CITY OF OAKLAND

AGENDA REPORT

TO:	Steven Falk Interim City Administrator	**FROM:**	Erin Roseman Director of Finance
SUBJECT:	FY 2022-23 Q3 Revenue & Expenditure Report	**DATE:**	May 31, 2023

City Administrator Approval SF Date: Jun 2, 2023

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2022-23 Third Quarter Revenue and Expenditure (R&E) Results And Year-End Estimates For The General Purpose Fund (GPF, 1010).

EXECUTIVE SUMMARY

This report details the City of Oakland's (the City) unaudited Third Quarter (Q3) financial results for FY 2022-23 in the General Purpose Fund (GPF) and preliminary FY 2022-23 projected year-end revenues and expenditures based on **Third** Quarter (**Q3**) trends. The purpose of the quarterly revenue and expenditure (R&E) report is to guide the City in managing its ongoing budget as more financial data becomes available. With the timing and data availability for this report, inevitably there are current economic trends that may not be reflected. The Third Quarter represents revenue collection and expenditure trends from July 2022 to March 2023. It is important to note that the collection of revenue is seasonal and this quarter, in particular, is impacted by extended tax due dates and revenue recording delays.

In the Third Quarter of 2022-23, 49.8% of revenues have been collected and 64.8% of expenditures have been expensed. Taking this and many factors into consideration, our analysis of projected revenues and expenditures through March 31, 2023, suggests that the GPF may run an operating deficit in the current year.

This report does not address Select Special Funds as has previous quarterly Revenue and Expenditure Reports due to timing and availability of financial data.

Table 1: FY 2022-23 Q3 GPF Revenues and Expenditures Budget to Actuals ($ in millions)

	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Year-End Actuals Estimate	Use of Fund Balance and ARPA Funds	FY 2022-23 Year-End Adjusted	FY 2022-23 Year-End $ Over / Under Adjusted Budget	Projected Year-End % Over / Under Adopted Budget
FY 2022-23 Revenues	918.86	457.75	829.45	120.60	715.73	(203.13)	(22.1%)
FY 2022-23 Expenditures	918.86	595.99	865.98	(68.00)	797.98	120.88	13.2%
Operating (Shortfall) / Surplus	–	**(138.24)**	**(36.53)**	**(52.6)**	**(82.26)**	**(82.26)**	**(8.9%)**

The February 8, 2023, ransomware attack halted the operating capability of most of the City's technology network systems and software for approximately two months. Since then, most systems have been restored. During this incident the City's ability to deposit revenues at our financial institution was not impacted nor was the efficacy of the financial system however, there is backlog of revenues that have not been fully booked and recorded in Oracle, the City's official financial management system. At the time of this report, the financial reporting of revenues from the Oracle system is limited until City staff concludes with the laborious, manual process of entering revenue information into Oracle. For this reason, current year actuals are incomplete and projected revenues for most revenue categories are kept at the same levels as reported in the Second Quarter (Q2) R&E report.

While year-end projections remain unchanged for most revenue categories, there is a projected decrease to year-end estimates to two revenue sources due to weaker economic conditions, compared to Q2.

a. **Real Estate Transfer Tax** is the most volatile source of revenue. The City collected an average of $112.05 million in each of the last four fiscal years, with the lowest amount of $98.04 million collected in FY 2019-20 and the highest amount ever of $138.40 million in FY 2021-22. For the current fiscal year, the latest revised estimated collection of RETT stands at $73.39 million, a drop of $38.81 million, or 34.6%, from the Adjusted Budget of $112.20 million. The revised estimated RETT includes $4.03 million expected to be received in June 2023 for the transaction as a result of the sale of the Claremont Hotel on May 11, 2023.

There are multiples reasons for the downward adjustments:

i. Mortgage Interest Rates: Due to inflation, the Federal Reserve started raising interest rates to curb inflation beginning in March 2022. According to Freddie Mac, a private company chartered by Congress in 1970 to help ensure a reliable and affordable supply of mortgage funds, the average 30-year fixed rate has soared from 4.67% on March 31, 2022 to 6.32% on March 30, 2023. The higher the interest rate, the higher the cost to borrow. Therefore, rising interest rates affect the affordability index, and affects whether a person's earnings are sufficient to cover the cost of a mortgage.

ii. Volume of Properties Sold: Generally, the RETT is a tax paid on each deed or other recorded instrument transferring real property, such as the sale of real property. The rise in interest rates contributed to a drastic drop in the volume of sales across all price ranges. Through the first nine months of the current fiscal year, 2,715 transactions were recorded compared to 4,408 transactions recorded for the same period a year ago - a drop of 1,693 transactions year-over-year (or a 38% reduction).

iii. Sale Price: The median sale price in Oakland for detached single family residential at the beginning of the current fiscal year was $1.10 million. The median sale price for the same detached single family residential dropped down to $834,800 at the end of third quarter, a drop of $266,000, or 24% decrease in market value. A similar drop in market value also occurred in multi-unit residential properties. The median sale price that started at $1.24 million when the fiscal year started dropped down to $860,000 by the end of the third quarter, a drop of approximately 31%. Because the RETT is based on the market value of property, the higher the market value, the higher the tax. The reverse is also true, and this has affected the City's projected RETT revenue in this fiscal year.

b. **Sales Tax**: Based on the information received through two quarters of Sales Tax activity from July 2022 through December 2022, the revised Sale Tax collection for FY 2022-23 will total $65.12 million. The revised downward adjustment of ($0.93) million is in relation to the Second Quarter projected revenue of $66.15 million due to the expected slowdown in the economy for the second half of the fiscal year. For the year, however, the Sales Tax is still projected with an overall increase of $2.52 million from the adjusted budget of $62.60 million due high inflation rates that are driving up the prices of goods.

Overall, the GPF projects to receive $715.73 million of revenues in taxes, fees, and interfund transfers by year end, ending with a net shortfall of $14.37 million compared to the $730.10 million anticipated in the FY2022-23 Adjusted Budget. In addition to actual revenues, the Adjusted Budget of $918.86 million also assumes $77.77 million in use of fund balance to balance expenditures and $42.99 million in use of fund balance to cover prior year carryforwards. Furthermore, the Adjusted Budget also includes as part of its revenues an anticipated interfund transfer from the ARPA Fund (2072) in the amount of $68.00 million. GPF expenditures will be transferred out and expensed out of the ARPA Fund instead and is in alignment with Federal regulations, as is further explained on the expenditure side of this report.

GPF departmental expenditure projections are projected to come in below the Adjusted Budget by $120.88 million after accounting for $68.00 million in anticipated eligible expenditures that will be transferred to and expensed out of the American Rescue Plan Act (ARPA) Fund (2072) by year-end. This accounting adjustment is taking place instead of the anticipated interfund transfer assumed in the budget in which a transfer out of the ARPA fund was accounted for as a revenue in the GPF. If not for the $68.00 million of GPF expenditures covered by the ARPA Fund, the GPF would instead project to underspend by $52.89 million.

Overall, GPF expenditures project to end the year at $797.98 million, which represents $120.88 million of savings compared to the Adjusted Budget of $918.86 million. GPF revenues are projected to end the year lower, at $715.73 million, resulting in an operating deficit of $82.26 million for FY 2022-23. This leads to a projected Fund Balance, after accounting for fund obligations, to be reduced from the FY22-23 Audited Beginning Fund Balance of $147.20 million to an estimated ending available fund balance of $59.82 million at the end of FY 2022-23.
On March 15, 2023, the Mayor instituted a Selective Hiring Freeze to further slow expenditure trends and increase heightened monitoring of expenditures. Additional caution will be exercised in the coming months as revenues are recorded, economic trends develop, and expenditure trends slow further. Details are found in ***Attachment A.***

BACKGROUND / LEGISLATIVE HISTORY

On June 26, 2022, the City Council adopted Resolution No. 89377 C.M.S. which amended the City's fiscal year 2022-2023 Budget

Pursuant to the City's Consolidated Fiscal Policy - Part G. Criteria for Project Carryforwards and Encumbrances, the Adopted Budget has also been adjusted to include $42.99 million in prior year carryforwards in the GPF which utilizes available fund balance to cover the cost.

