



# **City of Oakland**

## **City Council Budget Workshop Preliminary Baseline Revenue & Expenditures**

**February 25, 2019  
Special City Council Meeting**



# Overview

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- The City started with a **balanced budget** in the General Purpose Fund for FY 2018-19 Midcycle (\$602.45 million, including the planned use of \$1.2 million in reserves).
- FY 2018-19 Second Quarter Revenue & Expenditure Report shows a projected **operating deficit of \$6.3 million**, with projected expenditures exceeding projected revenues.
  - This would leave the City short of its 7.5% emergency reserve by approximately **\$1.7 million**.
- The City's GPF tax revenues are expected to grow at a normal rate. Over a long-term period, **GPF tax revenues generally track the Bay Area rate of inflation**.
- However, GPF **expenditures are growing at 2X to 3X the rate of inflation and revenue growth**, driven primarily by growth in fixed personnel costs (pensions, fringe benefits, OPEB, etc.), self-insurance claims/premiums, and other operational costs (fuel, utilities, etc.).



# Overview

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- As a result, the preliminary GPF baseline shows a nearly **\$25 million deficit** in FY 2019-20 (1<sup>st</sup> year of biennial budget) and an \$18 million deficit in FY 2020-21 (2<sup>nd</sup> year of biennial budget).
  - This gap assumes **status quo** operations relative to the Midcycle Budget – which calls into question the long-term sustainability and affordability of existing operations.
  - Continued financial pressures on the City's core services.
- Financial uncertainty over the next two years? Risk of recession?
  - Need to evaluate programs and services in terms of long-term affordability and ensure that reserves are sufficient to mitigate impacts of any unanticipated downturn in GPF revenues.

