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# AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Katano Kasaine  
Director of Finance

**SUBJECT:** Fiscal Year 2019-24  
Five-Year Financial Forecast

**DATE:** March 13, 2019

City Administrator Approval

Date:

3/14/19

## RECOMMENDATION

Receive An Informational Report On The City Of Oakland Five-Year Financial Forecast Prepared In Accordance With The City Of Oakland's Consolidated Fiscal Policy, Ordinance 13279 C.M.S

## EXECUTIVE SUMMARY

The Five-Year Financial Forecast (Forecast) for the City of Oakland (City), which is included as **Attachment A**, spans from Fiscal Years (FY) 2019-20 to FY 2023-24. The purpose of the Forecast is to help make informed budgetary and operational decisions by anticipating future revenues and expenditures as well as highlighting anticipated fiscal risks and opportunities.

## BACKGROUND / LEGISLATIVE HISTORY

On December 9, 2014, the City Council approved the Consolidated Fiscal Policy (Ordinance No. 13279 C.M.S), which directs staff to produce a Five-Year Financial Forecast as part of the biennial budget development process. The City Council amended the Consolidated Fiscal Policy (Ordinance No. 13487 C.M.S.) on May 15, 2018.

## ANALYSIS AND POLICY ALTERNATIVES

City revenues tied to real estate have grown at a steady rate over the last five years. Real estate revenues are anticipated to continue to grow but at a slower pace from recent experience. The City is benefiting from a strong regional economy driven in part by the technology sector. However, there is risk of contraction during this forecast period. The average economic expansionary period over the last several business cycles has been approximately five years. The current expansionary period has continued for more than nine years. Expenditure growth continues to outpace the growth in revenues. A key driver of the City's expenditures are fixed personnel costs, including both retiree health and retirement benefits. These cost pressures continue to be acute.

Item: \_\_\_\_\_  
Finance & Management Committee  
March 19, 2019

The City is actively addressing various structural and long-term financial issues including paying down historical negative funds and setting aside additional resources for contingencies. The City has made progress toward attaining a structurally balanced budget in a responsible measured manner. The 7.5% General Purpose Fund Emergency Reserve was maintained and in 2014 a Rainy Day policy was approved. This has enabled the City to set aside funds for long-term obligations and establish a Vital Services Stabilization Fund which has more than \$14 million as of December 31, 2018.

Since the current period of economic growth has outlasted historical experience, it is likely there will be an economic contraction during the forecast period. Additionally, there are many unknowns regarding how the policies of the Trump Administration will impact the City's grant revenues and local economy. Given these uncertainties, the City should focus on long-term sustainability through 1) expansion of the City's economic base; 2) management of expenditure growth through efficient service delivery; and 3) practical reductions to long-term unfunded liabilities.

The City must focus on properly funding and improving its current mandates and priorities, rather than adding services or programs which would expand the projected gap. The Forecast projects an operating deficit in the General Purpose Fund (GPF) and All Funds in each of the next five years. These prospective gaps would be even larger if sustainable levels of basic infrastructure maintenance and asset recapitalization were included in baseline expenditure. Furthermore, this forecast assumes that current economic conditions continue without a recession. Modest changes in the assumed revenue growth rates could significantly alter these results.

### **COORDINATION**

This report was prepared by the Finance Department.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** No direct economic opportunities have been identified.

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

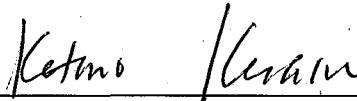
***Social Equity:*** No direct social equity opportunities have been identified.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the City Council receive an informational report on the City of Oakland's Five-Year Financial Forecast prepared in accordance with the City of Oakland's Consolidated Fiscal Policy, Ordinance No. 13279 C.M.S.

For questions regarding this report, please contact Bradley Johnson, Principal Budget & Management Analyst, at (510) 238-6119.

Respectfully submitted,



KATANO KASAINÉ  
Director of Finance

Attachments (1):

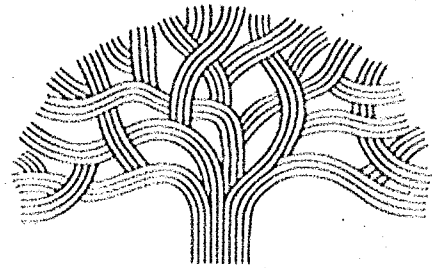
A: Five-Year Financial Forecast Fiscal Year 2019-20 – Fiscal Year 2023-24

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# **FIVE-YEAR FINANCIAL FORECAST**

*Fiscal Year 2019-20 – Fiscal Year 2023-24*



CITY OF OAKLAND

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# CITY OF OAKLAND

## Five-Year Financial Forecast

### Fiscal Year 2019-20 to Fiscal Year 2023-24

#### MAYOR

**Libby Schaaf**

#### MEMBERS OF THE CITY COUNCIL

**Rebecca Kaplan - At-Large**  
Council President

**Dan Kalb - District 1**  
Council President Pro Tempore

**Larry Reid - District 7**  
Vice Mayor

**Nikki Fortunato Bas - District 2**

**Sheng Thao - District 4**

**Lynette Gibson McElhaney - District 3**

**Noel Gallo - District 5**

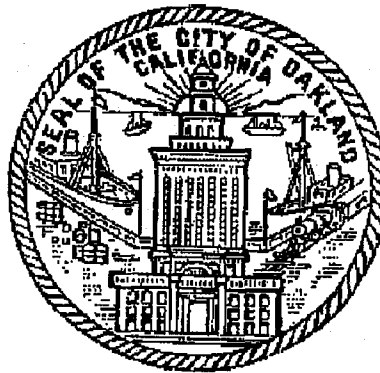
**Loren Taylor - District 6**

#### ADMINISTRATION

**Sabrina Landreth**  
City Administrator

**Maraskeshia Smith**  
Assistant City Administrator

**Stephanie Hom**  
Deputy City Administrator



#### ELECTED OFFICERS

**Barbara Parker**  
City Attorney

**Courtney Ruby**  
City Auditor

***FINANCE DEPARTMENT***

**Katano Kasaine**  
Director of Finance

**Adam Benson**  
Budget  
Administrator

**Margaret O'Brien**  
Revenue & Tax  
Administrator

**Kirsten LaCasse**  
Controller

**David Jones**  
Treasury  
Administrator

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Management Analyst

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Management Analyst

**Brittany Hines**  
Budget & Management  
Analyst, Assistant

***ACKNOWLEDGEMENTS***

Staff wishes to acknowledge the City Administrator's Office, the Finance Department, Department of Human Resource Management, and the Planning & Building Department for the input provided, their oversight and valued subject matter expertise necessary for the creation of this document.

We would also like to acknowledge Departmental fiscal staff for their diligent work on behalf of the residents of Oakland and in support of their Department's operations.

## **Mission Statement**

The City of Oakland is committed to the delivery of effective, courteous and responsible service. Citizens and employees are treated with fairness, dignity and respect.

Civic and employee pride are accomplished through constant pursuit of excellence and a workforce that values and reflects the diversity of the Oakland community.





## Table of Contents

|                                                                                  |    |
|----------------------------------------------------------------------------------|----|
| EXECUTIVE SUMMARY .....                                                          | 1  |
| Purpose.....                                                                     | 1  |
| Key Findings.....                                                                | 2  |
| Revenues .....                                                                   | 5  |
| Expenditures .....                                                               | 7  |
| Forecast Results Summary.....                                                    | 9  |
| INTRODUCTION .....                                                               | 10 |
| Purpose & Development Process.....                                               | 10 |
| Purpose.....                                                                     | 10 |
| Development Process.....                                                         | 11 |
| Technical Methodology .....                                                      | 11 |
| BACKGROUND INFORMATION .....                                                     | 12 |
| General Information.....                                                         | 12 |
| Form of Government .....                                                         | 12 |
| The City of Oakland's Role in Service Provision.....                             | 13 |
| Economic and Demographic Profile of the City of Oakland.....                     | 14 |
| Economic Profile .....                                                           | 14 |
| Demographic Profile.....                                                         | 16 |
| Principles of Government Finance .....                                           | 17 |
| Budgets & Fiscal Years .....                                                     | 17 |
| Operating Budget vs. Capital Improvement Program.....                            | 18 |
| Financial Reports & Actuals .....                                                | 18 |
| Revenues .....                                                                   | 18 |
| Expenditures .....                                                               | 19 |
| Assets & Liabilities.....                                                        | 19 |
| Funds & Transfers.....                                                           | 20 |
| Department & Organizational Structures.....                                      | 20 |
| Overhead Rates .....                                                             | 20 |
| Internal Service Funds .....                                                     | 22 |
| Budget Balancing, Surplus, Projected Surplus, Deficit & Projected Shortfall..... | 22 |
| Fund Balances & Reserves .....                                                   | 22 |
| REVENUES.....                                                                    | 24 |
| Property Tax.....                                                                | 25 |
| Sales & Use Tax.....                                                             | 27 |
| Business License Tax.....                                                        | 29 |
| Real Estate Transfer Tax.....                                                    | 30 |

|                                                                                 |    |
|---------------------------------------------------------------------------------|----|
| Transient Occupancy Tax (TOT).....                                              | 32 |
| Parking Tax.....                                                                | 33 |
| Background on California Legal Revenue Limitations .....                        | 34 |
| Propositions 13.....                                                            | 34 |
| Proposition 8 .....                                                             | 34 |
| Proposition 218 .....                                                           | 34 |
| Proposition 26 .....                                                            | 35 |
| Revenue Forecast Assumptions .....                                              | 36 |
| Inflation.....                                                                  | 36 |
| Local (Parcel) Taxes .....                                                      | 36 |
| Property Tax.....                                                               | 36 |
| Sales Tax.....                                                                  | 37 |
| Business License Tax.....                                                       | 37 |
| Utility Consumption Tax .....                                                   | 38 |
| Real Estate Transfer Tax.....                                                   | 38 |
| Transient Occupancy Tax .....                                                   | 39 |
| Parking Tax.....                                                                | 39 |
| Licenses, Permits, and Service Charges Including Parking Meter Collections..... | 39 |
| Impact Fees .....                                                               | 39 |
| Parking Citations, Fines and Penalties.....                                     | 40 |
| Interest Income & Miscellaneous Revenue .....                                   | 40 |
| Internal Service Revenue .....                                                  | 40 |
| Grants & Subsidies .....                                                        | 40 |
| Interfund Transfers.....                                                        | 40 |
| Transfers from Fund Balance.....                                                | 40 |
| Revenue Forecast Summary .....                                                  | 41 |
| Outcomes by Category of Revenue .....                                           | 41 |
| Revenue Growth Rates .....                                                      | 43 |
| EXPENDITURES.....                                                               | 45 |
| Background Information.....                                                     | 45 |
| Expenditure Categories & Forecast Assumptions .....                             | 46 |
| Summary of Assumptions.....                                                     | 46 |
| Salaries & Payroll Expenditures .....                                           | 47 |
| Active Retirement & Pension Plans (CalPERS).....                                | 48 |
| Fringe Benefits.....                                                            | 49 |
| Other Post-Employment Benefits .....                                            | 50 |
| Operations & Maintenance .....                                                  | 53 |
| Debt, Transfers & Other .....                                                   | 53 |
| Capital Projects .....                                                          | 53 |
| Expenditure Forecast Summary.....                                               | 54 |

|                                                                |    |
|----------------------------------------------------------------|----|
| Historic Cost Containment & Fiscal Planning.....               | 55 |
| Prior Legislative Action.....                                  | 55 |
| Long-Term Structural Measures.....                             | 55 |
| Administrative Actions.....                                    | 56 |
| SUMMARY & CONCLUSIONS.....                                     | 57 |
| Comparison of Revenues & Expenditures.....                     | 57 |
| Risks, Opportunities & Uncertainties.....                      | 57 |
| Possibility of Economic Contraction.....                       | 57 |
| Future Demographic Trends and Pressures on Service Levels..... | 57 |
| Sworn Police & Fire Services (Overtime).....                   | 58 |
| Baby Boomer Retirements.....                                   | 58 |
| Negative Fund Balances.....                                    | 58 |
| Real Estate & Economic Development.....                        | 58 |
| Medical Cost Inflation.....                                    | 59 |
| Reserves.....                                                  | 59 |
| New Revenue Sources.....                                       | 60 |
| Fee Recovery.....                                              | 60 |
| Pre-Funding Unfunded Liabilities.....                          | 60 |
| Investing in Employee Skills & Wellness.....                   | 60 |
| Investing in Technology.....                                   | 60 |
| New Practices & Service Delivery Models.....                   | 61 |
| Key Conclusions.....                                           | 62 |
| APPENDIX A- Major Projects FY 2018 to FY 2032.....             | 63 |
| APPENDIX B- Consolidated Fiscal Policy.....                    | 66 |

## EXECUTIVE SUMMARY

### Purpose

The Five-Year Financial Forecast (Forecast) for the City of Oakland (City) covers Fiscal Years (FY) 2019-20 to FY 2023-24. The report begins from a baseline analysis of the City's projected finances on a "carry-forward" basis over the next five years – assuming continuation of current programs and services as well as economic conditions consistent with mainstream forecasts.

The purpose of the Forecast is to help make informed budgetary and operational decisions by anticipating future revenues, expenditures, and financial risks. None of the Mayor's and City Council's goals can be effectively advanced should Oakland's fiscal foundation become unstable. As such, the Forecast highlights known fiscal challenges and projects future

financial conditions based upon the City's current service levels and staffing. The Forecast is best used as a strategic planning tool to help ensure financial sustainability and anticipate the long-term impacts of current decisions.

The Forecast serves as a resource for a diverse audience – residents, elected officials and City employees. The Forecast provides detailed information regarding the City's revenue, expenditures, assets and liabilities, as well as the assumptions, uncertainties, and external factors that are projected to influence the City's fiscal health over the next five years.

**The Forecast is not a budget and does not include any proposed balancing solutions or revised service levels.**

The Forecast is not a budget and does not include any proposed balancing solutions or revised service levels. Instead, the Forecast is a planning tool to 1) identify opportunities and challenges over a longer time frame; and 2) discuss possible measures to address those opportunities and challenges, which include identifying opportunities for enhanced revenue growth and cost control initiatives.

While Oakland's economic growth continues to be stable, there are near-term expenditure challenges that pose real risks to the City's structural balance. As detailed in *Appendix A*, there are development projects on the horizon that will add to the City's assessed valuation over time. The Oakland Army Base developments and Brooklyn Basin housing project are a few examples of developments that are projected to increase Oakland's revenues in the coming years. The Forecast captures the anticipated revenue growth from these new developments but assumes no new services (and costs) are required.

While revenue growth is anticipated to be steady over the forecast period, expenditures are growing much faster, driven primarily by fixed growth in personnel costs such as active and retiree medical benefits and pensions. The Forecast shows that recurring baseline revenues will not

**None of the Mayor's and City Council's goals can be effectively advanced should Oakland's fiscal foundation become unstable.**

parallel current recurring service expenditures moving forward. While the City's Charter requires adoption of a balanced budget each fiscal year, for the development of the next biennial budget for FY 2019-21, the City will need to develop strategies to address the shortfalls projected in the Forecast.

### **Key Findings**

City revenues tied to real estate have grown at a steady rate over the last five years. Real estate revenues are anticipated to continue to grow, but at a slower pace from recent experience. The City is benefiting from a strong regional economy driven in part by the technology sector. However, there is risk of contraction during this forecast period. The average economic expansionary period over the last several business cycles has been approximately five years. The current expansionary period has continued for more than nine years. Expenditure growth continues to outpace the growth in revenues. A key driver of the City's expenditures are fixed personnel costs, including both health and retirement benefits. These cost pressures continue to be acute.

The City is actively addressing various structural and long-term financial issues including paying down historical negative funds and setting aside additional resources for contingencies. The City has made progress toward attaining a structurally balanced budget in a responsible, measured manner. The 7.5% General Purpose Fund Emergency Reserve was maintained and in 2014 a Rainy Day policy was approved. This has enabled the City to set aside funds for long-term obligations and establish a Vital Services Stabilization Fund, which has more than \$14 million as of December 31, 2018.

