major projects.

CITYWIDE STAFFING

The FY 2026-27 proposed budget does not recommend any changes to positions at this time, but does recommend holding vacant approximately 90 General Fund FTEs (over 12% of previous General Staffing levels) to reduce costs while maintaining flexibility for the future. Those 90 vacancies are included in the total positions in Table 2: Staffing Summary. As departments are still identifying the optimal use of resources to complete required work with these vacancy management measures in place, staff recommends that each department is authorized a specified number of positions and, with approval of the City Manager, each department may propose budget-neutral alternate staffing recommendations when new vacancies occur through attrition. The staffing section of the budget document provides more detail by department.

Table 2: Staffing Summary*

FTE Summary	FY 2024 Adopted	FY 2025 Adopted	FY 2026 Adopted	FY 2027 Proposed
General Fund	686.1	700.9	700.9	700.6
All Other Funds	251.8	253.3	255.4	255.4
Total City Budget	937.8	954.15	956.3	956.0

**While the FY 2026-27 proposed staffing shows no change, this budget will hold vacant 90 of the General Fund's 700.6 FTEs, which is over a 12% reduction and results in a staffing of 610.6.*

GENERAL FUND DISCUSSION

The General Fund represents nearly half of the City's total operating costs, and provides many important services such as police and fire services, street maintenance, code enforcement, library and learning services, and other community programs for the residents of Hayward.

As mentioned above, the FY 2026-27 budget is balanced, but the City continues to use significant short-term and one-time sources. In addition, the City forecasts structural budget gaps in future years, as rising personnel and benefit costs outpace estimated revenues. A structural change is necessary to balance the budget moving forward.

The following General Fund analysis provides a comparison of the adopted FY 2026-27 Operating Budget to the immediate previous years. FY 2025-26 "Projected" is based on how staff anticipates the fiscal year will end; the actual ending balance may be different when the

CITYWIDE BUDGET OVERVIEW

year is closed and financial audits are complete. In addition the audit for FY 2024-25 is not complete although staff does not anticipate further transactions.

General Fund Revenues

Overall, staff is projecting an increase in General Fund revenues in FY 2026-27 of approximately \$3.4 million or 1.6 percent without transfers in and \$7.3 million or 3% with transfers in when compared to the projected actuals for FY 2025-26. The significant change is primarily attributed to projected increases in property tax, transient occupancy tax (TOT), and utility users tax. These increases are offset by decreases in Sales Tax and Real Property Transfer Tax. Each revenue category varies in its change over the prior year, with some revenues seeing declines and others experiencing increases.

Table 3: FY 2026-27 General Fund Revenues

<i>(in the 1,000's)</i>		A	B	C	D	E	F
		FY 2025 Actual	FY 2026 Adopted	FY 2026 Projected	FY 2027 Proposed	Change \$ (D-C)	Change % (D/C-1)
Revenue							
1	Annual Property Tax - Recurring	\$ 70,025	\$ 72,959	\$ 79,500	\$ 76,257		
2	RPTTF Pass- Thru & Annual	5,882	4,500	—	4,833		
3	Property Tax Total	\$ 75,907	\$ 77,459	\$ 79,500	\$ 81,090	\$ 1,590	2.0%
4	Sales Tax (incl Prop 172)	53,476	45,600	47,599	46,539	(1,060)	-2.2%
5	Utility Users Tax	23,101	27,000	24,844	26,072	1,228	4.9%
6	Franchise Fees	13,031	13,630	12,885	13,873	988	7.7%
7	Real Property Transfer Tax	10,598	13,500	11,794	11,000	(794)	-6.7%
8	Business License Tax	4,119	3,700	3,272	3,587	315	9.6%
9	Transient Occupancy Tax	2,341	3,500	2,629	2,757	129	4.9%
10	Cannabis Tax	741	1,100	626	850	224	35.8%
11	Emergency Facilities Tax	1,972	2,075	2,242	2,372	129	5.8%
12	Charges for Services	10,502	17,314	14,923	14,552	(371)	-2.5%
13	Intergovernmental	5,736	8,251	7,267	7,455	188	2.6%
14	Fines and Forfeitures	2,961	2,823	2,756	3,651	895	32.5%
15	Interest and Rents	—	—	—	—	—	—%
16	Other Revenue	4,056	863	4,020	3,987	(33)	-0.8%
17	Total Revenue	\$ 208,542	\$ 216,815	\$ 214,357	\$ 217,785	\$ 3,429	1.6%
18	Transfers In-Other Funds	7,881	4,419	26,906	30,798	3,892	14.5%
19	Total Revenue/Resources	\$ 216,423	\$ 221,234	\$ 241,262	\$ 248,583	\$ 7,321	3.0%