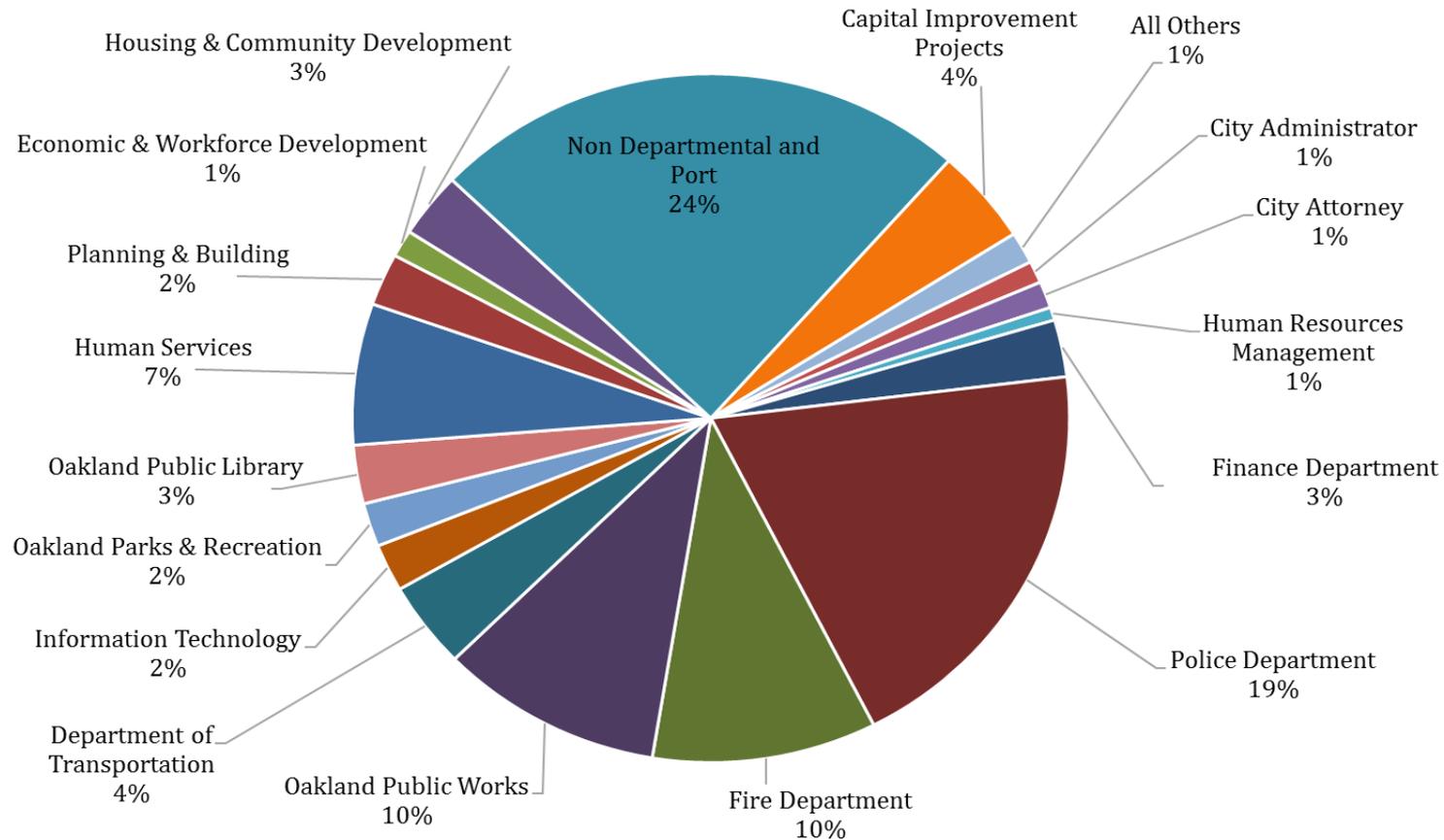


# FY 2018-19 Midcycle Budget

## All Funds, Citywide

- All Funds Expenditures = **\$1.48 billion**

### FY 2018-19 Midcycle Budget Expenditures