Since the current period of economic growth has outlasted historical experience, it is likely there will be an economic contraction during the forecast period. Additionally, there are many unknowns regarding how the policies of the Trump Administration will impact the City's grant revenues and local economy. Given these uncertainties, the City should focus on long-term sustainability through 1) expansion of the City's economic base; 2) management of expenditure growth through efficient service delivery; and 3) practical reductions to long-term unfunded liabilities. The City must focus on properly funding and improving its current mandates and priorities, rather than adding services or programs which would expand the projected gap.

Figures 1, 2, and 3 illustrate the estimated shortfalls in the GPF and All Funds (including the GPF). As shown in these figures, the City is projecting an operating deficit in the GPF in each year of the forecast. The prospective gaps would be even greater if the City were investing at sustainable levels in maintaining its basic infrastructure and recapitalizing assets. Furthermore, this forecast assumes that current economic conditions continue without a recession. Modest changes in the assumed revenue growth rates could significantly alter these results. The City's projected baseline gap is approximately \$17.4 million in FY 2019-20. If no corrective actions are taken, the cumulative gap would increase to more than \$84.4 million in the GPF by FY 2023-24.

Figure 1 GPF Forecast Revenues, Expenditures & Shortfall - (If No Corrective Actions Are Taken)

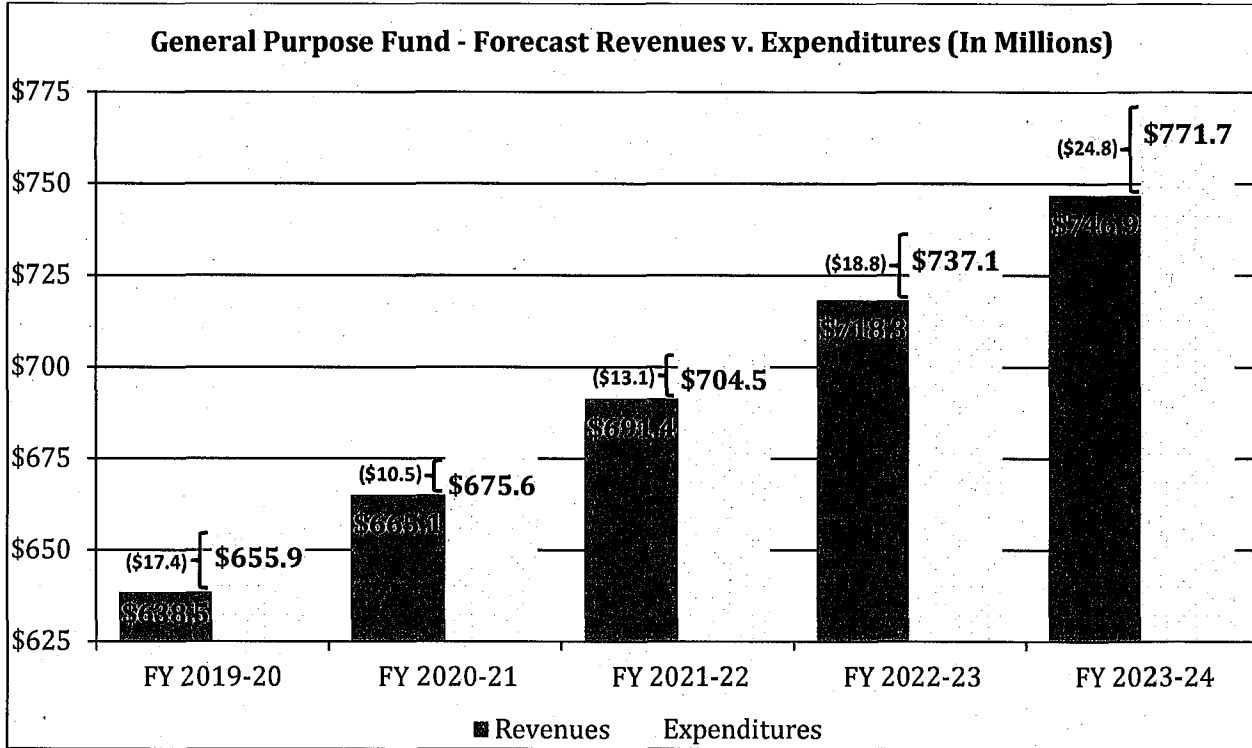
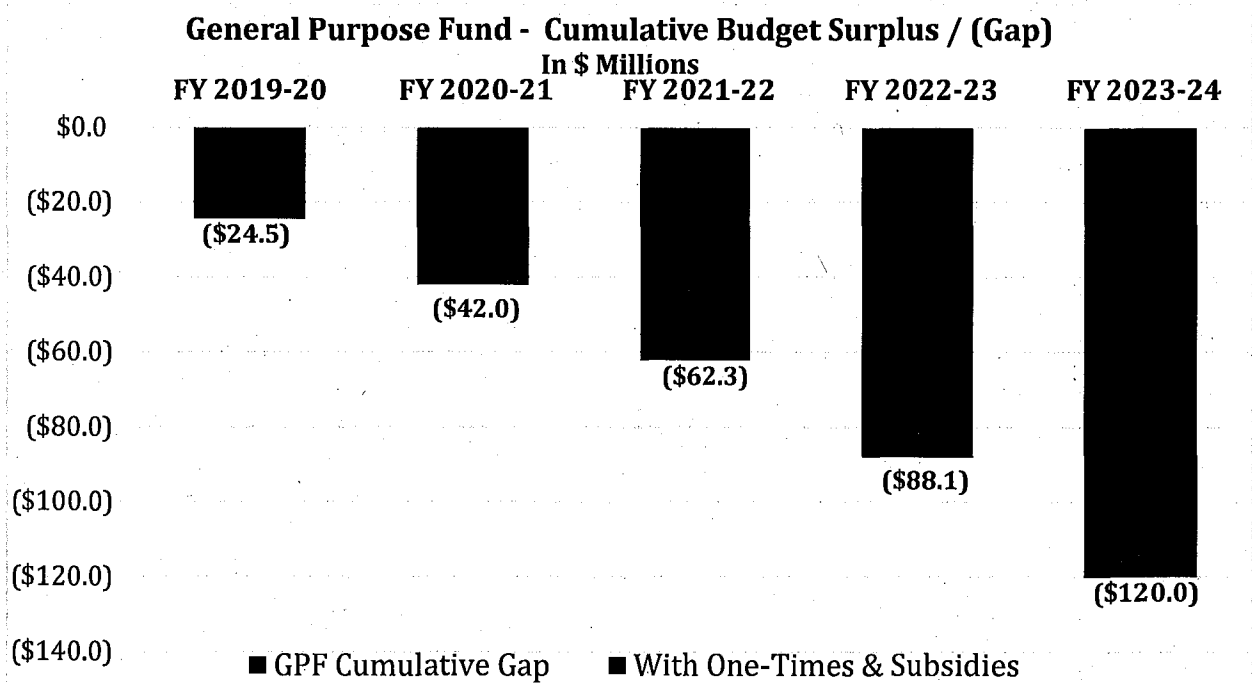
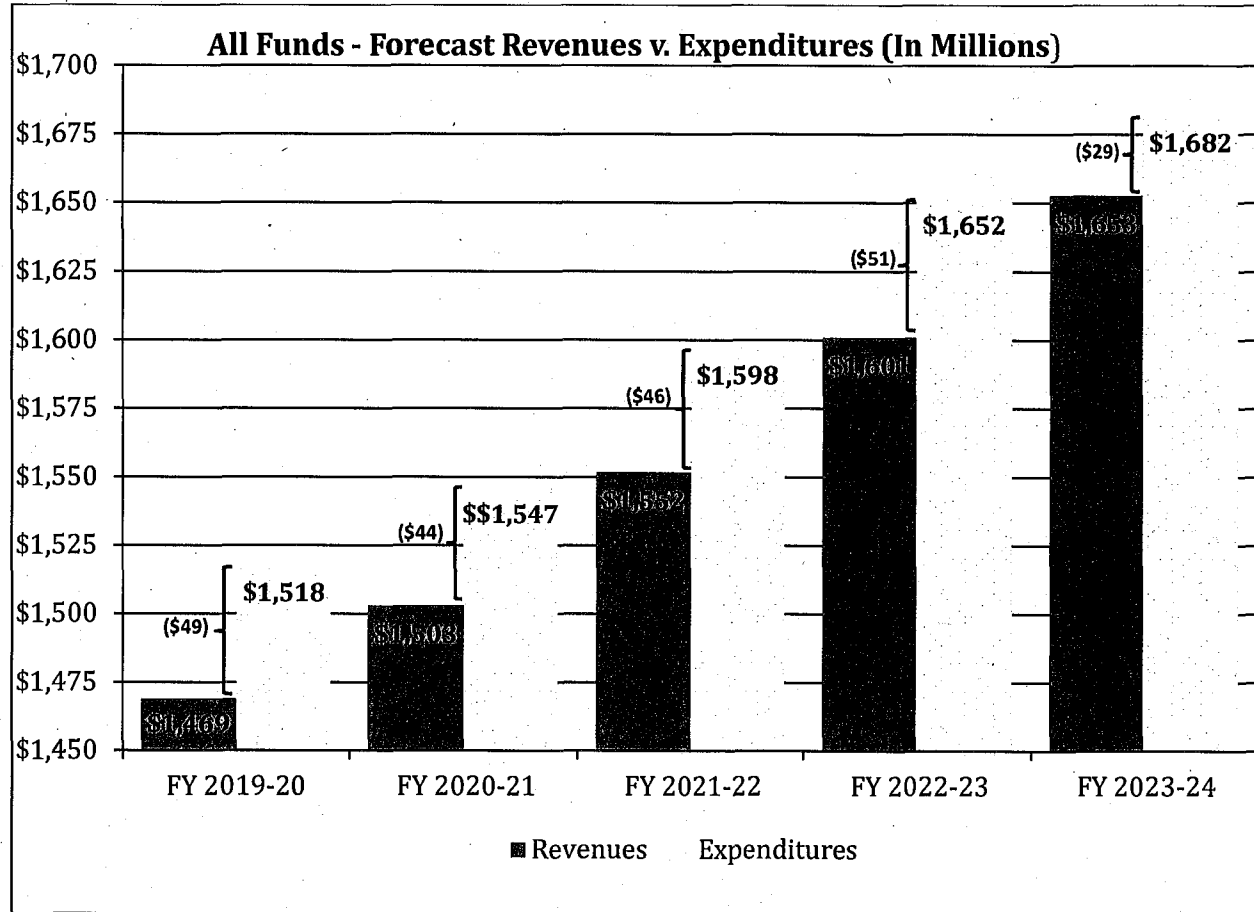


Figure 2 GPF Cumulative Budget Gap - (If No Corrective Actions Are Taken)



The forecast for All Funds shows a similar trend. The payoff of debt service linked to restricted revenues for Pension Obligation Bonds (POB, Series 2001) in FY 2023-24 contributes to the reduction of the projected baseline gap in the fifth year of the forecast.

Figure 3 All Funds Forecast Revenues, Expenditures & Shortfall



**Revenues**

The General Purpose Fund is the City’s main operating fund and accounts for just over 40% of total City expenditures. This fund is different from the General Fund as reported in the City’s annual financial report in that it includes other funds that are restricted by ordinance or the City Charter. Total General Purpose Fund revenues are anticipated to increase by 6.15% in FY 2019-20 and 4.18% in FY 2020-21. These projected increases are driven mainly by increases in property tax, sales tax, and business license tax revenues. Specifically, the City is projected to benefit from increased property values and revenues derived from the new progressive real estate transfer tax rates. Other revenue categories such as utility consumption tax and grants are anticipated to remain relatively flat. A summary of GPF revenues during the forecast period are provided in the table below:

**Table 1 GPF Revenues by Category (In Millions)\***

| General Purpose Fund (1010)- Revenue in Millions     | FY 2018-19 Midcycle Adopted Budget | FY 2019-20 Forecast | FY 2020-21 Forecast | FY 2021-22 Forecast | FY 2022-23 Forecast | FY 2023-24 Forecast |
|------------------------------------------------------|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Tax                                         | \$196.47                           | \$214.18            | \$228.54            | \$242.21            | \$256.93            | \$272.60            |
| Sales Tax                                            | \$57.68                            | \$59.14             | \$60.81             | \$62.53             | \$64.31             | \$66.14             |
| Business License Tax                                 | \$86.62                            | \$98.40             | \$101.91            | \$104.97            | \$108.12            | \$111.36            |
| Utility Consumption Tax                              | \$54.21                            | \$55.16             | \$56.82             | \$58.52             | \$60.28             | \$62.08             |
| Real Estate Transfer Tax                             | \$74.18                            | \$82.87             | \$85.38             | \$88.15             | \$90.18             | \$92.66             |
| Transient Occupancy Tax                              | \$23.67                            | \$26.06             | \$27.10             | \$27.91             | \$28.75             | \$29.61             |
| Parking Tax                                          | \$11.44                            | \$11.46             | \$11.80             | \$12.16             | \$12.52             | \$12.90             |
| Licenses & Permits                                   | \$2.10                             | \$2.70              | \$2.72              | \$2.81              | \$2.89              | \$2.98              |
| Fines & Penalties                                    | \$21.23                            | \$19.68             | \$19.71             | \$19.93             | \$20.15             | \$20.38             |
| Interest Income                                      | \$1.21                             | \$1.21              | \$1.21              | \$1.21              | \$1.21              | \$1.21              |
| Service Charges                                      | \$62.28                            | \$63.43             | \$64.95             | \$66.83             | \$68.77             | \$70.77             |
| Grants & Subsidies                                   | \$0.12                             | \$0.12              | \$0.12              | \$0.12              | \$0.12              | \$0.13              |
| Miscellaneous Revenue                                | \$5.49                             | \$0.97              | \$0.97              | \$0.98              | \$1.00              | \$1.01              |
| Interfund Transfers                                  | \$4.77                             | \$3.10              | \$3.10              | \$3.10              | \$3.10              | \$3.10              |
| <b>Subtotal GPF</b>                                  | <b>\$601.47</b>                    | <b>\$638.48</b>     | <b>\$665.14</b>     | <b>\$691.43</b>     | <b>\$718.33</b>     | <b>\$746.93</b>     |
| Transfers from Fund Balance                          | \$1.23                             | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| <b>Total</b>                                         | <b>\$602.70</b>                    | <b>\$638.48</b>     | <b>\$665.14</b>     | <b>\$691.43</b>     | <b>\$718.33</b>     | <b>\$746.93</b>     |
| <b>Growth rate net of transfer from fund balance</b> |                                    | <b>6.15%</b>        | <b>4.18%</b>        | <b>3.95%</b>        | <b>3.89%</b>        | <b>3.98%</b>        |
| <b>Growth- rate local taxes only</b>                 |                                    | <b>8.53%</b>        | <b>4.58%</b>        | <b>4.21%</b>        | <b>4.13%</b>        | <b>4.23%</b>        |

\*First year is in comparison to FY 2018-19 Midcycle Adopted Budget.



