CITY OF OAKLAND

AGENDA REPORT

TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: Fiscal Year (FY) 2024-25 Second Quarter (Q2) Revenue and Expenditures (R&E) Report

DATE: February 20, 2025

City Administrator Approval Jestin Johnson (Feb 20, 2025 16:33 PST) Date: Feb 20, 2025

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2024-25 Second Quarter (Q2) Results And Year-End Estimates For The General Purpose Fund (GPF, 1010), And Select Funds, And An Update On Current Year Balancing Efforts.

EXECUTIVE SUMMARY

This report details the City of Oakland's (the City) preliminary FY 2024-25 projected year-end revenues and expenditures based on **Second** Quarter **Q2** trends. The **Second** Quarter reflects 35.8% of collected adjusted revenue budget and expenditure reflects 46% of the adjusted expenditure budget.

FY 2024-25 collections of revenue through **Q2** are at $281.01 million or 35.8% of the Adjusted Budget of $785.86 million. The preliminary **Q2** FY 2024-25 GPF revenue forecast projects an overall shortfall of $29.37 million or 3.7% compared to the Adjusted Budget, and is now estimated to end the year at $756.49 million. GPF expenditures through **Q2** are at $361.55 million or 46% of the Adjusted Budget. GPF expenditures are forecasted at $843.69 million, an increase of $57.83 million from the Adjusted Budget. The budget assumes a one-time use of fund balance in the amount of $41.40 million to support carryforwards. **Table 1** below outlines the FY 2024-25 GPF revenue and expenditures Adjusted Budget, **Q2** year-to-date actuals, and year-end estimates, with a current estimate of a $87.20 million year-end operating shortfall.

The projections in this report are made with limited information due to seasonality of certain revenue categories, and the volatility and unpredictability of the economy due to the ongoing inflationary trends and effects of federal monetary policy. The purpose of the quarterly revenue and expenditure (R&E) report is to guide the City in managing its ongoing budget in comparison to the Adopted Budget as more financial data becomes available. As of the preparation of this report, Period 6 (December) was yet to be closed in the City's accounting system.

Table 1: Summary of FY 2024-25 Q2 GPF Revenues & Expenditures Budget to Year-End Projections ($ in millions)

	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget	FY 2024-25 Q2 YTD Actuals	FY 2024-25 Q2 Year-End Estimate	Year-End $ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
FY2024-25 Revenues	807.19	785.86	281.01	756.49	(29.37)	(3.7)%
FY 2024-25 Expenditures	807.19	785.86	361.55	843.69	(57.83)	(7.4)%
Operating (Shortfall) / Surplus	**—**	**—**	**(120.26)**	**(87.20)**	**(87.20)**	**(11.1) %**

The results of this Second Quarter show that while a significant deficit is currently projected, balancing measures approved per Resolution 90585 C.M.S. on December 17, 2024, are in the process of implementation and are expected to reduce the current shortfall. Ongoing monitoring of these measures will be necessary to track their implementation and adjust projections as needed.

BACKGROUND / LEGISLATIVE HISTORY

Below is a summary of the Council's actions that have occurred from the beginning of the fiscal year through **Q2** that have modified the FY 2024-25 Budget:

Pursuant to the City's Consolidated Fiscal Policy - Part G. Criteria for Project Carryforwards and Encumbrances, the FY 2024-25 Adopted Budget has also been adjusted to include $41.40 million in prior year carryforwards in the GPF which utilizes available fund balance to cover the cost.

In October 2024, administrative action was taken to initiate the implementation of the contingency budget, as authorized by Resolution 90326 C.M.S.

On December 17, 2024, the City Council approved a series of balancing measures to address the projected GPF deficit, as authorized by Resolution 90585 C.M.S. These measures are in the process of being implemented and are expected to have a significant impact on the year-end financial position of the City.

ANALYSIS AND POLICY ALTERNATIVES

This report supports the Citywide priority of a **responsive, trustworthy government** by providing timely and up-to-date financial information and enhancing transparency allowing residents, stakeholders, and decision-makers to be informed of the City's fiscal health, promoting a culture of responsible financial stewardship.