by Department

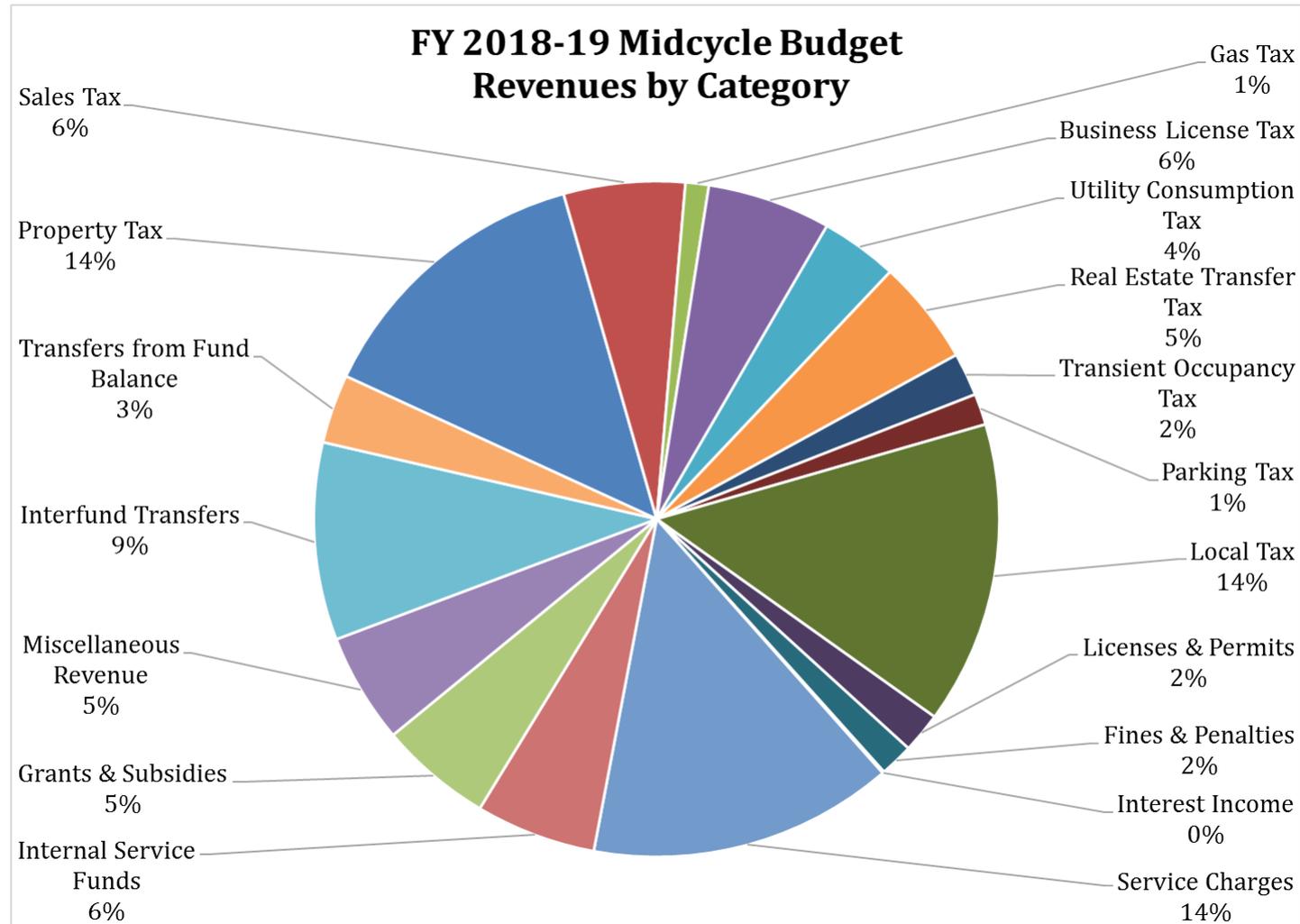




# FY 2018-19 Midcycle Budget

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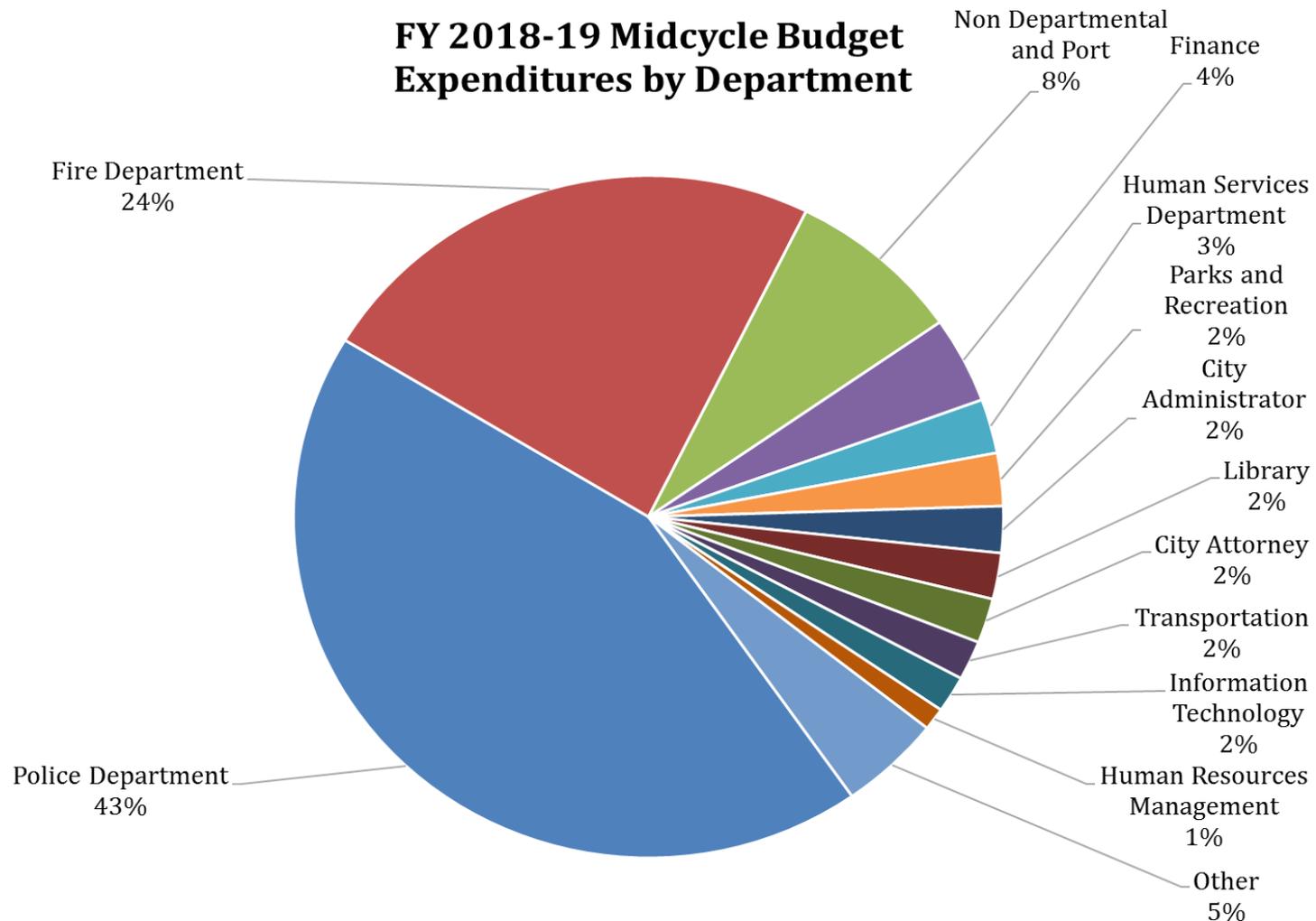




