

CITY OF OAKLAND

BUDGET ADVISORY COMMISSION

Notice is hereby given that a special meeting of the City of Oakland Budget Advisory Commission (BAC) is scheduled for **Thursday, May 23, 2024, at 6:30 PM.**

The Budget Advisory Commission will be held in Hearing Room 2 in City Hall.

Members of the Public have the following options to observe the meeting:

1. Watch the meeting on KTOP using Granicus.
2. Use the Zoom link attached to this agenda to remotely observe the meeting.

Commission Members:

Armand Bryan, Larisa Casillas, Guadalupe Garcia, Margaret Grimsley, Reisa Jaffe,
Mike Petouhoff, Caitlin Prendiville, Sarah Price, Jane Yang

City's Representative(s):

Nathan Bassett – *Finance Department*

Meeting Agenda:

1. Administrative Matters [5 minutes]
 - Welcome & Attendance
2. Approval of Prior Meeting Minutes [5 minutes]
 - Moved to Next Meeting
3. Commissioners' protocol [5 minutes]
 - Commissioner Application review
 - Onboarding & Exit / Recruitment – Open spots
4. Finance Department Update [5 minutes]
5. FY2023-24 Q3 R&E Report [25 minutes]
6. FY2024-25 Midcycle Budget Amendments Discussion [30 Minutes]
7. 2024 Work Plan Update and Ad Hoc Study Groups [15 minutes]
8. Agenda Items for Future Meetings [5 minutes]
 - Department of Race & Equity Follow Up Discussion
 - Department of Economic & Workforce Development Request
9. Open Forum [5 minutes]
10. Adjournment

**CITY OF OAKLAND
BUDGET ADVISORY COMMISSION**

ATTACHMENTS: FY2023-24 Q3 Revenue & Expenditure Report

Hi there,

You are invited to a Zoom webinar.

When: May 23, 2024 06:30 PM Pacific Time (US and Canada)

Topic: Special Meeting of the City of Oakland Budget Advisory Commission (BAC)

Please click the link below to join the webinar:

<https://us06web.zoom.us/j/86700159305>

Or One tap mobile :

+16699006833,,86700159305# US (San Jose)

+16694449171,,86700159305# US

Or Telephone:

Dial(for higher quality, dial a number based on your current location):

+1 669 900 6833 US (San Jose)

+1 669 444 9171 US

+1 719 359 4580 US

+1 253 205 0468 US

+1 253 215 8782 US (Tacoma)

+1 346 248 7799 US (Houston)

+1 929 205 6099 US (New York)

+1 301 715 8592 US (Washington DC)

+1 305 224 1968 US

+1 309 205 3325 US

+1 312 626 6799 US (Chicago)

+1 360 209 5623 US

+1 386 347 5053 US

+1 507 473 4847 US

+1 564 217 2000 US

+1 646 931 3860 US

+1 689 278 1000 US

Webinar ID: 867 0015 9305

International numbers available: <https://us06web.zoom.us/j/86700159305>



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: FY 2023-24 Q3 R&E Report

DATE: May 10, 2024

City Administrator Approval


Jestin Johnson (May 16, 2024 21:01 PDT)

Date: **May 16, 2024**

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2023-24 Third Quarter Revenue And Expenditure (R&E) Results And Year-End Estimates For The General Purpose Fund (GPF, 1010), And Select Funds.

EXECUTIVE SUMMARY

This report details the City of Oakland's (the City) unaudited Third Quarter Q3 financial results for FY 2023-24 in the General Purpose Fund (GPF) and other select funds. It also contains preliminary FY 2023-24 projected year-end revenues and expenditures based on Third Quarter Q3 trends. The Third Quarter reflects 54.5% of the collected adjusted revenue budget, and expenditures reflect 68.0% of the adopted expenditure budget.

Our projections reflect the broader economy fluctuating from historical patterns. The projections in this report are made with limited information due to the 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.