General Purpose Fund (GPF)

FY 2024-25 Q2 Revenues

The GPF revenues collected as of **Q2** FY 2024-25 are $281.01 million, representing 35.8% of the Adjusted Budget of $785.86 million, and are projected to end the year at $756.49 million which is $29.37 million or 3.7% under the Adjusted Budget. The Adjusted Budget accounts for the adopted contingency budget, which excludes funds from the Coliseum land sale, which had been expected but have faced delays. As such, year-end estimates do not assume any collections beyond the initial $5 million payment already received. Following FY 2023-24 which closed with notable revenue shortfalls across several key areas in the General Purpose Fund (GPF), the FY 2024-25 revenue forecast indicates a mixed fiscal landscape for the City, with some tax categories recovering or exceeding expectations while others face ongoing challenges from market conditions.

Revenue increases compared to the FY 2024-25 Adjusted Budget are led by Property Tax which is projected to be over budget by $6.34 million or 2.1%, with growth due to a 4.6% year over year growth of property value reassessments. Fines & Penalties are projected to exceed the budgeted amount by $3.38 million or 17.5%, due to parking citation rate increases and enhanced parking enforcement efforts. Utility Consumption Tax is anticipated to surpass the budget by $3.38 million or 4.9% driven by utility rate increases that have been implemented in phases starting in 2024 following approval by the California Public Utilities Commission (CPUC). Miscellaneous Revenue significantly exceeds the budget by $12.85 million due to an initial $5 million payment from the Coliseum sale which was not included as part of the contingency budget. In addition, legal settlements, some of which are restricted by offsetting liabilities, also boosted Q2 miscellaneous revenues.

Notable revenue categories projected to fall short of budget expectations include Real Estate Transfer Tax (RETT) Collections, which are expected to end the year at $66.31 million, which is $7.41 million or 10.1% under the Adjusted Budget. However, RETT is showing a recovery from the downturn in FY 2023-24 which ended the year at $57.61 million. Early signs of market recovery are noted with a 9.7% increase in the volume of property sales in Q2 compared to the same period in the prior year. Sales Tax is projected to be under the budget by $2.69 million or 4.2% as gross receipts for most tax groups have declined compared to the prior year. A decrease in operational hotels impacted collections from Transient Occupancy Tax (TOT) which is forecasted to be $3.67 million or 18.6% below budget. Meanwhile Parking Tax is projected to fall short by $1.31 million or 10.0%, as Q2 totals have not shown an increase compared to the same period in FY 2023-24, and in addition, Q4 in FY 2024-25 will be the first period to experience the loss of Parking Tax revenue generated from Oakland A's baseball games at the Coliseum.

The GPF revenues by category are detailed below.

- **Property Tax:** FY 2024-25 collections of Property Tax through **Q2** are at $127.83 million or 41.7% of the Adjusted Budget of $306.57 million and are now projected to end the year at $312.91 million, which is $6.34 million or 2.1% over the Adjusted Budget. Property Tax revenues are administered by the County and are remitted to the City in tranches. Property tax continues to be a reliable and significant source of revenue for the City. The current year end projection is based on a 4.6% growth in net assessed taxable property value for the City, which is $89.92 billion in FY 2024-25 compared to $85.96 billion in FY 2023-24. Causes for the net increase in assessed property values include growth in value due to Consumer Price Index increases which is capped at 2% per State Proposition 13, reassessments following prior year transfers of ownership, new construction in the City, unsecured value change, and the net addition of parcels. For context, in Fiscal Year 2022-23, property tax collections amounted to $281.28 million. The following fiscal year, 2023-24, saw an increase to $299.15 million, marking a growth of 6.4%. That rise in revenue closely paralleled the corresponding 6.6% increase in the City's total assessed taxable value between those years.

- **Business Tax (BT):** FY 2024-25 collections of BT through **Q2** are at $7.63 million or 6.4% of the Adjusted Budget of $120.06 million, and are now projected to end the year at $116.11 million which is $3.94 million or 3.3% under budget. The majority of BT revenue is expected in the third quarter due to the timing of business tax renewals. As of the first week of February, only about 20% of accounts have renewed, providing limited data for precise revenue forecasting. Among these renewals, there has been a slight decrease in payment amounts, with a 3.5% decline in revenue compared to payments from the same accounts in FY 2023-24. Additionally, new online applications in January this year fell by 37% compared to January 2024. The previous fiscal year ended with $123.48 million in revenue, and the projected decrease for FY 2024-25 to $116.11 million is attributed to both the early downward trends in renewal payments and the closure of 1,646 or 3.2% of accounts that had an active business license in 2024, and which contributed to over $4 million in BT in the previous year.

