



DATE: January 6, 2026

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Work Session to Receive a Budget Update and Provide Feedback on the Proposed Format and Content of the City Council Budget Retreat in February 2026

RECOMMENDATION

That the Council

1. Receive an update on the status of the adopted Fiscal Year (FY) 2025-26 General Fund Operating Budget; and
2. Provide feedback on the proposed format and content of the upcoming City Council Budget Retreat planned for February 2026.

SUMMARY

On November 18, 2025, staff updated the forecasted budget deficit for the FY 2025-26 General Fund budget, which is projected to be \$26.4 million, based on actuals from the last 14 months and information from the City of Hayward's revenue consultants. Staff recommended a two-phase approach: (1) take immediate actions to eliminate the anticipated deficit for the FY 25-26 General Fund budget by the end of January 2026 using a combination of ongoing and one-time expenditure and revenue measures; and (2) initiate planning, analysis and discussions to address the projected structural deficit and need for reserves for subsequent fiscal years, including a City Council Budget Retreat in February 2026. This evening's work session agenda item is to provide the latest update on the actions taken to balance the FY 2025-26 budget and to solicit City Council feedback on the proposed format and content of the upcoming Budget Retreat.

BACKGROUND

On June 17, 2025, the City Council adopted the FY 2025-26 General Fund operating budget. At that time, staff reported a starting fund balance of \$31 million and proposed use of \$8.9 million from reserves and the City Council directed staff to take actions to reduce or eliminate the use of reserves. In August 2025, staff identified a deficit of approximately \$30 million for FY 2024-25, resulting in the reduction of the starting fund balance for FY 2025-26 from \$31

million to approximately \$1 million. On November 18, 2025, staff updated the forecasted budget deficit for FY 2025-26 projecting a deficit of \$26.4 million, based on actuals from the last 14 months and information from the City's revenue consultants.

At this meeting, staff presented a two-phase approach: (1) take immediate actions to eliminate the anticipated deficit for the FY-25-26 General Fund budget by the end of January 2026 using a combination of ongoing and one-time expenditure and revenue measures; and (2) initiate planning, analysis and discussions to address the projected structural deficits and need for reserves for subsequent fiscal years, including a City Council Budget Retreat in February 2026.

As part of the Phase 1 approach presented on November 18th, City Council and staff have taken numerous actions to eliminate the deficit for FY 2025-26 including:

1. Completed the Council authorization to increase the Transient Occupancy Tax to the voter-authorized limit of 14% effective February 1, 2026;
2. Implemented an audit to identify back-taxes or fees that were not received in past years;
3. Increased a transfer and loan from Measure C to the General Fund;
4. Identified options for use of the City's Other Post-Employment Benefits (OPEB) Trust Fund;
5. Implemented changes to staffing, such as eliminating temporary staff positions, instituting additional overtime controls, and continuing strong vacancy controls, resulting in significant budget reductions for vacant positions;
6. Identified and implemented additional personnel-related savings through discussions with labor groups, including concessions from some bargaining groups, voluntary separations, and layoffs;
7. Reduced supplies and services budgets across departments; and
8. Identified options to modify transfers to or from the General Fund 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 when other funds have sufficient balances to cover operational costs or are able to postpone expenditures.

Although the above actions are anticipated to bring the FY 2025-26 budget into balance, many of these items are one-time in nature and will not address the longer term structural fiscal imbalance projected for subsequent fiscal years. As a result, Phase 2 of this budget process is to take additional actions to strengthen long-term stability and replenish reserves including a long-term fiscal sustainability plan that will inform creation of the FY 2026-27 budget. This will be further developed at the Budget Retreat planned for February 2026. This evening's work session agenda item is to provide the latest update on the actions taken to balance the FY 2025-26 budget and to solicit City Council feedback on the proposed format and content of the upcoming Budget Retreat.

