



DATE: June 20, 2017

TO: Mayor and City Council
Redevelopment Successor Agency Board of Directors
Housing Authority Board of Directors

FROM: Director of Finance

SUBJECT Public Hearing for the Proposed FY 2018 Operating Budget for the City of Hayward, Hayward Redevelopment Successor Agency, and Hayward Housing Authority; and FY 2018 Capital Improvement Program Budget and Approval of the FY 2018 Operating Budget and Appropriations for FY 2018; Approval of the FY 2018 Capital Improvement Program Budget and Appropriations for FY 2018; Approval of the Hayward Redevelopment Successor Agency Budget; Approval of the Hayward Housing Authority Budget

RECOMMENDATION

That the Council considers the Proposed FY 2018 Operating Budgets of the City, Hayward Redevelopment Successor Agency, Housing Authority and Capital Improvement Program (CIP) Budget; conducts a Public Hearing on each; and adopts each of the above-mentioned documents should there be no further action needed based on public testimony or at Council's request.

BACKGROUND

The City Manager presented the Proposed FY 2018 Operating Budget to City Council on May 9, 2017. The operating budget is comprised of different funding sources, with the General Fund representing the largest single fund for which the City Council has the most discretion. The total City expenditure budget for the Proposed FY 2018 Annual Budget as presented on May 9, 2017, was \$298.3 million, with a General Fund budget of \$157.3 million.

Since May 9, Council has held three budget work sessions (May 20, May 23, and June 6 which was continued to June 13) to further discuss the proposed budget. These work sessions included presentations, Council discussions, and a time for public input on the following:

- The City's FY 2018 overall operating budget
- Department/Program budgets and operations

- Proposed CIP budget
- City's benefit liabilities
- Strategies for closing the FY2018 budget gap

Following these work sessions, staff has made several recommended changes to the FY 2018 Proposed Operating and CIP Budgets – as detailed in this report. Tonight's meeting has been noticed as a public hearing on the FY 2018 Proposed Operating and CIP budgets and is another opportunity to receive public input. Upon closure of the public hearing, Council will provide any additional comments and direction to staff and, should there be no public testimony or Council directed changes to the FY 2018 Proposed Operating and CIP budgets, both documents will be considered for adoption upon the closing of the Public Hearing. Should there be public testimony and/or direction from the Council that requires changes to either the FY 2018 Operating or CIP budgets, the public hearing will be closed, and the FY 2018 Proposed Operating and CIP budgets will be presented for adoption on June 27, 2017.

DISCUSSION

The Proposed FY 2018 Operating Budget and CIP documents provide the foundation for the budget discussions. As the City has progressed through the FY 2018 budget process, both City Council and staff have recommended adjustments to the proposed budget. This report contains a summary of the key changes to date, and the resultant impacts to both the General Fund and other revenue funds for FY 2018.

The FY 2018 Operating Budget presents a budget plan with a recommendation to use \$2.47 million of General Fund Reserves to cover anticipated needs for the year. As discussed in the May 9 presentation of the budget, staff has proposed several one-time expenditure reduction measures to address the originally proposed \$10.4 million General Fund deficit. Staff has reduced expenditures by approximately \$5.8 million and increased revenue projections by approximately \$2.2 million. As a structural gap exists, the City will continue to review existing programs and expenditures, evaluate and search out new revenue opportunities, and develop prudent financial strategies to help eliminate the need to use said reserves in future budget years. This effort will be the focus of a City Council Retreat in the Fall of 2017.

The tables below compare the Proposed FY 2018 Budget presented on May 9, 2017 and tonight's (June 20, 2017) revision – as well as a comparison to the FY 2017 Adopted Budget.

Table 1 – Citywide Expenditure Budget

<i>in the 1,000's</i>	FY 2017 Adopted	FY 2018 Proposed 5/9/17	FY 2018 Proposed 6/20/17	Change from 5/9/17	\$ Change from FY 2017	% Change from FY 2017
General Fund	149,029	157,346	151,562	(5,784)	2,533	1.7%
All Other Funds	136,554	140,966	135,938	(5,028)	(616)	-0.5%
Total City Budget	285,583	298,312	287,500	(10,812)	1,917	0.7%

The overall change to the citywide expenditure budget is a net decrease of \$10.8 million from what was proposed. The significant changes are summarized as follows:

General Fund:

1. Reduce General Fund Transfer Out Expense to Fleet Management Replacement Fund (minus \$409,000)
2. Reduction in General Fund Allocation to Internal Service Funds (minus \$3.5M)
3. Prepayment of PERS ARC (minus \$700,000)
4. Vacancy Savings, including deferral of hiring currently vacant positions (minus \$1.2M)

All Other Funds:

1. Measure C - Reduced Measure C Transfer Out Expense to CIP (minus -\$4.0M) – The proposed operating budget presented to the Council on May 9, 2017 included a transfer out from the Measure C Operating fund to the Measure C CIP fund of \$6.35 million to cover anticipated costs related to the new Fire Station 6 and Regional Fire Training Center Project in FY 2018. In FY 2017, however, this project did not spend \$4 million of the amount budgeted, these unspent funds will be carried forward and used in FY 2018 eliminating the need for the transfer of an additional \$4.0 M.