Table 1 below summarizes the FY 2023-24 GPF revenue and expenditures Adjusted Budget, current collections, and year-end estimates. **The current projection shows an estimate of a \$155.27 million year-end operating shortfall.**

Table 1: Summary of FY 2023-24 Q3 GPF Revenues & Expenditures Budget to Year-End Projections (\$ in millions)

	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q3 YTD Actuals	FY 2023-24 Year-End Projections	Year-End \$ Over / Under Net Adjusted Budget	Year-End % (Over) / Under Net Adjusted Budget
FY2023-24 Revenues	834.12	890.07	485.42	715.70	(174.37)	(19.6) %
FY 2023-24 Expenditures	834.12	890.07	605.68	870.97	19.09	2.1 %
Operating (Shortfall) / Surplus	—	—	(120.26)	(155.27)	(155.27)	—

In the Third Quarter of FY 2023-24, an analysis of projected revenues and expenditures through March 31, 2024, suggests that the GPF will run an operating deficit in the current year.

The preliminary Q3 FY 2023-24 GPF revenue is projected to end the year at \$715.70 million, compared to the \$890.07 million FY 2023-24 Adjusted Budget, resulting in an overall shortfall of \$174.37 million or 19.6% under.

Sensitive revenue categories in the GPF have been revised to lower revenue projections to reflect recent trends. Specifically, for the Real Estate Transfer Tax (RETT), **the impact of rising interest rates on property demand and prices, contributes to the revenue shortfalls and anticipated worsening.** In addition, the Adjusted Budget assumes a one-time use of fund balance in the amount of \$30.12 million to balance adopted expenditures and \$55.24 million to support carryforwards.

The preliminary Q3 FY 2023-24 GPF expenditures are forecasted to end the year at \$870.97 million, compared to the Adjusted Budget of \$890.07, which is \$19.09 million or 2.1% under. In the GPF, all the Departments are trending to be under budget, with the exception of one Department.

This results in an operating deficit of \$155.27 million for the GPF in FY 2023-24.

BACKGROUND / LEGISLATIVE HISTORY

Below is a summary of the Council's actions that have occurred from the beginning of the fiscal year through Q3 that have modified the FY 2023-24 Adopted Budget:

Pursuant to the City's Consolidated Fiscal Policy - Part G. Criteria for Project Carryforwards and Encumbrances, the FY 2023-24 Adopted Budget has also been adjusted to include \$55.24 million in prior year carryforwards in the GPF which utilizes available fund balance to cover the cost.

On November 7, 2023, the City Council adopted Resolution [No. 89981 C.M.S.](#), amending the current year FY 2023-24 budget to reallocate \$2.5 million of newly available funds from reduced debt payments to the Oakland-Alameda County Coliseum Authority (OACCA) to fund improvements to 9-1-1 dispatch and the recruitment and retention of workers.

ANALYSIS AND POLICY ALTERNATIVES

This report supports the Citywide priority of a **responsive, trustworthy government** because providing timely and up-to-date financial information, enhances 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 2023-24 Q3 Revenues

The GPF revenues collected as of Q3 FY23-24 were \$485.42 million or 54.5% compared to the Adjusted Budget. The overall trend for most of the City's revenue sources are trending downward, and have revised year-end projections. The revenue sources that have a downward trend are Real Estate Transfer Tax, Business License Tax, Miscellaneous Revenue, Sales Tax, Service Charges, Fines and Penalties, Transient Occupancy Tax, and Licenses and Permits. The most significant downward trend being Real Estate Transfer Tax, which accounts for 62.5% of the overall revenue deficit in the GPF.

Four revenue sources are trending upward: Property Tax, Utility Consumption Tax, Parking Tax, and Interest Income. However, those positive trends are not strong enough to counter the negative trends.