The City's top five General Fund revenue sources are Property Taxes, Sales Tax, Utility Users Tax (UUT), Franchise Fees, and Real Property Transfer Tax. These five revenue sources make up over 80% of City General Fund revenues. During each of the last five years, the City has experienced unique changes in each of these revenue sources, resulting in overall revenue growth until Fiscal Year 2024-25 when the total growth for these revenues was flat. Based on information received so far, staff anticipates the revenues to be flat (increasing or decreasing slightly from the year before) for Fiscal Year 2025-26, and Fiscal Year 2026-27. Highlights of changes in these revenues include:

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Property Tax: Between FY 2020-21 and FY 2024-25, the City has experienced growth in property tax of 3% - 8%. For Fiscal Year 2025-26, that growth slowed to less than 3% (a forecasted increase of \$2 Million from the prior year) versus increases of over 7% during FY 2022-23 and FY 2023-24 (nearly \$5 million in growth annually at the peak). The Alameda County Assessor has recommended that cities be cautious in growth projections because they are experiencing a number of assessment appeals primarily associated with offices and rental buildings that may result in lower assessments and, therefore, lower property tax collections. Staff is monitoring this closely.

Sales Tax: During FY 2023-24 and FY 2024-25, the City received significant sales tax associated with bringing new BART cars into operation in Hayward. After two fiscal years with sales tax exceeding \$53 million annually, sales tax is anticipated to decline to \$47.5 million in FY 2025-26 and \$46.5 million in FY 2026-27 as the BART car project is completed.

Utility Users Tax and Franchise Fees: The City experienced significant increases (over \$10 million) in these revenue sources in FY 2022-23. As these items are associated with customer cost of utilities, these increases are associated with increases in utility bills. Since FY 2022-23, these revenues have declined or become flat, which is likely due to changes in customer behavior especially associated with use of cable services. Due to recent resolution of a court case between the City of Santa Barbara and Disney, the City is notifying streaming providers to submit utility users tax. This may result in new, ongoing revenues of \$1.5 million - \$2 million. These amounts are not included in this proposed budget because the timing and actual collections of these new revenues are unknown. The City will be notifying streaming providers of their responsibility for this tax in spring 2026 and will update the Council as new revenues are collected.

Real Property Transfer Tax: In FY 2021-22 and FY 2022-23 the City experienced significant increases in Real Property Transfer Tax, primarily due to historically low interest rates. Beginning in FY 2022-23, this revenue declined and has continued to decline. In addition, a statewide ballot measure that has qualified for the November 2026 election puts this revenue source at risk. The following information was provided by the City's property tax consultant (HdL Coren and Cone):

- *"...the initiative seeks to invalidate all real estate transfer taxes passed by charter cities, whether they were passed by citizens' initiatives or with 2/3 vote of the electorate. If this initiative passes, all existing real property transfer taxes passed by charter cities that allow the city to collect more than the \$1.10 specified in the California Revenue and Taxation Code would become null and void on December 31, 2028. In addition, no new real property transfer taxes would be able to be passed by charter cities in the future."*

Transfers/Short Term Revenues:

In order to balance previous budgets, the City relied on a number of one-time or short-term solutions such as transfers from other funds including Measure C and Internal Service Funds in FY 2025-26 and FY 2026-27 and the American Rescue Plan Act (ARPA) in Fiscal Years 2021-22, 2022-2023 and Fiscal Year 2024-25.

