



**DATE:** February 19, 2020

**TO:** Council Budget and Finance Committee

**FROM:** Director of Finance

**SUBJECT:** FY 2020 Mid-Year Budget Review & General Fund Long Range Financial Model Update

## RECOMMENDATION

That the Council Budget and Finance Committee reviews and provides comments on the FY 2020 Mid-Year Budget review and General Fund Long Range Financial Model Update.

## SUMMARY

This report presents the mid-year review of the FY 2020 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.

Proposed FY 2020 mid-year expenditures net a total increase of \$5.7 million in General Fund expenses. Of this amount, \$5.1 million is related to previously authorized and approved appropriations, and proposed FY 2020 mid-year expenditure requests total increase of \$0.6 million. The proposed FY 2020 mid-year expenditures are largely one-time in nature. The tables below detail the key changes in General Fund expenditures related to previous Council authorized and approved appropriations, and proposed new FY 2020 mid-year requests:

<b>Previous Council Approved Appropriations</b>	<b>FY 2020 Impact (\$)</b>
Illegal Tobacco Sales Enforcement Program - Overtime	\$9,703
Salary Plan Update	\$243,039
<b>Personnel Expenses</b>	<b>\$252,742</b>
City Center Demolition	\$4,401,150
City parking enforcement vehicle/equipment	\$95,000
Security Services - Maple/Main Development Site	\$142,000
Byrne Grant Appropriation	\$42,492
Delinquency Prevention Network (DPN) Contract	\$8,950
Contract Services - Strategic Planning Services	\$108,881
Community Development Block Grant	\$4,000
<b>Non-Personnel Expenses</b>	<b>\$4,802,473</b>
<b>Previous Council Approved Appropriations Subtotal</b>	<b>\$5,055,215</b>

<b>Proposed Mid-Year Request (NEW)</b>	<b>FY 2020 Impact (\$)</b>
Delete/Add Finance Tech. (1.0) for Admin. Secretary (1.0) (Finance)	(\$6,474)
<b>Personnel Expenses</b>	<b>(\$6,474)</b>
Latent Print Case Management Software (Police)	\$33,000
Contract Services (Finance)	\$20,000
Contract Services (Human Resources)	\$59,000
Software - NeoGov Implementation (Human Resources)	\$22,000
Hayward Area Shoreline JPA - Contribution (Development Services)	(\$12,000)
Consultant Services (Development Services)	\$400,000
PERB Settlement Adjustment	\$7,393
Library Expenses to be Reimbursed by Literacy Council	\$7,184
Transfer-Out to Facilities Management Fund for Library Expenses	\$70,000
Transfer-Out to Facilities Capital	\$28,000
Transfer-Out to Hayward Area Shoreline JPA	\$12,000
<b>Non-Personnel Expenses</b>	<b>\$646,577</b>
<b>Proposed Mid-Year Requests (NEW) Subtotal</b>	<b>\$640,103</b>
<b>TOTAL GENERAL FUND EXPENSES</b>	<b>\$5,695,318</b>

General Fund revenues are expected to exceed the originally projected amount by \$3.5 million. Changes in revenue projections are detailed in **Table 2**. Key changes in the General Fund revenues are as follows:

Projected increase in Sales Tax over budgeted amounts	\$3,711,881
Projected decrease in Cannabis Tax below budgeted amount	(\$250,000)

If mid-year requests are approved as proposed, the FY 2020 Revised Budget would result in a projected shortfall, requiring the use of \$1.9 million in General Fund Reserves for FY 2020.

