



City of Oakland

BUDGET BACKGROUNDER: April 2013

The global recession and real estate crash in 2008 had a devastating impact on local governments, including Oakland. The City's revenues collapsed, creating budget shortfalls totaling \$318 million over the past six years. Closing those shortfalls required making hard decisions about which City services to cut back or eliminate.

Oakland has weathered the challenge, and economic indicators are showing modest and steady upward trends. In June 2012, for the first time in four years, the City balanced the fiscal year budget without additional layoffs or cuts, and a few services were restored. We began to reinvest in police staffing by adding an additional training academy and investing in economic development and job growth.

Strong collaboration between City leaders and employees has been key to stabilizing the City's budget and growing the economy. All City employees have made pay contributions in exchange for business closures, furlough days, fire station closures and other temporary measures, and have made ongoing, increased pension contributions.

Yet as we approach the next two-year budget, the City of Oakland is grappling with three significant issues that impact our fiscal condition:

1. *Lingering impacts of the global recession, including rising costs projected to outpace revenue increases;*
2. *A high crime rate exacerbated by a significant staff shortage in the Oakland Police Department: 27 percent fewer police officers and one-third fewer civilian police staff than we had six years ago;*
3. *Financial uncertainties the City does not control, including continued impacts from the elimination of Redevelopment and increased health benefits and pension costs.*

How much is the City's total budget?

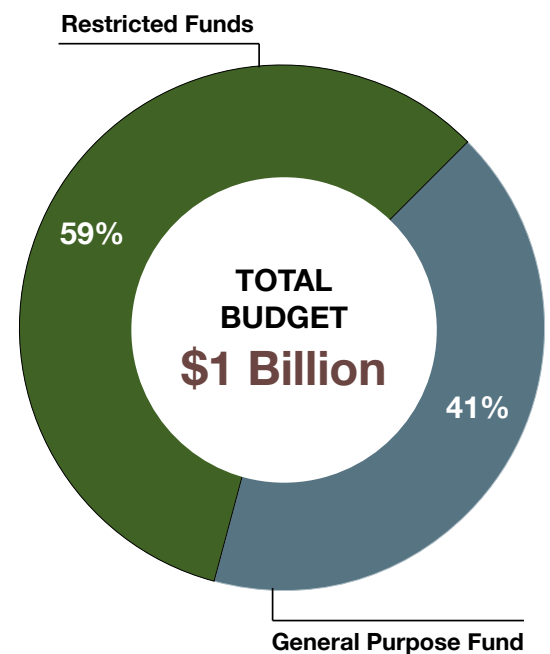
The City's annual budget across all funds for the current fiscal year (FY 2012-13) is about \$1 billion. Nearly 59 percent of those funds (see figure 1) are restricted for specific purposes such as streets, housing development, sewer maintenance and bond-funded programs such as Measure DD improvements at Lake Merritt. Restricted funds come from grants, fees, bond measures or revenues that are collected for a specific purpose.

The remaining 41 percent of the City's total budget is the General Purpose Fund (GPF), which is used to pay for important programs and services such as police and fire protection, libraries, senior centers and recreation programs, as well as elected offices and municipal business functions. The GPF also includes some restricted funds such as ballot measure earmarks, as discussed further on page 4. The GPF is primarily where the City has faced shortfalls for the last six years.

The City of Oakland receives revenue in a variety of forms, including taxes, permit fees, service charges, parking meters and citations, local ballot measures, grants and miscellaneous revenue. State laws restrict our ability to levee additional taxes without voter approval.

The purpose of this fact sheet is to provide background information about the City of Oakland's budget. It gives a snapshot of where revenue comes from and how it gets spent, summarizes the drastic measures the City has taken over the past six years to weather the global recession, and outlines the process and time line we will follow to develop a balanced budget for the next two fiscal years. A second fact sheet will accompany the release of the Proposed Budget for Fiscal Years 2013-15 that will summarize proposed budget-balancing measures.