Table 2 – Citywide Revenue Projections

	FY 2017	FY 2018	FY 2018	Change	\$ Change	%
<i>in the 1,000's</i>	Adopted	Proposed 5/9/17	Proposed 6/20/17	from 5/9/17	from FY 2017	Change from FY 2017
General Fund	144,665	146,920	149,087	2,167	4,422	3.1%
All Other Funds	148,526	145,934	144,331	(1,603)	(4,195)	-2.8%
Total City Revenue	293,191	292,854	293,418	564	227	0.1%

The overall change to the citywide projected revenue is a net increase of \$0.5 million from what was proposed. The significant changes are summarized as follows:

General Fund:

1. Increase in projected Utility User Tax (UUT) (plus \$1.0M)
2. Police Grant for Delinquency Prevention (plus 371,000)
3. Increase in projected Mutual Aid Reimbursement (plus \$500,000)
4. Increase in projected rental inspection fees based on historical actuals (plus \$200,000)

All Other Funds:

1. Reduction in Internal Service Fund revenue due to reduction in General Fund Allocation to Internal Service Fund (minus \$1.6M).

Table 3 - Citywide Staffing

	FY 2017 Adopted	FY 2018 Proposed 5/9/17	FY 2018 Proposed 6/20/17	% Change from FY 2017
General Fund	646.70	657.80	654.50	1.2%
All Other Funds	217.50	226.30	226.30	4.0%
Total City Budget	864.20	884.10	880.80	1.9%

The citywide staffing numbers in the General Fund have been reduced to reflect the Council's direction at the June 13 work session regarding staffing at the new 21st Century Library to only add one (1) FTE Librarian position budgeted for 6 months of the year. The other position additions were discussed in the original presentation of the budget on May 9, 2017.

Capital Improvement Program (CIP) FY 2018 – FY 2027

The City's Capital Improvement Program budget has had its own review and public process. On April 26, 2017, the Council Infrastructure Committee reviewed and discussed the proposed FY 2018 CIP budget. On May 25, 2017, the Planning Commission held a public hearing and found the document in conformance with the General Plan. On June 13, 2017, the Council reviewed and discussed the FY 2018 CIP budget during a work session.

The FY 2018 CIP appropriations total approximately \$81 million with approximately \$507 million budgeted through FY 2027.

Two funding options for the new Regional Fire Training Center were included in the FY2018-FY2027 CIP that was presented at the June 13 Council Budget Work Session. One of the options is no longer being considered and has been removed from the FY2018-FY2027 CIP. Changes made to the FY2018-FY2027 are as follows:

- Fund 406 – Measure C Capital with new Regional Fire Training Center – Phase 1 fund summary page and project page were removed.
- New Regional Fire Training Center – Phase 1 Project was removed from the Capital Project Expenditure Summary (page 2) and Detail (page 288).
- New Regional Fire Training Center with full build out costs added to the Capital Project Expenditure Summary (page 2) and Detail (page 288).
- Adding the cost of the Fire Training Center full build out increased the total CIP from \$493 million to \$507 million and the FY 2018 CIP total from \$122 million to \$124 million on the Capital Project Expenditure Summary (page 2) and Transmittal Letter (page iv).

FISCAL IMPACT

Table 4 below summarizes the FY 2018 Citywide Operating & CIP budgets. The projected expenditures for the FY 2018 Operating budget does not include corresponding revenue amounts. The Citywide total revenue projections for FY 2018 is \$293.4 million.

Table 4 – Summary of Citywide Operating & CIP Budgets

City of Hayward Budget (in 1,000's)	FY 2018
City Funds	
General Fund	151,562
Measure C Fund	8,241
Special Revenue Funds (excluding Agency Funds)	9,924
Debt Service Funds (excluding Agency debt service)	7,130
Enterprise Funds	76,712
Internal Service Funds	29,247
	282,815
Agency Funds	
Hayward Successor Redevelopment Agency Operating Fund	4,475
Housing Authority Fund	210
	4,685
Total City Operating Budget	287,500
Total CIP Budget	80,973

PUBLIC CONTACT

The Proposed FY 2018 Operating Budget has been discussed by City Council over the last couple of months. A public notice was published in The Daily Review on June 9 and June 16, 2017 announcing the date, time, location, and subject matter of this public hearing. A notice advising residents about the Planning Commission's public hearing on the CIP was published in the *Daily Review* newspaper more than the requisite ten days in advance.

The FY 2018 Proposed Operating Budget is currently available for public review in the City Clerk's Office at City Hall, at the Main Library and the Weekes Branch, and on the City's website at: <https://www.hayward-ca.gov/sites/default/files/Proposed%20FY%202018%20New.pdf>

A schedule of the FY 2018 Proposed Operating Budget work sessions is available for public information on the City's website at: <https://www.hayward-ca.gov/services/city-services/review-city-budget-and-finance-reports>

The FY 2018 Capital Improvement Program Budget is currently available for public review in the City Clerk's Office at City Hall and on the City's website at: https://www.hayward-ca.gov/sites/default/files/pdf/Recommended%20FY18%20to%20FY27%20CIP_061517.pdf

NEXT STEPS

City staff will continue its diligent work to identify strategies and options to help to reduce the City's structural budget gap; to that end staff has engaged Management Partners to assist in the effort. In early fall of 2017 Council will be presented with an update to the City's General Fund Long Term Projection (currently known as the General Fund 10 year plan). In conjunction with this update, staff and Management partners will also present possible revenues for creation and/or augmentation and ways to manage expenditures as efficiently and effectively as possible. Staff is also working to schedule a retreat with the Council in the fall of 2017 to further discuss the options presented and develop a plan to implement selected strategies.

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Dustin Claussen, Director of Finance

Recommended by: Dustin Claussen, Director of Finance

Approved by:



Kelly McAdoo, City Manager