On November 1, 2022, the City Council adopted Resolution No. 89482 CMS which authorized the City to accept a Community Oriented Policing Services (COPS) grant from the United Stated Department of Justice (USDOJ). The Resolution also authorized the City to appropriate thirteen million thirty-three thousand four hundred and nineteen dollars ($13,033,419) to cover the local match requirement; and authorized the General Purpose Fund (Fund 1010) to subsidize the Central Services Overhead costs of nine hundred ninety-two thousand seven hundred dollars ($992,700) for a total City of Oakland contribution of fourteen million twenty six thousand one hundred and nineteen dollars ($14,026,119). for a thirty-six month period from October 1,2022 through September 30, 2025.

On February 16, 2023 City Council through Resolution 89592 confirmed and ratified the existence of a local emergency within the territorial limits of the City of Oakland proclaimed by the City Administrator on February 14 pursuant to Oakland Municipal Code Chapter 8.50 and government code section 8630 due to a ransomware attack.

ANALYSIS AND POLICY ALTERNATIVES

General Purpose Fund (GPF)

Revenues

Economic conditions are the primary drivers for several City's revenue categories, with the most significant impacts in the Property Tax, Sales Tax, Business Taxes, Transient Occupancy Taxes and Real Estate Transfer Tax categories. Although the ransomware attack caused a delay in recording revenues in the financial system of record, we have employed additional methods of review and analysis of revenue categories using data kept in systems and software outside of Oracle and were supported by outside economic consultants. The additional analyses inform and support the decision of keeping the revenue estimates at the same level as projected and included in the Second Quarter Revenue & Expenditure Report. There are two exceptions, as weaker economic conditions merited a decrease to year-end estimates for the Real Estate Transfer Tax and Sales Tax compared to the Q2. Below are brief discussions of revenue categories projected to end the year under budget:

- Real Estate Transfer Tax ("RETT"): RETT is projected to decrease by an estimated $38.81 million from the adopted budget of $112.20 million. This represents a downward adjustment to the year-end projection by $15.11 million compared to the Q2. The rise in interest rates continue to negatively impact the number of property sales subject to RETT. The number of properties sold through the first nine months dropped by 31.4%, or 1,693 less properties, compared to the number of properties sold in the same time period in the prior year. Additionally, there has been a 38% decline in the sale of properties valuing more than $10 million each.

- Transient Occupancy Tax ("TOT"): Although TOT has improved from the historic low of FY 2020-21, it has yet to recover to the same level prior to the pandemic. The projected decrease of approximately $3.16 million from the adopted budget of $23.99 million is largely due the declining revenues from business travel, including declines at hotels near the Oakland International Airport.

- Parking Tax ("PT"): Similar to TOT, PT is mostly recovered from the Covid-19 pandemic, but it is still heavily dependent on the traveling public, both business and personal travel, utilizing parking garages, especially at or near the airport. The rise in traveling public relying on ride-haling companies contributes to the volatility of this revenue source. For the remainder of this fiscal year, Parking Tax is projected to decrease approximately $1.38 million from the adopted budget of $12.39 million.

- Licenses & Permits: When developing the revenue forecast for the License & Permits category, it was assumed that special events that require Police permits would increase significantly following a complete halt due to the pandemic. Many of those events did not materialize. For this reason, the revenue for the License & Permits is projected to decrease by approximately $3.26 million from the adopted budget of $6.08 million.

- Service Charges: The combined decrease of approximately $7.69 million from the adopted budget of $55.89 million consists of approximately $1.3 million for on-street parking revenue due to lower than projected parking activities and other activities associated with the recovery of fees based on the Master Fee Schedule.

Partially offsetting the lower projected estimated revenues from the above sources are the growths in Property Tax, Sales Tax, Utility Users Tax, Business License Tax and Fines & Penalties category.

- Property Tax revenues are projected to exceed the budgeted estimate by approximately $8.99 million based on most recent collection received from the Alameda County and the overall growth of taxable value of approximately 8.2% when compared to the prior year and 3.4% increase over the Adopted Budget.

- Sales Tax revenue is projected to exceed the budgeted estimate by approximately $2.52 million or 4% increase as consumers paying the highest prices ever at the pump during the summer months and rising prices across many taxable goods, especially the building and construction materials. This is a revised downward adjustment of $0.93 million in relation to the Second Quarter due to the expected slowdown in the economy for the second half of the fiscal year

- Utility Users Tax revenues are projected to grow by approximately $8.17 million or 15% increase from the adopted budget due to increases in the demand because of the cooler than normal temperatures this past winter compared to the same months in previous winter and in the utility rates charged to customers.

- Business License Tax: The increase in Business License Tax category is a result of the passage of Measure T in November 2022 General Election. Measure T changes the business tax rate structure into a progressive, tiered rate system and becomes effective in the second half of this fiscal year. The projected revenue attributable to Measure T is an increase of approximately $19.12 million in FY 2022-23. However, the current year revenue projection, inclusive of the additional revenue from Measure T, is revised to a $11.33 million projection or 10% increase overall due to collection trends of Business Tax as a whole. Absent the newly forecasted revenue from Measure T, the Business License Tax revenue would have otherwise been projected to come in $10.70 million lower compared to the Adopted Budget.

- Fines & Penalties: The increase of approximately $2.61 million is mostly driven by the increase of parking enforcement activities that resulted in parking citations.

Based on the aforementioned factors, lower projected revenue for some categories but partially offsetting by higher revenues for other categories, the overall GPF tax and fee revenue is projected with a net decrease of $14.37 million. Additionally, the Adjusted Budget assumes $77.77 million in use of fund balance, $42.99 million in prior year carryforwards, and an interfund transfer from ARPA in the amount of $68.00 million that will remain in the ARPA fund instead, all of which complement the actual revenues estimated to end the year at $715.73 million, compared to the Adjusted Budget of $918.86 million. **Table 2** highlights revenue categories with projection changes when compared to the FY2022-23 Adjusted Budget.

This section has been intentionally left blank.

Table 2: FY 2022-23 Q3 GPF Revenues Budget to Actuals ($ in millions)

Revenue Category	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	ARPA Adjustment	FY 2022-23 Q2 Year-End Estimate	Year-End $ Over / (Under) Adjusted Budget	Year-End % Over / (Under) Adjusted Budget
Property Tax	265.49	173.69		274.48	8.99	3.4%
Real Estate Transfer Tax	112.20	46.51		73.39	(38.81)	(34.6)%
Business License Tax	111.88	29.59		123.21	11.33	10.1%
Interfund Transfers	70.91	70.91	(68.00)	2.90	(68.00)	(95.9)%
Sales Tax	62.60	38.85		65.12	2.52	4.0%
Service Charges	55.89	22.60		48.20	(7.69)	(13.8)%
Utility Consumption Tax	54.40	38.20		62.57	8.17	15.0%
Transient Occupancy Tax	23.99	10.70		20.83	(3.16)	(13.2)%
Fines & Penalties	19.00	10.08		21.61	2.61	13.7%
Parking Tax	12.39	6.10		11.01	(1.38)	(11.1)%
Licenses & Permits	6.08	0.60		2.83	(3.26)	(53.5)%
Miscellaneous Revenue	2.22	8.42		8.42	6.20	279%
Interest Income	0.48	0.39		0.48	—	—%
Grants & Subsidies	0.57	0.67		0.67	0.10	14.9%
Subtotal	798.10	457.75	(68.00)	715.73	(82.38)	(10.3)%
Transfers from Fund Balance	77.77				(77.77)	(100.0)%
Project Offsets & Carryforwards	42.99				(42.99)	(100.0)%
Total	**918.86**	**457.75**	(68.00)	**715.73**	(203.13)	(22.1)%

FY2022-23 Q3 Expenditures

The GPF expenditures are forecasted to come in at $797.98 million, which is lower by $120.88 million when compared to the Adjusted Budget of $918.86 million. Of the GPF expenditure budget, only 65% of expenditures have been made at the end of Q3, replicating the seasonality of spending. The budgeted vacancy factor assumed in the FY 2022-23 Mid-Cycle Budget is 10.25% across most City Departments, recognizing the trend and capturing vacancy savings. The actual vacancy rate as of Q3 in the GPF is 18%, which is almost twice of that assumed in the budget, resulting in further savings.