FIGURE 1





City of Oakland BUDGET BACKGROUNDER: April 2013

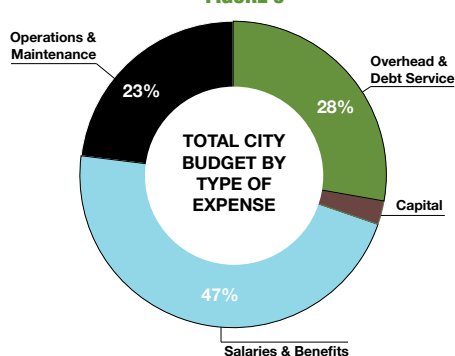
FIGURE 2



How much of my taxes go to the City?

When you pay sales tax or property tax, only a small percentage comes back to the City to fund local programs and services (*see figure 2*). For example, for each dollar you pay for purchases, less than one cent comes back to the City in sales tax revenue. For every property tax dollar paid by property owners (business and residential), the City receives less than 26 cents; the rest goes to other local government agencies such as schools, the county, and the state.

FIGURE 3



What are the City's expenses?

As with any business, the City has personnel costs, and operations and maintenance expenses (*see figure 3*).

Our personnel costs include salaries, benefits and retirement (*see figure 4*). In the case of sworn (police and fire) employees, personnel costs also include the cost of academies and specialized trainings.

Although there are 25% fewer full-time City employees now than there were 10 years ago due to budget reductions and efficiencies (*see figure 5*), and even though employees have temporarily reduced their pay, total personnel costs have risen as the cost of employee benefits has continued to rise. For example, over the past six years, the cost of medical insurance has risen by 51% per public safety employee and by 39% per civilian employee.

FIGURE 4

Personnel Expenses by Category

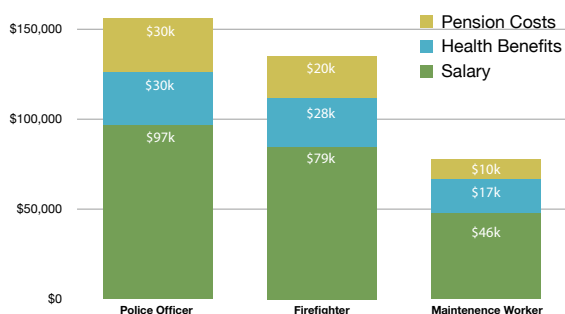
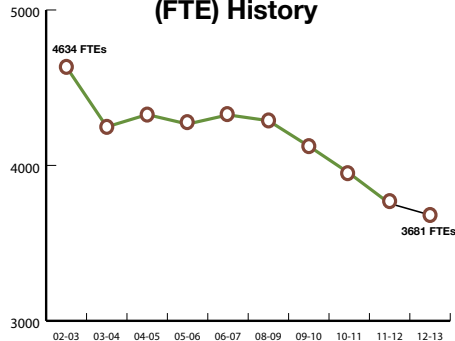


FIGURE 5

Full-Time Equivalent (FTE) History



Operations and maintenance costs, referred to as O&M, include services and supplies, professional contract services, internal work orders and other items, such as asphalt, vehicle repair, fuel, legal advice and design services.

Other types of City expenses include:

- **Capital acquisitions**, which include everything from land and buildings, to furniture and street sweepers, to computer servers and software;
- **Debt service**, which is the repayment of bonds and other loans; and
- Payments to **long-term liabilities**, such as unfunded pension and retiree medical costs.

About 59% percent of the City's budget comes from grants, gas tax or other restricted-use revenues, which require the funds to be used for specific purposes. As a result, the City's budget-balancing measures primarily focus on the General Purpose Fund, which typically has no such restrictions and is more flexible. This is why efforts to close the multi-million dollar shortfalls over the past six years have focused on increasing GPF revenues or reducing GPF expenditures.



GENERAL PURPOSE FUND

What is the General Purpose Fund?

To safeguard public resources, government accounting standards require money to be accounted for in separate funds. The General Purpose Fund represents about 41 percent of the total \$1 billion City budget. For the current fiscal year, the General Purpose Fund budget is \$409 million. The General Purpose Fund pays for essential programs and services such as police and fire protection, libraries, senior centers and recreation programs, as well as elected offices and municipal business functions.

