



DATE: November 18, 2025

TO: Mayor and City Council

FROM: Interim City Manager

SUBJECT: City of Hayward Budget: Budget Update and Adoption of Amendments to the City of Hayward's FY 2025-26 Operating Budgets and Updates to Other Capital and Operating Budgets as Needed

RECOMMENDATION

That the Council provide guidance to staff on the proposed steps to address the FY 2025-26 deficit which has been updated to reflect a projected deficit of \$26.5 million and adopt the attached resolution:

1. Amending the Adopted FY 2025-26 Operating Budget for the City to reflect a balanced budget, as shown in this report,
2. Authorizing the City Manager to reduce expenditure appropriations for general fund departments, and to increase appropriations and modify transfers to/from other funds, and
3. Affirming that the remaining cost-control measures outlined in this report are within the City Manager's existing administrative authority and are expected to be implemented by January 31, 2026, to eliminate the FY 2025-26 budget deficit.

SUMMARY

On June 17, 2025, the City Council adopted the FY 2025-26 operating budget, which showed a starting fund balance of \$31 million and an \$8.9 million use of reserves. Since that time, staff identified a significant deficit for FY 2024-25 of approximately \$30 million, resulting in the reduction of the starting fund balance for this fiscal year to approximately \$1 million. In addition, staff updated the forecasted budget deficit for FY 2025-26, which staff projects to be \$26.1 million, based on actuals from the last 14 months and information from the City's tax consultants.

This report summarizes the updated budget deficit for FY 2025-26 and outlines proposed steps to close the deficit. Staff is seeking Council's adoption of a resolution that amends the adopted FY 2025-26 Operating Budget to reflect the updated projections, authorizes the City Manager to take certain steps, and affirms the City Manager's existing administrative

authority to take additional steps necessary between now and January 31, 2026, to close the deficit, including, but not limited to:

1. Increase transfers from Measure C to the General Fund for operating expenditures aligned with the measure's intended use, up to 60% of the Measure C revenue forecasted for this year,
2. Loan additional funds from Measure C to the General Fund at zero percent interest to cover expenditures aligned with the measure's intended use,
3. Within legal limits, modify transfers to or from the General Fund when other funds have sufficient balances to cover operational costs for this fiscal year or when other funds are able to postpone expenditures, such as Internal Service Funds that are supported by the General Fund, Special Revenue funds with unrestricted balances, or Capital Improvement Funds that are supported by the General Fund,
4. Increase appropriations in other funds to account for adjustments in staff allocations or costs of services and supplies to other funds,
5. Reduce supplies and services budgets across departments,
6. Continue to implement changes to staffing, such as eliminating temporary staff positions, instituting additional overtime controls, and continuing strong vacancy controls, resulting in budget reductions for vacant positions, and
7. Identify additional personnel-related savings through ongoing discussions with labor groups, voluntary separations, and implementing layoffs as needed.

In addition to the items above, staff will continue to seek and monitor the receipt of one-time revenue sources, such as identifying potential back-taxes or fees that were not received in past years. Staff will also bring an item in December to increase the Transient Occupancy Tax to the voter-allowed limit for Council's consideration.

Finally, this report summarizes the steps that staff are taking to create a long-term fiscal sustainability plan that will inform creation of the FY 2026-27 budget, including the planning of a fiscal sustainability work session planned for February 2026, as well as possible service impacts of some of these cuts.

BACKGROUND

FY 2025-26 Budget Adoption

[On June 17, 2025](#), the City Council held a public hearing and adopted the FY 2025-26 operating budget. At that time, the proposed budget for the General Fund reflected a budget deficit of \$8.9 million for FY 2025-26 and a starting fund balance of \$31 million. The budget in June included steps to reduce the deficit, including:

- One-time transfers in (\$3.25 million) and reductions in transfers out (\$2.5 million) that were approved by the City Council in June.
- Holding positions vacant and implementing overtime controls. Based on actual payroll data from the past four months, staff estimates that the controls that have already been

put in place will result in \$10 million savings in personnel costs by June 2026 when compared to the expected cost if such savings were not implemented. Management's approach to vacancy controls has been to not recruit for vacancies as they arise, except for 1) positions that are covered by special revenue or enterprise funds, or 2) targeted general fund positions that require specific skills and are essential to City operations.

With the adoption of the budget in June, Council expressed concern about the deficit and directed staff to return with a fall budget revise that implements steps to eliminate the budget gap for FY 2025-26.