The Mid-cycle Adopted Budget assumed a use of fund balance in the amount of $77.77 million to balance the expenditures as budgeted. The remaining $68.00 million of ARPA dollars are also programmed to be spent during this fiscal year by offsetting expenditures out of the GPF resulting in the majority of the anticipated savings in the GPF. 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 may

have an impact on spending trends by year end. **Table 3** below breaks down the FY2022-23 Expenditures by Department.
Table 3 below summarizes the GPF's Q3 FY 2022-23 expenditures budget to actuals, estimated at year end, adjusted to reflect the impact of the expenditures transferred out to the ARPA Fund:

Table 3: FY 2022-23 Q3 GPF Expenditures Budget to Actuals ($ in millions)

Department	FY 2022-23 Adopted Budget	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Q3 Year-End Estimate	Year-End $ (Over) / Under Adjusted Budget	Year-End % (Over) / Under Adjusted Budget
Capital Improvement Projects	3.44	4.66	2.78	4.33	0.33	7.0%
City Administrator	9.90	11.32	6.06	9.32	1.99	17.6%
City Attorney	21.04	22.45	15.26	20.78	1.67	7.4%
City Auditor	3.12	3.12	1.63	2.13	0.99	31.8%
City Clerk	10.37	11.52	4.43	9.32	2.21	19.1%
City Council	7.32	7.42	4.84	6.55	0.87	11.8%
Department of Transportation	22.69	24.82	11.60	16.38	8.44	34.0%
Department of Violence Prevention	13.57	18.42	7.52	17.47	0.95	5.2%
Department of Workplace and Employment Standard	5.96	6.32	2.61	3.85	2.48	39.2%
Economic and Workforce Development Department	16.46	21.27	8.99	19.48	1.79	8.4%
Finance Department	28.92	30.18	15.85	24.33	5.85	19.4%
Fire Department	179.82	186.03	127.62	187.17	**(1.14)**	**(0.6) %**
Housing and Community Development Department	2.18	2.68	0.40	2.44	0.24	8.8%
Human Resources Management Department	8.72	8.60	6.11	8.21	0.39	4.5%
Human Services Department	51.54	50.68	42.05	43.58	7.10	14.0%
Information Technology Department	19.40	19.97	9.35	16.82	3.15	15.8%
Mayor	4.54	4.37	2.69	3.55	0.82	18.8%

Department	FY 2022-23 Adopted Budget	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Q3 Year-End Estimate	Year-End $ (Over) / Under Adjusted Budget	Year-End % (Over) / Under Adjusted Budget
Non-Departmental and Port	77.13	88.45	73.98	77.21	11.24	12.7%
Oakland Animal Services	6.16	6.27	3.87	5.23	1.04	16.6%
Oakland Parks and Recreation Department	21.98	22.43	17.02	20.27	2.15	9.6%
Oakland Public Library Department	14.44	14.44	10.67	13.38	1.05	7.3%
Oakland Public Works Department	2.26	5.33	1.63	5.01	0.33	6.1%
Planning and Building Department	—	—	—	—	—	N / A
Police Commission	8.19	8.20	3.25	4.40	3.80	46.3%
Police Department	329.67	336.34	248.18	342.51	**(6.17)**	**(1.8) %**
Public Ethics Commission	1.81	1.96	0.95	1.25	0.71	36.1%
Race and Equity Department	1.46	1.62	0.68	1.01	0.61	37.6%
Subtotal	**872.09**	**918.87**	**630.02**	**865.98**	**52.89**	**5.8%**
OPD Portion Transferred to ARPA Fund	—	—	**(34.00)**	**(68.00)**	68.00	N / A
Total	**872.07**	**918.86**	**595.99**	**797.98**	**120.88**	**13.2%**

The City's number of vacancies is a contributing factor to projected expenditure savings in the GPF. At Q3, the GPF's vacancy rate (that are frozen as part of the FY 2022-23 Adopted Budget), is 18.00% as shown in **Table 4** below. The vacancy rate assumed in the FY 2022-23 Adopted Budget is 10.25% across most City Departments, which is approximately half of the actual vacancy rate reported at Q3.

Table 4: FY 2022-23 Q3 GPF Filled and Vacant Positions (Percent %)

Status as of Q3 FY 2022-2023	Percent (%)
Filled or Encumbered	82.0 %
Vacant	18.0 %

Fund Balance

Table 5 below shows mandated reserves required by City Ordinances and the City Charter (mandated emergency & OMERS reserves) totaling $4.46 million, decreasing the estimated FY2022-23 year-end available fund balance from $64.28 million to $59.82 million. Note that $10.80 million of the mandated FY 2022-23 emergency reserves is included in the projected year-end expenditures in **Table 5** below (as a committed transfer to the designated reserve GPF Emergency Reserve Fund (Fund 1011). The estimated FY 2022-23 available Fund Balance is the amount of unobligated funding available to the City in the GPF.

Table 5: Summary of FY 2022-23 Projected Fiscal Status in GPF Fund Balance ($ in millions)

GENERAL PURPOSE FUND (1010)	FY 2022-23 Q3 Projected FYE
Estimated FY 2022-23 Beginning Audited Fund Balance	**147.20**
FY2022-23 Performance	
Revenue	715.73
Expenditures	797.98
FY 2022-23 Operating Surplus / Deficit	**(82.26)**
Unaudited Ending Fund Balance	**64.28**
Obligations Against Ending Fund Balance	**(4.46)**
OMERS Reserves (Reso. No. 85098 C.M.S)	(2.36)
COPS Grant Match (Reso No. 89482 C.M.S)	(2.10)
Estimated FY 2022-23 Ending Available Fund Balance	**59.82**

Summary

FY 2022-23 Q3 revenues project that GPF revenues will come in below budgeted expenditures by approximately $82.26 million. Several of the City revenues are projected to come in below budget, led by Real Estate Transfer Tax which is projected to come in at $73.39 million, or $38.81 million under the adjusted budget of $112.20 million. The adjusted budget also assumes the use of fund balance in the amount of $77.77 million to balance budgeted expenditures, plus $42.99 million to support Carryforwards. Thus creating a structurally imbalanced budget. Expenditure savings are mainly attributable to Citywide vacancies and costs covered by one-time federal ARPA aid in the amount of $68.00 million. Overall, FY2022-23 projected revenues and expenditures through Q3 suggests that the GPF will run an operating deficit estimated at $82.26 million at year end.

Consolidated Fiscal Policy (CFP) Implications

In accordance with CFP, Section C. Use of Excess Real Estate Transfer Tax (RETT) Revenues, based on this third quarter report, there are no excess RETT revenues.

In CFP, Section E Use of Unassigned General Purpose Fund Balance, the third quarter projected GPF ending Fund Balance is included for use in the Mayor’s Proposed FY23-25 Biennial Budget to balance the projected deficit.

