



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 02/20/07
AGENDA ITEM _____
WORK SESSION ITEM WS#2C

TO: Mayor and City Council
FROM: City Manager
SUBJECT: Direction Regarding Budget for Fiscal Year 2007-08

RECOMMENDATION:

It is recommended that the City Council review and comment on this report.

DISCUSSION:

This report is intended to obtain Council direction to guide the preparation of the FY 2007-08 budget. As in previous years, the recommended budget will be prepared and presented to Council in May, with adoption by Council in June.

The budget for FY 2007-08 is the second year of a two-year budget the Council reviewed in May of 2006. Per Council action at that time, the budget for FY 2007-08 is intended to carry forward the previous Council actions with minimum changes. Any adjustments needed at this time should relate only to costs not anticipated in the two-year budget cycle due to unforeseen events, or to significant new initiatives that cannot await consideration until the next two-year cycle; and should be limited to that amount of money available in the contingency reserve account after existing unplanned cost demands are met.

Review of the second year of this two-year operating budget includes a review of the beginning fund balance target, budget assumptions established during the compilation of the budget last spring, and an analysis of any unforeseen events that may change the budget estimates.

Review of Beginning Fund Balance

The two-year budget estimated a beginning fund balance of \$21.4 million at July 1, 2007. Based on the estimated year-end balances for FY 2006-07, as reported in the mid-year review, staff projects that the General Fund will end in balance.

Budget Assumptions

While compiling the two-year budget, certain economic assumptions were established. The two-year budget assumed that the economy would remain steady; consumer spending would be strong; healthy real estate values would sustain; and there would be relatively low unemployment. A modest amount of growth in revenue was predicted, as well as inflation

remaining under control. Based on the current economic outlook, staff predicts no major variation in these assumptions.

Revenue

There are a few revenues that are expected to vary from the FY 2007-08 amounts reported in the two-year budget:

Real Property Transfer Tax - This revenue source has shown strong growth in the recent past. In FY 2004-05, this revenue source generated \$9.7 million. However, during FY 2006-07, as the real estate market has slowed, the current year's revenue is expected to only reach 95% of budget. There are signs suggesting the real estate market is cooling both in the State and the Bay Area. Given the potential volatility of this revenue source, due to unpredictable factors such as housing sales prices and rate of housing sales closings, staff recommends caution and that this revenue be budgeted conservatively, and that any revenue over a minimum base be used only for one-time expenditures that do not have on-going operational implications. Accordingly, staff is recommending a reduction in the budgeted growth factor of 3%. Staff predicts that the amount of real property transfer tax received in FY 2007-08 will be approximately \$8.3 million, the same as the amount expected in the current year.

Franchise Fees - The City receives franchise fees from the providers of the following services: collection and disposal of waste, distribution of electricity and natural gas, and cable television. During FY 2006-07, the City renegotiated the waste management franchise agreement. The new agreement includes additional services and rate increases beginning June 1, 2007. Therefore, staff expects total franchise revenue to increase by approximately \$930,000 from the amount budgeted in FY 2007-08.

Expenditures

The overall General Fund expenditure budget is projected at \$109 million, of which approximately \$104 million are expenditures and \$5 million transfers. The single largest expenditure category for the City's General Fund is Employee Services. This category represents approximately 85% of the General Fund's operating expenditures. The projected FY 2007-08 budget provided an increase in costs of 3% for employee services, and 3% for maintenance and utilities and supplies and services. Capital expenses were proposed to remain static with no increases.

Staff has increased the projections for Employee Services by 1% (i.e., up to 4%) based on current and continuing discussions with bargaining units, and on public employee cost trends in the Bay Area. This increases the projected Employee Services costs by approximately \$1,000,000.

Overall Budget Impact

The two-year budget predicted that the State would achieve a level of stability and would not withhold large amounts of revenue during FY 2007-08, as in prior years. This assumption can be affirmed based on the prior approval of Proposition 1A – Protection of Local Government

Revenues and commitments made the Governor and State Legislator in the State Budget Act of 2004. Staff does not anticipate any State action causing significant negative impacts to revenue sources in the General Fund during FY 2007-08.

The exceptions noted of increased Franchise revenue, reduced Real Property Transfer Tax revenue, and increased Employee Services costs will increase staff's expectations of a projected deficit for the FY 2007-08. Please refer to *Attachment A*. As such, Council should avoid assuming any new on-going obligations, and should plan to utilize reserves to balance the budget. These numbers will be refined as we move through the budget approval process for this year. Any other changes considered should be due to unforeseen and uncontrollable events or significant new initiatives that cannot await consideration until the next two-year cycle.

<u>Category</u>	<u>Line Item</u>	<u>Original Budget</u>	<u>Change To</u>	<u>Difference</u>	<u>Comment</u>
Revenue	Other Taxes	13,407,000	14,337,000	930,000	Increase of Franchise Fees
Revenue	Real Property Transfer Tax	9,018,000	8,317,000	(701,000)	Slowing of housing market
Expenditure	Employee Services	92,840,000	93,840,000	(1,000,000)	Agreed upon labor contracts to date


 Jesús Armas, City Manager

FY 2007-08 Proposed General Fund Budget
 (\$ in 000's)

Attachment A

	Actual FY 2005-06	Approved Adopted (Adj) FY 2006-07	Estimated FY 2006-07	Proposed FY 2007-08
Resources				
Sales Tax	26,686	28,933	28,933	30,669
Property Tax	21,446	23,680	23,680	25,338
Real Property Transfer Tax	9,708	8,755	8,317	8,317
Other Taxes	13,682	13,377	13,477	14,337
All Other Sources	10,671	11,546	13,360	11,263
Vehicle License Fee	12,886	11,002	11,002	11,552
Charges for Services	3,132	2,587	3,187	2,587
Subtotal	98,211	99,880	101,956	104,063
Transfers to General Fund	4,966	5,059	5,009	4,966
Total Resources	<u>103,177</u>	<u>104,939</u>	<u>106,965</u>	<u>109,029</u>
Operating Requirements				
Employee Services	81,323	84,543	85,696	89,742
Maintenance & Utilities	4,614	4,215	4,215	4,138
Supplies & Services	10,253	10,973	10,968	10,536
Capital Expense	506	520	495	225
	96,696	100,251	101,374	104,641
Transfers from General Fund	7,001	5,559	5,559	5,555
Total Expenditures	<u>103,697</u>	<u>105,810</u>	<u>106,933</u>	<u>110,196</u>
Excess Revenue (Expenditure)	(520)	(871)	32	(1,167)
General Fund Balance				
Beginning Fund Balance	23,085	23,068	23,068	23,100
Incr (Decr) of Deposit Funds	503	0	0	0
Incr (Decr) of Contingency Funds	(520)	(871)	32	(1,167)
Total	23,068	22,197	23,100	21,933
Other Deposit Funds	1,041	1,041	1,041	1,041
Reserved, Encumbered, etc.	925	925	925	925
Economic Uncertainty	7,000	7,000	7,000	7,000
Liquidity	3,500	3,500	3,500	3,500
RDA Loan	1,336	1,336	1,336	1,336
Public Safety Radio System	380	380	380	380
Hotel Conference Center	1,250	1,250	1,250	1,250
Contingency	7,636	6,765	7,668	6,469
Ending Fund Balance	<u>23,068</u>	<u>22,197</u>	<u>23,100</u>	<u>21,901</u>