During the forecast period, All Funds revenues are projected to grow at a slower rate than the revenues in the GPF. While increases in property tax, local tax, sales tax, and business license tax are driving growth, generally low or no growth in other revenue categories will dampen the City's projected revenue growth rate for All Funds. A summary of All Funds revenue during the forecast period is provided in the table below:

**Table 2 All Fund Revenues by Category (In Millions)\***

| All Funds- Revenue in Millions                       | FY 2018-19<br>Midcycle<br>Adopted<br>Budget | FY 2019-20<br>Forecast | FY 2020-21<br>Forecast | FY 2021-22<br>Forecast | FY 2022-23<br>Forecast | FY 2023-24<br>Forecast |
|------------------------------------------------------|---------------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Property Tax                                         | \$202.98                                    | \$222.36               | \$237.31               | \$251.64               | \$267.08               | \$283.55               |
| Local Tax                                            | \$214.86                                    | \$221.47               | \$234.23               | \$246.04               | \$257.63               | \$269.86               |
| Sales Tax                                            | \$84.95                                     | \$88.85                | \$91.42                | \$94.06                | \$96.78                | \$99.58                |
| Gas Tax                                              | \$16.30                                     | \$16.37                | \$16.37                | \$16.86                | \$17.36                | \$17.88                |
| Business License Tax                                 | \$86.62                                     | \$98.40                | \$101.91               | \$104.97               | \$108.12               | \$111.36               |
| Utility Consumption Tax                              | \$54.21                                     | \$55.16                | \$56.82                | \$58.52                | \$60.28                | \$62.08                |
| Real Estate Transfer Tax                             | \$74.18                                     | \$82.87                | \$85.38                | \$88.15                | \$90.18                | \$92.66                |
| Transient Occupancy Tax                              | \$30.49                                     | \$33.16                | \$34.49                | \$35.52                | \$36.59                | \$37.69                |
| Parking Tax                                          | \$22.14                                     | \$22.32                | \$23.00                | \$23.69                | \$24.40                | \$25.13                |
| Licenses & Permits                                   | \$28.46                                     | \$29.05                | \$29.07                | \$30.28                | \$31.37                | \$32.31                |
| Fines & Penalties                                    | \$23.52                                     | \$21.38                | \$21.42                | \$21.66                | \$21.90                | \$22.15                |
| Interest Income                                      | \$1.41                                      | \$1.30                 | \$1.30                 | \$1.30                 | \$1.30                 | \$1.30                 |
| Service Charges                                      | \$213.99                                    | \$218.53               | \$223.21               | \$229.77               | \$236.49               | \$243.37               |
| Internal Service Funds                               | \$84.43                                     | \$101.02               | \$99.84                | \$99.84                | \$99.84                | \$99.84                |
| Grants & Subsidies                                   | \$99.03                                     | \$78.16                | \$68.12                | \$69.40                | \$70.70                | \$72.03                |
| Miscellaneous Revenue                                | \$78.50                                     | \$34.53                | \$34.05                | \$34.98                | \$35.93                | \$36.91                |
| Interfund Transfers                                  | \$139.00                                    | \$143.99               | \$145.13               | \$145.13               | \$145.13               | \$145.13               |
| <b>Subtotal All Funds</b>                            | <b>\$1,455.06</b>                           | <b>\$1,468.93</b>      | <b>\$1,503.04</b>      | <b>\$1,551.80</b>      | <b>\$1,601.07</b>      | <b>\$1,652.83</b>      |
| Transfers from Fund Balance                          | \$49.43                                     | \$0.02                 | \$0.00                 | \$0.00                 | \$0.00                 | \$0.00                 |
| <b>Total</b>                                         | <b>\$1,504.49</b>                           | <b>\$1,468.95</b>      | <b>\$1,503.04</b>      | <b>\$1,551.80</b>      | <b>\$1,601.07</b>      | <b>\$1,652.83</b>      |
| <b>Growth rate</b>                                   |                                             | <b>-2.36%</b>          | <b>2.32%</b>           | <b>3.24%</b>           | <b>3.17%</b>           | <b>3.23%</b>           |
| <b>Growth rate net of transfer from fund balance</b> |                                             | <b>0.95%</b>           | <b>2.32%</b>           | <b>3.24%</b>           | <b>3.17%</b>           | <b>3.23%</b>           |

\*First year is in comparison to FY 2018-19 Midcycle Adopted Budget

## Expenditures

Expenditures are projected to increase faster than revenues. Growth in non-personnel expenditures include insurance premiums, claims in the City's Self-Insurance Fund (1100), and other fixed operational expenses such as fuel and utilities.

Growth across personnel categories, such as medical and retirement, are causing strain on the City's finances. The City currently oversees one active retirement system, the California Public Employees Retirement System (CalPERS), and one closed pension system, the Oakland Police and Fire Retirement System (PFRS). The Forecast assumes an average Full-Time Equivalent (FTE) count of 4,490 and does not propose staffing level increases. With the assumption of a flat FTE count over the forecast period, increases in fringe benefit rates and CalPERS pension rates result in financial challenges. The growth in these two expenditure categories accounts for the majority of cost increases over the forecast period.

In recognition of the City's \$850 million unfunded liability for OPEB, in FY 2018-19 the City reached agreement with its sworn public safety unions – led by the Oakland Police Officers' Association (OPOA) – to cap retiree medical benefits and implement new, lower-cost tiers for employees hired after January 1, 2019. These reforms provide significant long-term relief to the City's retiree medical program. Due to these retiree medical reforms, in the first full fiscal year following enactment, the City's actuarial accrued liability is projected to decrease by more than \$175 million, and that savings is forecast to increase substantially over the next 15 years relative to the status quo.

But benefit reforms alone were unable to address the City's OPEB funding challenge. On February 26, 2019, the City Council approved the City's OPEB Funding Policy, that will authorize the set aside of 2.5% of payroll (approximately \$10 million per year) into the City's OPEB Trust. This multi-pronged approach to OPEB will allow the City to incrementally address its long-term OPEB funding challenges and help to ensure this benefit is available to its workforce into the future. These revised OPEB costs have been included in the City's Forecast.

**This multi-pronged approach to OPEB will allow the City to incrementally address its long-term OPEB funding challenges and help to ensure this benefit is available to its workforce into the future.**

The combined risks of a possible economic regression, escalating expenditures, and long-term liability payments will continue to pressure City finances. While efforts to reduce departmental spending have seen results, outside pressures beyond the control of the City put great pressure on the City's finances. As a result, the City should consider an array of strategies to address its financial challenges.

Summary information on GPF and All Funds expenditures are provided in Tables 3 and 4 below.

**Table 3 GPF Expenditures by Category (In Millions)**

| Category                 | FY 2019-20      | FY 2020-21      | FY 2021-22      | FY 2022-23      | FY 2023-24      |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Wages                    | \$290.23        | \$296.20        | \$305.09        | \$314.85        | \$324.93        |
| Fringe Benefits          | \$94.88         | \$99.02         | \$103.98        | \$108.39        | \$112.29        |
| Retirement               | \$117.98        | \$129.74        | \$140.96        | \$154.89        | \$170.20        |
| Operations & Maintenance | \$107.56        | \$105.71        | \$107.10        | \$109.52        | \$112.04        |
| Debt, Transfers, & Other | \$45.20         | \$44.93         | \$47.33         | \$49.41         | \$52.21         |
| <b>Total</b>             | <b>\$655.86</b> | <b>\$675.61</b> | <b>\$704.46</b> | <b>\$737.06</b> | <b>\$771.67</b> |

**Table 4 All Funds Expenditures by Category (In Millions)**

| Category                 | FY 2019-20        | FY 2020-21        | FY 2021-22        | FY 2022-23        | FY 2023-24        |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Wages                    | \$501.19          | \$511.35          | \$526.69          | \$543.16          | \$560.14          |
| Fringe Benefits          | \$146.91          | \$153.17          | \$161.36          | \$167.91          | \$174.00          |
| Retirement               | \$178.68          | \$195.51          | \$211.67          | \$230.31          | \$248.90          |
| Operations & Maintenance | \$355.02          | \$359.12          | \$366.45          | \$376.26          | \$386.47          |
| Debt, Transfers, & Other | \$336.40          | \$327.76          | \$331.37          | \$334.64          | \$312.96          |
| <b>Total</b>             | <b>\$1,518.20</b> | <b>\$1,546.90</b> | <b>\$1,597.54</b> | <b>\$1,652.28</b> | <b>\$1,682.45</b> |

### Forecast Results Summary

The following tables provide a summary of forecast results for the next five fiscal years for GPF and All Funds, respectively. As shown below, the growth in expenditures outpaces the growth in revenues resulting in operating deficits in all five years of the forecast. It is critical to note that these shortfalls do not incorporate any proposed changes or balancing solutions that will be considered as part of the budget process. Per the Oakland City Charter and State law, the City must adopt a balanced budget by June 30, 2019.

**Table 5 GPF and All Funds Shortfall**

| <b>GPF</b>       | <b>FY 2019-20</b> | <b>FY 2020-21</b> | <b>FY 2021-22</b> | <b>FY 2022-23</b> | <b>FY 2023-24</b> |
|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Expenditures     | \$655.86          | \$675.61          | \$704.46          | \$737.06          | \$771.67          |
| Revenues         | \$638.48          | \$665.14          | \$691.43          | \$718.33          | \$746.93          |
| <b>Shortfall</b> | <b>(\$17.38)</b>  | <b>(\$10.47)</b>  | <b>(\$13.03)</b>  | <b>(\$18.73)</b>  | <b>(\$24.74)</b>  |

| <b>All Funds</b> | <b>FY 2019-20</b> | <b>FY 2020-21</b> | <b>FY 2021-22</b> | <b>FY 2022-23</b> | <b>FY 2023-24</b> |
|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Expenditures     | \$1,518.20        | \$1,546.90        | \$1,597.54        | \$1,652.28        | \$1,682.45        |
| Revenues         | \$1,468.95        | \$1,503.04        | \$1,551.80        | \$1,601.07        | \$1,652.83        |
| <b>Shortfall</b> | <b>(\$49.25)</b>  | <b>(\$43.86)</b>  | <b>(\$45.74)</b>  | <b>(\$51.21)</b>  | <b>(\$29.62)</b>  |

The issues the City is facing relative to long-term obligations, health care costs and retirement costs are not unique to Oakland. Cities and states around the country are dealing with these same issues. It will take long-term solutions and strategies to resolve the forecasted structural imbalance of revenues and expenditures, which will require fiscal and budgetary discipline that is focused on a limited set of clear outcome-based goals.

## INTRODUCTION

### Purpose & Development Process

#### Purpose

The Five-Year Forecast was developed to help the City make informed budgetary and operational decisions by anticipating future revenues and expenditures and highlighting anticipated fiscal risks and opportunities. The Forecast details major known and projected future fiscal conditions to support informed long-term planning and decision making regarding operations, expenditures, labor negotiations, economic development policies, and revenue policies. On December 9, 2014, the City Council approved the Consolidated Fiscal Policy (Ordinance 13487 C.M.S as amended on May 15, 2018, and shown in *Appendix B*), which directs the Administration to create a Five-Year Forecast biennially that projects the City's revenues and expenditures over a five-year period.

With a forecast of revenues and expenditures under known and foreseeable conditions, the City can plan strategies for providing a consistent, appropriate level of service to its residents and bring its revenues and expenditures into sustainable balance. With the Forecast, decision makers and other participants will know whether revenues and expenditures will generally be in balance in future years, or significant interventions will be necessary to help ensure balance. Such planning provides for greater financial stability, signals a prudent approach to financial management, prioritizes appropriate service levels, and keeps the City in compliance with the current best practices of similar governmental entities.

The Consolidated Fiscal Policy requires that the Five-Year Forecast:

- Estimates the City's revenues and expenditures over a future period of at least five-years;
- Contains the baseline budget for the forthcoming two-year budget period;
- Assumes continuation of expenditures necessary to maintain existing staffing and service levels, plus an estimate of anticipated revenues without balancing intervention;
- Estimates revenues on the most current data available, including projected revenue for the current fiscal year as reflected in the Second Quarter Revenue and Expenditure Report, with explanation of trends into future years;
- Considers known laws and legislation that impact the City's revenue and expenditure levels; and
- Accounts for national, state and local economic conditions to the extent that it is relevant to Oakland.

## Development Process

City staff, led by the Finance Department, conducted extensive data collection and analysis to produce this Forecast. Staff consulted with independent budget and economic experts to confirm the soundness of the assumptions and analysis.

## Technical Methodology

The Five-Year Forecast was produced using the City of Oakland's Oracle Planning & Budgeting Cloud Service (PBCS) system. The PBCS system is maintained and monitored by the Finance Department's Budget Bureau. The PBCS system takes a snapshot of the data from the Preliminary Frozen Budget Baseline, which reflects projected expenditures necessary to maintain existing staffing and service levels plus anticipated revenues for the two-year budget period.

The second year (FY 2020-21) of the Frozen Budget Baseline was used as the starting point for the additional three years of the forecast. In most cases, growth rates were applied based upon the account codes, which are designated for different types of revenue sources (e.g. property or sales tax) and expenditure items (e.g. employee salaries and operational costs). In some cases, a special manual calculation was required. This method resulted in the production of a forecast data set (in compliance with the Open Data provisions of the Consolidated Fiscal Policy). This data was exported to Microsoft Excel and analyzed to produce the various figures, tables, graphs, and charts in this document. The full forecast data set will be published to the City's Open Data Portal ([data.oaklandnet.com](http://data.oaklandnet.com)), in compliance with the Open Data provisions of the Consolidated Fiscal Policy.

Key assumptions in developing the baseline forecast include:

- Status quo service levels and staffing;
- Assumes that no new debt is issued without dedicated revenue;
- CalPERS achieves its expected rate of return in each year of the forecast, and pension rates do not increase from estimates provided in August 2018; and
- Economic conditions over the five year remain consistent with the present day (i.e., no recession is forecast).

## BACKGROUND INFORMATION

### General Information

The City of Oakland is located on the east side of the San Francisco Bay in the County of Alameda. Oakland is bordered by 19 miles of coastline to the west and rolling hills to the east. In between are proud and diverse neighborhoods, a progressive downtown, and superior cultural and recreational amenities. As its largest city, Oakland serves as the administrative hub for Alameda County, a regional seat for the federal government, the district location of primary state offices, and the center of commerce and international trade for the Bay Area.

According to the State Department of Finance, Oakland is the eighth largest city in the State of California, with an estimated population of 428,827 in 2018. Oakland is home to the Port of Oakland, which is the fifth busiest maritime port in the U.S. and among the top 25 in the world. Oakland International Airport has undergone a \$300 million Terminal Improvement program including construction of a new concourse with seven boarding gates/waiting areas, centralized food/beverage and retail shopping areas, as well as expanded ticketing, security, and baggage claim facilities. The City continues to improve the environment for its residents and business investors. A variety of incentives are available to companies located in its Enterprise, Foreign Trade, and Recycling Market Development Zones.

Oakland is a mature city that has preserved its abundant natural beauty and resources. The City has 106 parks (totaling over 2,500 acres) within its borders, as well as several recreational areas along its perimeter. Lake Merritt, the largest saltwater lake within a U.S. city, borders the downtown area. Its shoreline is a favorite retreat for joggers, office workers and picnickers. Lake Merritt is the oldest officially declared wildlife sanctuary in the United States, dating back to 1870.

In concert with ongoing economic development efforts, the City strives to maintain a balance between old and new structures. Historic structures continue to be renovated, preserved and revitalized, while new buildings are constructed. Major corporate headquarters include Clorox and Kaiser Permanente, which are near many new businesses and various small retail shops that have sprung up in the downtown area. In addition, large tech firms like Pandora and Sungevity have moved to Oakland and are expected to drive growth around downtown over the coming years.

### Form of Government

The City of Oakland was chartered as a city in 1852. It was a Council-City Manager form of government until 1998. In 1998, the citizens of Oakland passed Measure X changing the government structure to a Mayor-Council form of government through a City Charter amendment. The Mayor-Council form of government remains in place. The Mayor is elected at-large for a four-year term and can be re-elected only once. The Mayor is not a member of the City Council; however, he or she has the right to vote only if the Council members are evenly divided for decisions requiring simple majority passage.

The City Council is the legislative body of the City and is comprised of eight Council members. One Council member is elected “at large,” while the other seven Council members represent specific districts. All Council members are elected to serve four-year terms. The Council members elect one member as President of the Council and one member to serve as Vice Mayor every two years.

The City Administrator is appointed by the Mayor and is subject to confirmation by the City Council. The City Administrator is responsible for the day-to-day operations of the City.

For duties and responsibilities of the elected and appointed officials, visit the City’s website via the following link: <http://www2.oaklandnet.com/Government/CityGovernment101/index.htm>.

**The City of Oakland’s Role in Service Provision**

The City of Oakland is one of many government entities serving the residents of Oakland, California. The City is a key provider of important government services to residents however, it is not the only provider. Understanding which services are provided by the City, and which are provided by other entities is helpful before engaging in a more in-depth analysis of City services and fiscal position.

**Services Provided to Residents of Oakland by Service Provider**

The following tables summarize the services provided by various government entities serving the residents of Oakland, California. In some cases, services are provided collaboratively by multiple government agencies; in those instances, the primary service provider is listed.