## BACKGROUND

On May 21, 2019, the City Council adopted the FY 2020 Operating Budget projecting a net positive position at fiscal year end and an increase to the General Fund Reserves of \$0.3 million<sup>1</sup>. Since the time of adoption of the FY 2020 Budget, the City's projected fiscal position has changed significantly. As a result of additional Council approved appropriations and proposed mid-year requests, the City's General Fund net position decreased, projecting a use of \$1.9 million in reserves to balance the budget. The largest of these appropriations is related to demolition expenses for the recently acquired City Center building. In December, Council authorized a General Fund appropriation of \$4.4 to fund hazardous materials abatement and demolition of the City Center building<sup>2</sup>. Demolition of the City Center building is considered a one-time expense. It is

<sup>1</sup> City of Hayward Council on May 21, 2019

<https://hayward.legistar.com/LegislationDetail.aspx?ID=3952693&GUID=7C3FB881-BCFB-431E-862D-7916B6C6811B>

<sup>2</sup> City of Hayward Council on December 3, 2019

<https://hayward.legistar.com/LegislationDetail.aspx?ID=4263965&GUID=635A7662-752A-43D6-BC31-328887055949>

expected that expenses related to the acquisition and demolition of the City Center building could potentially be fully recovered upon the sale of the property. The Council has approved an additional \$0.7 million in other appropriations related to contract services and grant appropriations since the adoption of the FY 2020 Operating Budget.

On January 15, 2020, an update to the General Fund Long Range Financial Model was presented to the Council Budget and Finance Committee for review and feedback.

This report includes an update to the model as part of the FY 2020 mid-year review, reflecting the proposed changes in revenue projections and expenditure adjustments.

## **DISCUSSION**

### **GENERAL FUND REVENUES**

FY 2020 General Fund revenues are projected to be \$3.5 million higher than originally projected. This is primarily attributed to projected increases in sales tax revenues and Cannabis Tax revenue projections.

The following analysis highlights key revenue variances as it pertains to FY 2020 mid-year projections and the impact on future year projections as outlined in the model.

Sales Tax (increase of \$3.7 million) – The amount projected at the time of adoption did not anticipate continued growth in the economy. Previous forecasts projected a slowing of the economy in FY 2020. Preliminary projections also did not account for significant short-term growth in the transportation industry.

Cannabis Tax (decrease of \$250,000) – The FY 2020 Adopted Budget projected Cannabis Tax revenue at \$250,000. No revenues are expected for FY 2020 as no prospective cannabis business operators have completed the entitlement process.

### **GENERAL FUND EXPENDITURES**

FY 2020 General Fund total adjustments include FY 2019 carryforwards, previous Council authorized and approved appropriations, and mid-year requests. FY 2020 General Fund expenditures, including proposed mid-year requests and previous Council authorized and approved appropriations are projected to be \$5.7 million higher than anticipated at the time the City adopted its budget. Of this amount, \$5.1 million is related to previously authorized and approved appropriations, and proposed FY 2020 mid-year expenditure requests total increase of \$0.6 million. The proposed FY 2020 mid-year requests are largely one-time in nature. FY 2019 budget carryforwards total \$1.4 million and were approved with the FY 2019 Operating Budget. The following analysis highlights key expenditure variances as it pertains to FY 2020 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 \$246,268. The following provides detail on the changes in the staffing expense budget:

- Staffing Changes (decrease of \$6,474) – A net change of 0.0 FTE in the Finance Department is included as part of the mid-year review. In order to better serve the needs of the business, one (1.0) Finance Technician position was deleted, to be replaced for one (1.0) Administrative Secretary position. **Table 1** below summarizes the fiscal impact. This change results in a net salary savings.

**Table 1: Staffing Changes Summary**

<b>POSITION CHANGE</b>	<b>FY 2020</b>
<u>Finance Department</u>	
Delete 1.0 FTE Finance Technician	\$ 142,635
Add 1.0 FTE Lead Administrative Secretary	\$136,141
<b>TOTAL IMPACT TO GENERAL FUND</b>	<b>(\$6,474)</b>

- Overtime Expense (increase of \$9,703) – Appropriation to increase overtime expenses for activities related to illegal tobacco sales enforcement, offset by a California State Department of Justice grant.
- Salary Plan Update (increase of \$243,039) – An update to the Salary Plan was approved by Council on December 17, 2019. The Salary Plan update included equity adjustments per the SEIU MOU on a recent salary survey completed in accordance with the terms as outlined in the negotiated agreement with SEIU, and additional adjustments to other specific job classifications.

