



CITY OF HAYWARD

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Cover Memo

File #: WS 15-033, **Version:** 1

DATE: December 15, 2015

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT

FY 2015 Preliminary Year-End General Fund Review

RECOMMENDATION

No action required. Staff is requesting that the City Council reviews and comments on this report.

BACKGROUND

The Finance Department is currently working with the City's external auditor (Maze and Associates) to develop and finalize financial statements for the period ending June 30, 2015 (FY 2015). The results of the audit and the FY 2015 Comprehensive Annual Financial Report (CAFR) will be presented to the Budget & Finance Committee at the January 13, 2016 meeting. This report contains preliminary year-end results for the General Fund. Please note that final amounts as conveyed in this report may change somewhat through the audit process.

The City Council adopted the FY 2015 Operating Budget on June 24, 2014, initially projecting a General Fund gap (and use of General Fund Reserves) of \$5.06 million. This projection was modified over the course of the fiscal year, with a second quarter (mid-year) projected gap of \$8.06 million as presented to City Council on March 17, 2015. The large increase in the projected gap was primarily due to the negotiated agreement with Hayward Police Officers Association (\$1.4 million) and a settlement with Dutra Enterprises (\$2.2 million) - neither of which were included in the Adopted Budget.

Current FY 2015 results indicate that the General Fund will end with a negative balance of \$1.6 million (see Attachment I). While this is an improvement from original and revised gap projections, it still indicates a continuing gap between revenues and expenditures. The reason for the reduced FY 2015 gap is a combination of higher than anticipated revenues and expenditure savings. However, even with higher revenues and lower expenditures, there is not enough total General Fund revenue to cover total General Fund costs - hence a resulting gap of \$1.6 million for FY 2015.

FY 2015 revenues performed \$3.6 million higher than anticipated as detailed below (of which \$772,000 is considered one-time). The City also realized total expenditures savings of \$2.9 million: \$1.7 million in salary savings caused by position vacancies and \$1.2 million in deferred non-personnel expenditures (expenditures that were planned for FY 2015, but will instead occur in FY 2016.) Please note that if one-time revenues of \$772,000 are removed and deferred expenditures of \$1.2 million had occurred as anticipated in FY 2015, a deficit of \$3.57 million would be the result. Also note that the expenditures are still planned and were simply

deferred until FY 2016; they are expected to occur in this fiscal year.

The City once again used General Fund Reserves to balance FY 2015. In addition, the City continues to project future year deficits - largely caused by increased salary and benefit-related costs. As adopted by City Council on June 23, 2015, the General Fund Ten-Year Plan projects a deficit beginning in FY 2017 that increases in the out years. Staff is currently reviewing the assumptions used in preparing the General Fund Ten-Year Plan for FY 2016, considering FY 2015 results as well as costs associated with labor agreements that were finalized after the adoption of the FY 2016; and as a result staff will likely recommend adjusted revenue and expenditure projections as part of the FY 2016 Mid-Year Review.

DISCUSSION

Revenues

Initial revenue projections for FY 2015 were appropriately conservative, given the volatile economy and erosion of some General Fund revenues in preceding years. As the fiscal year progressed, the City began to see some increased revenues from an improving local economy and staff provided budget updates with recommended adjustments to FY 2015 revenues as part of the Mid-Year review.

Total General Fund revenues improved over second quarter projections by \$3.56 million or 2.7%. While many revenues reflect minor variances in comparison to projections, several revenue categories ended the year with more significant variances as discussed below:

Property Tax - Preliminary Property Tax revenue results total \$42.1 million, which is \$1.3 million higher than the revised FY 2015 Mid-Year review projection of \$40.8 million (3.2%). This is almost entirely due to Redevelopment Property Tax Trust Fund distributions.

- 1) Secured Property Tax revenues. The year-end actuals compared to revised projections resulted in revenues of \$193,000 less (-0.5%) than expected - almost right at projections.
- 2) Redevelopment Property Tax Trust Fund (RPTTF) - former Redevelopment Agency distribution. The RPTTF represents reallocated property tax increment previously allocated to the former Hayward Redevelopment Agency. With the dissolution of the agency, tax increment funds are now redistributed to all taxing entities in the County, including the City of Hayward. As the RDA dissolution process continues, the RPTTF distributions should begin to stabilize, as many of the one-time dissolution adjustments will conclude (e.g. audits, property disposition, asset transfers, etc.).