Identification of Significant FY 2024-25 Deficit

Starting in July, staff identified a significant deficit between estimated budget and actual revenues and expenses for FY 2024-25. While the audit is still ongoing, the unaudited figures below depict the estimated revenues and expenses for FY 2024-25 compared to budget. Revenues were below projections by over \$10 Million and expenses exceeded budgeted estimates by over \$13 Million. The revised budget included a deficit of \$7 million, therefore the total impact to reserves was \$30 million.

REVENUES	Revised Budget 2024-25	Unaudited Actuals FY 2024-25	Difference
Property Tax	74,188,388	75,906,531	1,718,143
Sales Tax	49,414,831	53,476,339	4,061,508
Utility Users Tax	27,000,000	23,101,342	(3,898,658)
Franchise Fees	14,083,715	13,031,111	(1,052,604)
Real Property Transfer Tax	15,600,000	10,597,871	(5,002,129)
Transient Occupancy Tax	3,125,000	2,341,487	(783,513)
Cannabis Tax	1,100,000	740,910	(359,090)
Other Taxes	3,316,615	6,088,419	2,771,804
Charges for Services and Permits	14,143,847	11,668,867	(2,474,980)
Other Revenues including Intergovernmental and Fines and Forfeitures	15,796,573	11,398,800	(4,397,773)
Interest & Rents	649,880	30,670	(619,210)
Transfers-In	8,700,015	8,700,015	0
Total Revenues & Transfers-In	227,118,864	217,082,362	(10,036,502)
EXPENDITURES			
Salaries & Benefits	179,521,609	198,579,985	19,058,376
Maintenance & Utilities	1,823,481	1,651,932	-171,549
Supplies & Services	18,818,014	13,333,592	-5,484,422
Capital	0	40,170	40,170
Internal Service Fees	18,728,657	18,784,536	55,879
Transfers-Out	15,387,122	15,314,128	-72,994
Total Expenditures & Transfers-Out	234,278,883	247,704,343	13,425,460
Net Revenue Over/(Under)	(7,160,019)	(30,621,981)	(23,461,962)

Depletion of the General Fund Reserve

In August, 2025, staff reported publicly that operating reserves in the general fund had been depleted due to revenue coming in below expectations, unbudgeted overtime expenses, costs associated with the addition of new staff positions in recent years, and new labor contracts. The City began FY 2024-25 with a reserve of \$31.8 million. These activities reduced the City's reserve balance to nearly zero.

Because of this, the City must keep current-year spending within available revenues and cannot operate in deficit. To regain fiscal stability, the City will also need to rebuild cash and reserves. At the moment, staff is prioritizing the FY 2025–26 budget to prevent further widening of the gap. Once this year is balanced, we will accelerate actions to strengthen long-term stability and replenish reserves.

Drivers of the Unbudgeted Deficit

Between FY 2023-24 and FY 2024-25, revenue growth was effectively flat while expenses grew over \$30 million. In particular, salary and benefits costs grew by nearly \$33 million during that period.

Between late 2023 and fall 2024, the City Council approved labor agreements recommended by prior executive leadership, based on the information provided at that time about the City's ability to afford the agreements. Under current executive leadership, staff has identified practices that overstated the City's capacity, including underbudgeted overtime, use of one-time revenues for ongoing costs, and optimistic revenue estimates. Corrective actions are underway, and staff is working with independent auditors/consultants to strengthen budgeting, reporting, and long-term fiscal sustainability. Further details appear later in this report.

Annual Audit Process

Each year, the City undergoes an audit by an outside firm for the previous fiscal year (July 1 – June 30). The process typically starts in late summer and is completed by the end of the calendar year. However, for agencies that are showing fiscal distress, like Hayward, the process can take several additional months of review to complete. Past audits can be seen on the City's [website](#).

Through the annual audit process, staff is working daily to review actuals from FY 2024-25 and evaluate funds throughout the City to identify additional sources that can potentially be transferred to the General Fund. At this time, staff does not anticipate significant changes to the above amounts during the audit process but there will likely be some differences due to correcting or delayed transactions.

Outside Fiscal Review

This year, in addition to the annual audit, staff has contracted with two fiscal consultants to conduct a fiscal review of cash flow and fund balances. These consultants are also identifying opportunities for the City to update its financial policies and practices.