Conclusion

The City has faced tremendous economic challenges since FY 2020-21, but one-time Federal relief funding from American Rescue Plan Act (ARPA) of $188 million prevented the City's fiscal crisis at a time when residents have been especially reliant on City services. The remaining available ARPA funding in the amount of $68.00 million was assumed in the FY 2022-23 Adopted Midcycle Budget to balance expenditures. Despite the fortune of receiving these one-time funds, the City still faces a structural imbalance and projects major shortfalls in the coming years in the GPF and other funds. Macroeconomic trends are placing pressure on expenditures while vacancies in staffing throughout the City are offsetting it, but 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) 2022-23 Third Quarter Revenue and Expenditure (R&E) results and year-end summary 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
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Attachment:
A. FY 2022-23 Q3 Detailed Report

Attachment A: FY 2022-23 Q3 Detailed Report

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The report has the following major sections:

Summary of FY 2022-23 Q3 GPF Revenues & Expenditures

FY2022-23 GPF Revenue is projected to come in $203.13 million lower compared to the Adjusted Budget of $918.86 million. GPF Expenditures are estimated to come in $120.88 million under the Adjusted Budget of $918.86 million. **Table 1** below shows the FY2022-23 General Purpose Fund revenue and expenditures Adjusted Budget, Q3 year to date actuals, and year end estimates which currently project a year end operating shortfall of $82.26 million

Table 1: Summary of FY 2022-23 Q3 GPF Revenues & Expenditures Budget to Estimated Year-End Actuals ($ in millions)

Summary	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Year-End Estimate	FY 2022-23 Year-End $ Over / Under Adjusted Budget	Projected Year-End % Over / (Under) Adopted Budget
FY2022-23 Revenues	918.86	457.75	715.73	**(203.13)**	**(22.1)%**
FY 2022-23 Expenditures	918.86	595.99	797.98	120.88	13.2 %
Operating (Shortfall) / Surplus	—	**(138.23)**	**(82.26)**	**(82.26)**	**(8.9)%**

I. GENERAL PURPOSE FUND Q3 REVENUES

This section of the report provides an assessment of the City's revenue condition in the current fiscal year as compared to the FY 2022-23 Adjusted Budget based on actual performance during the first nine months of FY 2022-23 and quarterly trends established in prior fiscal years. Based on this analysis, the overall GPF tax and fee revenue is projected with a net decrease of $14.37 million. The Adjusted Budget also assumes $77.77 million in use of fund balance, $42.99 million in prior year carryforwards, and an interfund transfer from ARPA that will remain in the ARPA fund instead. Without accounting for the before mentioned one-time use of available funds, the GPF revenues forecast to come in at $715.73 million which is $203.13 million lower compared to the Adjusted Budget of $918.86 million.

Overall, the effects of persistent high inflation, high gas prices, high interest rates, decreased consumer confidence, and well-publicized layoff notices in the in the technology sector will continue to pose risks to City revenues. The well-documented rise in interest rates will continue to negatively affect real estate transfer taxes by reducing demand and price of properties on the market. Elevated interest rates also increase the cost of financing a car for prospective buyers and consequently affect the sales of automobiles. For these reasons, the Administration will continue closely monitor economic conditions and the performance of all City funds.

Q3 REVENUE HIGHLIGHTS

Property Tax: The largest revenue source for the City is projected to exceed the adjusted budget totaling $274.48 million from the adjusted budget of $265.49 million. The projected increase of $8.99 million is driven by the overall increase in taxable values of approximately 8.2% and therefore the increase in the amount of property tax assessments. The overall increase in taxable value of 8.2% is made-up of prior year transfers of ownership (4.04%) that reflected on the FY 2022-23 Property Tax rolls, Prop 13 growth (2%), newly developed and occupied commercial property (1.06%), newly developed and occupied residential property (0.64%) and other increases (0.46%).

The significant slowdown in the real estate market, both in the volume of properties sold and in the sale price that affected the Real Estate Transfer Tax in the current fiscal year, could impact the amount the property tax in the next fiscal year and beyond. The drop the volume means less number of properties will be re-assessed from the prior value that is typically lower. The drop in sale price could lead to more appeals regarding the assessed value.

Business License Tax: The second largest revenue source is projected to increase by 10% or $11.33 million over the mid-cycle budget. There are two significant factors contributing to the increase in revenue projection. Recent economic conditions, such as the increase commercial vacancy rates, the rise in borrowing interest rate, the decline in personal income and taxable sales, are putting downward pressure on tax revenues. As a result, the revised forecast for the current fiscal year is a decreased by $10.7 million from the midcycle adopted. However, with the passage of 2022 Measure T, the projected revenue includes 19.12 million directly from the measure.

Real Estate Transfer Tax (RETT): The third largest revenue source for the City is projected to decrease by an estimated $38.81 million from the adjusted budget of $112.20 million. The significant reduction is attributable to rising interest rates that impact the affordability factor and consequently the number of property sales subject to RETT. The number of properties sold through the first nine months dropped by 39.9%, or 1,693 less properties, compared to the number of properties sold in the same time period in the prior year.

Table 2: RETT Growth Rate ($ in millions)

	FY 2021-22 to date		FY 2022-23 to date		Year-Over-Year Variance Thru Q3	
Sale Price	**Gross Sales**	**Volume**	**Gross Sales**	**Volume**	**Gross Sales**	**Volume**
$300,000 or below	$52.10	323	$27.15	167	(47.9)%	(48.3)%
$300,001 to $2 Million	$3,482.11	3,753	$2,125.57	2,334	(39.0)%	(37.8)%
$2 million to $5 Million	$768.62	283	$498.23	182	(35.2)%	(35.7)%
$5 -10 Million	$183.29	27	$119.89	17	(34.6)%	(37.0)%
$10 - 50 Million	$445.83	21	$282.26	13	(36.7)%	(38.1)%
$50.01-100 Million	$65.00	1	$147.65	2	127.2 %	100.0 %
Over $100 Million	$327.50	1	$0.00	—	(100.0)%	(100.0)%
Total	**$5,324.46**	**4,408**	**$3,200.74**	**2,715**	**(39.9)%**	**(38.4)%**

Sales Tax: Based on the data provided by the City's Sales Tax consultant for the period of July 2022 through December 2022 and broken down by the Major Industry Group, as shown in **Table 3** below, the City experienced a net positive gain of 3.9% when compared against the same period in the prior year. The gain was mostly driven by the highest gas prices on records across the state during the summer months of 2022 with Oakland averaging $6.55 per gallon for regular unleaded gasoline[1], exceptionally strong sale of building and construction materials, and the rising prices, especially restaurant menu prices. Since then, gas prices have dipped below its highest with Oakland averaging $4.81 per gallon for regular unleaded gasoline[2], inflation eases but continues to persist, and increased interest rates, all of which will limit economic growth and a gradual change in consumer behavior away from taxable goods to non-taxable items such as services and travel.

For the reasons above, the fourth largest revenue source for the City is projected to exceed the adopted budget by approximately by $2.52 million, totaling $65.12 million from the adjusted budget of $62.60 million for FY 2022-23

[1]Source: https://gasprices.aaa.com/?state=CA#state-metro
[2]Ibid

Table 3: Sales Tax Comparison by Category FY2021-22 and FY 2022-23 ($ in millions)

Category	Thru Q2 FY 2021-22	Thru Q2 FY 2022-23	Inc/Dec
State/County Pools & Transfers	3.14	3.03	(3.5)%
Restaurants & Hotels	2.41	2.63	9.3%
Autos & Transportation	2.18	2.33	7.0%
Fuel & Service Stations	1.72	2.15	24.8%
Business & Industry	1.79	1.73	(3.2)%
Building & Construction	1.38	1.52	10.1%
General Consumer Goods	1.54	1.47	(4.3)%
Food & Drugs	1.48	1.38	(6.5)%
Average	**1.95**	**2.03**	**3.9%**

Service Charges: This fifth largest revenue source for the City is projected to come in at $48.20 million, which is lower by $7.69 million compared to the adjusted budget of $55.89 million. Service charges are primarily parking meter revenue, franchise fee, and other fees which include fire inspection.