- **Real Estate Transfer Tax (RETT):** FY 2024-25 collections of Real Estate Transfer Tax through **Q2** are at $34.39 million or 46.7% of the Adjusted Budget of $73.72 million, and are projected to end the year at $66.31 million, which is $7.41 million or 10.1% under the Adjusted Budget. Despite this shortfall, RETT is expected to increase by 15.1% by the close of the fiscal year compared to FY 2023-24. This growth follows a 19.5% rise in RETT revenue observed through Q2 relative to the same period in the previous year, although this increase is somewhat influenced by a significant $99.00 million property sale in December 2024. Notably, FY 2023-24 saw no single property sale exceeding $50.00 million throughout the year. A factor helping with the year over year increase is that the Federal Open Market Committee (FOMC) has enacted three federal fund rate cuts in this fiscal year, marking the first reductions since rates began to rise in March

2022. These cuts included a 50 basis point decrease in September 2024, followed by two 25 basis point reductions in November and December 2024. However, after December, the FOMC revised its 2025 projections, scaling back from four anticipated rate cuts to two, due to uncertainties related to new federal policies like tariffs and tax adjustments that might affect living costs. This adjustment could lead to changes in inflation rates, potentially impacting the pace or direction of future rate adjustments, and thus, the growth trajectory of RETT.

- **Utility Consumption Tax (UCT):** FY 2024-25 collections of Utility Consumption Tax through **Q2** are at $33.60 million or 49.1% of the Adjusted Budget of $68.44 million and are now projected to end the year at $71.82 million which is $3.38 million or 4.9% over the Adjusted Budget. Historically the highest amounts of UCT have been collected during the third quarter (Q3) as a result of an increase in usage of heating systems during the winter months. FY 2024-25 in general is experiencing higher amounts of UCT collected compared to prior years due to the approval of a 12.7% increase in consumer utility rates in 2024 by The California Public Utilities Commission (CPUC). PG&E which is the largest contributor to the City's UCT implemented rate hikes in phases in 2024 with a 6% increase that took effect in March, an additional 4% in June and implemented a further 2.7% adjustment in September. These incremental rate hikes directly impact the tax base, as utility consumption tax is a percentage of the utility bill, thus leading to higher tax revenue.

- **Sales Tax:** FY 2024-25 collections of Sales Tax through **Q2** are at $20.44 million or 32.1% of the Adjusted Budget of $63.73 million, and are now projected to end the year at $61.04 million, which is $2.69 million or 4.2% under the Adjusted Budget. The $20.44 million in actual revenues reported for the first quarter do not accurately represent the Sales Tax receipts for that period. This is because the collections are managed externally by the State and then remitted in bulk to the City. Data available for the first quarter of FY2024-25 (Q1) (Sales Tax is collected by the State and the corresponding detailed data becomes available to the City in the subsequent quarter) shows that from July to September 2024, Oakland saw a 5.2% decrease in gross receipts compared to that same period in 2023, adjusting to a 2.6% decline after accounting for various reporting modifications such as audit adjustments and delayed payments. Declines were noted across most tax categories during this period, particularly in dining, with casual and fast-food sectors hit by business closures. Sectors like grocery, cannabis, and general retail also experienced downturns, while new car sales and fuel stations suffered due to business closures and lower oil prices. Categories that saw year over year increases in the Q1 include a 13.4% growth in the City's share of the countywide use tax as the City's pool share grew due to the sales tax reductions in another agency within the County. The Business and Industry category also grew supported by gains in office supplies and repair services. State-wide, California's local sales and use tax receipts for the same period were down by 2.3% compared to the previous year, indicating a weak start to fiscal year 2024-25. Proposition 172 revenues are expected to decrease by about 1.1% in the 2024-25 fiscal year following a 1.0% decline in FY 2023-24. The economic outlook remains cautious with potential impacts from federal interest rates and uncertainty resulting from anticipated policy changes from the new Federal

Administration, including potential tariffs and tax reductions which will affect consumer spending patterns.