DISCUSSION

Updated Assumptions about FY 2025-26 Deficit

Because actuals from last fiscal year showed a significantly worse fiscal situation than had been budgeted, staff has spent the last four months reviewing the assumptions that were used to create the FY 2025-26 budget. As part of this analysis, staff has:

1. Reviewed actual payroll data biweekly and compared it to department budgets.
2. Completed a 10-year review of budget-to-actuals for the General Fund and Measure C for revenues and expenditures.
3. Completed a first quarter analysis of budget-to-actuals to track year-to-date trends in revenue and spending.
4. Met with the City's tax consultants to review forecasts for major revenue sources.

After completing these steps, staff's updated FY 2025-26 forecasted deficit is as follows, which is detailed in Table 3 below.

Updated Budget Deficit: \$26,447,495

FY 2025-26 Revenues & Transfers-In	219,852,108
FY 2025-26 Expenditures & Transfers-Out	246,299,603
Revenues Minus Expenses	(26,447,495)

Updated Projections

As part of this fall budget revision, staff revaluated actual revenue and expenses for FY 2024-25 to address revenues that did not meet expectations and expenses that exceeded authorizations in FY 2024-2025. Table 3 summarizes the updated projection (green column) by category.

TABLE 3

SOURCE	Unaudited Actuals FY 2024-25	Adopted Budget FY 2025-26	Updated Projection FY 2025-26	Difference Between Adopted and Updated
REVENUE				
Property Tax	75,906,531	77,458,791	77,458,791	-
Sales Tax	53,476,339	45,599,900	47,559,300	1,999,400
Utility Users Tax	23,101,342	27,000,000	25,000,000	(2,000,000)
Franchise Fees	13,031,111	13,630,000	13,630,000	-
Real Property Transfer Tax	10,597,871	13,500,000	11,000,000	(2,500,000)
Transient Occupancy Tax	2,341,487	3,500,000	2,426,500	(1,073,500)
Cannabis Tax	740,910	1,100,000	806,933	(293,067)
Other Taxes	6,088,419	5,774,726	6,000,000	225,274
Charges for Services	11,668,867	15,144,369	14,198,995	(945,374)
Inter-Governmental	7,232,682	8,251,454	7,098,366	(1,153,088)
Fines & Forfeitures	2,977,452	2,822,948	2,822,948	-
Other Revenues	1,188,666	863,170	863,170	-
Interest & Rents	30,670	649,880	-	(649,880)
<i>Total Revenues</i>	<i>208,382,347</i>	<i>215,295,238</i>	<i>208,865,003</i>	<i>(6,430,235)</i>
Transfers-In	8,700,015	4,418,587	10,987,105	6,568,518
Total Revenues & Transfers-In	217,082,362	219,713,825	219,852,108	138,283
EXPENDITURES				
Salary and Benefits	198,579,985	181,179,110	194,729,636	13,550,526
Maintenance and Utilities	1,651,932	1,714,905	2,052,770	337,865
Supplies and Services	13,333,592	11,952,665	14,335,170	2,382,505
Capital Projects	40,170		199,000	199,000
<i>Total Expenditures</i>	<i>213,605,679</i>	<i>194,846,680</i>	<i>211,316,576</i>	<i>16,469,896</i>
Internal Service Charges	18,784,536	22,093,539	22,093,539	-
Transfers Out	15,314,128	11,732,775	12,889,488	1,156,713
Total Expenditures, Internal Service Charges & Transfers-Out	247,704,343	228,672,994	246,299,603	17,626,609
DEFICIT	(30,621,981)	(8,959,169)	(26,447,495)	(17,448,326)
PROPOSED ACTIVITIES TO REDUCE THE DEFICIT (shown on next page and to be completed by January 31, 2026)			26,447,495	

Proposed Steps to Address the FY 2025-26 Budget Deficit

The next several pages address the steps proposed by staff to address the deficit. These steps will create service impacts and impact employees. City management is recommending these

difficult steps after implementing various other steps and due to the lack of other immediate alternatives. Failure to address the FY 2025-26 budget deficit would further decrease the reserve and cash position from FY 2024-25 and likely impact the City's compliance with debt covenants associated with existing debt. It would also threaten the City's ability to meet day-to-day operating expenses.