Interfund transfers & Transfers From Fund Balance: The adjusted budget assumes $77.77 million in use of fund balance to balance budgeted expenditures and $42.99 million in use of fund balance to support carryforward expenditures. Additionally there is $70.91 million budgeted in anticipated interfund transfers. Of which, $68.00 million that were anticipated to transfer over from the ARPA Fund (2072) will not be transferred. Instead an accounting adjustment will be made to transfer eligible expenditures out of the GPF and into the ARPA Fund, since Federal guidelines require ARPA funds to be allocated separately.

Table 4 summarizes the FY2022-23 GPF revenues by category.

Table 4: FY2022-23 Q3 Adopted Budget to Actuals and Year End Estimate ($ in millions)

Revenue Category	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	ARPA Adjustment	FY 2022-23 Q3 Year-End Estimate	Year-End $ Over / (Under) Adjusted Budget	Year-End % Over / (Under) Adjusted Budget
Property Tax	265.49	173.69		274.48	8.99	3.4 %
Real Estate Transfer Tax	112.20	46.51		73.39	**(38.81)**	**(34.6)%**
Business License Tax	111.88	29.59		123.21	11.33	10.1 %
Interfund Transfers	70.91	70.91	(68.00)	2.90	**(68.00)**	**(95.9)%**
Sales Tax	62.60	38.85		65.12	2.52	4.0 %
Service Charges	55.89	22.60		48.20	**(7.69)**	**(13.8)%**
Utility Consumption Tax	54.40	38.20		62.57	8.17	15.0 %
Transient Occupancy Tax	23.99	10.70		20.83	**(3.16)**	**(13.2)%**
Fines & Penalties	19.00	10.08		21.61	2.61	13.7 %
Parking Tax	12.39	6.10		11.01	**(1.38)**	**(11.1)%**
Licenses & Permits	6.08	0.60		2.83	**(3.26)**	**(53.5)%**
Miscellaneous Revenue	2.22	8.42		8.42	6.20	279%
Interest Income	0.48	0.39		0.48	—	— %
Internal Service Funds	—	—		—	—	N / A
Grants & Subsidies	0.57	0.67		0.67	**0.10**	14.9%
Subtotal	798.10	457.75	(68.00)	715.73	(82.38)	**(10.3)%**
Transfers from Fund Balance	77.77	—		—	**(77.77)**	**(100.0)%**
Project Offsets & Carryforwards	42.99	—			**(42.99)**	**(100.0)%**
Total	**918.86**	**457.75**	(68.00)	**715.73**	(203.13)	**(22.1)%**

II. GENERAL PURPOSE FUND Q3 EXPENDITURES

GENERAL PURPOSE FUND EXPENDITURE HIGHLIGHTS

The GPF expenditures are forecasted to come in at $797.98 million, which is a decrease of $120.88 million, compared to the Adjusted Budget of $918.86 million. The majority of the savings are attributable to a transfer in the amount of $68.00 million of expenditures out of the GPF into the ARPA Fund (2072). The Adjusted Budget also further required a use of fund balance in the amount of $77.77 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 FY2019-20, FY2020-21, FY2021-22 and FY2022-23 expenditures in the budget by programming CARES dollars ($36.99 million), ARPA dollars ($188 million), and use of VSSF ($14.65 million) for a total of $239.64 million, which would equal 26% of FY2022-23 GPF budgeted expenditures. The budgeted personnel expenditures also assume a vacancy factor of 10.25 %, expediting hiring to a large degree could change the outcome. Overall, the increase in the appropriations level compared to previous years merits further consideration as it reflects the current global inflationary trend affecting the economy.

Table 5 below reflects the GPF expenditures forecasted to come in at $797.98 million which is $120.88 million or 13.2% under the adjusted budget of $918.86 million.

Table 5: Summary of FY 2022-23 Q3 GPF Expenditures Budget to Actuals ($ in millions)

	FY 2022-23 Adopted Budget	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Q3 Year-End Estimate	Year-End $ (Over) / Under Adjusted Budget	Year-End % (Over) / Under Adjusted Budget
FY 2022-23 Expenditures	872.07	918.86	595.99	797.98	120.88	13.2 %

Department Level Spending Trends

Table 6 reflects department level spending and projected year-end GPF expenditures, adjusted to reflect the impact of the $68.00 million in expenditures transferred out to the ARPA Fund. As a result, City-wide GPF departmental expenditure projections are projected to come in below the Adjusted Budget by $120.88 million. All Departments, except two, are projected to be under budget at the end of the fiscal year. The two Departments are the Fire Department, projected at 0.6% over budget and the Police Department projected at 1.8% over budget.

Table 6: Summary of FY 2022-23 GPF Projected Expenditure Variance ($ in millions)

Department	FY 2022-23 Adopted Budget	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Q3 Year-End Estimate	Year-End $ (Over) / Under Adjusted Budget	Year-End % (Over) / Under Adjusted Budget
Capital Improvement Projects	3.44	4.66	2.78	4.33	0.33	7.0 %
City Administrator	9.90	11.32	6.06	9.32	1.99	17.6 %
City Attorney	21.04	22.45	15.26	20.78	1.67	7.4 %
City Auditor	3.12	3.12	1.63	2.13	0.99	31.8 %
City Clerk	10.37	11.52	4.43	9.32	2.21	19.1 %
City Council	7.32	7.42	4.84	6.55	0.87	11.8 %
Department of Transportation	22.69	24.82	11.60	16.38	8.44	34.0 %
Department of Violence Prevention	13.57	18.42	7.52	17.47	0.95	5.2 %
Department of Workplace and Employment Standard	5.96	6.32	2.61	3.85	2.48	39.2 %
Economic and Workforce Development Department	16.46	21.27	8.99	19.48	1.79	8.4 %
Finance Department	28.92	30.18	15.85	24.33	5.85	19.4 %
Fire Department	179.82	186.03	127.62	187.17	**(1.14)**	**(0.6)%**
Housing and Community Development Department	2.18	2.68	0.40	2.44	0.24	8.8 %

Department	FY 2022-23 Adopted Budget	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Q3 Year-End Estimate	Year-End $ (Over) / Under Adjusted Budget	Year-End % (Over) / Under Adjusted Budget
Human Resources Management Department	8.72	8.60	6.11	8.21	0.39	4.5 %
Human Services Department	51.54	50.68	42.05	43.58	7.10	14.0 %
Information Technology Department	19.40	19.97	9.35	16.82	3.15	15.8 %
Mayor	4.54	4.37	2.69	3.55	0.82	18.8 %
Non Departmental and Port	77.13	88.45	73.98	77.21	11.24	12.7 %
Oakland Animal Services	6.16	6.27	3.87	5.23	1.04	16.6 %
Oakland Parks and Recreation Department	21.98	22.43	17.02	20.27	2.15	9.6 %
Oakland Public Library Department	14.44	14.44	10.67	13.38	1.05	7.3 %
Oakland Public Works Department	2.26	5.33	1.63	5.01	0.33	6.1 %
Police Commission	8.19	8.20	3.25	4.40	3.80	46.3 %
Police Department	329.67	336.34	248.18	342.51	(6.17)	(1.8)%
Public Ethics Commission	1.81	1.96	0.95	1.25	0.71	36.1 %
Race and Equity Department	1.46	1.62	0.68	1.01	0.61	37.6 %
Subtotal	**872.09**	**918.87**	**630.02**	**865.98**	**52.89**	**5.8 %**
Transferred to ARPA Fund	—	—	(34.00)	(68.00)	68.00	N / A
Total	**872.07**	**918.86**	**595.99**	**797.98**	**120.88**	**13.2 %**

The following section details Q3 projected GPF savings or overspending by Department, as compared to the FY 2022-23 Adjusted Budget.