# FY 2018-19 Midcycle Budget

## General Purpose Fund

- GPF Expenditures = **\$602.45 million**

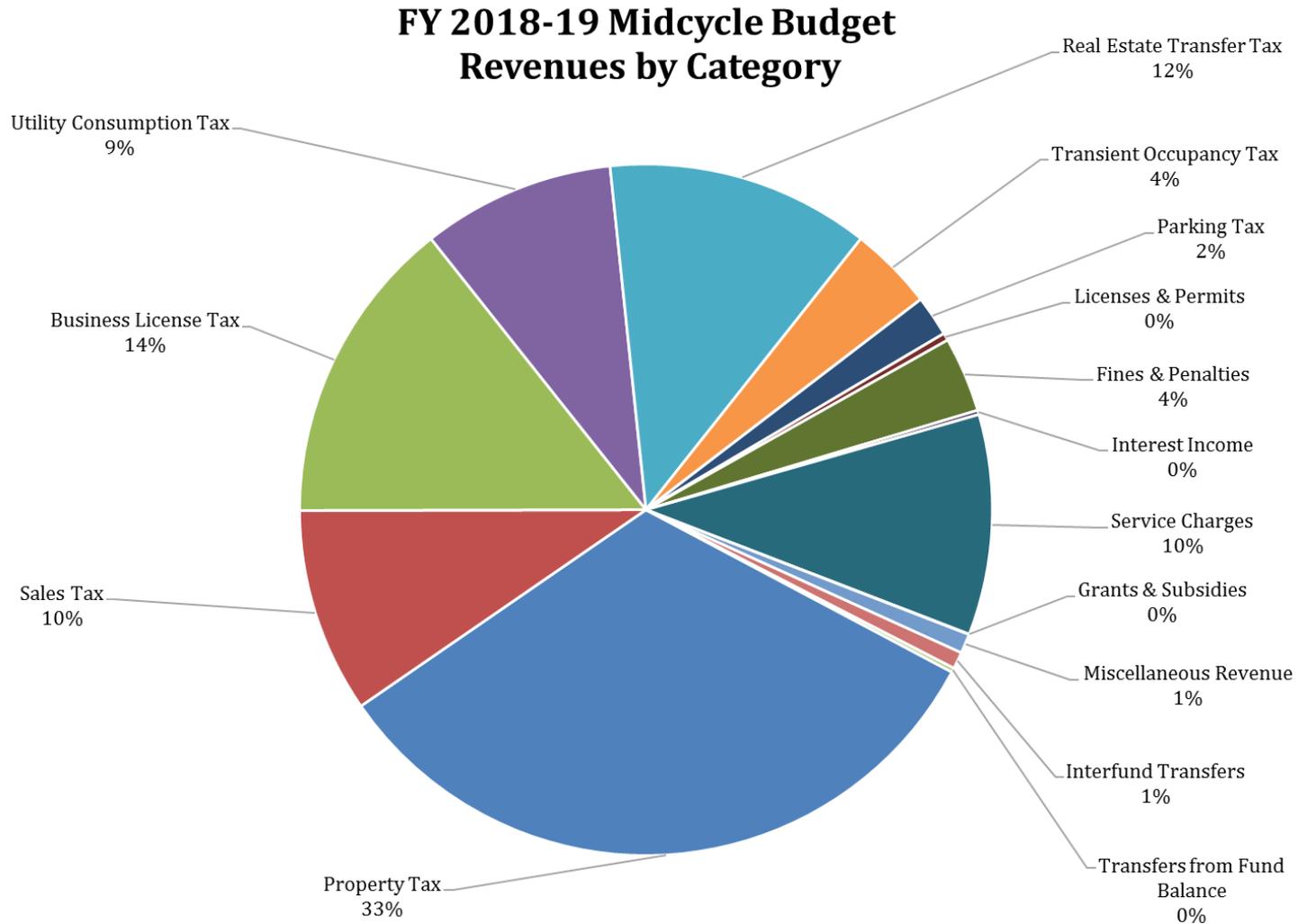




# FY 2018-19 Midcycle Budget

## General Purpose Fund

- GPF Revenues = **\$602.45 million**, including \$1.2 million use of reserves





# GPF Revenues

## *Summary*

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- Economy is returning to a more “normal” growth pattern.
- Growth in Property Tax revenues continue to be stable, resulting from growth in assessed valuations.
  - Growth in property tax revenues is somewhat muted by more moderate growth in other revenue categories such as Sales Taxes, Utility User Taxes, and Parking Taxes.
- Volume of residential real estate sales is leveling off, though home sale values continue to climb.
  - New graduated RETT tax rate should help to buffer any downturns in this revenue category, but it is too early to estimate impact with any great deal of certainty.