- **Service Charges:** FY 2024-25 collections of Service Charges through **Q2** are at $18.91 million or 36.5% of the Adjusted Budget of $51.84 million, and are now projected to end the year at $56.35 million which is $4.51 million or 8.7% over the Adjusted Budget. Notably, certain types of service charges, including Port Revenues and Cable and Gas Franchise Fees, do not accrue evenly throughout the year, with only about 14% of their budgeted amounts posted by Q2, as these are predominantly collected in the latter half of the fiscal year. However, a significant 54% increase in service charges has been observed when compared to the same period in FY 2023-24, highlighting a robust performance in collections. This growth should be viewed cautiously due to the irregular posting patterns of these charges. A key factor contributing to this increase is the collection from Parking Meter Fees, which constitute 33% of total Service Charges and have risen by 30% in the first six monthly reporting of the year, following a 50% rate increase from $2 to $3 per hour implemented at the start of FY 2024-25.

- **Transient Occupancy Tax ("TOT"):** FY 2024-25 collections of TOT through **Q2** are at $8.43 million or 42.7% of the Adjusted Budget of $19.74 million, and are now projected to end the year at $16.07 million, which is $3.67 million or 18.6% under the Adjusted Budget. This year's performance marks a downturn when compared to the previous fiscal year, FY 2023-24, which ended with TOT collections under the current year's budget at $18.39 million. The first half of FY 2024-25 showed a significant 14.4% decrease in collections compared to the same period in FY 2023-24, reflecting ongoing challenges in the tourism sector's recovery. This decline in TOT is paralleled by a 14.3% drop in passenger travel at the Oakland Airport when comparing the latest monthly data available of November 2024 to November 2023. Although, over a rolling 12-month period ending November 30, the decline in passenger numbers was less steep at 2.1%. The biggest contributor to the decline in projected TOT collections has been the closure of major hotels like the Hilton and Jack London Square's Waterfront Hotel, which represent a significant loss of revenue, as they combined to contribute on average over $2.0 million in TOT annually. Furthermore, there are concerns about potential additional closures in the hospitality sector. For example, it was recently reported that Gaw Capital USA defaulted on a $100 million loan for the Oakland Marriott City Center, putting the property at risk of foreclosure according to multiple news reports.

- **Fines & Penalties:** FY 2024-25 collections of Fines and Penalties through **Q2** are at $10.46 million or 54.1% of the Adjusted Budget of $19.34 million, and are now projected to end the year at $22.73 million, which is $3.38 million or 17.5% over the Adjusted Budget. Parking citations continue to form the bulk of Fines and Penalties revenue. Expectations of increased revenue are due to a 5% increase in parking fines that took effect in FY 2023-24 and an additional 5% for FY 2024-25 to adjust for retroactive inflation. In addition, enhanced concentrated efforts in parking enforcement are being aided in FY 2024-25 by recent hires in the Parking Enforcement Unit which aims to be fully staffed by the second half of FY 2024-25. As a result, collection of parking fines is 20% higher through Q2 compared to the same period in FY 2023-24.

- **Parking Tax ("PT"):** FY 2024-25 collections of Parking Tax through **Q2** are at $5.85 million or 44.8% of the Adjusted Budget of $13.07 million, and are now projected to end the year at $11.76 million which is $1.31 million or 10.0% under the Adjusted Budget. After fluctuations due to the pandemic, the tax has stabilized as demonstrated by the monthly remittances of Parking Tax which are coming in even through Q2 when compared to the same period in the prior year. Concurrently the projection estimates that PT collections in this fiscal year will equal the amounts collected in FY 2023-24, which ended at $11.87 million, minus the amount that resulted from PT collected at A's games in the Q4 of FY 2023-24 due to their departure. As a whole, the airport / coliseum area has seen a 3% decrease year over year through Q2, but is being offset by a 2% year over year increase in the downtown area.