What are the revenue sources for the General Purpose Fund?

The five largest sources of revenue to the General Purpose Fund (GPF), which comprise 78 percent of the GPF total, are property tax, business license tax, utility tax, service charges and sales tax.

When the housing market meltdown occurred, the City's real estate transfer tax plummeted. In 2010, the property assessments (taxes) for Alameda County went down for the first time in 50 years.

In 2005, the real estate transfer tax generated almost \$80 million per year. The City's latest forecast for 2012-13 projects this revenue source at \$40 million, a drop of 50 percent from its historical high.

Fortunately, housing values are trending up again and property tax, sales tax and business license tax revenues are all trending up, demonstrating that the economy is showing concrete signs of steady, modest growth.

As an example of revenue generation for the General Purpose Fund, the typical Target store in California generates an average of \$400,000 in sales tax revenue per year. So to generate enough sales tax revenue to recruit, train and hire 300 more police officers, we would need more than 200 new Target stores in Oakland.

FIGURE 6

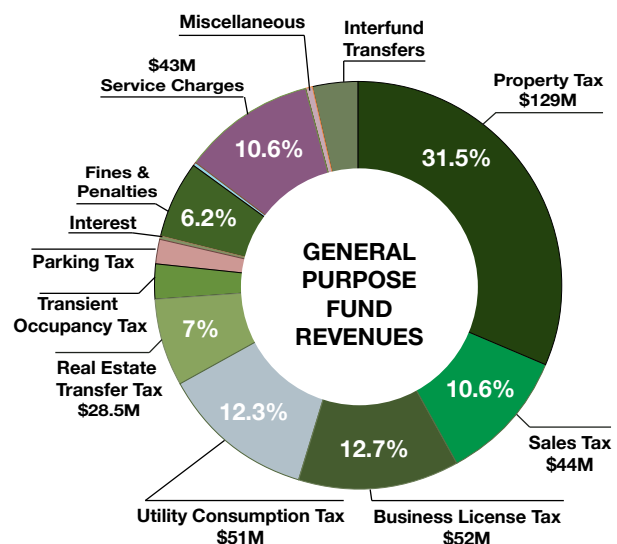
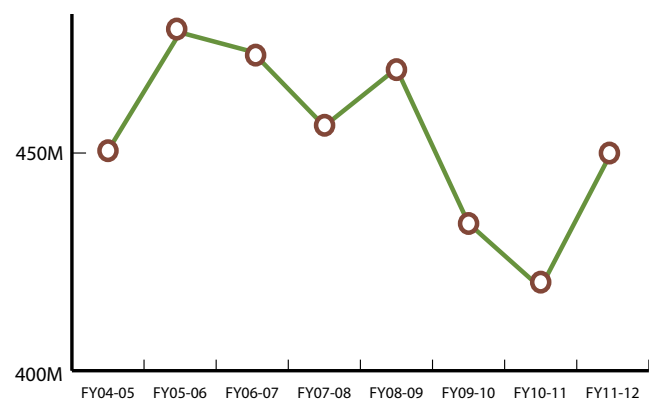


FIGURE 7

GENERAL PURPOSE FUND REVENUES FROM 2004 TO FY2011-12





City of Oakland BUDGET BACKGROUNDER: April 2013

What does the General Fund pay for?

Nearly two-thirds of the GPF revenues pay for public safety (Police and Fire). This is primarily because these are services we generally do not charge fees for, and there are few other sources of revenue to pay for public safety services. One of the reasons that public safety is such a large proportion of the General Purpose Fund is that the cost per public safety employee is nearly double that of the average non-sworn employee (see Figure 4, page 2).

The remaining one-third of GPF revenues pay for everything else – parks, libraries, senior centers, homeless programs, recreation centers and the internal functions required to keep a major municipality running, such as purchasing, contracting, human resources, information technology and finance. The GPF also pays for the City's Charter offices such as the Mayor, City Council, City Administrator, City Attorney and City Auditor, as well as citywide obligations such as leases and debt service.