Capital Improvement Program (CIP)

The Capital Improvement Program projects to have $330,000 in savings in O&M.

City Administrator (CAO)

The City Administrator's Office is projected to underspend by $1.99 million, or 17.6% of their budget due to savings in O&M and vacancies. In the General Purpose Fund, CAO has a vacancy rate of 21%, with eight vacant positions.

City Attorney (OCA)

The City Attorney is projected to underspend by $1.67 million, or 7% of their budget primarily due to vacancies. In the General Purpose Fund, OCA has a vacancy rate of 7%, with four vacant positions. In addition, there is a projected $500,000 savings in O&M.

City Auditor

The City Auditor is projected underspend by $0.99 million, or 32% of their budget due to vacancies. In the General Purpose Fund, City Auditor has a vacancy rate of 27%, with three vacant positions.

City Clerk

The Office of the City Clerk is projected to underspend their budget by $2.21 million, or 19% of their budget due to savings in O&M and vacancies. In the General Purpose Fund, City Clerk has a vacancy rate of 18%, with two vacant positions.

City Council

The City Council is projected to underspend their budget by $0.87 million, or 12% of their budget due to vacancies. In the General Purpose Fund, City Council has a vacancy rate of 3%, with one vacant position.

Department of Transportation (DOT)

The Department of Transportation is projected to underspend by $8.44 million, or 34% of their budget primarily due to vacancies. In the General Purpose Fund, DOT has a vacancy rate of 37%, with 38 vacant positions. Furthermore, there is a projected $3.1 million savings in O&M.

Violence Prevention (DVP)

The Department of Violence Prevention is projected to underspend by $0.95 million or 5% of their budget due to vacancies. In the General Purpose Fund, DVP has a vacancy rate of 41%, with seven vacant positions.

Department of Workplace & Employment Standards (DWES)

The Department of Workplace & Employment Standards is projected to underspend by $2.48 million, or 39% of their budget primarily due to vacancies. In the General Purpose Fund, DWES has a vacancy rate of 42%, with eight vacant positions. Furthermore, there is a projected $780,000 savings in O&M.

Economic & Workforce Development (EWD)

Economic & Workforce Development is projected to underspend by $1.79 million, or 8% of their budget, due to vacancies. In the General Purpose Fund, EWD has a vacancy rate of 31%, with nine vacant positions.

Finance Department

The Finance Department is projected to underspend by $5.85 million, or 19% of their budget, primarily due to vacancies. In the General Purpose Fund, Finance has a vacancy rate of 17%, with 20 vacant positions. Furthermore, there is a projected $2.7 million in savings in O&M.

Fire Department

The Oakland Fire Department is projected to overspend by $1.14 million, or 0.6% of their budget. In the General Purpose Fund, Fire has a vacancy rate of 13%, with 74 vacant positions which results in savings in the amount of $14.09 million. However, these estimated savings from the vacancies are offset by $19.67 million in over-time overspending resulting in a net personnel year end projected overspend in the amount of $5.58 million. Based on Q3 expenditure trends, there is projected $4.44 million in savings from O&M in the General Purpose Fund for Fire which partially offsets the personnel overspending. These savings are primarily due to funding for fire prevention/inspection costs that have only been partially spent this fiscal year

Housing & Community Development (HCD)

Housing & Community Development is projected to end the fiscal year at $2.44 million which is $0.24 million or 8.9% under the adjusted budget of $2.68 million.

Human Resources Management (HRM)

Human Resources Management is projected to underspend by $0.39 million, or 5% of their budget, primarily due to underspending in Personnel. In the General Purpose Fund, HRM has a vacancy rate of 17%, with seven vacant positions.

Human Services Department (HSD)

Human Services Department is projected to come in under budget by $7.10 million, or 14% of their budget due to savings in O&M and vacancies. In the General Purpose Fund, HSD has a vacancy rate of 18%, with 11 vacant positions

Information Technology (ITD)

The Information Technology Department is projected to underspend by $3.15 million, or 16% of their budget primarily due to vacancies. In the General Purpose Fund, ITD has a vacancy rate of 17%, with nine vacant positions. Furthermore, there is a projected $1.7 million in savings in O&M.

Mayor's Office

The Mayor's Office is projected to underspend by $0.82 million, or 19% of their budget, due to vacancies. In the General Purpose Fund, Mayor's Office has a vacancy rate of 9%, with one vacant position.

Non-Departmental

Non-Departmental is projected to underspend by $11.24 million, or 13% of the budget due to savings to funding authorized by Resolution 89377 C.M.S. to cover the increased cost of MOU labor agreements. The actual cost is projected to be lower than budgeted due to the current number of citywide vacancies. These savings are partially offset by under-recovery in central service overhead. Furthermore, there is a projected $4.6 million in savings in O&M funding for long-term liability and insurance claim costs that have been unspent this fiscal year.

Oakland Animal Services

The Department of Animal Services is projected to underspend by $1.04 million, or 17% of their budget, primarily due to vacancies. In the General Purpose Fund, Animal Services has a vacancy rate of 23%, with seven vacant positions. Furthermore, there is a projected $425,000 in savings in O&M.

Oakland Parks, Recreation and Youth Development (OPRYD)

Oakland Parks, Recreation and Youth Development is projected to underspend by $2.15 million, or 10% of their budget, primarily due to vacancies. In the General Purpose Fund, OPRYD has a vacancy rate of 26%, with 28 vacant positions. Furthermore, there is a projected $733,000 in savings in O&M.

Oakland Public Library (OPL)

Oakland Public Library is projected to underspend by $1.05 million, or 7% of their budget, due vacancies. In the General Purpose Fund, OPL has a vacancy rate of 20%, with 12 vacant positions.

Oakland Public Works (OPW)

Oakland Public Works is projected to have savings of $0.33 million, or 6% of their budget, due to vacancies.

Police Commission

The Police Commission, inclusive of the Office of the Inspector General (OIG) and Community Police Review Agency (CPRA), is projected to have savings of $3.80 million, or 46% of their budget, primarily due to vacancies. In the General Purpose Fund, Police Commission has a vacancy rate of 50%, with thirteen vacant positions. Furthermore, there is a projected $1.1 million in savings in O&M.

Police Department

The Police Department is projected to overspend by $6.17 million, or 1.8% of their budget, due to overtime overspending. The overspending in overtime derives from OPD implementing a 30-day crime plan to reduce violent crime in the city of Oakland in Q1. This plan required overtime by sworn personnel. In Q2 the Department implemented and extended plans for a Holiday Safety Strategy, which required more officers to be present on city streets, business districts, and tourist areas. In Q3 of FY 22-23, the Department's objective was to reduce violent crime. This plan required overtime by sworn personnel and increased spending in the Homicide Section, District Areas 1 and 3, and the Violent Crime Operation Center (VCOC). As a result of this crime plan, OPD recovered more than 100 firearms and made 140 arrests of violent individuals, and an increase in overtime spending in the Training Division. For additional details please refer to the Public Safety Cost Analysis section. In the General Purpose Fund, Police has a vacancy rate of 9%, with 91 vacant positions. Furthermore, there is a projected $5.1 million in savings in O&M in the General Purpose Fund for Police primarily due to funding for miscellaneous contract services and accident & abuse repair costs that have only been partially spent this fiscal year.

Public Ethics Commission (PEC)

The Public Ethics Commission is projected to have savings of $0.71 million, or 36% of their budget, due to vacancies. In the General Purpose Fund, PEC has a vacancy rate of 22%, with two vacant positions.