- **Miscellaneous Revenue:** FY 2024-25 collections of Miscellaneous Revenues through **Q2** are at $14.08 million, and are projected to end at $14.08 million which is $12.85 million or 1048.2% over the Adjusted Budget of $1.23 million. A sum of $5 million was received as an initial payment for the sale of the Coliseum site. This amount was not fully anticipated in the Adjusted Budget due to the delay in the completion of the sale. The FY 2024-25 Adopted Budget initially included $63.10 million from the sale of the Coliseum land, classified under Miscellaneous Revenues. However, due to delays in the transaction the expected $63.10 million was removed from the budget and a contingency budget was adopted as it was stipulated as part of the FY 2024-25 Midcycle Budget adoption. Projections for the remainder of FY 2024-25 do not account for additional payments from the Coliseum land sale within this fiscal year. Staff strongly recommends that decision makers do not include the Coliseum sale proceeds in any future budget balancing action until after that cash has been received and title of the property transferred, as recommended by our external financial auditor. In addition, legal settlements have significantly contributed to the actual miscellaneous revenues realized in **Q2** as well. However, $3.47 million of revenue resulting from these legal settlements is restricted to specific reimbursements bound by settlement agreements and cannot be accounted for in the overall balancing of the General Purpose Fund.

The FY 2024-25 Adjusted Revenue Budget assumes $41.40 million in use of fund balance to support prior year carryforwards. Net of these, actual revenues are estimated to end the year at $756.49 million, compared to the Adjusted Budget of $744.47 million, representing a net surplus of $12.03 million or 1.6%. **Table 2** below highlights revenue categories with year-end projection changes when compared to the FY 2024-25 Adjusted Budget.

Table 2: FY 2024-25 Q2 GPF Revenues Budget to Actuals ($ in millions) Summary

Revenue Category	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget	FY 2024-25 Q2 YTD Actuals	FY 2024-25 Q2 Year-End Estimate	Year-End $ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Property Tax	306.57	306.57	127.83	312.91	6.34	2.1 %
Business License Tax	120.06	120.06	7.63	116.11	(3.94)	(3.3) %
Real Estate Transfer Tax	73.72	73.72	34.39	66.31	(7.41)	(10.1) %
Utility Consumption Tax	68.44	68.44	33.60	71.82	3.38	4.9 %
Miscellaneous Revenue	64.32	1.23	14.08	14.08	12.85	1048.2 %
Sales Tax	63.73	63.73	20.44	61.04	(2.69)	(4.2) %
Service Charges	51.84	51.84	18.91	56.35	4.51	8.7 %
Transient Occupancy Tax	19.74	19.74	8.43	16.07	(3.67)	(18.6) %
Fines & Penalties	19.34	19.34	10.46	22.73	3.38	17.5 %
Parking Tax	13.07	13.07	5.85	11.76	(1.31)	(10.0) %
Interfund Transfers	2.7	3.08	—	3.08	—	— %
Interest Income	2.5	2.50	(1.77)	2.50	—	— %
Licenses & Permits	1.16	1.16	0.58	1.16	—	— %
Grants & Subsidies	—	—	0.59	0.59	0.59	— %
Subtotal	**807.19**	**744.47**	**281.01**	**756.49**	**12.03**	**1.6 %**
Project Offsets & Carryforwards	—	41.40	—	—	(41.40)	(100.0) %
Total Revenue	**807.19**	**785.86**	**281.01**	**756.49**	**(29.37)**	**(3.7) %**

FY 2024-25 Q2 Expenditures

At the end of *Q2* for FY 2024-25, expenditures are projected to end the fiscal year at $843.69 million, or $57.83 million over the Adjusted Budget of $785.86 million. Most of the City's departments are projected to overspend by the end of FY 2024-25. Public safety departments account for over 90% of the City's projected overspending in FY 2024-25.

The Midcycle Adopted Budget assumed the use of the sale of the Coliseum in the amount of $63.5 million to balance the expenditures as budgeted. This follows a trend in recent years, during which one-time funding was needed in the balancing of the expenditures. Expenditure monitoring is heightened as citywide hiring is a large focus, and current inflationary trends and federal monetary policy are likely to continue throughout the fiscal year and have an impact on spending trends by year-end.