Staff proposes addressing the FY 2025-26 deficit through the activities summarized in Table 4 below and described in further detail on the next pages. The estimated total savings for these activities is \$19.7 million. This leaves a remaining deficit of \$6.75 million, which will need to come from personnel-related savings. While the most immediate option available to City is layoffs, management and the City Council have been taking steps to achieve personnel savings through other avenues. These steps include 1) not filling most vacant positions, 2) discussions with labor groups with the goal of achieving voluntary concessions, and 3) implementing a voluntary separation incentive program. Management will continue to pursue these steps in the coming weeks. However, to achieve \$6.75 million in personnel-related savings this fiscal year, management needs to take action before the end of the calendar year and layoffs of permanent employees will occur as needed to achieve a balanced budget.

Staff is recommending that the City Council adopt a resolution:

1. Amending the Adopted FY 2025-26 Operating Budget to reflect Table 3 shown on the prior page;
2. Authorizing the City Manager to reduce expenditure appropriations for general fund departments and modify transfers to/from other funds; and
3. Affirming that the remaining cost-control measures outlined in this report are within the City Manager's existing administrative authority and are expected to be implemented by January 31, 2026, to eliminate the FY 2025-26 budget deficit.

For measures requiring Council action (e.g., taxes, fees, ordinance changes), staff will return with separate items. Staff will provide a February 2026 update to Council detailing actions taken and savings achieved.

TABLE 4

Activity	Estimated Savings
Transfer/loan of funds from Measure C	9,750,000
One-time transfers in or reductions of transfers out from other funds, including reviewing staff allocations	1,900,000
Anticipated one-time revenue & recovery from taxes and deposits	1,500,000
Increase to the Transient Occupancy Tax	250,000
Additional vacancies and overtime reductions	2,900,000
Reductions in services and supplies	2,400,000
End assignments for temporary employees	1,000,000
TOTAL from activities listed above	\$19,700,000
Remaining gap, to be covered through personnel-related savings	\$6,747,495

Transfer/Loan of Funds from Measure C

The estimated revenue for Measure C in FY 2025-26 is \$22.9 million. Staff is proposing to use 60% of the revenue from this year, which is \$13.7 million, towards operating costs that are aligned with the measure's intended use - specifically, public safety and maintenance staffing. Approximately \$7.8 million in operating costs are already allocated to Measure C in the FY 2025-26 budget. Staff is proposing to use the remaining amount of the proposed 60%, which is \$5.9 million, to cover similar operating costs this fiscal year.

In addition, staff is proposing to loan the general fund an additional \$3.85 million from Measure C at no interest that would be paid back within 15 years with payments starting in 2030. This loan would also cover public safety and maintenance staffing.

The impact of using a greater percentage of Measure C for operating costs is a corresponding reduction in the funds that are available for longer-term capital upgrades, such as a new public safety building. Staff is proposing to review the use of Measure C for operating costs annually as the City takes steps towards fiscal sustainability and to create a long-term plan for Measure C/K1 as part of the February work session.

One-time Transfers to or from other Funds

Within legal limits, staff is proposing to modify transfers to or from the General Fund when other funds have sufficient balances to cover operational costs for this fiscal year or when other funds are able to postpone expenditures. Staff is evaluating the balances in Internal Service, Special Revenue, and Capital Improvement Funds to determine if transfers are feasible while still covering essential costs. Staff is also reviewing staff allocations as well as other expenses to determine if costs can be transferred to other funds. If expenses are allocated to other funds, staff will need to increase appropriations in those funds to pay costs. These transfers would be one-time savings. The impact of reducing the balance in other funds is the reduction in the ability to replace essential equipment, cover maintenance costs, or handle emergencies in the immediate future.

Anticipated One-time Revenue & Recovery from Taxes and Deposits

Staff is monitoring revenue actuals to identify and monitor any one-time sources that will help close this year's gap. Staff in the Revenue Division and Development Services Department, and Public Works Department have taken steps to recover back-taxes in business license tax revenue collection and charge backs of developer deposits. In addition, staff is anticipating a one-time increase in real property transfer tax from the sale of Southland Mall.