# Historical Revenues

## General Purpose Fund - Local Tax Revenues

- Average Annual Growth Rate in **Local Tax Revenues** from FY 2005-06 Actuals to FY 2018-19 Q2 Estimate = **3.3% per year** (CPI-W Average = 2.6%)

| (In Millions)                   | FY06<br>Actual  | FY07<br>Actual  | FY08<br>Actual  | FY09<br>Actual  | FY10<br>Actual  | FY11<br>Actual  | FY12<br>Actual  | FY13<br>Actual  | FY14<br>Actual  | FY15<br>Actual  | FY16<br>Actual  | FY17<br>Actual  | FY18<br>Actual  | FY19<br>Q2 Est  |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Property Tax                    | \$105.35        | \$116.47        | \$131.74        | \$134.47        | \$131.78        | \$126.68        | \$138.80        | \$154.14        | \$142.82        | \$159.36        | \$158.69        | \$171.48        | \$187.17        | \$200.23        |
| Sales Tax                       | \$44.87         | \$46.69         | \$53.09         | \$46.12         | \$35.88         | \$41.24         | \$44.74         | \$48.82         | \$49.76         | \$51.82         | \$55.23         | \$53.70         | \$57.47         | \$60.83         |
| Vehicle License Fee             | \$2.98          | \$2.27          | \$1.81          | \$1.28          | \$1.25          | \$2.17          | \$0.22          | \$0.00          | \$0.00          | \$0.18          | \$0.17          | \$0.19          | \$0.22          | \$0.00          |
| Business License Tax            | \$43.79         | \$50.33         | \$52.54         | \$54.29         | \$54.14         | \$53.14         | \$58.71         | \$60.37         | \$62.91         | \$66.85         | \$75.50         | \$75.84         | \$86.11         | \$89.04         |
| Utility User Tax                | \$48.77         | \$51.43         | \$52.52         | \$52.70         | \$51.11         | \$53.44         | \$51.43         | \$50.75         | \$50.42         | \$50.59         | \$51.01         | \$52.62         | \$52.05         | \$53.09         |
| Real Estate Transfer Tax        | \$79.48         | \$61.50         | \$36.21         | \$34.27         | \$36.97         | \$31.61         | \$30.65         | \$47.41         | \$59.06         | \$62.71         | \$89.59         | \$79.07         | \$77.66         | \$83.87         |
| Transient Occupancy Tax         | \$11.26         | \$11.82         | \$12.20         | \$10.46         | \$8.47          | \$9.54          | \$10.74         | \$12.34         | \$14.32         | \$16.79         | \$19.81         | \$22.37         | \$23.58         | \$25.47         |
| Parking Tax                     | \$8.47          | \$8.89          | \$8.52          | \$7.66          | \$7.52          | \$8.51          | \$8.62          | \$7.95          | \$8.44          | \$9.34          | \$10.22         | \$10.64         | \$10.80         | \$11.44         |
| <b>Total Local Tax Revenues</b> | <b>\$344.98</b> | <b>\$349.40</b> | <b>\$348.64</b> | <b>\$341.25</b> | <b>\$327.12</b> | <b>\$326.33</b> | <b>\$343.91</b> | <b>\$381.78</b> | <b>\$387.73</b> | <b>\$417.64</b> | <b>\$460.23</b> | <b>\$465.90</b> | <b>\$495.07</b> | <b>\$523.97</b> |
| Year-over-Year Growth (\$)      | --              | \$4.42          | -\$0.76         | -\$7.39         | -\$14.13        | -\$0.79         | \$17.58         | \$37.87         | \$5.95          | \$29.90         | \$42.59         | \$5.67          | \$29.17         | \$28.90         |
| Year-over-Year Growth (%)       | --              | 1.3%            | -0.2%           | -2.1%           | -4.1%           | -0.2%           | 5.4%            | 11.0%           | 1.6%            | 7.7%            | 10.2%           | 1.2%            | 6.3%            | 5.8%            |
| Bay Area CPI-W (%)*             | --              | 3.0%            | 3.5%            | 1.5%            | 1.6%            | 2.1%            | 3.1%            | 2.7%            | 2.2%            | 2.2%            | 2.6%            | 3.1%            | 3.3%            | 3.0%**          |