**Table 6 - Oakland Service Providers & Services**

| The City of Oakland                     | Alameda County                       |
|-----------------------------------------|--------------------------------------|
| Police Protection                       | Courts of Law                        |
| Fire Suppression                        | Jails & Juvenile Hall                |
| Recreation Programs                     | Corner & Medical Examiner            |
| Oakland Public Libraries                | Probation                            |
| Violence Prevention Services            | Registrar of Voters                  |
| Planning & Building                     | Property Tax Assessment & Collection |
| Economic Development                    | Public Defender                      |
| Head Start                              | District Attorney                    |
| Senior Centers & Services               | MediCal (Medicaid)                   |
| KTOP (local government cable channel)   | CalFresh (Food Stamps)               |
| Housing Development & Referral Services | CalWORKs (TANF)                      |
| Rent Arbitration                        | Health Programs                      |
| Emergency Medical Response              | Public Health Services               |



**The City of Oakland (cont.)**

- Children & Youth Services
- Parking Management
- Sewers & Storm Drains
- Transportation Planning
- Street & Sidewalk Maintenance (local)
- Parks, Trees, & Public Spaces
- Street Lights & Traffic Signals
- Recycling and Solid Waste
- Workforce & Job Training

**Alameda County (cont.)**

- Child Support & Protection
- Mental Health Services
- Emergency Medical Transport (Ambulance)

**The Oakland Unified School District**

- Public Elementary, Middle, and High Schools
- Adult Education
- Charter Schools

**The Peralta Community Colleges**

- Laney Community College
- Merritt Community College

**East Bay Municipal Utilities District (EBMUD)**

- Provision of Drinking Water
- Treatment of Wastewater
- Public Open Spaces near reservoirs

**East Bay Regional Park District**

- Operations of Regional Parks

**Alameda-Contra Costa Transit District (AC Transit)**

- Bus Transportation

**Bay Area Rapid Transit District (BART)**

- Commuter Rail

**The Port of Oakland**

- Oakland International Airport
- Oakland Seaport

**Economic and Demographic Profile of the City of Oakland**

**Economic Profile**

Oakland has diversified its economic base significantly in the past few decades. The economy offers a healthy mix of trade, government, financial, medical, information technology, publishing and service-oriented occupations. Industries with the largest growth in jobs in the last two years include professional and business services, education and healthcare, leisure and hospitality, information and communications technology, and traditional and specialty food production.

Oakland offers abundant resources to its businesses and residents: converging transportation services, a vibrant dining and entertainment scene, and utility facilities that keep the City running smoothly. Several new office and mixed-use buildings, public facilities, renovated hotels and convention facilities, park enhancements, and outdoor art installations create a cosmopolitan environment in the downtown area. Waterfront restaurants and shops at Jack London Square, as well as the burgeoning Old Oakland and Uptown districts provide lively nighttime attractions. The City's neighborhood retail areas continue to grow, as evidenced by Oakland's ten Business

Improvement Districts and Community Benefit Districts. Manufacturing remains an important segment of the City's economy, and with the recent voter approval of Proposition 64, the City is positioned to be a key hub for the medicinal and recreational cannabis industry.

Located within one of the nation's largest metropolitan areas, California's eighth most populous city is the economic heart of the East Bay and is the geographic center of the Bay Area. Downtown Oakland offers competitive office space and amenities for both traditional and emerging enterprises. The freeways, mass transit systems and ferry service make getting to and from downtown Oakland a relatively quick and easy process—travel times to San Francisco, San Jose and other Bay Area cities are surprisingly short. Oakland has been recognized as a vital transportation hub for more than 100 years. Oakland is also the headquarters of the Alameda-Contra Costa Transit District (AC Transit), and the Bay Area Rapid Transit (BART) system. Oakland has the infrastructure and economic base to support and attract a diverse mix of advanced industries and value-oriented retail. Three major projects are either underway, funded or in planning. These include:

**The Oakland Army Base Project:** The City and Port of Oakland are leveraging significant public and private investment by transforming approximately 300 acres of the former Oakland Army Base into a modern logistics center. Planned to shift traffic from trucks to trains on site, thereby reducing truck trips through cities within Alameda County to the Central Valley, the project will help improve the City's air quality, roadway safety, and will create a significant number of direct and indirect job opportunities. In 2016, the Alameda Transportation Commission approved a multi-million dollar grant for the construction of public roadway improvements at the former Oakland Army Base.

**The Brooklyn Basin Project:** Brooklyn Basin will transform 64 acres of waterfront property along the Oakland Estuary with 3,100 residential units and approximately 200,000 square feet of retail and commercial space, which is scheduled to be completed in phases with the first 241 units entering the market in 2019, and the balance completed between 2020 and 2030. The project also includes 465 units of affordable housing. At this time, the Phase 1 and 2 Final Maps have been recorded, horizontal infrastructure improvements for Phase 1 constructed, and Final Development Permits (FDP) issued for all parks and Parcels B, C and F. In addition, staff is currently processing FDP applications for last two parcels of Phase 1 (Parcels A and G). The first project, the 241-unit Brooklyn Basin Terraces Apartments (on Parcel B), was approved and broke ground in the fall of 2016. The first affordable housing project was approved and broke ground in late 2018. Shoreline Park is also currently under construction.

**The Coliseum City Project:** Coliseum City is the largest transit-oriented development project in California and will transform an entire area of East Oakland, creating thousands of new jobs and a regional destination. While the Coliseum Specific Plan was completed in 2015, this project is still in a very preliminary stage, and therefore there is no scheduled completion date at the time.

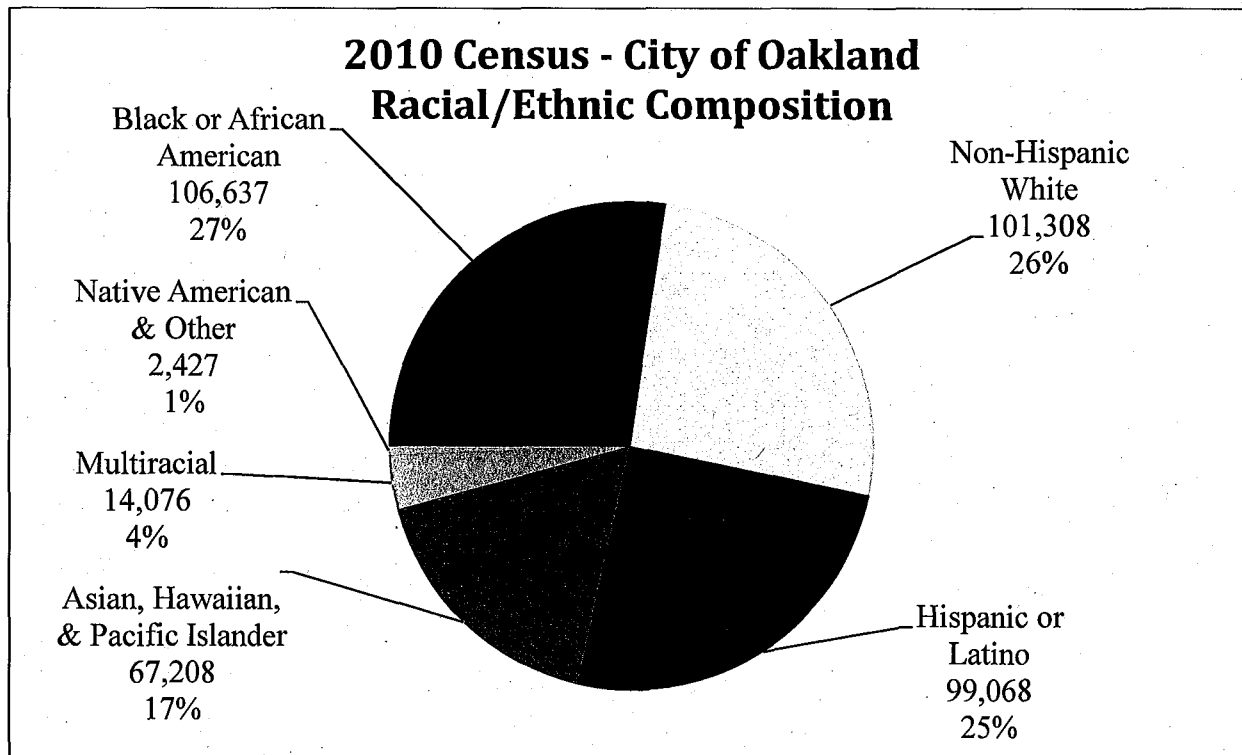
Certain aspects of the project are also contingent upon the long-term location plans of both the Oakland Athletics and Oakland Raiders sports teams.

**Demographic Profile**

According to the California Department of Finance, Oakland was ranked the eighth largest city in the State of California in 2018, with an estimated population of 428,827 residing within approximately 55 square miles. According to the 2010 United States Census, the City’s population was 390,724 persons at a density of roughly 7,000 people per square mile. This growth is due to the recovery and resurgence of the local economy, as well as Oakland’s growing popularity as a bay area housing and real estate destination.

The racial makeup of Oakland in 2010 was roughly 27% African American, 26% Non-Hispanic White, 25% Hispanic or Latino (of any race), 17% Asian & Pacific Islander, 4% Multiracial and 1% Native American & Other. See figure 4 below.

**Figure 4 - 2010 Oakland Census Racial/Ethnic Composition**



Per the 2010 United States Census, 21% of the City’s population is below the age of 18 and 11% is over the age of 65. In 2000 the United States Census estimated that 25% of the City’s population was below the age of 18 and 11% was over the age of 65.

Table 7 - Oakland Population by Age

| City of Oakland Population by Age |                |             |                |             |
|-----------------------------------|----------------|-------------|----------------|-------------|
| Age Range                         | 2000 Census    |             | 2010 Census    |             |
|                                   | Count          | %           | Count          | %           |
| 0 to 4 Years                      | 28,292         | 7%          | 26,099         | 7%          |
| 5 to 17 Years                     | 71,467         | 18%         | 57,021         | 14%         |
| 18 to 64 Years                    | 257,937        | 65%         | 264,045        | 68%         |
| 65+ Years                         | 41,788         | 10%         | 43,559         | 11%         |
| <b>Total</b>                      | <b>399,484</b> | <b>100%</b> | <b>390,724</b> | <b>100%</b> |

In 2010 25% of households were families with children, as compared to 29% in 2000. In 2010 roughly 59% of housing units were occupied by renters, essentially unchanged from the 2000 estimate.

## Principles of Government Finance

The following section is intended to familiarize the reader with terms, concepts, and documents important in government finance and budgeting. Knowledge of these items will provide the reader a better understanding of this Forecast and other similar documents produced by the City.

### Budgets & Fiscal Years

Budgets are plans for how organizations intend to use projected resources (revenues) on payments to perform operations or provide services (expenditures), over a defined period. Budgets are prospective planning tools and must be balanced between revenues and expenditures within the defined time period. The City of Oakland has received the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) for its biennial budgets for the past 20 consecutive fiscal years.

The significant timeframe for the City of Oakland's Budget (and other Financial Reports) is the Fiscal Year (FY). The City's Fiscal Year begins on the 1<sup>st</sup> of July and ends on the 30<sup>th</sup> of June of the following year. Fiscal Years are generally expressed as follows: The Fiscal Year which begins on July 1, 2019 and ends on June 30, 2020 is FY 2019-2020. This same fiscal year can also be expressed as FY 2019-20, FY19-20, or FY20 (This document uses multiple formats depending on context and space requirements). Fiscal Years can be divided into quarters or monthly periods. For instance, the Second Quarter of FY 2019-20 will end on December 31, 2019; this would commonly be expressed as Q2 FY 2019-20 or Q2-20. The 9<sup>th</sup> Period or Month of FY 2019-20 will end on March 31, 2020; this would commonly be expressed as Q3 FY 2019-20 or Q3-20.

It is important to note that grants awarded to the City may or may not synchronize with the City's fiscal year, and often are based on the granting agency's fiscal period or other predetermined period as determined by the grant agreement.

The City of Oakland adopts a biennial (two-year) balanced budget by June 30<sup>th</sup> of the preceding fiscal year. For instance, the City of Oakland will adopt the FY 2019-21 Biennial Budget by June 30, 2019.

### **Operating Budget vs. Capital Improvement Program**

In general, the City issues two types of budgets. The first and more commonly known is the Operating Budget. This Budget includes projected revenues and expenditures for the provision of most City operations and services. For instance, the operating budget includes revenues from general taxes as well as expenditures on police services, fire & emergency medical services, youth & recreation programs, library services, minor repairs, etc. The second budget is the Capital Improvement Program (CIP), which presents planned expenditures on projects to improve discrete elements of the City's infrastructure, buildings, and environment, as well as major purchases such as land, buildings and equipment. For example, the CIP includes water quality projects around Lake Merritt, complete repaving of streets and roads, construction of sewer infrastructure, and construction or renovation of City buildings.

The Proposed and Adopted CIP is also summarized in the Operating Budget in accordance with best practices. Because All CIP projects are one-time in nature and require new appropriations for each two-year cycle, the Baseline Budget does not include CIP Projects.

There are other special budgets such as the Oakland Redevelopment Successor Agency, which is a separate legal entity of the City responsible for the wind down and completion of the activities of the former Oakland Redevelopment Agency.

### **Financial Reports & Actuals**

"Actuals" are recorded revenues and expenditures that have occurred over a defined period. While budgetary values are projected prior to the close of a fiscal period, actuals are recorded after the fact. A financial report is a statement of actuals and accruals. Actuals can be divided into two categories: unaudited and audited. Unaudited actuals include those reported in the City's quarterly Revenue & Expenditure (R&E) Reports. They are distinguished from audited actuals in that they have not been evaluated by an independent financial auditor. The City has an independent financial audit conducted following the close of each fiscal year to provide an independent opinion of whether the City's financial statements are stated in accordance with Generally Accepted Accounting Principles (GAAP). The audited actuals are presented in the Comprehensive Annual Financial Report (CAFR).

### **Revenues**

Revenues can be generally understood as the sources of income for the City and divided into several categories or Fund Types (See Funds and Transfers Section for details). Tax revenues are largely unrestricted and are attributed to the General Purpose Fund. Grant revenues are restricted by the grant agreement and often require matching contributions from other sources. Special revenues include voter-approved measures and are restricted for a specific purpose. Revenue from fines and penalties are largely unrestricted and result from enforcement activities. Based on best

practices and City Council policy, one-time revenues (e.g. land sales) should not be used to support ongoing expenditures. Fee and Service Charge revenues support many City functions. The rate charged for fees and service charges is regulated by state law (specifically Proposition 26). Generally, fees may not exceed the cost of providing a service (with a few exceptions). Fees are listed in the City's Master Fee Schedule, which is approved annually through a City Ordinance, but can be modified at any time with City Council's approval.

Revenues are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories, such as Property Tax, Fines & Penalties, or Service Charges.

### **Expenditures**

Expenditures can be generally understood as the usage of resources by the City. There are two key categories of expenditures: personnel and operations & maintenance (O&M). Personnel expenditures are used to pay for City employees to perform various functions and provide services to the public. They are expended via the City's payroll and benefits systems and include salaries, overtime, premiums, retirement, and healthcare costs. O&M expenditures are used to pay for anything other than City employees and are expended through the contracting, purchasing, and payables systems. O&M expenditures include contracts for services, supplies and materials, utilities, equipment purchases and debt payments. Expenditures are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories that include salaries, retirement, debt payments, or capital expenditures, among others.

### **Assets & Liabilities**

Assets are tangible and intangible items that hold value and include City cash, investments, buildings, land and equipment. Assets can be divided into two types: current and long-term/fixed assets. Current assets include cash, receivables, and short-term investments. Long-term and fixed assets include things such as long-term investments, property, plant, and equipment that have value, but cannot be quickly converted into cash.

Liabilities are amounts that the City is obligated to pay based upon prior events or transactions. For example, if the City owes money resulting from borrowing or issuing debt (e.g. bonds), those would be considered liabilities. Liabilities can also be divided into two types: current liabilities and long-term liabilities. Current liabilities are those that the City expects to pay within a year. This includes wages paid to active employees for hours worked, or bills for utilities. Long-term liabilities are obligations that the City would pay out over time, such as pensions, retiree medical obligation, and long-term debt service.

Unfunded Actuarial Accrued Liability (UAAL), or Unfunded Liability, is often mentioned in conjunction with government finances. UAAL is defined by the State Actuarial Standards Board as "the excess of the actuarial accrued liability over the actuarial value of assets". Simply put, it is the amount that an entity is projected to owe that is not covered by projected future payments under a specific payment methodology, or by assets currently held by the entity.