### Operating Expenses

A number of adjustments are needed at mid-year to fund necessary and/or unanticipated expenditures, and to appropriate prior year carried forward requests into FY 2020.

#### Carryforward Requests (increase of \$1.4 million):

A carryforward is unspent budget that is linked to a commitment such as a contract, requisition, or purchase order. The carryforward of commitment to a new fiscal year carries with it the unspent budget associated with the balance of the commitment. Carryforward represent budget amounts that were previously authorized and approved by Council during the prior fiscal year.

New Appropriations (increase of \$4.8 million):

City Council previously authorized and approved appropriations totaling \$4.8 million. Previously authorized and approved appropriations are as follows:

- City Center Demolition (increase of \$4,401,150);
- City parking enforcement vehicle/equipment (increase of \$95,000);
- Security measures/services at Maple/Main development project site (increase of \$142,000);
- Byrne Grant Award allocation (increase of \$42,492)
- Delinquency Prevention Network (DPN) contract award appropriation (increase of \$8,950); and
- Contract Services for Strategic Planning Services (increase of \$108,881)

Proposed FY 2020 Mid-Year Requests – New (Increase of \$646,577):

- Transfer In/Out (increase of \$110,000): \$12,000 transfer-out to Hayward Area Shoreline JPA fund (HASPA); \$70,000 transfer-out to Facilities Management Fund for unanticipated PG&E costs for the Library; and \$28,000 transfer-out to Facilities Capital for Space Planning project
- PERB Settlement (increase of \$7,393) – Increase of \$7,393 for final PERB Settlement.
- Contract Services (net increase of \$467,000) – Additional contract services are necessary in multiple departments. Development Services is requesting \$400,000 for consultant services for outside plan check, inspection, and permit technicians with anticipated offsetting revenue; a reduction of \$12,000 for annual HASPA contributions (General Fund); an increase of \$25,000 for executive search services for a key executive position vacancy in Human Resources; \$14,000 for consulting services for new technology pilot program in Human Resources; and \$40,000 for contract services for MOU administration review.
- Office/Operating Supplies (increase of \$62,184) – The Police Department is requesting an increase of \$33,000 for latent print software previously approved by City Council (General Fund). The Human Resources department is requesting \$22,000 for the purchase of NeoGov performance management software (General Fund). Library is requesting an increase of \$7,184 in expenses to be reimbursed by the Literacy Council. All expenses related to Literacy Council are fully reimbursable.

The amounts shown below in **Table 2** demonstrate the General Fund impact of the changes being proposed as part of the City's FY 2020 Mid-Year Budget Review from the time that Council adopted the City's Operating Budget in May of 2019. In total, the changes presented for consideration will require the projected use of \$1.9 million in General Fund reserves.