Constraints on the General Fund

Additionally, there are constraints on how much that remaining one-third can be cut due to the requirements of several voter-approved ballot measures, including Measure Q (libraries) and Measure K/OO/D (Kids First!). These measures require that we maintain spending at baseline levels set in the legislation. Cutting below the minimum spending requirements to balance the budget would jeopardize the revenue they generate.

For example, under Measure Q, the City has to spend at least \$9 million from the GPF on library services in order to get an additional \$13 million in parcel tax revenue each year. Even a small cut to the Library's baseline budget could result in a 55 percent reduction in the overall budget for the Library.

Kids First! (Measure K/OO/D) requires \$11 million in baseline spending and an additional \$12 million in annual GPF spending, for a total of \$23 million in mandated spending on youth programs.

**Note: City Administrator Admin includes the executive team, Council agenda management, special permits and nuisance abatement. City Administrator Other includes services such as revenue collection (business tax and parking), Public Ethics Commission, Economic & Workforce Development, Citizens' Police Review Board, Real Estate, Cultural Arts & Marketing and Contract Compliance.*

FIGURE 8

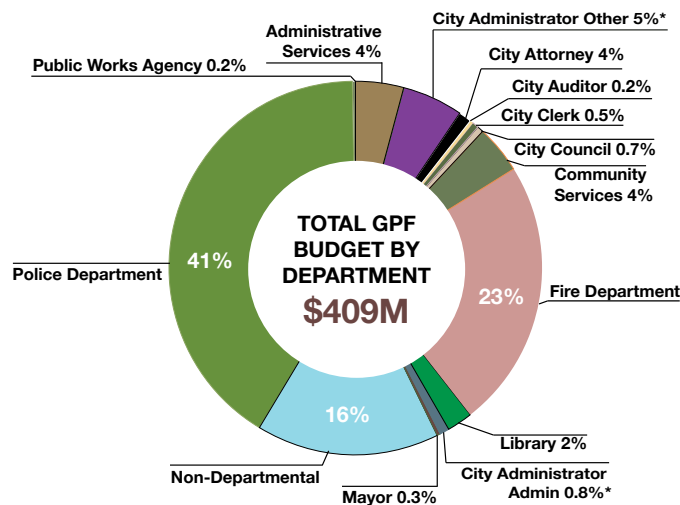


FIGURE 9

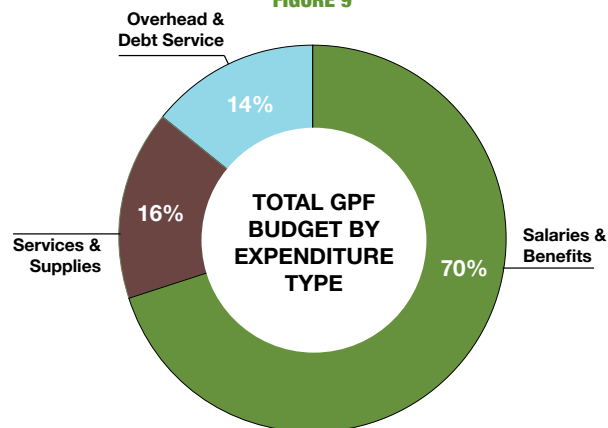
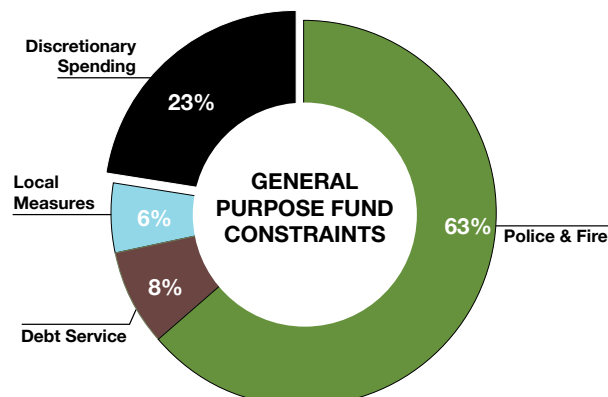