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Following is a summary of short-term or one-time transfers since Fiscal Year 2021-22, along with use of reserves:

	FY 2026-27	FY 2025-26	FY 2024-25	FY 2023-24	FY 2022-23	FY 2021-22
Short-term or one-time transfers	29,787,735	25,487,036	4,018,911	4,716,708	7,250,000	7,601,500
Use of Reserves	0	0	31,218,745	392,034	0	0
Total	29,787,735	25,487,036	35,237,656	5,108,742	7,250,000	7,601,500

The Fiscal Year 2026-27 budget continues to rely on significant short-term or one-time transfers. This approach allows the City to implement revenue strategies, such as a tax measure on the November ballot, and to see if the economy improves before taking further actions that impact services. Staff is committed to monitoring and reporting frequently on fiscal health indicators and will return to City Council with options if changes are warranted or external factors do not improve.

The sources of short-term or one-time funds proposed to be used in FY 2026-27 are:

- Measure C: \$10 million
- Transfer from Worker’s Compensation Fund: up to \$4.7 million (total transfer of \$6 million to allocate refunds to all funds that contributed to Worker’s Compensation Fund)
- Transfer from OPEB Trust (funds held by CalPERS and allowed for reimbursement of OPEB payments that took place during the same fiscal year): \$3 million. The City can receive up to the amount paid for OPEB benefits during that specific Fiscal Year.
- Transfer from OPEB funds held by the City and not yet transferred to the OPEB Trust: \$4.8 million (total transfer of \$5.25 million to allocate refunds to all funds that contributed to OPEB Fund)
- Recovery / reimbursement of grant funds that has been held in other funds for projects completed in prior years, funded by general fund, and not transferred: \$5.5 million

General Fund Expenditures

Overall, the proposed FY 2026-27 expenditures increased over the FY 2024-26 Projected Actuals by \$7.3 million or 3.0%. This increase is primarily due to benefits, such as the CalPERS Unfunded Accrued Liability (UAL) and increases in transfers to the liability and capital funds to ensure those funds have sufficient funding for the fiscal year.

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Table 4: FY 2026-27 General Fund Expenditures

(in the 1,000's)	A FY 2025 Actual	B FY 2026 Adopted	C FY 2026 Projected	D FY 2027 Proposed	E Change \$ (D-C)	F Change % (D/C-1)
1 Expenditures						
2 Salary	\$ 112,139	\$ 124,072	\$ 112,813	\$ 111,893	\$ (919)	-0.8%
3 Overtime	17,972	6,623	9,907	9,898	(9)	-0.1%
4 Wages Subtotal	\$ 130,111	\$ 130,695	\$ 122,719	\$ 121,791	\$ (928)	-0.8%
5 Medical/Dental/Other Benefits	18,298	17,710	17,838	19,161	1,323	7.4%
6 Retiree Medical (pay-go)	3,286	3,021	4,125	3,979	(146)	-3.5%
7 Worker's Compensation	5,550	6,858	6,599	6,100	(499)	-7.6%
8 Retirement (CalPERS)	48,395	51,036	54,000	59,862	5,862	10.9%
9 Benefits Subtotal	\$ 75,529	\$ 78,625	\$ 82,561	\$ 89,102	\$ 6,540	7.9%
10 Assumed Vacancy Savings		(9,597)		0	0	
11 Interdepartmental (ID) Charges	(6,519)	(6,955)	(7,333)	(8,560)	(1,226)	16.7%
12 OPEB Liability Contribution		(1,510)	0	0	0	
13 Net Staffing Expense	\$ 199,121	\$ 191,259	\$ 194,660	\$ 202,333	\$ 7,673	3.9%
14 Supplies & Services	14,685	13,714	13,675	12,366	(1,308)	-9.6%
15 Internal Service Fees	18,766	22,094	22,094	20,369	(1,724)	-7.8%
16 Debt Service	2,632	2,576	2,576	2,572	(4)	-0.2%
17 Liability Insurance	6,855	6,409	6,409	8,954	2,546	39.7%
18 Economic Dev. Fund	350	350	350	100	(250)	-71.4%
19 Capital Projects/Other Funding	5,324	1,445	1,499	1,888	389	26.0%
20 Non-Personnel Expenses Subtotal	\$ 48,612	\$ 46,588	\$ 46,602	\$ 46,250	\$ (352)	-0.8%
22 Total Expenditures	\$ 247,733	\$ 237,847	\$ 241,261	\$ 248,583	\$ 7,322	3.0%

FY 2026-27 Proposed General Fund Expenditures

While growth in historical ongoing revenue is flattening, Hayward continues to experience considerable growth in employee benefit costs, particularly pension and post-employment healthcare costs, and has made efforts to reduce its unfunded liabilities, meet ongoing service demands, address capital needs, and appropriately address emerging needs while meeting its strategic priorities.