- **Real Estate Transfer Tax:** Through March 2024, Real Estate Transfer Tax collections totaled \$38.54 million or 34.9% of the Adjusted Budget. This level of collections is significantly below the prior year's level of \$54.62 million at the same Q3 interval. Several factors contributed to the significant decline in RETT. The Federal Open Market Committee (FOMC) increasing and then holding the federal funds rate to 5.25%-5.50% to combat the inflationary trends is the primary cause. Consequently, the 30-year fixed mortgage interest rates averaged 6.82% as of March 28, 2024, according to the Freddie-Mac Mortgage Market Survey Archive. The higher the interest rate reduces the number of buyers as it makes home sales more expensive. This is reflected in the number of transactions through Q3, especially the high-value property transfers. As a whole, the volume of transactions has decreased from 2,715 through Q3 in FY 2022-23 to 2412 in FY 2023-24, representing a 24.8% decrease. The decrease in volume is augmented when considering that through Q3, only 16 properties valued over \$5.00 million have

been sold, compared to 32 that had been sold through the same period in FY 2022-23. Furthermore, only 7 of the properties that have sold through the Q3 were valued over \$10 million compared to 15 in the prior Fiscal Year. The third quarter RETT projection has been revised to end the year at \$53.22 million, which is \$57.19 million or 51.8% lower compared to the Adjusted Budget of \$110.41 million. This anticipated drop in the RETT accounts for 62.5% of the overall projected revenue shortfall in the GPF.

- **Miscellaneous Revenue:** Through Q3 of FY23-24, collections of miscellaneous revenues has been \$4.83 million or 22.8% of the Adjusted Budget. The one-time revenue of land sales is included in the budget for miscellaneous revenue. This one-time land sale has been delayed and thus is the major contributor to the reduction of the year-end projection. The year-end projection has been revised to \$5.79 million compared to the Adjusted Budget of \$21.22 million, which is 72.7% under budget, representing the second largest contributor to the projected shortfall in GPF revenues. As the land sales were delayed, it is now anticipated to be realized in the FY 2024-25 instead.
- **Business License Tax (BT):** For Q3, collections of BT are at \$112.08 million, which is 89.5% of the Adjusted Budget. Overall, for the year-end projection, BT is expected to end FY 2023-24 at \$120.98 million, which is \$4.27 million or 3.4% under compared to the FY 2023-24 Adjusted Budget of \$125.25 million. However, this would represent an increase of \$5.60 million compared to the FY 2022-23 year-end total of \$115.38 million. Projections for BT for purposes of preparing the FY 2023-24 budget were hampered by the ransomware attack, which delayed BT collections as well as the fact that the tax year 2023 filings represented the first year of implementation of the Measure T new rates approved by the voters in November 2022. Most of the difference between the Adopted Budget and the estimated FY 23-24 total comes from declines in collections from Cannabis businesses. Both the number of filers and the amount of gross receipts for these filers have declined from the prior year. Revenues are also down in the Contractors sector, reflecting the decline in building activity, as well as for retail establishments, reflecting a drop in taxable sales.

Through Q3, the total amount of gross receipts reported over all in FY 2023-24 were approximately \$29.56 billion. This represents approximately 86% of the \$34.50 billion in gross receipt totals that were reported in FY 2022-23 by year-end. Categories that have already exceeded their FY 2022-23 gross receipt totals reported at year-end include Grocers at 106% reported year to date compared to the FY 2022-23 year-end total, Wholesale at 112% reported year to date compared to the FY 2022-23 year-end total, Hotel / Motel at 131% reported year to date compared to the FY 2022-23 year-end total, and Miscellaneous categories with 158% in gross receipts reported year to date compared to the FY 2022-23 year-end total. Over the past three years, on average, \$7.85 million in BT has been collected over the final three accounting periods of the year.