## **Funds & Transfers**

Funds are groups of revenues and expenditures that must be individually balanced. The City's Budget contains 112 funds, the largest of which is the General Purpose Fund (GPF). Other Funds normally have restrictions on the types of activities they support. These restrictions could be established by local ordinance, the City Charter, State law, or grant agreements. The General Purpose Fund is unrestricted in its use. The Five-Year Forecast will often summarize information by General Purpose Fund and All Funds.

In certain cases, monies may be transferred between City funds. For instance, 3% of the City's annual unrestricted GPF revenues are required to be transferred between the GPF and the Kids First! Fund to meet the requirements of the 2009 Kids First! ballot measure (Measure D). When a transfer occurs between funds the "sending" fund (where the transfer comes from) records an expenditure and the "receiving" fund (where the transfer goes to) records a revenue. This is to ensure that the overall budget remains balanced.

## **Department & Organizational Structures**

The City of Oakland is organized into various departments as defined in Oakland Municipal Code 2.29. These departments are responsible for delivering the various external and internal services of the City. Departments are generally established by the City Ordinance approved by the City Council. A few Departments were established by the City Charter itself and generally include the name "Office" in the title; these include The Mayor's Office, the City Attorney's Office, and the City Administrator's Office.

In both the budget and financial forecast documents, there are also two quasi-departments within the City, namely the Capital Improvement Program and the Non-Departmental group. These two groups are distinguished from traditional Departments in that they do not have operational staff attributed to them. These groups are used to record various inter-departmental projects and citywide costs, such as debt service, legally required fund transfers, or major infrastructure projects.

## **Overhead Rates**

Overhead rates are used to recover costs of certain administrative functions like accounting, cash management, and information technology, which can be difficult to allocate to specific funds or projects. Overhead charges are budgeted and recorded as positive expenditures in one fund while overhead recoveries are budgeted and recorded as a negative expenditure in the Fund supporting the relevant administrative function.

For example, the Oakland Public Works (OPW) Department has a centralized fiscal and human resources staff. Rather than splitting each of these staff across many funds, these expenditures are budgeted and recorded to a departmental overhead fund (Fund 7760). Overhead costs are then budgeted and recorded in the funds that receive support from OPW fiscal and human resources based on the payroll of those funds and a calculated overhead rate. Overhead recoveries are then budgeted and recorded in Fund 7760 to offset the costs of OPW fiscal and human resources staff.

Thus, when viewed at a fund level, 7760 has net zero expenditures. The expenditures recorded there are offset by overhead recoveries. Other OPW funds have an overhead charge that reflects the use of central OPW services. The City utilizes an outside actuarial consultant to review rates and methodologies for its overhead rates.

### **Internal Service Funds**

Internal Service Funds (ISF) charge departments for services based upon a formula to allow for centralized support functions. Similar to transfers, ISFs operate by recording an expenditure in the fund for which the operations are performed and recording revenue in the relevant Internal Service Fund. For example, the Oakland Police Department (OPD) requires vehicles to operate; however, the maintenance of OPD vehicles (along with vehicles used by the Oakland Fire Department and other City departments) is provided centrally by OPW. To reflect these costs, an internal service charge expense account is budgeted and charged to OPD in an appropriate fund (in this case, the General Purpose Fund). This expense is then offset by an internal service revenue account in the Equipment Fund (4100). This revenue then pays for the expenses to maintain a vehicle (e.g. mechanics, fuel, parts) within Fund 4100. Each Internal Service Fund apportions costs across departments and funds by a different methodology driven by its nature.

### **Budget Balancing, Surplus, Projected Surplus, Deficit & Projected Shortfall**

The term 'balanced' refers to a budget or forecast document where all projected revenues are equal to all projected expenditures; if they are not equal then there is an imbalance. If projected revenues exceed projected expenditures, then the budget or forecast is said to have a projected surplus. If expenditures exceed revenues, then there is a projected shortfall. By policy, the City must adopt a balanced budget.

A structural imbalance occurs when there is a difference between ongoing revenues and expenditures. A budget that uses one-time revenue to pay for ongoing expenditures may be balanced over the fiscal period but suffers from a structural imbalance; in this case a structural shortfall. By contrast if ongoing revenues exceed ongoing expenditures, a budget may have a structural surplus.

Deficit is an actual status of financial health in which expenditures exceed revenues, whereas budget shortfall means that projected spending is greater than projected revenues. The terms 'surplus' and 'deficit' refer to the relative balance of actual expenditures and revenues. A deficit occurs when actual expenditures exceed actual revenues over a fiscal period. By contrast a surplus occurs when actual revenues exceed actual expenditures.

### **Fund Balances & Reserves**

At the end of each fiscal year, each fund's revenue collections are compared against incurred expenditures. If there were revenues in excess of expenditures, a surplus occurs, which is added to that fund's "fund balance." Alternatively, if there were greater expenditures than revenues, then that difference is reduced from the fund balance. A negative fund balance occurs when cumulative



fund expenditures exceed cumulative fund revenues. By contrast a positive fund balance exists when cumulative revenues exceed the expenditures.

If a positive fund balance is restricted or earmarked in its usage, it is often termed as 'reserved'. For instance, the General Purpose Fund has a 7.5% emergency reserve for unanticipated and insurmountable events. Therefore, the City Council may direct funds from the positive fund balance to support the emergency reserve. Other funds may have a positive fund balance to support future anticipated expenditure needs such as equipment replacements, or future costs associated with a multi-year project.

## REVENUES

This section covers the brief historical trends and revenue data of major revenue categories. This section provides a detailed description and analysis of major revenue categories, which include Property Tax, Sales and Use Tax, Business License Tax, Real Estate Transfer Tax (RETT), Transient Occupancy Tax (TOT) and Parking Tax. Relevant State regulations such as Proposition 13 (Property Tax Rate Cap), Proposition 8 (Property Tax Reassessments), Proposition 218 (Property Owner Approval of Tax Assessments) and Proposition 26 (Supermajority Vote to Pass New Taxes and Fees) will also be introduced in the context of revenue projections. Assumptions of projections will be presented, followed by projections and summary by revenue categories, amount and growth rates. The General Purpose Fund and All Funds will be separated and summarized.

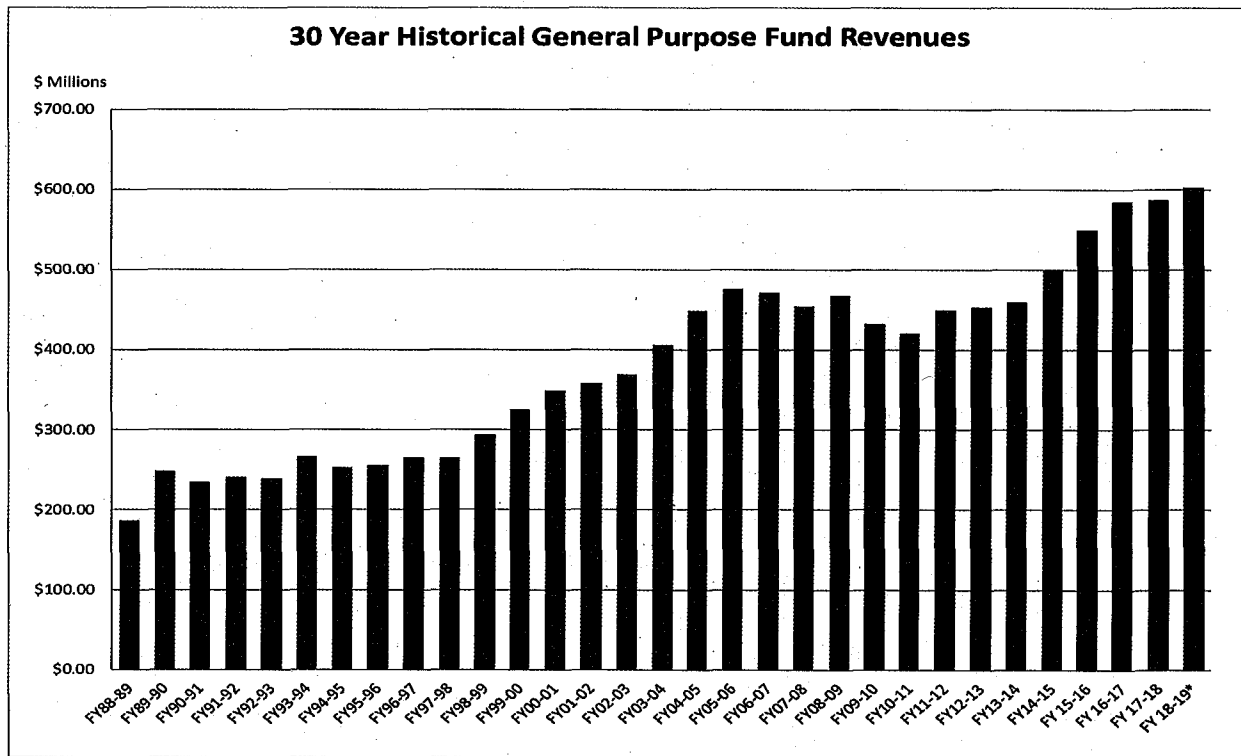
Citywide revenues are projected using dynamic forecasting, which anticipates changes in revenues benefited by the general economic climate and triggered by new economic development, economic growth, changes in fee structures compared to levels of service (in the case of Master Fee Schedule, changes are approved by the City Council), changes in governmental policies at the state or federal level, and various economic and demographic changes. The purpose of this dynamic forecast is to demonstrate the potential impact of various events and actions on the selected revenue sources. Under this scenario:

- *Tax Revenues* are projected to grow at rates that are responsive to dynamic forces in the economy. Generally, the assumption is the local economy will be affected by national and state trends, with some deviation expected due to specific characteristics of regional business and labor markets as well as local regulations.
- *Fee increases* will likely follow projected inflation rates and changes in the local population, which may increase service costs and change service demand.

Any known or anticipated changes in revenues as a result of potential changes in state and federal revenue streams and/or legislation are reflected in the analysis. For instance, the Forecast provides summary and analysis of recent executive orders from the Trump Administration, as well as any fiscal impact that may result from their implementation. In addition, the revenue forecast takes into consideration several local and regional economic factors and trends, including changes in economic growth, income, sales and Consumer Price Index.

Figure 5 depicts the historical General Purpose Fund (GPF) actual revenues since FY 1988-89 (30 years). Historical data shows that between FY 2001-03 and FY 2017-18 (15 years), GPF actual revenues have grown on average by 3.5% per fiscal year.

Figure 5 - Historical GPF Revenues



\*FY18-19 Value is the Adopted Midcycle Budget

Each of the City’s major GPF revenue categories will be discussed using past collections to provide historical context.

**Property Tax**

Property tax is the largest single source of revenue for the General Purpose Fund and represents over one third of all General Purpose Fund Revenues. The property tax is *ad valorem*, which means that the tax paid on a property is proportional to the property’s value. There are exemptions to certain portions of property values and certain types of properties that are regulated by the State and administered by the County. The exemption that has had the most significant impact to property tax is Proposition 13. Passed in 1978, Proposition 13 introduced two significant changes: 1) the annual tax owed is a maximum of 1% of a property’s assessed value and 2) the assessed value can only increase a maximum of 2% each year unless ownership changes, in which case the prevailing market value assessment is used as the basis for taxation (see the California Legal Revenue Limits section for additional detail).

The one percent of property tax assessed value (net after any exemption) is collected by the County and is distributed to various public entities in accordance with a complex formula. The County's computation results in the City receiving approximately 26% of total collections.

Over the last 19 years, property tax revenue has grown on average, year-over-year, at a steady pace of 7.4%. The growth for that period was accelerated by a rapid run-up of housing demand, new construction, and

developments that began in FY 2004-05. The rise in FY 2004-05 property tax revenues was also due to a Vehicle License Fee (VLF) "backfill" payment from the State (the difference between the old VLF of 2.0% and new fee of 0.65%) in the form of property tax revenue. The value of rising property tax, which increased more quickly than VLF revenues, brought Oakland additional revenues. Furthermore, starting in FY 2011-12 with the dissolution of the Redevelopment Agency, unallocated property tax increment is flowing back to the City in the form of additional property tax revenues.

Beginning in FY 2004-05, property assessments rose quickly, propelled by high volume of home sales and rising home prices. Driven by economic growth and aggressive lending practices, the housing market accelerated and finally peaked in 2007, when the median single-family home price reached \$580,000. After this peak, housing demand and prices declined due to an economic downturn, lack of affordability, loss of jobs, tightened credit, and increased foreclosures. At the start of the Great Recession, the median house price fell from \$580,000 in 2007 to \$315,000 in 2008. Housing prices further fell to \$192,000 in 2009 and the local real estate market bottomed out in FY 2010-11.

Starting in FY 2011-12, the City began to see a rebound in housing prices. Currently the median single-family home price is around \$750,000. Figure 6 shows property tax revenue since 2000 with a five-year projection. Of note, since 2012, the City receives a portion of the Redevelopment Property Tax Trust Fund (RPTTF) as the result of the dissolution of the Redevelopment Agency, which is regulated by state law. The RPTTF is the portion of property tax increment that would have gone to redevelopment agencies if they had not been dissolved, less the funding required to wind-down the obligations of that redevelopment agency. Particularly in FY 2012-13, the City realized a one-time spike in RPTTF resulting from the distribution of all unobligated tax increment revenue held in reserve by the former Redevelopment Agency. Please note that the RPTTF should not be viewed as the growth of property tax, but rather as a shift of local resources after losing redevelopment agency funding.

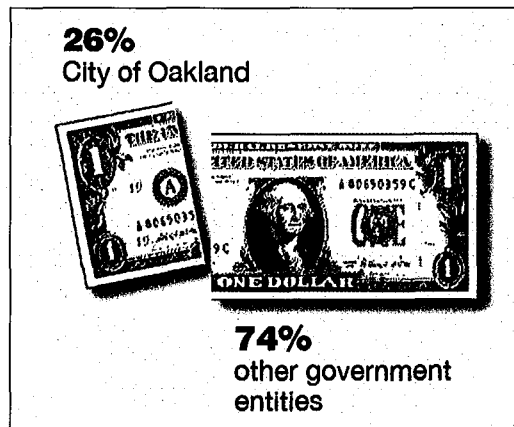
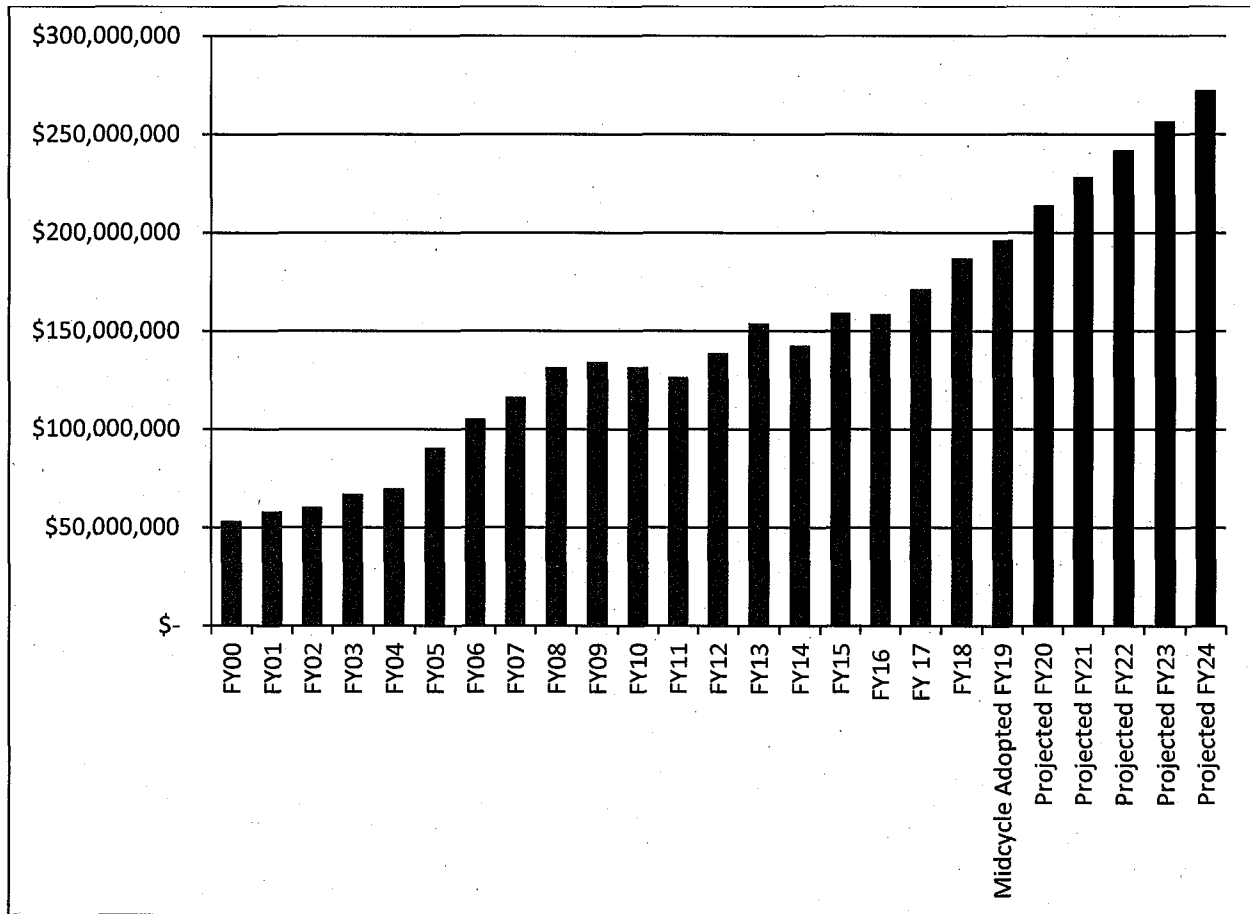