FIGURE 10





Cost-Cutting Measures

Other examples of austerity and cost-cutting measures to address the \$318 million in cumulative shortfalls since July 2008 include:

Short-Term Measures

- Reduced discretionary spending
- Employees temporarily contributed 10% of compensation
- Initiated hiring freeze
- Froze civilian salaries
- Closed City offices 12 days per year
- Added floating furlough days
- Deferred maintenance of City facilities and streets
- Closed two fire engine companies with rolling brown outs
- Closed branch libraries one day/week
- Reduced hours at recreation centers, branch libraries and senior centers
- Eliminated more than 239 vehicles in the City's fleet
- Significantly reduced tree trimming
- Restricted travel
- Reduced training
- Reduced grants and subsidies to community organizations
- Sold surplus property and land

Long-Term Measures

- Eliminated 720 full-time positions
- Increased employees' retirement contribution
- New two-tier retirement system
- Reorganized and combined several City departments to achieve operational efficiencies
- Eliminated façade improvement grants, graffiti abatement and illegal dumping programs
- Transferred eligible expenditures to restricted funds, freeing up General Purpose Fund dollars
- Increased fees
- Invested in economic development strategies

Closed Major Shortfalls

The City of Oakland is steadily emerging from one of the most difficult fiscal challenges in recent history, precipitated by the global recession and collapse of the housing market in 2008. Since then, the City has addressed \$318 million in shortfalls caused by sharp revenue declines during the Great Recession and eliminated 720 full-time positions.

Workforce and Service Reductions

Over the past 10 years, the City's workforce has shrunk by 21 percent, to a low of 3,680 employees (*see figure 5, page 2*). Although the City has tried to sustain service levels despite diminished staff and resources, the reality is that losing nearly a quarter of the staff has had a significant impact on service delivery. And yet, the demand for services has only increased as a result of growing community needs. Adding to the challenge, we have preserved front-line services by dramatically cutting internal service departments such as information technology, finance and human resources, which are critical to sustaining quality community services.

Short-term & Long-term Cost-Cutting

The City's sworn and civilian employees have made significant temporary concessions to help bridge multi-million dollar shortfalls. City employees' wages have been flat and all employees are now contributing the full employee share of pension costs. The current labor agreements that include these temporary cost-cutting concessions begin to expire on June 30, 2013.

Maximized Revenue

At the same time, the City of Oakland has pursued ways to maximize revenue. State law limits the City's ability to levy new taxes, so the only means for the City to increase revenue by itself, without voter approval, is to raise fees associated with certain City services. By law, these fees can only cover the City's actual cost to provide the service (e.g., the City cannot make a profit from basic service fees).

To maximize revenue, the City has:

- Pursued grants from the federal and state governments as well as from foundations and the private sector;
- Developed more private/public partnerships; and
- Increased fees to fully recover costs related to providing services.