- **Sales Tax:** Collections of sales tax revenue through Q3 are \$36.79 million or 54.4% of the Adjusted Budget. Sales tax revenue collections lag other revenues by 2-3 months. The current collections represent the second half of the calendar year 2023. Oakland's actual Sales Tax receipts from July through December were 6.4% below the same period in the prior year. Early reports of collection data from the State indicate a reduction in sales tax as a result of inflation moderating and certain business sectors contracting. The year-end projection of sales tax receipts is projected to end the year at \$62.72 million, short of the FY 2023-24 Adjusted Budget of \$67.69 million, by approximately \$4.97 million or 7.3%. Declines in sales tax revenues are part of larger statewide and national trends in favor of more online purchases and a shift from goods to services purchases. In addition, lower sales tax revenues likely reflect the impact of continued inflation as well as the ongoing weakness in the City's central business district.
- **Transient Occupancy Tax ("TOT"):** Q3 collections of TOT is \$13.82 million or 61.5% of the Adjusted Budget. The Year-end projection is now estimated to come in at \$19.74 million, compared to the FY 2023-24 Adjusted Budget of \$22.48 million, projecting to end the year \$2.74 million short or 12.2% under. The projected year-end total is slightly lower than the \$20.20 million collected in FY 2022-23 at year-end. The levels experienced over the past two fiscal years reflect the continuing rebound in the travel sector in the wake of travel declines brought about by the COVID-19 pandemic, including continued increases in the number of passengers traveling through the Oakland International Airport, but TOT levels still have not recuperated to its pre-pandemic peak during which TOT reached \$25.92 million in FY 2018-19. FY 2019-20 followed the FY 2018-19 high with a year-end total of \$19.58 million, as the Covid-19 economic effects started to show. This matches closely with the levels observed in FY 2022-23 and projected for the FY 2023-24 year end. These are all significantly higher than the pandemic-era lows of \$10.61 million and \$16.66 million experienced for TOT in FY 2020-21 and FY 2021-22, respectively.
- **Service Charges:** Collections of service charges for Q3 are \$19.37 million or 37.0% of the Adjusted Budget. Service Charges project to end the year at \$45.70 million, which is a decrease of approximately \$6.58 million or 12.6% from the FY 2023-24 Adjusted Budget of \$52.28 million. The new projection represents a decrease in service charges across multiple areas, including parking meter fees and the inability to collect franchise sewer fees.
- **Fines & Penalties:** Collections of Fines and Penalties for Q3 are \$11.39 million or 49.3% of the Adjusted Budget. Based on this trend, a decrease of approximately \$7.27 million or 31.5% from the Adjusted Budget is projected by year-end, resulting in an estimated year-end total of \$15.80 million. Fines & Penalties are primarily composed of revenues resulting from parking citations. The FY 2023-24 Adjusted Budget incorporated a proposal for an inflation adjustment to all parking fines of 5% in Fiscal Year 2023-2024 and another 5% (for a total of 10%) in Fiscal Year 2024-2025 and anticipated an

increment in revenues raised from enforcement associated with the inclusion of a Lake Merritt parking meter pilot and the integration of off-street and on-street parking systems. A major contributor to the shortfall in estimated revenues is due to the Parking Enforcement Unit being understaffed. In addition, the FY 2023-24 Budget anticipated \$1.20 million from the commitment of Paylock, the City's "smart boot" vendor, to add two new Automatic License Plate Readers (ALPR) equipped vehicles for the Scofflaw Detail, an operation dedicated to ensuring that registered owners with five or more outstanding parking citations are held to account by immobilizing their vehicles with "smart boots". This was disallowed per legal requirements and the estimated revenues of this program will not be realized.

Revenue categories with projected surpluses as of the Second Quarter compared to the FY 2023-24 Adjusted Budget in the GPF are led by the Property Tax, the Utility Consumption Tax (UCT), and Parking Tax.