Race & Equity

The Department of Race & Equity is projected to have savings of $0.61 million, which is 38% of their budget, due to vacancies. In the General Purpose Fund, Race & Equity has a vacancy rate of 20%, with one vacant position.

Public Safety Costs & Analysis

Table 7 below shows the personnel expenditures, including overtime, for Public Safety in the GPF. Once all other personnel costs are accounted for, Oakland Police Department currently shows a projected year-end personnel budget to be overspent by $10.85 million and Oakland Fire Department currently shows a projected year-end budget to be overspent by $5.58 million in the General Purpose Fund. Details are provided on **Table 7** below.

Table 7: FY 2022-23 Public Safety GPF Personnel Expenditures ($ in millions)

Department	FY 2022-23 Adjusted Budget	FY 2022-23 Q2 YTD Actuals	FY 2022-23 Year-End Estimate	Year-End $ (Over) / Under Budget	Year-End % (Over) / Under Budget
Police Department					
Overtime (OT)	30.90	38.03	50.65	(19.75)	(63.9)%
Reimbursable OT (Special Events, etc.)		(3.53)	(3.53)	3.53	
All Other Personnel (non-OT)	251.91	187.25	246.54	5.37	2.1%
OPD Total Personnel	**282.81**	**221.75**	**293.66**	**(10.85)**	**(3.8)%**
Fire Department					
Overtime (OT)	11.11	23.11	30.78	(19.67)	(177.1)%
All Other Personnel (non-OT)	142.00	96.16	127.91	14.09	9.9%
OFD Total Personnel	**153.11**	**119.27**	**158.69**	**(5.58)**	**(3.6)%**

As shown on **Table 7** above, OPD was budgeted $30.90 million for overtime and is projected to exceed this budgeted amount by $19.75 million for a projected year-end total of $50.65 million.

In **Table 8** below, are the top five organizations in OPD where overspending has occurred most outlined in **Table 8**:

Table 8: FY 2022-23 OPD Top 5 Organizations in Overtime Expenditures ($ in millions)

Top 5 Organizations in OPD for Overtime	FY 2022-23 Adjusted Budget	FY 2022-23 Q3 YTD Actuals	FY 2022-23 Year-End Estimate	Year-End $ (Over) / Under Budget
Special Operations	5.29	7.31	9.74	(4.44)
District Area 1	2.51	6.40	8.52	(6.01)
District Area 3	2.45	3.26	4.34	(1.89)
Violent Crime Operations Center	—	1.68	2.24	(2.24)
Homicide	0.46	1.68	2.24	(1.78)
Grand Total	10.71	20.34	27.08	(16.37)

The allocation of patrol overtime is determined by the Watch Commanders and is based on a review of crime analysis data and information obtained from the weekly crime meetings. The objective is to reduce shootings, robberies, and other violent crime. The specific location and tasks are not predetermined.

In Q3 of FY 22-23, the Department's objective was to reduce violent crime. This plan required overtime by sworn personnel and increased spending in the Homicide Section, District Areas 1 and 3, and the Violent Crime Operation Center (VCOC). As a result of this crime plan, OPD recovered more than 100 firearms and made 140 arrests of violent individuals.

Special Enforcement Overtime consists of special events where sworn presence is needed or required to assist with public safety. Reimbursable overtime is categorized under Special Enforcement. In Q3, the Department received a total of $3.53 million in reimbursable overtime as a direct result of special events.

Due to the rise in robberies and shootings in District Area 1 and Area 3, the Department has deployed Community Resource Officers (CROs) for surveillance operations and extra patrols in the area, as they provide a visual deterrent to crime and reassures the community of the Department's commitment to safety. The operation continues today and requires seven-day-a week coverage.

Officers were also placed in Chinatown due to increased robberies and assaults. Sworn personnel in this area provide a visual deterrent to crime and assist with flag-downs. This overtime started in 2022 and continues to the present.

In Q3, there was a heavy push to increase the clearance rate of homicide cases, as the Department ended 2022 with a 35% clearance rate. This strategy required more officers to be present on city streets, business districts, and tourist areas. To accomplish this, extra hours were required to complete the necessary follow-up work through investigations that would lead to convictions or closures of cases. In Q1 of 2023, the homicide clearance rate rose from 35% to 44%. The Homicide Section continued on this positive track and the current clearance rate is 69%.

The Oakland Fire Department is projected to overspend in its annual personnel budget in the General Purpose Fund by $5.58 million, primarily due to overtime, which is projected to be overspent by $19.67 million. A contributing factor for the overspending as projected was the increased vacancy rate assumed in the FY2022-23 Budget, which increased from 4.0% to 10.25% for FY 2022-23. This resulted in over $8.0 million less for budgeted FTE than if the vacancy discount rate had remained at 4.0% for sworn FTE. Fire's overtime budget has also been affected by staff out due to injury, staff out due to Covid-19, and extreme weather events which has made it difficult for Fire to maintain its minimum staffing levels without the use of overtime. A historical analysis of Fire's budget is shown in **Table 9** below.

Table 9: Year-Over-Year Comparison of Public Safety GPF Personnel Expenditures ($ in millions)

Police Department					
Overtime (OT)	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY2022-23**
Adjusted Budget	14.05	16.56	15.39	33.36	30.90
Actuals (FY23 Projected)	36.36	35.07	29.18	34.35	50.65
(Over)/Under	**(22.31)**	**(18.51)**	**(13.79)**	**(0.99)**	**(19.75)**
All Other Personnel (non-OT)	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY2022-23**
Adjusted Budget	211.35	232.95	239.29	245.01	251.91
Actuals (FY23 Projected)	212.68	242.01	244.23	234.29	246.54
(Over)/Under	**(1.33)**	**(9.06)**	**(4.94)**	**10.71**	**5.37**
Total Personnel	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY2022-23**
Adjusted Budget	225.40	249.51	254.68	278.37	282.81
Actuals (FY23 Projected)	249.04	277.08	273.41	264.27	293.66
(Over)/Under	**(23.64)**	**(27.57)**	**(18.73)**	**14.09**	**(10.85)**
Fire Department					
Overtime (OT)	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY2022-23**
Adjusted Budget	3.34	2.37	4.22	19.83	11.11
Actuals (FY23 Projected)	19.65	20.63	24.22	29.83	30.78
(Over)/Under	**(16.31)**	**(18.26)**	**(20.00)**	**(10.00)**	**(19.67)**
All Other Personnel (non-OT)	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY2022-23**
Adjusted Budget	128.90	142.70	144.73	132.44	142.00
Actuals (FY23 Projected)	117.84	123.59	126.99	119.50	127.91
(Over)/Under	**11.06**	**19.11**	**17.74**	**12.94**	**14.09**
Total Personnel	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY2022-23**
Adjusted Budget	132.24	145.07	148.95	152.27	153.11
Actuals (FY23 Projected)	137.49	144.22	151.21	149.33	158.69
(Over)/Under	**(5.25)**	**0.85**	**(2.26)**	**2.94**	**(5.58)**

Historical Police Overtime

As **Table 9** above shows, Police has overspent its overtime budget on each of the prior 4 fiscal years. In FY 2018-19, Police overspent the total overtime budget by $22.31 million, in FY 2019-20,$18.51 million over budget ,in FY 2020-21 police personnel overspending was $13.79 million over budget. FY 2021-22 $0.99 million of overspending was offset by savings of $14.09 million in personnel costs overall since higher attrition rates led to salary savings due to vacancies. The savings were despite rising salary and benefit costs from the City's contract-mandated COLA increase to Sworn employees. In FY 2022-23, Police projects to overspend its Personnel budget by $10.85 million at year end due to overspending in Overtime in the amount of $19.75 million

In FY 2019-20, the Police spent $15.62 million in Special Enforcement overtime, which accounted for 37.98% of the total overtime for that year. Of this $15.62 million, police coverage of demonstrations and protests accounted for $2.63 million, sideshows enforcement accounted for $1.54 million, patrol covered $1.35 million, and Uptown walking patrol accounted for $1.11 million. To meet the FY 2020-21 midyear reductions, the Police Department began to curtail its Special Enforcement overtime in January of 2021, which dropped to $11.9 million for FY 2020-21. In comparison to FY 2019-20, police coverage of demonstrations and protests dropped to $0.95 million, sideshows enforcement decreased to $1.11 million, patrol was reduced to $0.70 million, and the Uptown walking patrol became $0.34 million.