**Red Font** = Negative GPF Tax Revenue Growth

**Blue Font** = GPF Tax Revenue Growth Less Than Long-Term Inflation

\* Based on change in average fiscal year CPI-W

\*\* Data through December 2018 (most recent)



# Historical Revenues

## Real Estate Transfer Tax

- Real Estate Transfer Tax is highly volatile and revenues can increase and decrease rapidly with changing market conditions or as a result of the sale of high value properties.

| (In Millions)              | FY06<br>Actual | FY07<br>Actual  | FY08<br>Actual  | FY09<br>Actual | FY10<br>Actual | FY11<br>Actual | FY12<br>Actual | FY13<br>Actual | FY14<br>Actual | FY15<br>Actual | FY16<br>Actual | FY17<br>Actual  | FY18<br>Actual | FY19<br>Q2 Est |
|----------------------------|----------------|-----------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|----------------|----------------|
| Real Estate Transfer Tax   | \$79.48        | \$61.50         | \$36.21         | \$34.27        | \$36.97        | \$31.61        | \$30.65        | \$47.41        | \$59.06        | \$62.71        | \$89.59        | \$79.07         | \$77.66        | \$83.87        |
| Year-over-Year Growth (\$) | --             | <b>-\$17.98</b> | <b>-\$25.30</b> | <b>-\$1.94</b> | \$2.71         | <b>-\$5.36</b> | <b>-\$0.95</b> | \$16.75        | \$11.65        | \$3.65         | \$26.89        | <b>-\$10.52</b> | <b>-\$1.41</b> | \$6.21         |
| Year-over-Year Growth (%)  | --             | <b>-22.6%</b>   | <b>-41.1%</b>   | <b>-5.4%</b>   | 7.9%           | <b>-14.5%</b>  | <b>-3.0%</b>   | 54.7%          | 24.6%          | 6.2%           | 42.9%          | <b>-11.7%</b>   | <b>-1.8%</b>   | 8.0%           |

- As shown in the table above, in the two most recent years for which audited actuals are available (FY 2016-17 and FY 2017-18), Real Estate Transfer Taxes declined by **-11.7%** and **-1.8%** year-over-year.
- With the approval of Measure X by Oakland voters in November 2018, a new graduated Real Estate Transfer Tax rate was initiated that should result in additional RETT revenues. The table below shows the FY 2019-21 baseline budgeted RETT revenues, which will be further refined at Q3 based on more recent data.

|                            | FY 2019-20     | FY 2020-21     |
|----------------------------|----------------|----------------|
| Estimated RETT in Baseline | \$82.2 million | \$85.4 million |
| Est. RETT w/o Measure X    | \$78.5 million | \$79.6 million |



# Key Expenditure Challenges

- Long-term obligations pressure City's finances...

Table 1. Unfunded Retirement Benefit Obligations

|  | Accrued Liability      | Assets (MV)            | Unfunded Liability     | Funded Ratio | Eff. Date  |
|--|------------------------|------------------------|------------------------|--------------|------------|
| Police & Fire Retirement System <sup>1</sup> | \$673,441,000          | \$353,203,000          | \$320,238,000          | 52.4%        | 7/1/17     |
| Other Post-Employment Benefits <sup>2</sup>  | \$853,796,061          | \$26,432,487           | \$827,363,574          | 3.1%         | 7/1/17     |
| CalPERS - Miscellaneous                      | \$2,616,012,657        | \$1,783,380,244        | \$832,632,413          | 68.2%        | 6/30/17    |
| CalPERS - Safety                             | \$1,997,661,954        | \$1,283,385,686        | \$714,276,268          | 64.2%        | 6/30/17    |
| <b>Sub-Total</b>                             | <b>\$6,140,911,672</b> | <b>\$3,446,401,417</b> | <b>\$2,694,510,255</b> | <b>43.9%</b> | <b>n/a</b> |

- Addressing negative funds...