Table 3 below breaks down the FY 2024-25 Expenditures by Department.

Table 3: FY 2024-25 Q2 GPF Expenditures Budget to Actuals ($ in millions)

Department	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget	FY 2024-25 Q2 YTD Actuals	FY 2024-25 Q2 Year-End Estimate	Year-End $ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Capital Improvement Projects	0.56	1.61	0.26	1.61	—	— %
City Administrator	5.99	5.95	2.71	7.28	(1.32)	(22.2)%
City Attorney	21.71	24.62	9.72	23.93	0.69	2.8 %
City Auditor	3.73	4.01	1.25	2.81	1.19	29.7 %
City Clerk	8.00	9.92	2.60	9.96	(0.04)	(0.4)%
City Council	7.87	7.91	3.42	7.16	0.75	9.5 %
Department of Transportation	21.72	22.08	9.84	23.24	(1.15)	(5.2)%
Department of Violence Prevention	7.49	8.10	2.63	6.65	1.45	17.9 %
Department of Workplace and Employment Standard	2.39	2.15	0.76	2.19	(0.04)	(1.9)%
Economic and Workforce Development Department	15.24	14.54	8.22	14.61	(0.07)	(0.5)%
Finance Department	29.13	29.03	10.88	29.85	(0.82)	(2.8)%
Fire Department	180.45	166.24	92.94	197.20	(30.96)	(18.6)%
Housing and Community Development Department	—	—	—	—	—	N / A
Human Resources Management Department	0.33	0.53	0.43	0.53	—	— %
Human Services Department	43.08	46.47	7.89	44.40	2.07	4.5 %
Information Technology Department	6.55	6.95	3.46	9.13	(2.18)	(31.3)%
Mayor	5.59	5.60	2.24	4.41	1.19	21.2 %
Non Departmental and Port	53.80	59.00	6.57	53.00	6.00	10.2 %

Department	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget	FY 2024-25 Q2 YTD Actuals	FY 2024-25 Q2 Year-End Estimate	Year-End $ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Oakland Animal Services	6.84	6.57	2.98	6.17	0.40	6.1 %
Oakland Parks and Recreation Department	11.80	12.13	5.54	13.20	(1.07)	(8.8)%
Oakland Public Library Department	12.40	11.40	5.81	9.71	1.69	14.8 %
Oakland Public Works Department	2.73	4.51	1.46	4.19	0.32	7.1 %
Planning and Building Department	—	—	—	—	—	N / A
Police Commission	8.78	9.57	2.94	7.51	2.06	21.5 %
Police Department	347.21	322.83	175.43	361.31	(38.48)	(11.9)%
Public Ethics Commission	2.52	2.78	1.04	2.37	0.41	14.7 %
Race and Equity Department	1.27	1.35	0.55	1.26	0.09	6.7 %
Total	**807.19**	**785.86**	**361.55**	**843.69**	**(57.83)**	**(7.4)%**

The budgeted vacancy factor assumed in the FY 2024-25 Midcycle Budget is 10.00% across most City Departments. The GPF's vacancy rate (net positions that are frozen as part of the FY 2024-25 Adopted Budget), is 14.0% as shown in **Table 4** below. The current vacancy rate is higher than the assumed budgeted rate,however there is no anticipated vacancy savings due to such saving being subsumed in the projected public safety over expenditure.

Table 4: FY 2024-25 **Q2 GPF Filled and Vacant Positions (Percent %)**

Status as of Q2 FY 2024-25	Percent (%)
Filled or Encumbered	**86.0 %**
Vacant	**14.0 %**

FY 2024-25 Fund Balance

The City's GPF Fund Balance, net obligations, is projected to end FY 2024-25 at negative $94.02 million. Obligations may include reserves required by City Ordinances or the City Charter (mandated emergency reserves). **Table 5** below adds to the projected ending fund balance return of excess fund balance from the Equipment Fund (4100) totaling $8.32 million, and deducts restricted set-asides for legal settlements in the amount of $3.47 million, combining to improve the estimated FY 2024-25 year-end available fund balance from negative $94.02 million to negative $89.17 million. The estimated FY 2024-25 available Fund Balance is the amount of unobligated funding available to the City in the GPF.