Salaries and Benefits - In FY 2023-24 and FY 2024-25, the City adopted updated labor agreements and made equity adjustments to salary to reflect current staff duties. Between FY 2023-24 and FY 2024-25, salary and benefits costs increased over \$35 million (or 20% from the year before). At the same time, ongoing revenues were flat and, as a result, all General Fund Reserves were depleted during FY 2024-25.

As a result of numerous cost saving measures including concessions from employee groups, layoffs, vacancy management, and reductions in services and supplies, the City was able to contain salaries and benefits in FY 2025-26 and FY 2026-27 to keep costs almost the same as in FY 2024-25, even while some specific costs are growing – for example, the General Fund share of CalPERS Unfunded Actuarial Liability grew over \$7 Million between FY 2024-25 and FY 2025-26 and will grow \$6.5 Million between FY 2025-26 and FY 2026-27.

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Table 5 - CalPERS Rates

<i>(in the \$1,000s)</i>	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Miscellaneous							
Normal Cost %	10.410 %	9.960 %	9.700 %	9.500 %	9.300 %	9.200 %	9.000 %
UAL Payment	\$ 17,940	\$ 19,624	\$ 20,358	\$ 22,043	\$ 22,352	\$ 22,610	\$ 20,675
Employer Contribution Rate %	39.19 %	38.04 %	38.10 %	39.40 %	38.80 %	38.10 %	34.70 %
Change over Prior Year	1.65 %	(1.15)%	0.06 %	1.30 %	(0.60)%	(0.70)%	(3.40)%
Police							
Normal Cost %	23.370 %	22.530 %	21.800 %	21.000 %	20.100 %	19.400 %	18.700 %
UAL Payment	\$ 17,925	\$ 20,007	\$ 20,689	\$ 22,104	\$ 22,404	\$ 22,664	\$ 22,403
Employer Contribution Rate %	92.98 %	93.49 %	93.20 %	95.20 %	93.30 %	91.40 %	87.90 %
Change over Prior Year	7.73 %	0.51 %	(0.29)%	2.00 %	(1.90)%	(1.90)%	(3.50)%
Fire							
Normal Cost %	21.100 %	20.280 %	19.600 %	19.000 %	18.400 %	17.900 %	17.300 %
UAL Payment	\$ 11,907	\$ 14,608	\$ 15,105	\$ 16,164	\$ 16,385	\$ 16,573	\$ 16,069
Employer Contribution Rate %	70.45 %	70.77 %	70.40 %	71.90 %	70.60 %	69.20 %	65.60 %
Change over Prior Year	1.95 %	0.32 %	(0.37)%	1.50 %	(1.30)%	(1.40)%	(3.60)%

A critical challenge in preparing for the FY 2026-27 budget has been to better understand all salary costs as, historically, the City has used salary savings from vacant positions to fund items like special pays and leave payouts. As vacancies have been eliminated from the General Fund, staff has focused on accurately budgeting these salary costs.

Overtime – Overtime in FY 2024-25 peaked at \$15.9 million. Due to partnership with employee groups and updated management practices, the City was able to reduce overtime in FY 2025-26 to an estimated \$8.4 million. In FY 2026-27, staff projects this cost will be similar at \$8.7 million. Overtime management has been a critical strategy in balancing the City’s budget.

Supplies and Services - To manage for the increasing salary and benefit costs, all departments have reduced their services and supplies budgets. Supplies and services are forecasted to decrease by more than \$5 million in FY 2025-26 compared to FY 2024-25. This cost will grow in FY 2026-27, as some of the reductions in FY 2025-26 resulted from deferred projects, but will still be nearly \$3 million lower than in FY 2024-25.