Rising Costs

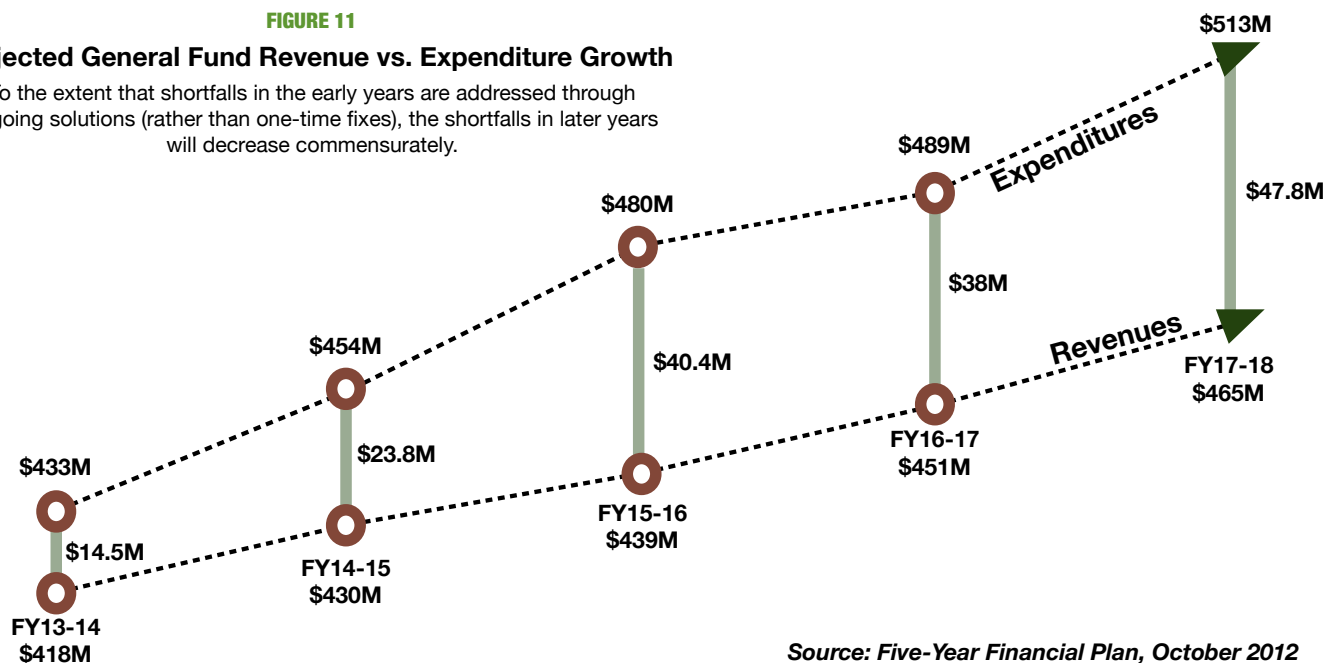
Although the City has significantly decreased its spending wherever possible, cost increases continue to outpace the modest revenue growth we are seeing as the economy recovers (*see figure 11*). The projections presented in the Five-Year Financial Plan assumed that employee contributions (pay cuts and furloughs) will sunset and the City will conduct two police training academies per year to increase police staffing; it did not include revenue from expiring local ballot measures (Measure Y and Wildfire Prevention Assessment District) which have not yet been reauthorized by voters.

Under current conditions without reductions or other interventions, the City is projecting revenues to increase by about two to three percent per year and expenses to increase by four to five percent per year. While the economy is showing positive trends, the City continues to face rising expenditures, particularly around employee benefits such as health insurance and retirement premiums.

FIGURE 11

Projected General Fund Revenue vs. Expenditure Growth

To the extent that shortfalls in the early years are addressed through ongoing solutions (rather than one-time fixes), the shortfalls in later years will decrease commensurately.



Source: Five-Year Financial Plan, October 2012

Significant Progress Made

Over the past five years, the City has made significant strides in stabilizing our finances. We have:

- Instituted strong fiscal controls and strengthened financial policies;
- Maintained solid credit ratings which reflect strong financial management practices, a deep and diversified economic base, positive cash flows and liquidity levels and healthy general fund reserves;
- Fully funded the General Purpose Fund reserve to meet the level mandated by City Council policy for the first time in five years;
- Chipped away at negative fund balances, which have gone from \$138 million to \$99 million over a three-year period (this is internal debt that comes from borrowing between funds); and
- Planned for anticipated additional fiscal impacts of about \$35 million from the dissolution of Redevelopment.



Looking Ahead: The Five-Year Financial Forecast

The City has demonstrated its resolve in addressing economic challenges; now is the time to strategically plan for the future in order to preserve essential City services over the long term and increase investment in top community priorities, while maintaining sustainable fiscal stability.

Under current conditions, our expenditures and long-term financial liabilities are expected to outpace our modest revenue growth. Last fall, the City presented a five-year forecast to establish a clear road map of the financial obligations and challenges ahead. Based on historic trends and conservative assumptions, the forecast includes estimates on future revenues and long-term obligations, including retiree medical costs, pension costs and about \$100 million annually in critical deferred maintenance for City building and road repairs, technology upgrades and critical fleet and equipment replacements (*see Table 1*).