**Table 2: Summary of Proposed Mid-Year Changes**

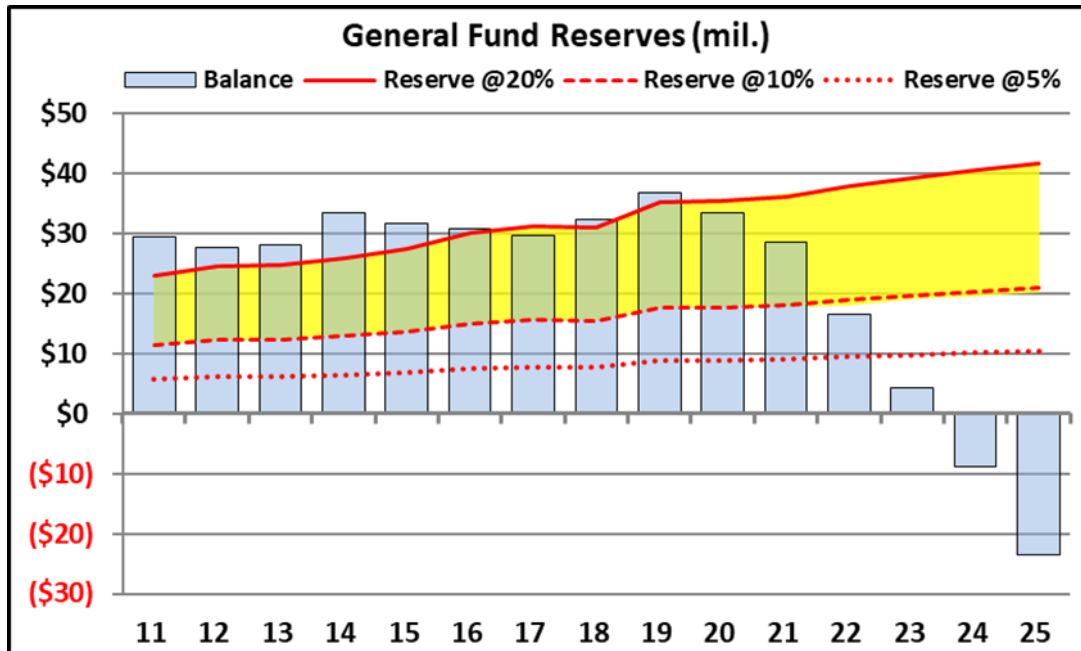
<i>\$ in thousands</i>	<b>FY 2020 Adopted</b>	<b>Change</b>	<b>FY 2020 Mid-Year Revised</b>
<b>Revenue</b>			
Sales Tax		\$3,711	
Utility Users Tax			
Real Property Transfer Tax			
Cannabis Tax		(\$250)	
Intergovernmental Revenue		\$39	
<b>Total Revenue</b>	<b>\$172,439</b>	<b>\$3,501</b>	<b>\$175,940</b>
<b>Expenditures</b>			
Delete/Add Finance Tech. (1.0) for Admin. Secretary (1.0) - Finance		(\$6)	
Previous Council Approved Appropriation - Personnel Expenses		\$253	
<b>Net Staffing Expenses</b>	<b>\$135,448</b>	<b>\$247</b>	<b>\$135,695</b>
Latent Print Case Management Software (Police)		\$33	
Contract Services (Finance)		\$20	
Contract Services (Human Resources)		\$59	
Software - NeoGov Implementation (Human Resources)		\$22	
Hayward Area Shoreline JPA - Contribution (Development Services)		(\$12)	
Consultant Services (Development Services)		\$400	
PERB Settlement Adjustment		\$7	
Library Expenses to be Reimbursed by Literacy Council		\$7	
Previous Council Approved Appropriation - Non-Personnel Expenses		\$306	
<b>Net Operating Expenses</b>	<b>\$27,798</b>	<b>\$843</b>	<b>\$28,641</b>
Transfer-Out to Facilities Management Fund for Library Expenses		\$70	
Transfer-Out to Facilities Capital		\$28	
Transfer-Out to Hayward Area Shoreline JPA		\$12	
Previous Council Approved Appropriation - Transfer-Out		\$4,496	
<b>Transfers to Other Funds</b>	<b>\$8,858</b>	<b>\$4,606</b>	<b>\$13,464</b>
<b>Total Expenditures</b>	<b>\$172,104</b>	<b>\$5,696</b>	<b>\$177,800</b>
<b>Total Surplus/(Shortfall)</b>	<b>\$335</b>		<b>(\$1,859)</b>

### GENERAL FUND LONG RANGE FINANCIAL MODEL UPDATE

**Attachment II** is an updated version of the model that includes projected changes in revenue and expenses impacting the City's projected year-end fiscal position for FY 2020. The FY 2020 Adopted Budget assumed an increase in General Fund Reserves of \$0.3 million by the end of the fiscal year. The model projected that General Fund Reserves would remain above 20% of the City's budgeted General Fund expenditures until the end of FY 2022, at which time reserve levels would dip to 15.9% of expenditures.