Increase the Transient Occupancy Tax (TOT)

Staff plans to return to the City Council in December to revisit the TOT, which last went to the City Council in June. The City Council currently has set the TOT at 12%. Staff is proposing to increase this to the 14% that was authorized by Hayward voters, which staff estimates to be approximately \$500,000 annually, or \$250,000 for the remainder of FY 2025-26. When combined with the existing Emergency Services Facilities Tax of 2%, this places Haywards TOT at the high end of bay area cities. However, due to upcoming major events in the bay area (Super Bowl and FIFA World Cup), staff feels this is a prudent step as there may be an

increased additional collection due to these events. If approved, staff will work on messaging to affected businesses

Reductions in Services and Supplies

Staff has identified \$2.4 million in reductions to supplies and services for the remainder of the fiscal year. Possible impacts of these reductions include:

- Reduction in grant funding for community agencies and businesses and a loss of special City-sponsored programs like internships and City-run events.
- Additional work being completed in-house for Development Services, Public Works, and Human Resources, which may slow review and response times.
- Reduction in Police Development recruitment activities and community relationship programs and events.
- Postponement of capital projects, such as median upgrades.
- Continued use of old equipment, which could lead to delays if items are broken.
- Deferral of fleet replacement in all departments

Additional Vacancies and Overtime Reductions, End Assignments for Temporary Employees, and Implement Other Personnel-Related Cost Savings

Together, these items account for \$10.6 million in savings as shown in Table 4. Each of these actions will reduce staff hours, which has a direct impact on services to the community.

Voluntary concessions from labor groups would mitigate the magnitude of these impacts.

Possible impacts include:

- Reduced capacity in the Maintenance Department to address blight, encampment abatements, graffiti, and illegal dumping removal.
- Reduced customer service staff in the City Manager's Office and possible reduction in other counter services hours for the public.
- Library facility operational hours may be reduced from 6 days of operation to 5 days of operation but with possible later evening hours 2 days a week.
- Slower response time in Development Services and Fire Prevention for inspections and permit processing.
- Slower response times in the Police Department for call response, criminal investigation, and Animal Shelter services. Also a reduction in cases being charged by District Attorney, traffic patrol, gang monitoring, and intelligence gathering.
- A greater reliance on outside agencies for critical incident response.

Long-Term Fiscal Sustainability Plan:

Not only does Hayward need to close the FY 2025-26 budget deficit, the City also needs to address the gap from FY 2024-25 that has resulted in depletion of fund balance and cash reserves. Staff proposes the following actions to address longer-term sustainability for Hayward, which will be covered in detail at a fiscal sustainability Council work session in February.

Review of Financial Policies and Practices

Through the annual audit, use of outside consultants and onboarding of a new Finance Director and City Manager, staff will evaluate current policies and practices. These include a review of recovery of funds such as from deposits, reimbursements, and grants, updates to the fee schedule and internal service transfers, and evaluation of transfers in and out of all funds as well as fund balances in all funds.

Five-year General Fund Model

Staff will update the five-year forecast model that can be used for costing future proposals and to run scenarios for the FY 27 budget. This model will incorporate known costs such as labor contracts and PERS unfunded actuarial liability (UAL) costs and general liability insurance costs that are significantly increasing annually along with reasonable estimates for increases in other costs such as services and supplies and in revenues.

Compile a list of Revenue Options for Council Consideration

Staff will complete a study of revenue options for Council consideration such as updates to the Business License tax and other potential revenue enhance measures.

Complete Annual Audit for FY 2024-25

Staff will continue to work on completing the FY 2024-25 Annual Comprehensive Financial Report. This report is critical to understanding the City's cash and reserve position. This will include evaluating all other funds of the City to determine if there are additional needs from the general fund or if there are opportunities to increase contributions to the general fund.

Ongoing Monitoring of Actuals

Staff is performing regular reviews of budget versus actuals to identify areas requiring attention and working with departments to make adjustments to ensure the staff remain within authorized expenditure amounts.

Selling Surplus Property (One-Time)

Staff has begun the process of getting appraisals for a few key properties. Staff will give updates to the City Council in closed session on property disposition activities at least quarterly. Staff recommends that any proceeds from a property sale are used to rebuild the general fund reserve instead of to fund new needs. While the City may consider selling public assets like land or infrastructure to generate cash during a budget deficit, this may have detrimental long-term consequences. This approach only addresses one fiscal year and does not solve the underlying structural deficit moving forward. Once sold, the City loses the ability to control any public benefit to the community. There is also the loss of potential future revenue that the asset may gain. Trying to sell quickly, the City may also lose out by selling the property for less than its actual value. An alternative to selling these assets could be exploring other alternatives such as leasing the land.

NEXT STEPS

Upon adoption by Council, the City Manager and designated staff will take the actions needed to close the projected deficit for FY 2025-26 by January 31, 2026, within the parameters listed above. Staff will return to Council in February with an update that itemizes the actions taken by the City Manager. At that same meeting, staff will hold a fiscal sustainability work session. Staff will continue to monitor actuals to ensure the targeted savings are being realized.

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