General Fund Reserve

The General Fund Reserve is intended to support City operations during emergency situations, provide flexibility to address one-time priority programs, smooth out economic swings, and buffer the loss of state and federal funds. Current City Council policy is to maintain a reasonable reserve level equal to 20 percent of total General Fund expenditures. As mentioned above, overstated revenues and significant overspending in FY 2024-25 reduced the General Fund reserve to near zero. Staff anticipates the reserve will remain near zero at the end of FY 2025-26.

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The FY 2026-27 proposed budget is balanced, but does not build the reserve. Staff recommends that any one-time revenue received and any ongoing revenue received that exceeds expenses be put towards the General Fund Reserve.

The City has retained a balance in Measure C that can be used in the event of a catastrophic event if the City faces an immediate need for funds to stabilize the community and preserve City services.

General Fund Forecast

The General Fund Forecast is tool used to assist City Council and staff in managing and projecting the City’s current and future fiscal status. The City uses the Forecast to simulate different fiscal scenarios to understand the long-term fiscal impacts to the General Fund. A summary of the Forecast as of May 2026 is below. An updated model will be shared with Council and community periodically during the fiscal year. Note the following assumptions incorporated into this forecast:

For FY 2027-28 through FY 2029 - 30 Revenues:

- Business license tax modernization revenue increase of \$11 million
- Utility user tax revenue increase related to data centers and streaming of \$4.7 million
- Continued use of Measure C and OPEB Trust of \$13 million through FY30 and the end of the current public safety contracts

For FY 2027-28 through FY 2029-30 Expenses:

- Assumes some level of fire and police overtime reductions continue
- Includes contractual Cost Of Living Allowance (COLA) and 2% increases if there is no contractually specified COLA
- Continue all current vacancy savings
- Contribute \$6.1 million to worker’s compensation in FY28 with modest annual growth
- Annual increases in other expenses categories varies from 2-4%

	FY 2026 Projected	FY 2027 Proposed	FY 2028 Forecasted	FY 2029 Forecasted	FY 2030 Forecasted
Ongoing Revenues	215,775	218,795	236,274	240,166	245,163
Short-Term or One-Time Revenues	25,487	29,788	13,000	13,000	13,000
Total Revenue	241,262	248,583	249,274	253,166	258,163
Salaries & Benefits	205,280	210,892	219,449	226,156	232,360
Other Expenses	35,982	37,691	36,867	37,971	38,952
Total Expenses	241,262	248,583	256,316	264,127	271,312
Surplus/(Shortfall)	0	0	(7,042)	(10,961)	(13,149)

A continuing challenge to balance...

Based on current revenue sources, which staff projects will have limited growth, the updated Five-Year Forecast reflects an ongoing structural deficit primarily associated with growth in salary and benefit costs.

The City is pursuing the following activities to support the reduction of the structural deficit:

- The City Council is considering a ballot measure for the November 2026 election to modernize the City’s business license tax. If approved by the voters, this change can

CITYWIDE BUDGET OVERVIEW

be proposed for the collection of taxes in calendar year 2027 and could result in \$11 million in new revenue.

- The City is notifying streaming providers of their responsibility to submit utility-users tax. This item was deferred pending resolution of litigation between the City of Santa Barbara and Disney. This may result in revenue between \$1.5 million and 2.5 million per year.
- A new data center is in the planning process. An economic analysis of this data center was completed and \$904,000 in new revenue is projected for FY 2026-27 and this revenue is projected to grow to over \$10 million annually in 2033.
- Staff updated the Municipal Fee Schedule to assure that fees and charges are based on most current costs for the City.

UNFUNDED NEEDS & LIABILITIES

Hayward's deferred infrastructure and capital needs, along with its unfunded liabilities like CalPERS and OPEB, must also be accommodated in both our short- and long-range financial planning. For FY 2025-26 and FY 2026-27, the City will not contribute to its OPEB Trust and will draw down from the trust for OPEB benefits paid during the year.

In addition to the structural issues in the General Fund, several other funds have negative cash balances. For FY 2026-27, staff focused on the General Fund and assuring that all other funds have sufficient revenues to meet the requests of the department. As part of the long-term strategy, staff will create a plan to resolve deficit fund balances such as through one-time funding or incremental increases in transfers.