As part of the mid-year review process, the model has been updated to include current revenue projections, mid-year expenditure requests, and previous Council approved appropriations as discussed in this report. The updated model projects the use of \$1.9 million in General Fund Reserves. The significant change is primarily attributed to the Council approved appropriation of \$4.4 million for the City Center demolition. While the potential sale of the property could result in full cost recovery, the model does not include revenue assumptions should the sale of the property occur in the future.

Per current policy, General Fund Reserve should equal 20% of budgeted General Fund expenditures. Based on the updated model and current projections, the City is expected to fall short of compliance with the policy. Mid-year updates to the model project ending the fiscal year with a General Fund balance of 19.7% of FY 2020 General Fund expenditures. The graph below depicts revised General Fund revenues and expenditures based on updated FY 2020 projections.



## MEASURE C FUND

### Measure C Operating

The 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, such as police services, addressing illegal dumping, litter control, and graffiti abatement also fulfill the promises of Measure C.

FY 2020 Measure C operating fund total adjustments include FY 2019 carryforwards, previous Council approved appropriations, and a mid-year request. Proposed FY 2020 Measure C expenditure related requests total an increase of \$83,518. Proposed FY 2020 Measure C revenue is projected to be approximately \$1.4 million higher than originally projected. The following details the additional requests:

- FY 2019 budget carryforwards (increase of \$8,152)
- Salary Plan Update (increase \$23,209)
- Transfer-Out to Measure C Capital Fund for EBRCS Radio – Final Lease Payment (increase of \$52,157).

### Measure C Capital

While Measure C funds operating programs and related expenses, Measure C funds are primarily used to fund capital projects. FY 2020 Measure C capital total adjustments include prior year carryforwards.

FY 2020 Council adopted expenditure appropriations of \$30.9 million in the Measure C capital fund. Total adjustments included in the mid-year review are \$34.4 million. Included in these adjustments are:

- \$34.3 million in FY 2019 carryforwards; and
- \$52,157 in proposed mid-year request

The FY 2020 Measure C capital mid-year request is to make the final lease payment for EBRCS radios.

Staff will provide an update to the Measure C 20-Year Financial Forecast as part of the Council report on March 3, 2020.

### OTHER FUNDS

Total adjustments for FY 2020 Other Funds include FY 2019 carryforwards, previous Council approved appropriations, and mid-year requests. Expenditure increases in Other Funds total \$21.4 million. Of this total, FY 2019 budget carryforwards total \$15.1 million; and appropriations previously approved by City Council total \$5.7 million. Increase in expenditure requests at mid-year amount to \$0.6 million. Detail of mid-year requests are as follows:

#### Mid-Year Requests (increase of \$0.6 million)

- Water and Sewer Funds (decrease of \$200,000) - Administrative cleanup to remove transfers completed in the prior fiscal year to complete the safety gap analysis;
- Maintenance Operations (increase of \$265,000)– Increase of \$45,000 for contract services for temporary staffing to support the ongoing janitorial needs at the library during operational hours (Facilities Management Fund); \$70,000 for unanticipated PG&E expenses at the library (Facilities Management Fund); and \$150,000 vehicle replacement of two patrol vehicles totaled in recent accidents;
- PERB settlements (increase of \$10,632); Water Fund (\$6,941) and Sewer Fund (\$3,691);
- Police Department (increase of \$43,000)-Increase of \$38,000 in Asset Forfeiture fund for the purchase of schedule express software, and \$5,000 for CNOA conference attendance;
- City Manager (net increase of 35,769)- a reduction of \$20,989 to match the FY 2020 Federal HOME award project allocation, a net zero impact between funds Measure B Paratransit, Federal Grants, Housing Authority, and Affordable Housing for personnel reallocation, and \$56,758 for CDBG Public Services Program with expenditures offset by congruent revenue.
- Hazmat Settlements (increase of \$410,365) – Increase to appropriate prior year fund balances from hazmat settlements.
- Hayward Area Shoreline JPA (increase of \$12,000) – Appropriation of the City's contribution to the Hayward Area Shoreline JPA.