It's important to note that the ending fund balance across all funds are not funds that are available to spend in FY 2024-25.

Table 5: Summary of FY 2024-25 Fiscal Situation with GPF Fund Balance ($ in millions)

GENERAL PURPOSE FUND (1010)	FY 2024-25 Q2 Year-End Estimate
Beginning Fund Balance - Audited	**(6.83)**
Revenue	756.49
Expenditures	843.69
Estimated Current Year Surplus/(Shortfall)	**(87.20)**
Estimated Ending Fund Balance	**(94.02)**
Use of Fund Balance in FY 2024-25	
Return of Excess Fund Balance in Equipment Fund	**8.32**
Legal Settlements	**(3.47)**
Estimated Ending Fund Balance	**(89.17)**

FY 2024-25 **Q2** projections indicate that GPF revenues will come in below budgeted and expenditures will exceed the budgeted amount by the end of the fiscal year, with the combination of the two culminating in an approximately $87.20 million operating deficit. The deficit accounts for the use of fund balance in the amount of $41.40 million to support prior year carryforwards. Several City departments are projected to have overspending, led by the Police and Fire Departments who are projected to exceed their budget by $38.48 million and $30.96 million, respectively, primarily due to overspending in personnel from overtime costs.

FY 2024-25 Budget Balancing Measures

A comprehensive series of balancing measures were affirmed and adopted per Resolution 90585 C.M.S. to rebalance the current year. Since then, several adjustments have been made to the balancing measures as part of ongoing implementation efforts. One key change involves the projected savings from the public safety expenditure reductions. Initial plans to scale back OPD overtime and were expected to save $25.15 million; however, revised estimates now anticipate lower savings to $14.45 million due to operational constraints and staffing needs that prevent further reductions at this time. Of this amount, approximately $13 million has already been incorporated into the current projections, with an additional $1.45 million in savings anticipated by the end of the fiscal year. In addition, a previously planned expansion of fire station brownouts has been revised. The initial balancing measures included an additional four station brownouts to generate cost savings, however, this measure has been removed from the current plan due to operational and public safety considerations.

Similarly, revenue projections from business tax enforcement efforts have been updated. The original estimate anticipated $4.23 million in additional revenue. The revised estimate is $1.1 million. The revised $1.1 million revenue amount is the amount that staff anticipate will be collected based on efforts in process to collect business tax and Rent Adjustment Program (RAP) fees from newly discovered rental businesses. Some of this revenue will likely be collected in the subsequent fiscal year, although staff are actively engaging businesses along with the noticing of these businesses.

Costing updates for the reduction in force have also been incorporated, reflecting refined calculations using the latest personnel data. The deviation from the original estimates is primarily due to the ability to reduce the total number of layoffs through offsetting expenditure reductions, as reflected in current projections. As certain balancing measures have been implemented, the City has been able to preserve more jobs than initially anticipated. Another revision to the balancing measures is the transfer of Fund 4400 water charges to the Landscape and Lighting Assessment District Fund (LLAD) (2310). The full savings amount is not anticipated to be realized as there are insufficient personnel charges available in the LLAD fund to transfer to the Comprehensive Clean-up Fund (1720), as originally proposed. As a result, the expected savings for these measures is reduced to $0.60 million. All other measures updated with a zero-dollar value indicate that the associated savings have already been incorporated into the current projections. See ***Attachment B*** for details on the revised amounts and GPF balancing discussed above.

Attachment B also presents new balancing measures and additional items introduced since the December 17, 2024 action. These include the termination of grants in the GPF totaling $2.6 million, a Coliseum subsidy payment refund of $2.***58*** million, and the addition of $1.14 million in expenditures to continue the Summer 2025 Town Camp programming. A placeholder of $2.5 million in savings has been included for contract terminations in the GPF, and an added expenditure has been accounted for to cover a legal settlement related to the Rose Foundation grant.

The balancing measures include an assumed $3.7million in parking revenues related to increased parking enforcement operations from DOT, and an additional $1.1million in business tax collections from residential landlords due to noticing of units in conjunction with the City' Rent Adjustment Program (RAP).