Unfunded Capital Needs

The FY 2026-27 Capital Improvement Program reflects "Identified Capital Needs" totaling approximately \$637 million for which funding is undetermined. In accord with Council policy, as one-time funding becomes available, it will first be used to build the General Fund reserve. Once the reserve is replenished, Council will allocate one-time funds toward these unfunded CIP needs or other financial needs such as long-term liabilities.

Benefit Liabilities & Funding Status

The City actively manages its benefit liabilities and completes actuarial valuations for all benefit liabilities with the exception of accrued leave payouts (analysis conducted by staff). These valuations consider the economic, demographic, and historical compositions of the benefit programs and establish amounts that the City should allocate each year to fund its benefit-related financial obligations. Actuarial valuations identify the Annual Determined Contribution (ADC) an agency should make toward the funding of the benefit. The ADC is generally comprised of two elements: a portion of funding for current costs (sometimes referred to as "pay go") and a portion of funding for future liability costs, the UAL.

Table 6 provides a summary of the City's benefit liabilities and current levels of funding. Due to the City's fiscal condition, staff is proposing a budget that funds these liabilities at a lower level than past years. Rebuilding these funds will be an essential component of the road to fiscal stability.

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Table 6: Summary of Benefit Liabilities

(in millions)	Actuarial Valuation Date	Accrued Liability	Value of Assets	Funded Ratio	Unfunded Liability	Unfunded Ratio
CalPERS Police Safety Plan	6/30/2024	\$ 544.69	\$ 322.08	58.0 %	\$ 222.61	40.9 %
CalPERS Fire Safety Plan	6/30/2024	\$ 404.16	\$ 243.19	60.2 %	\$ 160.98	39.8 %
CalPERS Miscellaneous Plan	6/30/2024	\$ 606.72	\$ 400.45	66.0 %	\$ 206.27	34.0 %
Total Cal PERS		\$ 1,555.57	\$ 965.72	62.1 %	\$ 589.86	37.9 %
OPEB - Retiree Medical Police Officers	6/30/2023	\$ 48.86	\$ 17.00	34.8 %	\$ 31.85	65.2 %
OPEB - Retiree Medical Firefighters	6/30/2023	\$ 19.63	\$ 6.74	34.3 %	\$ 12.89	65.7 %
OPEB - Retiree Medical Miscellaneous	6/30/2023	\$ 27.67	\$ 9.70	35.1 %	\$ 17.96	64.9 %
Total OPEB-Retiree Medical*		\$ 96.16	\$ 33.44	34.8 %	\$ 62.70	65.2 %
Workers' Compensation	6/30/2024	\$ 27.81	\$ 27.65	99.4 %	\$ (0.16)	0.6 %
Accrued Leave Payouts*	6/30/2024	12.91	0.00	0.0 %	\$ 12.91	100.0 %
TOTAL		\$ 1,692.45	\$ 1,026.81	59.6 %	\$ 665.31	39.3 %

*OPEB and accrued leave payout amounts reflected are based on prior-year data, as the updated information is still pending. Revised figures will be incorporated upon receipt of the final report.

Retirement Annual cost - The City is fully meeting its actuarial determined contribution (ADC) amounts based on the CalPERS normal rates and unfunded liability. Given the CalPERS "smoothing" methodology, the long-term intent is to fund the City's liability over the 30-year amortization period.

Workers' Compensation - Pursuant to the current actuarial valuation conducted for the program, a funding status of 70 - 85 percent is recommended. Funding status is currently below the recommended level for expected costs. As funding is available, staff will prioritize increasing this confidence level

Retiree Medical - OPEB - As of June 30, 2025, the City's Net OPEB liability is nearly \$80 million. Annual payments to current retirees are projected to be \$3.6 million and there is an implied subsidy of \$1.7 million. The estimated actuarial calculation of the City's ADC is \$7.7 million. The City will not fund the ADC in FY 2026-27 and will draw down from the trust. As a result, the actuarial ADC is expected to grow.

Accrued Leave Payouts (annual cost: varies) - The total liability for compensated absences due in one year is pending completion of the FY 2024-25 Annual Comprehensive Financial Report.