Figure 6 - GPF Property Tax Revenues Over Time

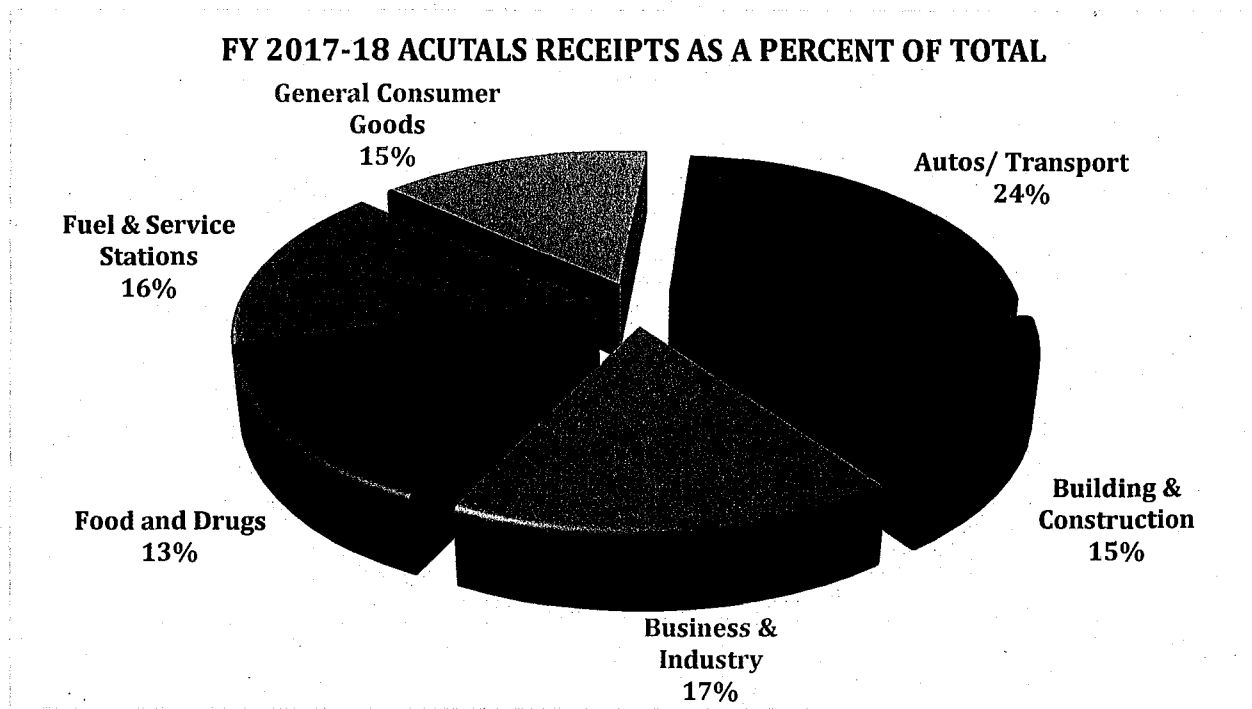


**Sales & Use Tax**

Sales and Use Tax applies to the retail sale or use of “tangible personal property.” The total sales tax percentage in the City of Oakland is 9.25% meaning on a \$1 taxable purchase, the sales tax paid is 9.25 cents. The City receives 1% of the total sales, meaning the City receives 1 cent on a \$1 purchase. The remaining 8.25% is allocated to the state and local taxing districts. Sales tax revenue generally coincides with overall strength of the local, regional, and national economy. Sales Tax revenues have recovered after significantly declining during the Great Recession.

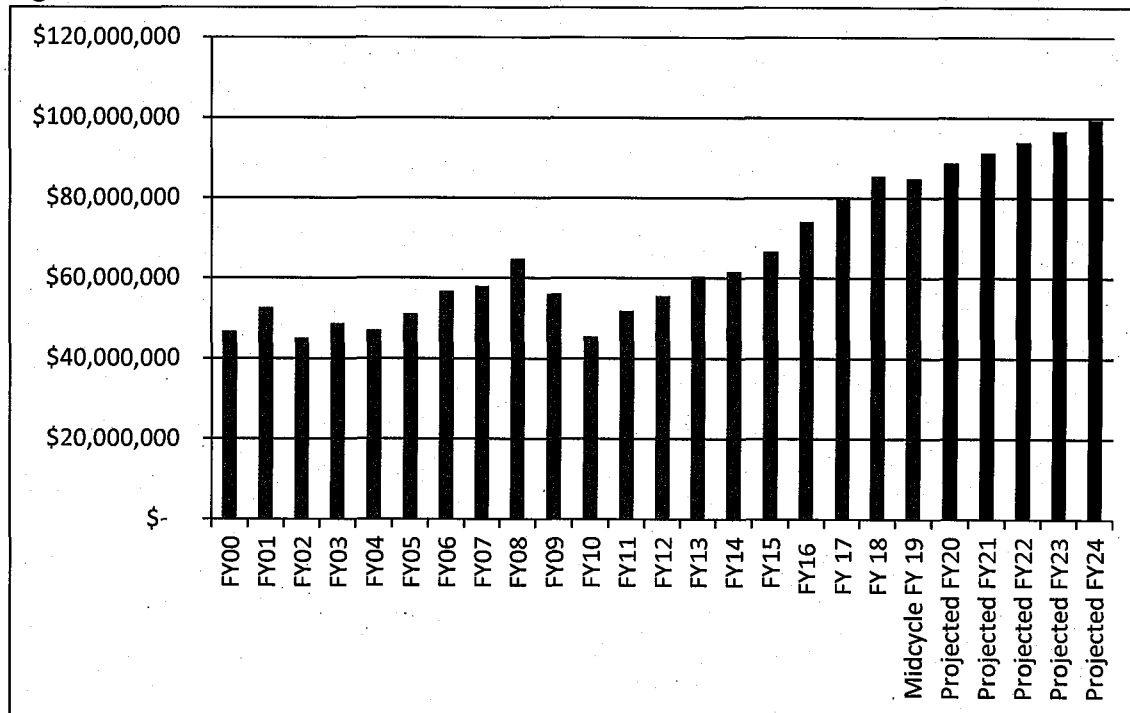
One of the strengths of the Oakland Sales Tax base is its diversity, derived from six major business groups: auto and transportation, fuel and service stations, business and industry, general consumer goods, building and construction, and food and drugs. No single group accounts for more than 24% of the total. Figure 7 shows the share of revenue generated in each category.

Figure 7 - Sales Tax by Category



The chart below (Figure 8) shows the historical All Fund actual sales revenue since 2000 and projects the next five years of sales tax revenue.

Figure 8 - All Funds Sales Tax Over Time

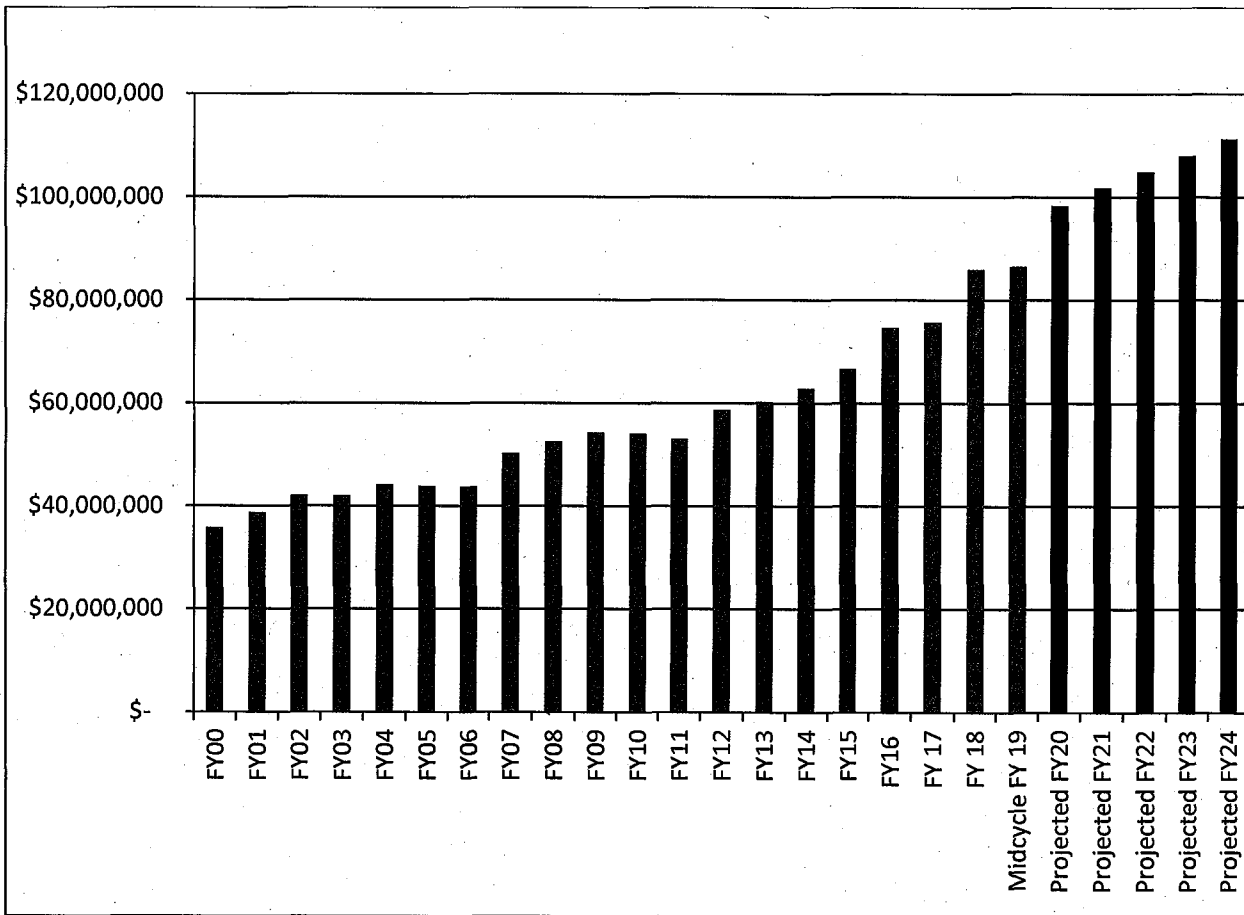


**Business License Tax**

The Business License Tax (BLT) is charged annually to Oakland businesses based on either gross receipts (accounts for approximately 60% of business license tax revenue) or rental income (40% of revenue). The rate on gross receipts varies by type of business, ranging currently from a low of \$0.60 per \$1,000 of receipts for grocers to six dollars per \$1,000 of receipts for public utilities. The rate on rental income is \$13.95 per \$1,000.

BLT has been a relatively steady and reliable revenue source for the City, as shown in Figure 9. However, BLT is impacted by the health of the economy. Recessions slow down business activities, which in turn slow the number of businesses paying BLTs and reduces gross receipts. Recovery of the local economy and the implementation of a new business discovery program are expected to help increase revenues in future years. As a result of state legislation (AB63 – Tax Discovery Program), the California Franchise Tax Board (FTB) is now authorized to disclose certain records related to business activities of residents, corporations, and other entities within the City of Oakland. By matching the FTB data to existing records Oakland now has an additional, effective tool to identify unregistered businesses within the City.

**Figure 9 - Business License Tax Over Time**



**Real Estate Transfer Tax**

Until December 31, 2018, the Real Estate Transfer Tax (RETT) rate on residential and commercial sales was 1.61% of the value of each real estate transaction. Oakland's share was 1.5% with Alameda County receiving the remaining 0.11%. The tax is triggered by the transfer of property ownership, and both the buyer and seller are responsible for ensuring the tax is paid.

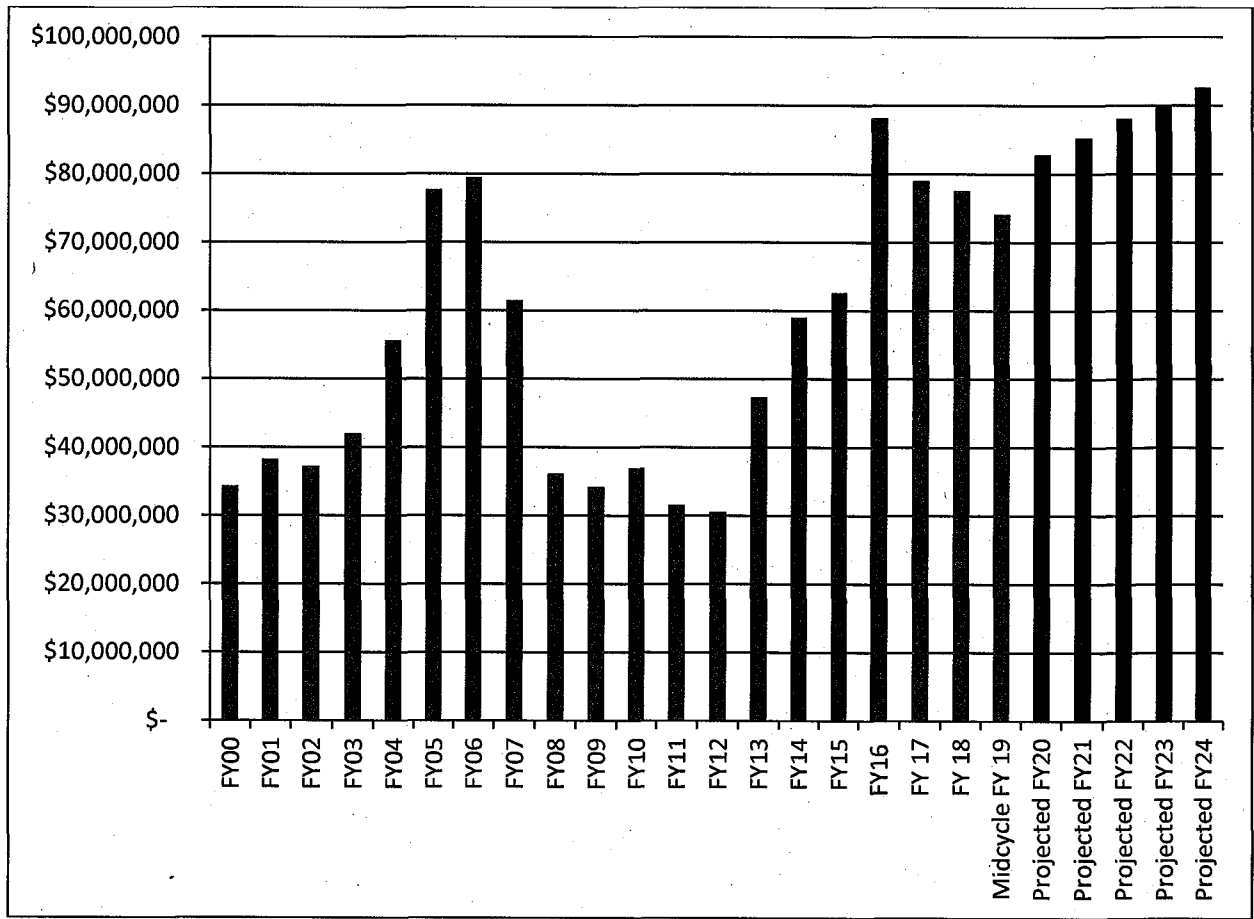
On November 6, 2018, Oakland voters approved Measure X, establishing a progressive real estate transfer tax rate for the City. The new rates became effective on January 1, 2019 and are as follows:

|                            |       |
|----------------------------|-------|
| Transfers up to \$300,000  | 1.00% |
| \$300,001 to \$2,000,000   | 1.50% |
| \$2,000,001 to \$5,000,000 | 1.75% |
| \$5,000,001 and above      | 2.50% |