- **Property Tax:** Collections of Property Tax for Q3 are \$183.97 million or 62.5% of the Adjusted Budget. The revenue is projected to exceed the FY 2023-24 Adjusted Budget of \$294.17 million by approximately \$0.19 million or 0.1% and is now forecast to end the year at \$294.36 million based on data from the most recent property tax rolls from the Alameda County. In comparison, FY 2022-23 ended the year at \$281.28 million. This data indicates an overall growth of taxable value of approximately 6.6 % when compared to FY 2022-23. The increase in property tax revenues reflects increases in residential home values over the prior year as well as increases due to real estate sales and adjustments to assessed values due to the Proposition 13 allowable inflation factor. These increases are expected to more than offset declines in revenue to assessment appeals, particularly in the office sector, where property values are down significantly from the pre-pandemic period.
- **Utility Consumption Tax:** Collections of Utility Consumption Tax for Q3 are \$42.12 million or 68.1% of the Adjusted Budget. The estimate has been revised and is projected to grow by approximately \$0.95 million or 1.5% above the FY 2023-24 Adjusted Budget of \$61.90 million and is now expected to end the year at \$62.85 million driven by increases to the utility rates charged to customers. California's Public Utilities Commission (CPUC) approved a 12.8% increase to consumer rates, which became effective in the second half of this fiscal year. The rate increase is being offset in the current Fiscal Year by monthly remittances in the first half of the year which came in at a slower pace compared to FY 2022-23.
- **Parking Tax ("PT"):** Collections of Parking Tax for Q3 are \$8.48 million or 75.3% of the Adjusted Budget. Parking Tax is projected to come in at \$12.74 million which is an increase of \$1.48 million or 13.1% higher compared to the FY 2023-24 Adjusted Budget of \$11.26 million. The \$8.48 million Actual receipts through Q3 of FY 2024 compare closely to FY 2022-23 and have come in at \$0.13 million higher compared to the FY 2022-23 total of \$8.35 million collected during the same period. FY 2022-23 ended the

year at \$12.01 million. PT is now coming in above pre-Covid-19 Pandemic levels. Increases in Parking Tax revenue are largely related to increases in travel-related collections at and near the airport, which more than offset declines in the City's Central Business District.

The FY 2023-24 Adjusted Revenue Budget assumes \$30.12 million in use of fund balance to support expenditures adopted in the budget and \$55.24 million in prior year carryforwards. Net of these, actual revenues are estimated to end the year at \$715.70 million, compared to the Adjusted Budget of \$804.71 million, representing a net shortfall of \$89.01 million or 11.1%.

Table 2 below highlights revenue categories with projection changes when compared to the FY2023-24 Adjusted Budget.

Table 2: FY 2023-24 Q3 GPF Revenues Budget to Actuals (\$ in millions)

Revenue Category	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q3 YTD Actuals	FY 2023-24 Q3 Year-End Estimate	Year-End \$ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Property Tax	294.17	294.17	183.97	294.36	0.19	0.1 %
Business License Tax	125.25	125.25	112.08	120.98	(4.27)	(3.4) %
Real Estate Transfer Tax	110.41	110.41	38.54	53.22	(57.19)	(51.8) %
Sales Tax	67.69	67.69	36.79	62.72	(4.97)	(7.3) %
Utility Consumption Tax	61.90	61.90	42.12	62.85	0.95	1.5 %
Service Charges	51.60	52.28	19.37	45.70	(6.58)	(12.6) %
Fines & Penalties	23.07	23.07	11.39	15.80	(7.27)	(31.5) %
Transient Occupancy Tax	22.48	22.48	13.82	19.74	(2.74)	(12.2) %
Miscellaneous Revenue	21.22	21.22	4.83	5.79	(15.43)	(72.7) %
Interfund Transfers	13.08	13.08	13.08	13.08	—	— %
Parking Tax	11.26	11.26	8.48	12.74	1.48	13.1 %
Licenses & Permits	1.39	1.39	0.82	1.13	(0.26)	(18.6) %
Interest Income	0.48	0.48	(1.14)	5.00	4.52	932.9 %
Grants & Subsidies	—	0.03	0.76	2.59	2.56	9657.0 %
Subtotal	804.00	804.71	485.42	715.70	(89.01)	(11.1) %
Transfers from Fund Balance	30.12	30.12	—	—	(30.12)	(100.0) %
Project Offsets & Carryforwards	—	55.24	—	—	(55.24)	(100.0) %
Total Revenue	834.12	890.07	485.42	715.70	(174.37)	(19.6) %

FY2023-24 Q3 Expenditures

At the end of Q3, the GPF expenditure budget, only \$605.68 million or 68% of expenditures have been made compared to the Adjusted Budget, replicating the seasonality of spending. The GPF expenditures are forecasted to come in at \$870.97 million, compared to the Adjusted Budget of \$890.07 million, which is higher by \$19.09 million. All but one Department is projected to be under or at budget. The one Department is overspending is at a much higher rate than can be offset by the other Departments. Per the City’s Consolidated Fiscal Policy, Departments projected to overspend in the General Purpose Fund by more than one percent (1%), shall bring an informational report to the City Council within 60 days following acceptance of the Revenue & Expenditure report by the City Council. The report shall list the actions the Administration is taking to bring the expenditures into alignment with the budget.