Anticipated annual, recurring RPTTF funds (annual pass-through and redistribution funds) were adjusted to \$1.0 million for FY 2015. The year ended with total RPTTF funds of \$1.866 million - about \$866,000 more than projected. In addition, the City received \$625,194 in one-time redistribution of funds related to the sale of the Burbank School Site by the Successor Agency. Until the dissolution process ends, these are somewhat unpredictable revenues. A majority of these funds are allocated to funding the Economic Development budget, consistent with the Economic Development Strategic Plan as adopted by City Council.

Sales & Use Tax - Sales tax revenues came in under FY 2015 Mid-Year projections by \$661,000 (-2.1%). The decrease represents a continuing overall erosion of sales tax revenues. It should be noted that Measure C revenues are not presented in this summary as Measure C will be reviewed separately from the General Fund.

Utility Users Tax (UUT) - UUT ended the year at \$15.68 million, almost matching the revised projected amount of \$15.75 million. The UUT projections have been fairly stable in recent years with an approximately 5% increase from Russell City Energy Center (RCEC) coming online in FY 2014.

Franchise Fees - FY 2015 ended with \$1.03 million (11.2%) in higher revenues than anticipated. This revenue category is comprised of franchise fees assessed on utilities doing business within City limits (e.g., refuse, gas, electricity, cable, etc.) and is a percentage of gross receipts. The City has seen moderate increases to overall franchise revenues - largely attributable to PG&E rates (\$680,000), while smaller increases were seen from Cable and Solid Waste.

Real Property Transfer Tax (RPTT) - Given improved market conditions, staff increased projections from \$5.0 million to \$5.3 million as part of the FY 2015 mid-year review. The year ended with total revenues of \$5.7 million, \$441,000 (8.4%) in excess of revised projections. Increases in property values and turn-over rate of residential properties, have increased RPTT revenues. Real Property Transfer Tax is a volatile revenue source and is directly affected by market fluctuations. The high-point of this revenue was in FY 2006, when the City received \$10 million in transfer tax revenues.

Effective FY 2016, City Council has adopted a baseline threshold for recurring RPTT revenues, establishing that all revenue over \$4.8 million is considered one-time revenue and should be used according to Council policy regarding one-time revenues, such as capital expenses

Charges for Services - This revenue category includes a variety of police and fire fees & permits, building fees and permits and licenses. The overall increase of \$558,000 (5.9%) is a reflection of the improved local economy.

Other Revenue - FY2015 ended with \$442,000 (215.0%) higher than anticipated. This majority of this variance (\$210,978) is due to on-going encroachment permit revenue that was not previously budgeted.

Expenses

Overall General Fund expenditures fell below mid-year projections with net savings of approximately \$2.9 million or -2.1%. During the mid-year review, Council recognized \$3 million in unbudgeted costs related to the new contract agreement with the Hayward Police Officers Association (\$1.4 million) and a one-time settlement payment with Dutra Enterprises (\$2.2 million). However, even with these added costs, there were salary and benefit savings driven by a large number of position vacancies, as well non-personnel savings due to deferred expenditures that offset these costs and resulted in net savings.

Net Staffing Expense - Overall salaries and benefits were below projections by \$1.7 million (-1.6%).

Several factors contribute to this savings:

- position vacancies
- hiring of new employees at lower than budgeted costs
- medical premium savings resulting from employee cost sharing and a large number of plan changes reducing plan costs

Overtime expense totaled \$6.97 million nearly meeting revised projections of \$7.0 million (-0.4%). Overtime is needed to backfill vacant positions - largely in public safety to maintain minimum staffing levels. It should be noted, however, that a portion of the Fire Department overtime expenses were related to mutual aid operations

and are directly offset by reimbursements received by the General Fund.

Non-personnel Expenses - this expenditure category realized savings of \$1.19 million (-3.8%). These savings are considered deferred expenses, with these expenditures deferred to FY 2016 for pending contracts and appropriated grant funds not yet expended.

PUBLIC CONTACT

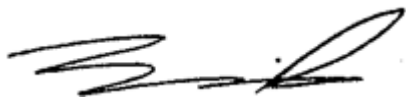
Staff presented a draft of the preliminary FY 2015 General Fund Year-end Review to the Council Budget & Finance Committee on November 4, 2015.

NEXT STEPS

Staff will present the FY 2015 Comprehensive Annual Financial Report (CAFR) to City Council upon conclusion of the annual audit in early 2016. Staff will also present an FY 2016 Mid-Year Review in February 2016.

Prepared by: Nan Barton, Acting Budget Officer

Recommended by: Tracy Vesely, Director of Finance
Approved by:



Fran David, City Manager

Attachments:

Attachment I

Table 1- Preliminary FY 2015 General Fund
Budget Summary