Through 2006, RETT revenue was one of the fastest growing major revenue categories, following significant real estate market growth and a high transaction rate. As the real estate market slowed in 2007, sales volume significantly declined, and home prices decreased. This resulted from the economic downturn; rising new and existing home inventories; escalating home foreclosures due to falling home prices; and a growing number of adjustable rate mortgages and subprime loan defaults. Additionally, new and more stringent lending standards, plus reluctance on the part of lenders, applied further downward pressure on the housing market. As demand for ownership housing and sales transactions plummeted, RETT revenue took a major hit during the Great Recession. As mentioned in the property tax section of this Forecast, in FY 2012-13 the local housing market began to experience a substantial recovery in the average sale price of homes. These price increases have resulted in strong increases in RETT revenues. As shown in Figure 10, due to the volatile nature of this tax, RETT is not considered a consistent, recurring revenue stream. When certain high value commercial properties are sold, they can result in anomalously high revenue. In FY 2015-16, the City experienced approximately \$21.65 million of RETT revenue derived from the sale of eight major commercial properties. By comparison, in FY 2017-18, the City experienced approximately \$8.94 million of RETT revenue derived from the sale of six major commercial properties. These very large transactions cannot be assumed every year, nor can they be easily predicted due to the complexity and classified nature of some real estate transactions.



Figure 10 - Real Estate Transfer Tax Over Time

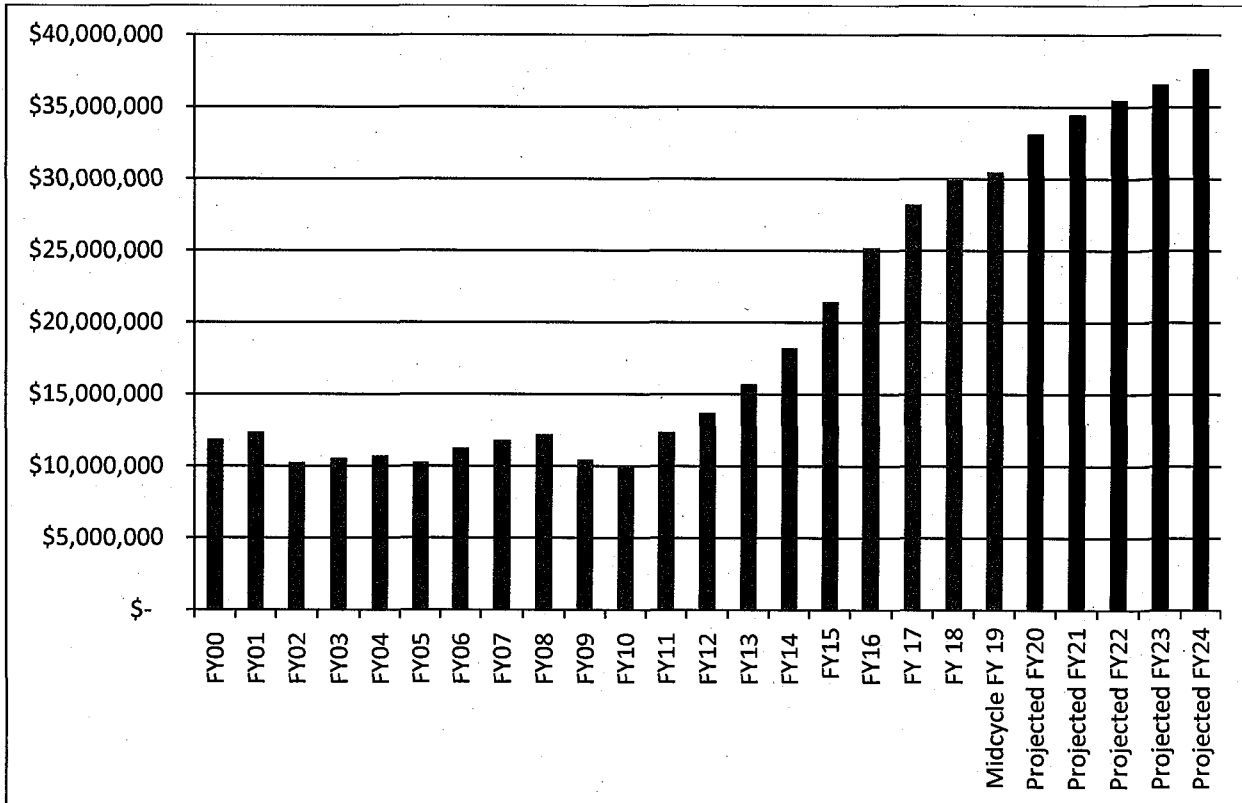


**Transient Occupancy Tax (TOT)**

The Transient Occupancy Tax (TOT) rate is 14% of the hotel rate and is paid by individuals who stay thirty days or less in a hotel located within the City of Oakland. This tax is collected and remitted by hotel operators. The rate was increased from 11% to 14% in FY 2008-09 due to the voter-approved Measure C tax surcharge. Measure C allocates 3% of total TOT revenue to support various community-based institutions, such as the Oakland Zoo; Oakland Convention and Visitors Bureau; Chabot Space and Science Center; Oakland Museum; and cultural art and festival activities. The Measure C portion (3%) is booked in a separate fund.

TOT revenue declined by 17% between FY 2008-09 and FY 2009-10 due to the Great Recession’s adverse effects on tourism and travel. This type of decline is consistent with prior periods of economic recession. For example, following the September 11, 2001 terrorist attacks and subsequent economic slowdown, TOT revenue declined sharply and remained flat for the next four years. In FY 2005-06, TOT rebounded by 9.7% and continued growth two years afterward, culminating in a near-record high of \$12.2 million in FY 2007-08. In FY 2008-09, TOT was again affected by an unprecedented economic downturn. Starting in FY 2011-12, the City started to experience a rebound and steady growth in TOT revenue. The chart below shows the TOT revenue historical trend since 2000 and provides a five-year projection.

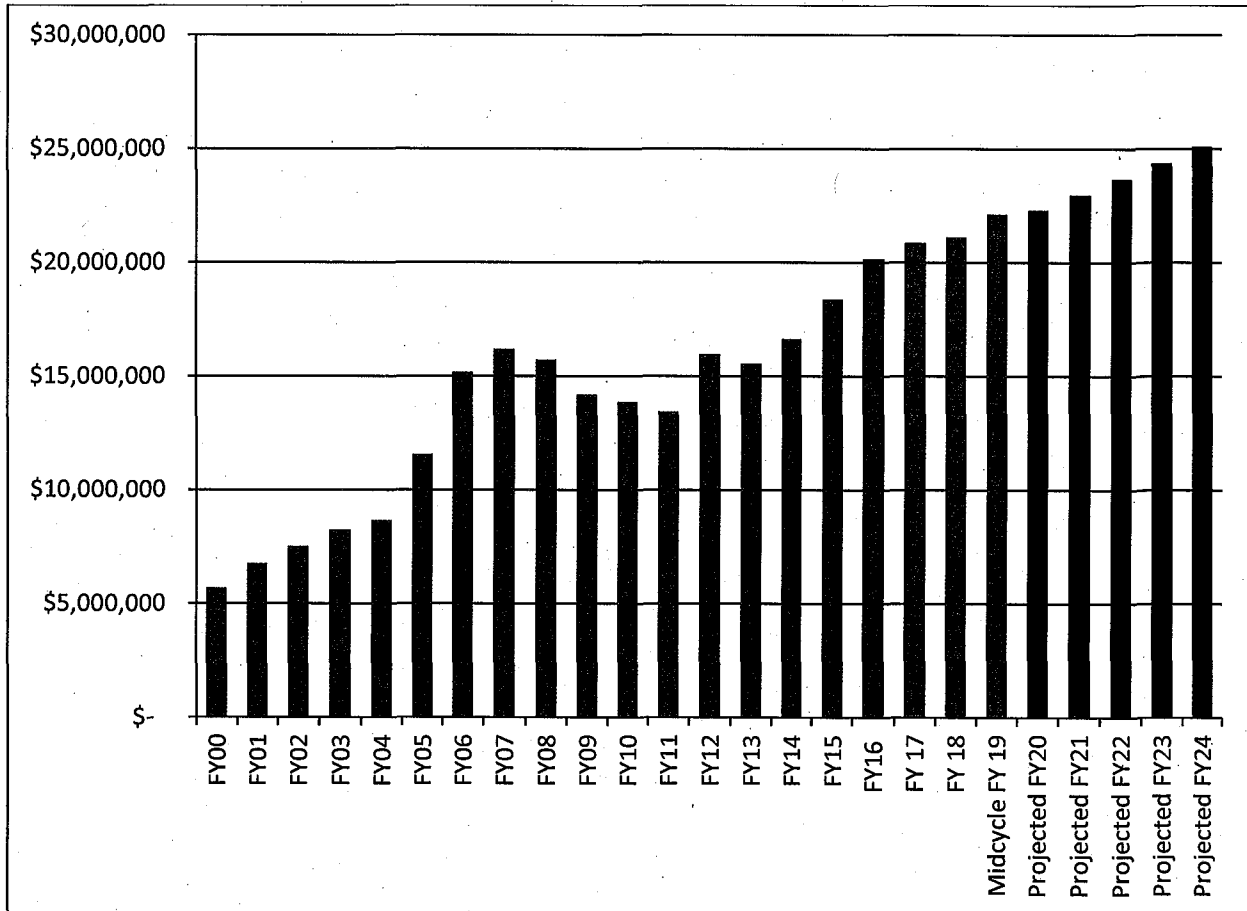
**Figure 11 - Transient Occupancy Tax Over Time**



**Parking Tax**

The Parking Tax is a tax imposed on the occupant of an off-street parking space. The tax rate is 18.5% (8.5% supports voter-approved Measure Z – Violence Prevention and Public Safety activities and is allocated to a separate fund) and is collected by parking operators. Approximately half of the City’s Parking Tax revenue is generated from parking at the Oakland International Airport. As such, the Parking Tax revenues are strongly correlated with passenger volume at the Oakland International Airport. Parking revenue declined sharply in FY 2008-09, due to aggressive price competition, the economic downturn, and reduced airline travel. The chart below shows the historical parking tax revenue trend and five-year projection.

**Figure 12 - Parking Tax Over Time**



## Background on California Legal Revenue Limitations

Public funds are highly regulated and as such, some of the major regulations that impact local revenue generation will be discussed in this section. This information serves as the background to gain understanding of how tax revenue is generated and restricted.

### Propositions 13

Proposition 13, approved by voters in 1978, amended the state constitution and imposed restrictions on the collection of revenue by California's local governments. Proposition 13 declared that the maximum amount of any ad valorem tax on real property shall not exceed 1% of the full cash value of such property. That 1% tax is collected by the counties and apportioned to the cities and special districts within each county.

The only exception to the 1% limitation for cities is for bonded indebtedness for the acquisition or improvement of real property, which must be approved by a two-thirds vote of the electorate. This exception is most commonly used when voters approve a General Obligation Bond to pay for capital improvements to infrastructure such as streets, parks, and buildings. The 2016 Oakland Measure KK Infrastructure Bond was an example of the use of this exception.

Proposition 13 also requires a two-thirds vote of the qualified electors for a City to impose special taxes. Special taxes are restricted for a specific purpose rather than a general purpose, such as a tax designated for public safety or libraries. Parcel taxes are also considered special taxes regardless of the use.

### Proposition 8

Proposition 8, approved by voters in 1978, strengthened Proposition 13 and established that when property values decline due to the real estate market, property tax assessors are obliged to conduct "decline in value reviews" so that the tax assessed is set at a lower rate if the value of the property has declined. A lower assigned value resulting from such a review is known as a "Proposition 8 reduction."

### Proposition 218

Proposition 218, approved by voters in 1996, further restricted local government's abilities to raise revenue. It requires a majority vote of the public to raise general purpose taxes in Charter cities such as Oakland.

The law requires that any new or increased property assessments may only be levied on properties that receive a special benefit from the project rather than a general benefit to the public, and that an engineer's report is required to ascertain the value of the special benefit. A weighted majority of property owners must approve such assessment.

Proposition 218 restricts the use of property related fees such that they cannot be used to pay for a general governmental service, or a service not immediately available to the property owner.

**Proposition 26**

Proposition 26, approved by voters in 2010, defined and restricted governments' abilities to raise revenues through fees and charges for service by defining revenues as taxes unless they met one of the criteria listed below.

- A charge imposed for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- A charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.
- A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.
- A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law.
- A charge imposed as a condition of property development.
- Assessments and property-related fees imposed in accordance with the provisions of Article XIII D of the California Constitution (see Proposition 218).

Under Proposition 26, the local government bears the burden of showing that the amount charged is no more than necessary to cover the reasonable costs of the activity, and allocation of the costs to the payer bears a reasonable relationship to the payer's burdens on, or benefits received from, the activity.

## Revenue Forecast Assumptions

Various assumptions were applied to the revenue projections in the Five-Year Forecast. Major assumptions include:

- All revenues are anticipated to grow at a rate of 6.15% in FY 2019-20 to 3.98% in FY 2023-24 in the General Purpose Fund;
- Local tax revenues are anticipated to grow at a rate of 8.53% in FY 2019-20 to 4.23% in FY 2023-24 in the General Purpose Fund;
- \$7 million in new revenues from the vacant property tax will be realized beginning in FY 2020-21;
- Consumer Price Index (CPI) is projected to be increased at the rate of 3.00% annually, consistent with the California Department of Finance methodology;
- Property tax is projected to have a strong growth in FY 2019-20 throughout the forecast period due to property transfer reassessments and new construction; and
- Real Estate Transfer Tax is projected to grow at a modest rate as the City benefits from the new progressive tax rates.

City staff consulted with several independent experts, including HdL and Colliers International, to develop the revenue forecast. Staff included its best analysis of revenue growth rates.

### Inflation

According to the California Department of Finance (DOF), 3.0% is projected to be the change in the Consumer Price Index (CPI) over the forecast period. This is roughly equal to the historical 5-year and 15-year average growth rates in the CPI.

### Local (Parcel) Taxes

Local parcel tax revenues consist of revenues approved by the voters. Parcel taxes appear as an assessment on the local property tax bills of real property owners whose property falls within the boundary of the assessment district. Some of these local parcel taxes, such as the pension override tax (see expenditure section for additional detail), increase with assessed property values; some local parcel taxes, such as the landscape and lighting district and the vacant property tax, do not adjust; and some local parcel taxes, such as paramedic emergency services parcel tax (Measure N) adjust with the CPI. These various assessments fund important public services, such as libraries (Measures Q & D), violence prevention and public safety (Measure Z).

### Property Tax

General Purpose Fund property taxes, inclusive of RPTTF, are expected to grow from a budgeted \$196.5 million in FY 2018-19 to \$272.6 million in FY 2023-24. This is an average annual increase

of 6.22% in years 2-5 of the forecast period. In FY 2017-18, the growth, inclusive of RPTTF, is projected to be 9.01% over the FY 2018-19 Midcycle Adopted Budget. The large variance for FY 2019-20 is due to greater than anticipated revenues from RPTTF in FY 2018-19.