Table 1: Unfunded and Long-Term Liabilities

Amount	Unfunded and Long-Term Liabilities	Notes
\$743 million	CalPERS (California Public Employees Retirement System)	75% funded.
\$520 million	OPEB (Other Post-Employment Benefits)	Retiree medical benefits. The City is working on establishing an OPEB trust fund.
\$216 million	PFRS (Police and Fire Retirement System)	Closed system. City issued bonds to reduce the liability and made advance payments for five years. No new payments until 2017-18, then GPF payment of \$28.5M per year until 2026.
\$743,000	OMERS (Oakland Municipal Employees Retirement System)	Closed system.
\$99 million	Negative Funds	54 out of 173 funds have negative balance; \$70M of total on repayment plan after \$39M paid over past 3 years.
\$29.5 million	Accrued Leaves	Estimated amount owed to employees for accrued vacation and sick leave balances.
\$1.6 billion	TOTAL	Beginning in 2015-16, the City will establish a trust and set aside \$10M/yr for 2 years dedicated to paying down long-term liabilities.

Amount	Deferred Capital Expenses (estimated)
\$7.5 million/year	Technology upgrades and replacement.
\$10.2 million/year	Equipment and vehicles.
\$100 million/year	Deferred maintenance and replacement.

Other Budget Uncertainties

In addition to paying down long-term liabilities, future budgets will have to take into consideration that two special, **voter-approved assessments – Measure Y and the Wildfire Prevention Assessment District** – are nearing the end of their 10-year lifespan. The forecast also takes into account that **employee contributions** are set to expire. These contributions, estimated to save \$37 million across all funds in FY 2012-13, are subject to meet-and-confer bargaining to continue at any level after the expiration date.

Other uncertainties include the **potential “clawback” of previous Redevelopment funds** and assets by the State of California. Certain asset transfers between the City and the former Redevelopment Agency that occurred before Redevelopment was dissolved may need to be transferred to the Successor Agency for distribution to other local and state agencies. The forecast also recognizes the potential impacts of **compliance costs related to the Police Department’s Negotiated Settlement Agreement**.

By developing and carrying out a strategic plan to fund currently **unfunded expenses**, we will eventually eliminate the structural deficit the City has carried for many years. This will allow us to reinvest in critical services and will establish that we are truly living within our means.



Budget Process & Milestones

Every two years, the Mayor and City Administrator propose a budget based on expected revenues and proposed expenditures. By City Charter, the City Council must evaluate this proposal and adopt a balanced budget by June 30.

Key Milestones

April 2	Special City Council Budget Workshop on the current state of the budget and five-year financial forecast
April 15-19	FY2013-15 Proposed Budget released
April 30	Mayor and City Administrator present Proposed FY2013-15 Budget to City Council
Month of May	Budget Town Hall Meetings held citywide; dates, times and locations to be announced
May 30	Proposed City Council Budget Hearing #1
June 13	Proposed City Council Budget Hearing #2
June 27	Proposed final City Council Budget Hearing/Adoption
July 1	Implementation of FY 2013-15 Adopted Budget

Make Your Voice Heard

As Mayor Jean Quan and City Administrator Deanna J. Santana prepare a budget proposal for FY2013-15, they welcome your input through various channels:

- Visit **EngageOakland.com** and take our budget survey on how you would prioritize spending on City services.
- Send an email to **BudgetSuggestions@oaklandnet.com** with your suggestions on how to reduce expenditures or increase revenues, as well as other budget-balancing ideas.
- Check the City's website in early April for dates of the **Budget Town Hall meetings**.
- Visit **<https://data.oaklandnet.com>**, our Open Data platform, to view baseline budget data and see other visualizations of the budget.
- Attend a **Budget Advisory Committee meeting**. Meetings are held on the third Monday of the month at 6 pm in City Hall.