## CAPITAL IMPROVEMENT FUNDS

Total adjustments for FY 2020 Capital Improvement Funds include FY 2019 carryforwards, previous Council approved appropriations, and mid-year requests. The FY 2020 Capital Improvement Budget adjustments total a net increase of \$188.7 million. Of this amount, FY 2019 carry forwards total \$168.4 million; and prior Council authorized and approved appropriations total \$10.2 million. Proposed mid-year adjustments reflect an increase in projected expenditures in the amount of \$10.1 million. **Table 3** provides detail of the proposed FY 2020 CIP mid-year changes.

**Table 3: Proposed FY 2020 Mid-Year CIP Changes**

Mid-Year CIP Changes	FY 2020 Mid-Year Changes
Capital Projects (Fund 405) - Employee Engagement Survey not included in FY 2020 budget	\$35,000
Rte. 238 Corridor Improvements (Fund 410) – Transfer-Out: Reallocate Maintenance Staff and Contract Services	\$70,284
Rte. 238 Settlement Admin (Fund 411) - Transfer-in from Fund 410	(\$70,284)
Rte. 238 Settlement Admin (Fund 411) - Reallocate Maintenance Staff from Rte. 238 Corridor Improvements (Fund 410)	\$66,784
Rte. 238 Settlement Admin (Fund 411) - Reallocate Contract from Rte. 238 Corridor Improvements (Fund 410)	\$3,500
Rte. 238 Settlement Admin (Fund 411)- Maintenance Services for Homeless Abatement, Landscape/Weed Abatement, and Property Management	\$285,284
Water Improvement (Fund 604) - Administrative cleanup of FY2020 Adopted Budget	\$498,432
Sewer Improvement (Fund 612) - Administrative cleanup of FY2020 Adopted Budget	\$3,276,817
Airport Capital (Fund 621) - Sulphur Creek Mitigation FY2018 unspent budget balance appropriation	\$266,279
Airport Capital (Fund 621) - Miscellaneous FY2018 unspent budget balance appropriation	\$482,260
Facilities Improvements (Fund 726) – Space Planning Project	\$28,000
Administrative Transfer-Out to Operating Budget Correction; FY 2020 CIP inadvertently not included (Fund 210)	\$983,000
Administrative Transfer-Out to Operating Budget Correction; FY 2020 CIP inadvertently not included (Fund 410)	\$129,000
Administrative Transfer-Out to Operating Budget Correction; FY 2020 CIP inadvertently not included (Fund 604)	\$3,765,000
Administrative Transfer-Out to Operating Budget Correction; FY 2020 CIP inadvertently not included (Fund 611)	\$270,000
<b>Total Net Change</b>	<b>\$10,089,356</b>

## **FISCAL IMPACT**

The overall fiscal impact of the proposed mid-year adjustments is an increase to General Fund revenue of \$3.5 million, and an increase to General Fund expenditures of \$7.1 million (\$5.1 million in previously approved appropriations, \$0.6 million in proposed new requests; and \$1.4 million in carryforwards). All Other Funds proposed adjustments will result in an increase of \$0.6 million in newly requested expenditures; and Capital Improvement Funds will result in a proposed net increase in expenditures of \$10.1 million in newly requested expenditures.

## **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 recommendation by the Committee, staff will present the FY 2019 Mid-Year Budget Review & General Fund Long Range Financial Model Update to the full City Council at the regular scheduled meeting on Tuesday, March 3, 2020.

*Prepared by:* Nicole Gonzales, Deputy Director of Finance  
Nicholas Mullins, Management Analyst I  
Rick Rivera, Management Analyst I

*Recommended by:* Dustin Claussen, Director of Finance

*Approved by:*

A handwritten signature in black ink, appearing to read 'K. McAdoo', is positioned above a horizontal line.

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Kelly McAdoo, City Manager