DISCUSSION

Update on FY 2025-26 General Fund Budget

As part of the Phase 1 approach, staff is taking actions listed in Table 4 to balance the FY 2025-26 budget:

TABLE 4

Activity	Estimated Savings
Transfer/loan of funds from Measure C (\$3.85 million is loan)	\$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 including property transfer tax associated with Southland Mall, business license tax collection audit, and transfer of funds from developer deposits.	1,500,000
Increase to the Transient Occupancy Tax – update approved by City Council on December 16, 2025	250,000
Personnel actions including: (1) additional vacancies and overtime reductions, (2) ending assignments for temporary employees, (3) MOU changes in police and fire reducing overtime, (4) voluntary separation incentive program, layoffs, and other separations	7,250,000
Use of OPEB Trust funds	3,000,000
Reductions in services and supplies	2,797,495
TOTAL	\$26,447,495

In the interest of ensuring the City maintains a balanced budget for FY 2025-26, staff is also working to identify \$2 million - \$4 million in additional measures to provide the City with a one to two percent operating contingency for unforeseen needs or issues over the next six months. The City also maintains a Measure C fund balance to ensure the City has sufficient funds to make payroll, meet its debt obligations, and has access to additional funds in the event of a significant emergency.

Proposed Format and Content of February Budget Retreat

While the City has made significant progress to eliminate the FY 2025-26 deficit, many of the actions taken are one-time in nature and do not address the City's longer term structural deficit. As a result, the City needs to plan and take actions to ensure a sustainable budget with ongoing revenues aligned with ongoing expenses and restore its fund balance and cash reserves to meet its 20% reserve requirement.

As part of this fiscal sustainability planning, City Council will be holding a full-day Budget Retreat in February 2026 to provide policy direction to staff on how to address the City's ongoing budget deficit. This evening City staff is soliciting City Council feedback on the

proposed format and content of the upcoming Budget Retreat so that staff can be prepared at the Budget Retreat with meaningful information and preliminary recommendations. Staff anticipates the following format and content:

- **Financial Status Report and Projections:** City staff will provide an update on actions taken to close FY 2025-26 budget deficit, including a review of budget-to-actuals, as well as a presentation of a long-term forecast for the General Fund, Measure C, and Measure K1 so that the City Council, staff and community understand the extent of the City's structural deficit and have a financial baseline to plan for a sustainable fiscal future.
- **Revenue Enhancements:** City Council and City staff will explore and discuss possible revenue measures, including a potential ballot measure to modernize the City's business license tax. Staff has already initiated activities to prepare for a potential ballot measure, including retaining a financial consultant and a firm who specializes in polling. This discussion will include initial revenue ideas provided by Council, staff, and the community for Council consideration and feedback
- **Expenditure Reductions:** City staff will present detailed options, including preliminary recommendations, on structural, programmatic, and service changes to reduce ongoing expenditures for Council consideration and feedback, which will also be based on initial ideas provided by Council, staff, and the community.
- **Accountability:** City Council will review and provide feedback on a draft Budget and Financial Policy based on financial best practices and City staff will explain and discuss key financial terminology and best practices.
- **Policy Direction:** City Council will discuss the topics above and provide direction to staff to develop the draft FY 2026-27 budget and a longer term fiscal sustainability plan with the goal of bringing the City's General Fund into balance and restoring its reserves and cash balances.

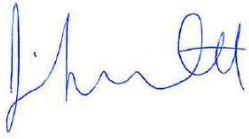
Staff has received a number of ideas from Council referrals, a staff survey and the community, including revenue opportunities, expense reductions, and other items addressing fiscal sustainability. This evening staff will summarize some key recommendations and seek Council input on the proposed format and content of the Budget Retreat.

NEXT STEPS

Based on Council input this evening, staff will prepare information, analysis and preliminary recommendations for further Council discussion at the February Budget Retreat.

Prepared by: DeAnna Hilbrants, Director of Finance

Approved by:

A handwritten signature in blue ink, appearing to read "Jennifer Ott", written in a cursive style.

Jennifer Ott, City Manager