Table 3: FY 2018-19 Projected Ending Fund Balance for Non-GPF Funds:

| FUND  | FY 2017-18 Audited Ending Balance | FY 2018-19 Projected Ending Balance |
|---|-----------------------------------|-------------------------------------|
| Self-Insurance Liability Fund                       | \$ (13.78)                        | \$ (6.77)                           |
| Landscaping & Lighting Assess. District Fund (LLAD) | (1.11)                            | (2.08)                              |
| Reproduction Fund                                   | (1.77)                            | (1.71)                              |
| Facilities Fund                                     | (2.35)                            | —                                   |
| Central Stores Fund                                 | (4.25)                            | (4.26)                              |
| Purchasing Fund                                     | (0.53)                            | (0.49)                              |

**Total Gap: (\$15.31)**



# Key Expenditure Challenges

## *General Purpose Fund*

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- Address shortfall in other funds such as:
  - Landscaping & Lighting Assessment District
  - Comprehensive Clean-Up
  - Head Start
- Insurance premiums & claims/settlements increasing at very significant rate.
- Dedicated funding for wildfire prevention exhausted.
- Historical under-budgeting of Sworn overtime.
- Impact of upcoming labor negotiations.



# Key Expenditure Drivers

## General Purpose Fund

- The table below provides a highlight of the key GPF expenditure drivers.

| (In Millions)   | FY 2018-19<br>Midcycle | FY 2019-20<br>Prelim | FY 2020-21<br>Prelim |
|---|------------------------|----------------------|----------------------|
| <b>Pension</b>  | <b>\$101.0</b>         | <b>\$116.4</b>       | <b>\$125.5</b>       |
| YOY Increase (\$)   | -                      | \$15.4               | \$9.1                |
| YOY Increase (%)  | -                      | 15.2%                | 7.8%                 |
| <b>Fringe Benefits<sup>1</sup></b>                        | <b>\$82.9</b>          | <b>\$94.5</b>        | <b>\$97.5</b>        |
| YOY Increase (\$)   | -                      | \$11.6               | \$3.0                |
| YOY Increase (%)  | -                      | 14.0%                | 3.1%                 |
| <b>Self-Insurance Claims &amp; Premiums</b>               | <b>\$8.3</b>           | <b>\$16.13</b>       | <b>\$16.13</b>       |
| YOY Increase (\$)   | -                      | \$7.9                | \$0.0                |
| YOY Increase (%)  | -                      | 95.2%                | 0.0%                 |
| <b>Internal Service Funds Cost Allocation<sup>2</sup></b> | <b>\$53.5</b>          | <b>\$63.6</b>        | <b>\$63.1</b>        |
| YOY Increase (\$)   | -                      | \$10.1               | (\$0.5)              |
| YOY Increase (%)  | -                      | 18.9%                | 0.8%                 |

<sup>1</sup> Includes active healthcare benefits, retiree medical, dental, vision, Medicare, workers' compensation, etc.

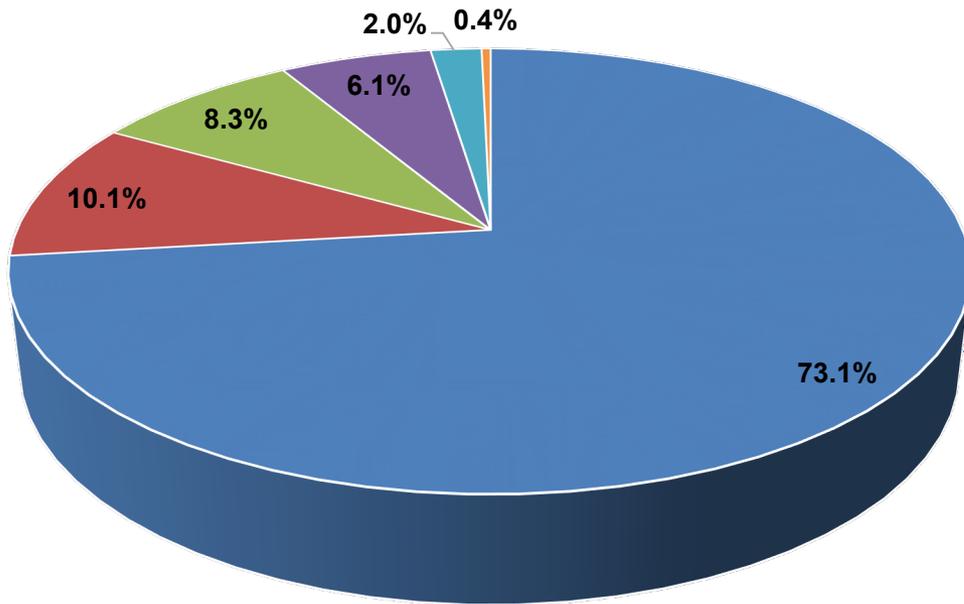
<sup>2</sup> Driven by growth in personnel costs as well as utility cost increases, fuel, debt service, etc.