In total, if fully implemented, the revised balancing measures total $89.33 million and would result in a year-end surplus of $0.16 million. It should be noted, in order to maintain these measures, it is important to maintain the closure of the two fire stations until the end of the fiscal year. While the Department identified the two stations currently closed, that does not negate any alternative locations that could be considered. Further, one of the more impactful elements of the station brownouts is the elimination of mandatory overtime, allowing for a better work-life balance for members of the the fire service.

Long-Term Budget Outlook

While the balancing measures for the current year provide necessary short-term relief, the City continues to face significant long-term financial challenges. The City is facing a nearly $140million ongoing structural deficit in the General Purpose Fund alongside structural imbalances in many of the City's other key restricted funds. These deficits will continue to grow unless structural correction are made to the City's operations and expenditures. Rising costs for insurance, medical benefits, and pension obligations will place increasing pressure on the GPF and other funds in future budget cycles. Pension obligation costs, especially for public safety employees are expected to continue steep increases over the next several fiscal years. The City's funded ratio for safety pensions is below 65% meaning high employer contributions are expected to continue to repay the past accrued unfunded liability, placing further strain on the GPF. The City's Other Post-Employment Benefits (OPEB) liability, generally understood as retiree health, remains a concern, with unfunded liabilities exceeding $500 million as of the latest actuarial valuation.

Health care costs for active employees and retirees have grown significantly over the years, primarily driven by a combination of factors including aging population, increasing prevalence of chronic diseases, medical technology advancements leading to more expensive treatments, rising administrative costs, and inflation impacting the cost of medical supplies and services. The 2024 medical annual premium for active employees was over $78 million; it grows by roughly eight percent, for a projected amount of $92 million for 2025. The City's total PERS medical payments, which include active employees and retirees, have increased by over $5 million on average per year in the last 5 years, and are expected to be over $100 million in total for FY 2024-25.

Sustainable solutions to address the City's needs are necessary to address this fiscal circumstance. Large scale economic growth, revenue enhancement, financial prudence, efficient service delivery and honed management practices can lead to structural balance if adopted and implemented to address historical practices and growing cost drivers. The reliance on one-time solutions, such as fund reallocations, temporary expenditure reductions, and use of one-time revenues to support ongoing expenditures, do not result in structural balance but may bridge from one year to the next. Sustainable budget practices, withlong-term strategies to address growing cost drivers, will lead the City to structural balance. This inherently requires increasingly difficult decisions regarding service reductions and priority setting for the City.

Conclusion

The GPF fund balance began the fiscal year in a negative position, a situation further exacerbated by delays in receiving anticipated revenues from the Coliseum land sale. The absence of these funds necessitated the activation of the Contingency Budget, resulting in reductions across multiple City departments and services and on-going measures to maintain solvency.

With these efforts, financial challenges remain. The administrative actions are beginning to bear results and while the revised balancing measure may cautiously yield a small year-end surplus, this does not resolve the fundamental structural issues in the City's budget. Continued efforts to achieve these results and to maintain the focus on expenditure control are necessary through the end of the fiscal year.

Looking to the biennial budgeting process and beyond, long-term solutions, including expenditure reforms, new revenue strategies, and efficiency improvements, must be explored to ensure financial stability in the upcoming biennial FY2025-27 budget.

Staff will continue to monitor the implementation of balancing measures and provide updates to support informed decision-making as the City navigates its fiscal challenges.

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PUBLIC OUTREACH / INTEREST

No outreach was deemed necessary for this informational report beyond the standard City Council agenda noticing procedures.

COORDINATION

This report was prepared in coordination between the Finance Department, the City Administrator's Office and various departments.

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental*:* No direct environmental impacts have been identified.

Race & Equity*:* No direct Race & Equity opportunities have been identified in this informational report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2024-25 Second Quarter (Q2) Results And Year-End Estimates For The General Purpose Fund (GPF, 1010), And Select Funds, And An Update On Current Year Balancing Efforts.

For questions regarding this report, please contact Bradley Johnson, Budget Administrator, at (510) 238-6119.

Respectfully submitted,

Erin Roseman (Feb 20, 2025 16:12 PST)

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Attachments: (2)

A: FY 2024-25 **Q2** *Detailed Report*

B: FY 2024-25 GPF Balancing