Most departments, savings is due to vacancy savings. The budgeted vacancy factor assumed in the FY 2023-24 Biennial Budget is 8.00% across most City Departments, recognizing the trend and capturing vacancy savings. The actual vacancy rate as of Q3 in the GPF is 15.0%, which is almost more than twice of that assumed in the budget, resulting in further savings.

The Biennial Adopted Budget assumed a use of fund balance in the amount of \$30.12 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 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 2023-24 Expenditures by Department.

Table 3: FY 2023-24 Q3 GPF Expenditures Budget to Actuals (\$ in millions)

Department	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q3 YTD Actuals	FY 2023-24 Q3 Year-End Estimate	Year-End \$ (Over) / Under Adjusted	Year-End % (Over) / Under Adjusted
Capital Improvement Projects	0.55	1.96	0.29	1.96	—	— %
City Administrator	9.81	12.49	6.08	11.48	1.01	8.1 %
City Attorney	21.75	23.40	16.30	22.75	0.65	2.8 %
City Auditor	3.31	3.60	1.82	2.74	0.86	23.9 %
City Clerk	7.85	10.75	2.01	10.20	0.55	5.1 %
City Council	7.12	7.68	4.76	6.96	0.72	9.3 %
Department of Transportation	20.54	23.01	12.19	20.71	2.29	10.0 %

Department	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q3 YTD Actuals	FY 2023-24 Q3 Year-End Estimate	Year-End \$ (Over) / Under Adjusted	Year-End % (Over) / Under Adjusted
Department of Violence Prevention	10.79	13.08	6.05	11.47	1.61	12.3 %
Department of Workplace and Employment Standard	4.31	5.67	3.53	5.14	0.53	9.3 %
Economic and Workforce Development Department	11.19	17.07	7.33	16.77	0.30	1.8 %
Finance Department	30.00	33.33	17.92	28.86	4.47	13.4 %
Fire Department	199.87	212.29	135.80	193.39	18.90	8.9 %
Housing and Community Development Department	0.24	2.75	1.36	2.75	—	— %
Human Resources Management Department	9.50	9.79	6.46	9.64	0.15	1.6 %
Human Services Department	44.76	42.82	36.41	42.61	0.21	0.5 %
Information Technology Department	16.97	18.68	10.33	16.98	1.69	9.1 %
Mayor	4.60	4.66	3.01	4.02	0.64	13.8 %
Non- Departmental and Port	55.60	60.80	39.86	55.62	5.18	8.5 %
Oakland Animal Services	6.49	6.54	4.14	5.96	0.58	8.8 %
Oakland Parks and Recreation Department	18.30	19.23	13.19	17.42	1.81	9.4 %
Oakland Public Library Department	12.31	12.32	8.95	11.59	0.73	5.9 %
Oakland Public Works Department	1.36	2.06	1.71	2.06	—	— %

Department	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q3 YTD Actuals	FY 2023-24 Q3 Year-End Estimate	Year-End \$ (Over) / Under Adjusted	Year-End % (Over) / Under Adjusted
Planning and Building Department	—	—	—	—	—	N / A
Police Commission	7.96	8.94	3.88	7.08	1.86	20.8 %
Police Department	325.39	333.34	260.15	359.37	(26.03)	(7.8) %
Public Ethics Commission	2.25	2.35	1.23	2.02	0.32	13.7 %
Race and Equity Department	1.29	1.48	0.90	1.39	0.09	5.9 %
Total	834.12	890.07	605.68	870.97	19.09	2.1 %

The City's number of vacancies is a contributing factor to projected expenditure savings in the GPF. In Q3, the GPF's vacancy rate (net positions that are frozen as part of the FY 2023-24 Adopted Budget), is 15.00%, as shown in **Table 4** below. The vacancy rate assumed in the FY 2023-24 Adopted Budget is 8.00% across most City Departments.