# GPF Expenditures by Category

- About 73% of GPF expenditures are related to personnel, including wages, fringes (health, retiree health, workers' comp, etc.), and retirement (pension).

**Fiscal Year 2019-20  
Expenditures by Account Type**



| Personnel  | FY 19-20 |
|------------|----------|
| Wages      | 55.3%    |
| Fringes    | 20.0%    |
| Retirement | 24.7%    |

- Personnel & OH
- Internal Service Funds
- Operating Transfers
- O&M
- All Other Expenditures
- Debt Service



# GPF Preliminary Baseline

## FY 2019-21 Biennial Budget

### General Purpose Fund - 1010

| <b>Preliminary Baseline (In Millions)</b>     | <b>FY 2019-20</b> | <b>FY 2020-21</b> |
|---|-------------------|-------------------|
| Revenues                                      | \$638.48          | \$664.12          |
| Expenditures                                  | \$653.57          | \$671.36          |
| <b>Surplus / (Deficit)</b>                    | <b>(\$15.09)</b>  | <b>(\$7.25)</b>   |
| One-Time Expenditure Add Backs <sup>1</sup>   | (\$3.98)          | (\$3.98)          |
| Other Fund Subsidies <sup>2</sup>             | (\$5.41)          | (\$6.38)          |
| <b>GPF Surplus / (Deficit)</b>                | <b>(\$24.48)</b>  | <b>(\$17.61)</b>  |
| <b>Gap with 1% Wage “Trigger” in FY 18-19</b> | <b>(\$27.40)</b>  | <b>(\$20.73)</b>  |

<sup>1</sup> Includes one-time funding set-aside by City Council in FY 2017-19 Adopted Budget for various projects (e.g., Wildfire Prevention, Homelessness, Cultural Arts, etc.)

<sup>2</sup> Reflects estimated GPF subsidies for non-GPF funds with insufficient resources (e.g., Fund 2128 - Head Start, Fund 2310 - LLAD, Fund 2195 - Workforce, etc.)

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# **Budget Process & Timeline**

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# FY 2019-21 Biennial Budget

## Draft Timeline – Subject to Change

| Date  | Milestone  |
|---|--|
| February 25, 2019 (Monday)  | City Council Briefing (Council Priorities, Public Poll, CIP, Budget Overview/Process)  |
| March 15, 2019 (Friday)   | City Councilmember Individual Priorities Due   |
| March 19, 2019 (Tuesday)  | Five-Year Financial Forecast Delivered to the Finance & Management Committee   |
| May 1, 2019 (Wednesday)   | Release of the Mayor's Proposed Budget   |
| May 7, 2019 (Tuesday)   | Presentation of the Mayor's Proposed Budget to City Council ( <i>Staff Proposed Date of May 7; Deadline May 15</i> )             |
| May 5 – May 18, 2019 (Dates TBD)                                  | Community Budget Forums (7 total)  |
| May 20, 2019 (Monday)   | Budget Proposal Costing Template Sent to Councilmembers for Amendments to Mayor's Proposed Budget ( <i>Staff Proposed Date</i> ) |
| May 21, June 4, and June 18, 2019 (Regular City Council Meetings) | City Council Hearings on LLAD, Local Measures, Appropriations Limit, and Master Fee Schedule (must be heard at Regular Meeting)  |
| May 28, 2019 (Tuesday)  | FY 2018-19 3 <sup>rd</sup> Quarter Revenue & Expenditure Report Delivered to the Finance & Management Committee                  |
| June 3, 2019 (Monday)   | Councilmember Costing Requests Due to Budget Bureau ( <i>Staff Proposed Date</i> )   |
| June 10, 2019 (Monday)  | Council President's Proposed Amendments Presented at Special Session ( <i>Staff Proposed Date</i> )                              |
| June 17, 2019 (Monday)*   | Deadline for Submission of Council President's Budget  |
| June 18, 2019 (Tuesday)   | Target Date for City Council Budget Adoption   |
| June 30, 2019 (Tuesday)*  | Final Date for Budget Approval   |