A significant portion of Police's personnel policies are mandated from the Negotiated Settlement Agreement (NSA), which therefore also impacts the Police Department's overtime use. Of pertinence, two of NSA mandates on Police have particular impact on patrol overtime. The first is that a patrol sergeant may not supervise more than eight officers. The second is that Police cannot use acting sergeants in patrol. Taken together, a significant amount of overtime is generated because Police must have five regular permanent (not temporary acting) sergeants in patrol for every shift to supervise the minimum of 35 officers. The NSA requires the City to therefore expend a portion of its overtime for "backfill" and "extension of shift" overtime to meet this mandate.

The work of the Reimagining Public Safety Task Force and continued public dialogue around police spending initiated the Police Department in undergoing an overhaul of its budgeting for personnel costs, including and especially overtime use, during the FY 2021-23 Biennial Budget.

As a part of the FY 2021-23 Biennial Budget process, the Police Department provided for the first time a detailed breakdown of its overtime allocations and limited or eliminated several categories for FY 2021-22 and FY2022-23. In an effort to realign OPD service levels, there was a careful assignment of available personnel to units and sub-unit for each sworn and professional staffing positions. A new staffing plan was created which primarily focused on sworn police officers’ assignments based on current service level demands in the City of Oakland.

Historical Fire Overtime

Overspending in overtime continues to be an issue for Fire. As **Table 9** above shows, Fire's overtime went over its budgeted amount by $16.31 million in FY 2018-19, $18.26 million in FY 2019-20, $20.00 million in FY 2020-21, $10.00 million in FY 2021-22, and projects to overspend by $19.67 million in FY 2022-23. This overtime overspending has been mostly offset with savings in all other personnel (non-OT) pay over the years. The savings in FY2022-23 project to be in the amount of $14.09 million reducing the overall personnel overspending in the GPF to $5.58 million.

Fire's overtime use is due to three main causes: their staff vacancy level with unfilled positions, their compliance with the Local 55 MOU for minimum staffing provisions, and a reduced number of Fire Academies in recent years.

Fire has been able to balance their overtime use with salary savings across their total personnel budget from the number of vacancies they currently have. At this point, due to Local 55 MOU, the majority of Fire's overtime is used to backfill required Fire Suppression minimum service levels. Since FY 2020-21, the increase in services due to the COVID-19 pandemic resulted in the highest level of overtime Fire has had in recent years. What also contributes to Fire's higher use of overtime is that a higher level of sworn staff is on paid disability leave, which has forced the department to utilize overtime to backfill In addition, due to the pandemic, Fire was unable to conduct its FY 2020-21 academy to recruit more staff, which has also led to a higher usage of overtime to meet current service demands. Until Fire has more staff, this is anticipated to be a reoccurring problem. Fire has been managing it in part through its overall vacancy savings.

III. GENERAL PURPOSE FUND - FUND BALANCE

The City's GPF Fund Balance, net obligations, is projected to end the year at $59.82 million in FY 2022-23. Obligations are reserves required by City Ordinances and the City Charter (mandated emergency & OMERS reserves). Note that $10.80 million of the mandated FY 2021-22 emergency reserves is included in the projected year-end expenditures in **Table 10 below** (as a committed transfer to the designated reserve GPF Emergency Reserve Fund (Fund 1011).

Table 10 below shows mandated reserves required by City Ordinances and the City Charter (mandated emergency & OMERS reserves) totaling $4.46 million, decreasing the estimated FY2022-23 year-end available fund balance from $64.28 million to $59.82 million. The estimated FY 2022-23 available Fund Balance is the amount of unobligated funding available to the City in the GPF.

Table 10: FY 2022-23 Year-End Available GPF Fund Balance

GENERAL PURPOSE FUND (1010)	FY 2022-23 Q3 Projected FYE
Estimated FY 2022-23 Beginning Available Fund Balance	**147.20**
FY2022-23 Performance	
Revenue	715.73
Expenditures	797.98
FY 2022-23 Operating Surplus / (Deficit)	**(82.26)**
Unaudited Ending Fund Balance	**64.28**
Obligations Against Ending Fund Balance	**(4.46)**
OMERS Reserves (Reso. No. 85098 C.M.S)	(2.36)
COPS Grant Match (Reso No. 89482 C.M.S)	(2.10)
Estimated FY 2022-23 Ending Available Fund Balance	**59.82**

IV. RESERVES

On December 9, 2014 Council Ordinance No. 13279 amended the City's Consolidated Fiscal Policies to include designated reserves for both the Vital Services Stabilization Fund and for the acceleration of long term obligations, in addition to the mandated 7.5% GPF Emergency Reserve (refer to the attached Appendix: City of Oakland Consolidated Fiscal Policy, Section I, Part C: Use of Excess Real Estate Transfer Tax. It is important to note that while these balances are designated each fiscal year, reserve appropriations adopted in subsequent fiscal years may include any prior year true-ups.

Emergency Reserve

The City's GPF Emergency Reserve, calculated by multiplying 7.5% by the FY2022-23 Adopted Budget amount of $872.07 million, is reserved and funded at $65.41 million. The reserve is approximate to one month of FY 2022-23 Adopted Budget of $872.07 million in the GPF. This reserve will be held in Fund 1011 as directed by Council in Resolution 88717 C.M.S. The reserve requirement, pursuant to the CFP has been met.

However, the emergency reserve policy level of 7.5% is inadequate to sustain city services in an economic downturn as evidenced by the events of the last 2 years. The recommended policy level is 16.7% or two months of operating expenditures. This recommended level is supported by best practices outlined by the Government Finance Officer's Association's (GFOA). Additionally, this recommended level can be witnessed in the levels of funding needed in the balancing of the City's Budget since FY2019-20 budget by programming CARES dollars ($36.99 million), ARPA dollars ($188.00 million) and use of VSSF ($14.65 million) for a total of $239.64 million. Finally, the City Auditor's *Financial Condition for Fiscal Years 2012-13 through 2019-20* Report cites the need for additional reserves to bolster the city's financial standing.

Vital Services Stabilization Fund

The Vital Services Stabilization Fund (VSSF) was established in 2014 by City Council after the Great Recession to serve as the City's "Rainy Day" fund. Per the Consolidated Fiscal Policy, 25% of excess RETT revenue is intended to go into the VSSF. The beginning balance in FY 2022-23 for the VSSF is $2.58 million, after accounting for the FY 2022-23 GPF budgeted transfer of $7.69 million, the balance is $10.27 million. The target funding level per the City's Consolidated Fiscal Policy is $130.81 million, or 15% of the GPF revenues.

Table 11 below shows the estimated FY 2022-23 year-end reserve balances.

Table 11: FY 2022-23 Q2 Reserve Balances ($ in millions)

Description	FY 2022-23 Beginning Balances	FYE Estimated 2022-2023 Balances
Mandated Emergency Reserves FY 2022-23*	54.61	65.41
Vital Services Stabilization Fund	2.58	10.27
OMERS Reserves (Reso. No. 85098 C.M.S)	2.36	2.36
Total Reserves	**59.55**	**78.04**

The 7.5% GPF Emergency Reserve is not a cumulative balance