Table 4: FY 2023-24 Q3 GPF Filled and Vacant Positions (Percent %)

Status as of Q3 FY 2023-2024	Percent (%)
Filled or Encumbered	85.0 %
Vacant	15.0 %

Fund Balance

The City's GPF Fund Balance, net obligations, is projected to end FY 2023-24 at negative \$62.09 million. Obligations are reserves required by City Ordinances and the City Charter (mandated emergency reserves). **Table 5** below shows mandated reserves required by City Ordinances and the City Charter (mandated emergency reserves) totaling \$33.84 million, decreasing the estimated FY2023-24 year-end available fund balance from negative \$62.09 million to negative \$95.93 million. The estimated FY 2023-24 available Fund Balance is the amount of unobligated funding available to the City in the GPF.

Table 5: Summary of FY 2023-24 Fiscal Situation with GPF Fund Balance (\$ in millions)

GENERAL PURPOSE FUND (1010)	FY 2023-24 Q3 Projected FYE
Estimated FY 2023-24 Beginning Audited Fund Balance	93.28
FY2023-24 Performance	
Revenue	715.70
Expenditures	870.97
FY 2023-24 Operating Surplus / Deficit	(155.27)
Unaudited Ending Fund Balance	(62.09)
Obligations Against Ending Fund Balance	
Use of Fund Balance in FY 2024-25	(33.84)
Estimated FY 2023-24 Ending Available Fund Balance	(95.93)

Summary

FY 2023-24 Q3 projections indicate that GPF revenues and expenditures will come in below budget, with the combination of the two culminating in an approximately \$155.27 million operating deficit. The adjusted budget also assumes the use of a fund balance in the amount of \$30.12 million to balance budgeted expenditures, plus \$55.24 million to support Carryforwards, thus creating a structurally imbalanced budget. Several City departments are projected to have significant savings, primarily due to underspending in personnel costs from vacancies. The main outlier is the Police Department, which is projected to exceed its budget by \$26.03 million, primarily due to overspending on personnel from overtime costs.

Consolidated Fiscal Policy (CFP) Implications

Per the City’s Consolidated Fiscal Policy, Part I. Alterations to the Budget, Departments projected to overspend in the General Purpose Fund by more than one percent (1%), shall bring an informational report to the City Council within 60 days following acceptance of the Revenue & Expenditure report by the City Council. The report shall list the actions the Administration is taking to bring the expenditures into alignment with the budget. The Police Department projected a year-end total of 7.8% over budget for the second quarter meets this provision.

Conclusion

One-time Federal relief funding from the American Rescue Plan Act (ARPA) of \$188 million temporarily relieved the structural imbalance in the GPF over the past three years. With the exhaustion of ARPA funding, the City still faces a structural imbalance. This is now amplified with the steep drop of RETT which projects to end the year at \$53.22 million compared to its peak during FY 2021-22 which ended the year at \$138.40 million. Inflationary trends are placing

pressure on expenditures while vacancies in staffing throughout the City are partially offsetting it at the expense of providing necessary services. The City's short-term and long-term fiscal outlook will depend on nimble but cautious management in the current and coming years.

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 City Council Receive An Informational Report On The Unaudited Fiscal Year (FY) 2023-24 Third Quarter Revenue And Expenditure (R&E) Results And Year-End Summaries For The General Purpose Fund (GPF, 1010).

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

Respectfully submitted,



Erin Roseman (May 16, 2024 15:38 PDT)

ERIN ROSEMAN
Director of Finance, Finance Department

Reviewed by:
Bradley Johnson, Budget Administrator
Sherry Jackson, Revenue & Tax Administrator

Prepared by:
Revenue Management & Budget Bureau(s):
Agaba, Rogers
Dang, Huey
Kirkpatrick, Tiffany
Mariano, Daniel
Maurer, Chuck
Segura, Jose
Soares, Michelle
Stabler, Rina
Urrutia, Kristin

Attachments(1):
A: FY 2023-24 Q3 Detailed Report