Starting in FY 2011-12, due to the dissolution of the Oakland Redevelopment Agency (Agency), the property tax increment that would have been allocated to the Agency is now put into a property tax trust fund administered by Alameda County. Every six months the City (and other affected taxing agencies) receives a distribution of those revenues net of payments for existing encumbrances for which the Agency is still responsible. As the work of the Agency continues to wind down, the City will experience a fluctuation in the amount of revenues received. For purposes of forecasting, RPTTF revenues are forecasted separately from other property tax revenues and the aggregate value of all property tax revenues are presented in the forecast.

It is important to note that it takes approximately \$283.1 million in new property value to add 1% in revenue to the General Purpose Fund. The locally assessed secured roll typically grows based on an annual statewide inflation factor capped at 2%. New property value assessments triggered by changes in ownership or new construction are forecasted to add another 2%.

### **Sales Tax**

On average, local sales tax is projected to grow at inflation. In FY 2015-16 the City received one-time revenues of \$3 million due to the end of the Triple Flip. The Triple Flip refers to a funding shift beginning in FY 2004-05 under which the State withheld 0.25% of the local 1% portion of sales tax to pay debt service on \$15.0 billion in bonds authorized under Proposition 57, the California Economic Recovery Bond Act. The withheld 0.25% was backfilled with an equivalent amount of property tax revenue that would have otherwise been given to schools. The bonds were retired in FY 2015-16. In FY 2018-19, the City received one-time revenues of \$1.28 million due to changes in sales tax remitting by the California Department of Tax and Fee Administration.

### **Business License Tax**

The business license tax is composed of three primary components: normal business gross receipts, gross receipts from construction activity, and business tax from the rental of residential and commercial property. The City is seeing a benefit from an increase in the rental real estate market. Office space realized a drop in the vacancy rate to 6.2% at the end of 2018. Continuing growth activity is largely centered in the business districts close to BART, particularly Lake Merritt and Oakland City Center areas. The increasing demand and low supply are pushing rents upward, which will result in an increase in business taxes received from commercial landlords. Furthermore, increased demand in the residential rental market causing residential rents to rise faster than inflation will also drive up business tax revenues.

In FY 2019-20, the assumed growth over the FY 2018-19 Adopted Midcycle Budget, is 13.6%. Thereafter, the forecast calls for 3.57% growth in FY 2020-21 and 3.00% in the remaining years

of the forecast period. The City does anticipate new revenues from the passage of Proposition 64 (The Adult Use of Marijuana Act), and those revenues are included in the forecast.

### Utility Consumption Tax

Utility Consumption Tax (UCT) is projected to remain at the current level throughout the forecast period. Increases in cable and energy usage are offset by energy efficiency projects and “green” buildings.

Assembly Bill 1717 (AB 1717) passed by the legislature in 2014, established the Prepaid Mobile Telephony Services Surcharge Collection Act and Local Prepaid Mobile Telephone Services Collection Act. AB 1717 effectively closed a loophole whereby the sale of prepaid calling cards, cell phones and the like were not subject to the City’s local UCT. The California Department of Tax and Fee Administration, previously known as the Board of Equalization (BOE), has been authorized with establishing a surcharge rate that will be charged on the sales of all prepaid mobile telephony services, collected by the retailer, remitted to the BOE quarterly, and then remitted to the appropriate local taxing jurisdiction less an administrative fee. AB 1717 generates approximately \$500,000 annually in additional UCT revenue.

### Real Estate Transfer Tax

As mentioned earlier in this report, the Real Estate Transfer Tax (RETT) is one of the City’s most volatile revenue streams and highly sensitive to economic cycles. RETT is assessed whenever there is a change in ownership of real property. Historically, Oakland’s share of the transfer tax was 1.5% of recorded transaction value.

On November 6, 2018, Oakland voters approved Measure X, establishing a progressive real estate transfer tax rate for the City. The new rates became effective on January 1, 2019 and are as follows:

|                            |       |
|----------------------------|-------|
| Transfers up to \$300,000  | 1.00% |
| \$300,001 to \$2,000,000   | 1.50% |
| \$2,000,001 to \$5,000,000 | 1.75% |
| \$5,000,001 and above      | 2.50% |

The recent growth in RETT has been largely due to the sale of large commercial buildings as post-recession commercial real estate once again becomes an attractive investment. Also, the City recently experienced double digit year-over-year growth in home prices. Furthermore, while the sale value of real estate has continued to increase, the sale of both residential and commercial real estate is slowing down. Staff assumes growth of 11.71% in FY 2019-20, and an average growth of 2.77% for the remainder of the forecast years.

The Consolidated Fiscal Policy (See Appendix B) states that RETT greater than 15% of GPF Tax Revenue is to be considered one-time or “Excess RETT”. One-half of Excess RETT may be spent



on one-time expenditures, 25% is to be allocated to the Vital Services Stabilization Fund and 25% is allocated to repayment of long term obligations.

### **Transient Occupancy Tax**

Transient occupancy tax is projected to grow at a modest pace over the next 5 years. Hotel revenue is measured by 3 factors: occupancy, average daily room rate, and revenue per occupied room (REVPAR). REVPAR is a performance metric in the hotel industry, which is calculated by multiplying a hotel's average daily room rate by its occupancy rate. Due to an increase in demand, the City has seen its hotel occupancy increase to 76.7%. In 2018 REVPAR increased 6.16%. The average daily room rate is hovering around \$155.79. However, the City is limited by a static supply of hotel rooms and what the market can bear regarding pricing. Staff is assuming growth of 10.10% in FY 2019-20, 3.99% in FY 2020-21, 3.00% growth in the remaining fiscal years. Building of new hotels has been discussed in recent development plans, and the City currently has two new hotels under construction anticipated revenues are reflected in the years 1 and 2 of the forecast.

### **Parking Tax**

The City of Oakland imposes a parking tax at a rate of 18.5% (10% GPF and 8.5% Measure Z) on the rental of every parking space in a parking station in the City. Under a negotiated agreement with the Coliseum Authority, the City only receives the Measure Z portion of parking tax revenues generated at the Coliseum. The forecast assumes no changes in the usage of the Coliseum site. However, if one of the City's three sports teams were to leave the City during the forecast period, Measure Z parking tax revenues would be negatively impacted due to a decrease in attendance rates. Furthermore, threats exist from peer-to-peer Transportation Network Companies, such as Uber and Lyft, which are cheaper than taxis and may reduce individual reliance on personal autos, thus impacting parking tax. The Forecast assumes modest growth during FYs 2020-2024.

### **Licenses, Permits, and Service Charges Including Parking Meter Collections**

Service charges and other similar revenues are projected to grow with inflation during the forecast period. Many of these revenues are considered cost recovery and thus, tied to staff costs. Historically, the City Council has approved fee increases based upon growth in the CPI or staff costs. Each department has prepared amendments to the Master Fee Schedule, which will be brought to the City Council in April 2019, and at the City Council's direction will be incorporated into the FY 2019-21 Budget.

Parking meter collections are assumed to grow modestly over the forecast period. In 2016, the City adopted dynamic meter pricing. Revenues from increased parking meter rates are incorporated into the forecast.

### **Impact Fees**

In 2016, the City completed an impact fee nexus study and implementation strategy. The nexus study and associated economic feasibility analysis support the City Council's consideration of a fair and equitable set of development impact fees that will require private development to fund its

fair share of potential transportation, infrastructure, and affordable housing projects in a manner that does not hamper new development.

Revenues from impact fees are not included in the Forecast. These revenues, when they are realized, will be equal to expenditures, which are also excluded from the forecast. As these revenues and expenditures will offset one another, their exclusion will not affect the overall structural balance of the City's budget.

### **Parking Citations, Fines and Penalties**

Revenues from the City's fines and penalties (largely parking citations) are expected to remain relatively flat over the forecast period based on actual FY 2017-18 receipts. The forecast anticipates no dramatic changes in behavior nor increases in the amount charged for fines.

### **Interest Income & Miscellaneous Revenue**

Miscellaneous revenue is primarily comprised of property sales, bond sales, equipment financing, and litigation recoveries. Most of these revenues are infrequent and considered one-time. FY 2018-19 includes an assumed one-time land sale, which is why the revenue projection for FY 2019-20 appears to drop off dramatically. Staff assumes revenues to be constant over the forecast period.

### **Internal Service Revenue**

Internal service funds (ISF) are used to report and recoup the cost for a department to provide services to other departments. These revenues are held constant over the forecast period.

### **Grants & Subsidies**

In the first two years of the forecast period, re-occurring grants are forecasted to be renewed at the current levels, such as U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG). It is important to note that grant levels may be impacted by various budget-balancing measures at the State and Federal level. Grants are assumed to increase at the rate of inflation in years 3-5 of the forecast period.

### **Interfund Transfers**

Interfund transfers are transfers between funds to recover costs associated with providing services or paying debt service. These revenues are projected to grow at the rate of inflation or based on prescribed schedules, such as transfers for debt service payments.

### **Transfers from Fund Balance**

Transfers from fund balance are one-time transfers necessary when expenses out pace revenues in any given year. These transfers are implemented on an as-needed basis and are only an option when unallocated fund balance is available. This projection does not assume any transfers from the fund balance.

## Revenue Forecast Summary

As shown in the tables below, GPF revenues are projected to grow from \$602.7 million to \$746.9 million between FY 2018-19 and FY 2023-24, averaging approximately a 3.9% growth in years 2-5 of the forecast period. All Funds (which includes the GPF) are projected to grow from \$1.50 billion to \$1.65 billion over the forecast period. The tables below present the forecast revenues by category.

### Outcomes by Category of Revenue

**Table 8 - GPF Revenues by Category (In Millions)\***

| General Purpose Fund (1010)- Revenue in Millions     | FY 2018-19 Midcycle Adopted Budget | FY 2019-20 Forecast | FY 2020-21 Forecast | FY 2021-22 Forecast | FY 2022-23 Forecast | FY 2023-24 Forecast |
|------------------------------------------------------|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Tax                                         | \$196.47                           | \$214.18            | \$228.54            | \$242.21            | \$256.93            | \$272.60            |
| Sales Tax                                            | \$57.68                            | \$59.14             | \$60.81             | \$62.53             | \$64.31             | \$66.14             |
| Business License Tax                                 | \$86.62                            | \$98.40             | \$101.91            | \$104.97            | \$108.12            | \$111.36            |
| Utility Consumption Tax                              | \$54.21                            | \$55.16             | \$56.82             | \$58.52             | \$60.28             | \$62.08             |
| Real Estate Transfer Tax                             | \$74.18                            | \$82.87             | \$85.38             | \$88.15             | \$90.18             | \$92.66             |
| Transient Occupancy Tax                              | \$23.67                            | \$26.06             | \$27.10             | \$27.91             | \$28.75             | \$29.61             |
| Parking Tax                                          | \$11.44                            | \$11.46             | \$11.80             | \$12.16             | \$12.52             | \$12.90             |
| Licenses & Permits                                   | \$2.10                             | \$2.70              | \$2.72              | \$2.81              | \$2.89              | \$2.98              |
| Fines & Penalties                                    | \$21.23                            | \$19.68             | \$19.71             | \$19.93             | \$20.15             | \$20.38             |
| Interest Income                                      | \$1.21                             | \$1.21              | \$1.21              | \$1.21              | \$1.21              | \$1.21              |
| Service Charges                                      | \$62.28                            | \$63.43             | \$64.95             | \$66.83             | \$68.77             | \$70.77             |
| Grants & Subsidies                                   | \$0.12                             | \$0.12              | \$0.12              | \$0.12              | \$0.12              | \$0.13              |
| Miscellaneous Revenue                                | \$5.49                             | \$0.97              | \$0.97              | \$0.98              | \$1.00              | \$1.01              |
| Interfund Transfers                                  | \$4.77                             | \$3.10              | \$3.10              | \$3.10              | \$3.10              | \$3.10              |
| <b>Subtotal GPF</b>                                  | <b>\$601.47</b>                    | <b>\$638.48</b>     | <b>\$665.14</b>     | <b>\$691.43</b>     | <b>\$718.33</b>     | <b>\$746.93</b>     |
| Transfers from Fund Balance                          | \$1.23                             | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| <b>Total</b>                                         | <b>\$602.70</b>                    | <b>\$638.48</b>     | <b>\$665.14</b>     | <b>\$691.43</b>     | <b>\$718.33</b>     | <b>\$746.93</b>     |
| <b>Growth rate net of transfer from fund balance</b> |                                    | <b>6.15%</b>        | <b>4.18%</b>        | <b>3.95%</b>        | <b>3.89%</b>        | <b>3.98%</b>        |
| <b>Growth rate local taxes only</b>                  |                                    | <b>8.53%</b>        | <b>4.58%</b>        | <b>4.21%</b>        | <b>4.13%</b>        | <b>4.23%</b>        |

\*First Year is in comparison to FY 2018-19 Midcycle Adopted Budget.

Table 9 - All Fund Revenues by Category (In Millions)\*

| All Funds- Revenue in Millions                       | FY 2018-19<br>Midcycle<br>Adopted<br>Budget | FY 2019-20<br>Forecast | FY 2020-21<br>Forecast | FY 2021-22<br>Forecast | FY 2022-23<br>Forecast | FY 2023-24<br>Forecast |
|------------------------------------------------------|---------------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Property Tax                                         | \$202.98                                    | \$222.36               | \$237.31               | \$251.64               | \$267.08               | \$283.55               |
| Local Tax                                            | \$214.86                                    | \$221.47               | \$234.23               | \$246.04               | \$257.63               | \$269.86               |
| Sales Tax                                            | \$84.95                                     | \$88.85                | \$91.42                | \$94.06                | \$96.78                | \$99.58                |
| Gas Tax                                              | \$16.30                                     | \$16.37                | \$16.37                | \$16.86                | \$17.36                | \$17.88                |
| Business License Tax                                 | \$86.62                                     | \$98.40                | \$101.91               | \$104.97               | \$108.12               | \$111.36               |
| Utility Consumption Tax                              | \$54.21                                     | \$55.16                | \$56.82                | \$58.52                | \$60.28                | \$62.08                |
| Real Estate Transfer Tax                             | \$74.18                                     | \$82.87                | \$85.38                | \$88.15                | \$90.18                | \$92.66                |
| Transient Occupancy Tax                              | \$30.49                                     | \$33.16                | \$34.49                | \$35.52                | \$36.59                | \$37.69                |
| Parking Tax                                          | \$22.14                                     | \$22.32                | \$23.00                | \$23.69                | \$24.40                | \$25.13                |
| Licenses & Permits                                   | \$28.46                                     | \$29.05                | \$29.07                | \$30.28                | \$31.37                | \$32.31                |
| Fines & Penalties                                    | \$23.52                                     | \$21.38                | \$21.42                | \$21.66                | \$21.90                | \$22.15                |
| Interest Income                                      | \$1.41                                      | \$1.30                 | \$1.30                 | \$1.30                 | \$1.30                 | \$1.30                 |
| Service Charges                                      | \$213.99                                    | \$218.53               | \$223.21               | \$229.77               | \$236.49               | \$243.37               |
| Internal Service Funds                               | \$84.43                                     | \$101.02               | \$99.84                | \$99.84                | \$99.84                | \$99.84                |
| Grants & Subsidies                                   | \$99.03                                     | \$78.16                | \$68.12                | \$69.40                | \$70.70                | \$72.03                |
| Miscellaneous Revenue                                | \$78.50                                     | \$34.53                | \$34.05                | \$34.98                | \$35.93                | \$36.91                |
| Interfund Transfers                                  | \$139.00                                    | \$143.99               | \$145.13               | \$145.13               | \$145.13               | \$145.13               |
| <b>Subtotal All Funds</b>                            | <b>\$1,455.06</b>                           | <b>\$1,468.93</b>      | <b>\$1,503.04</b>      | <b>\$1,551.80</b>      | <b>\$1,601.07</b>      | <b>\$1,652.83</b>      |
| Transfers from Fund Balance                          | \$49.43                                     | \$0.02                 | \$0.00                 | \$0.00                 | \$0.00                 | \$0.00                 |
| <b>Total</b>                                         | <b>\$1,504.49</b>                           | <b>\$1,468.95</b>      | <b>\$1,503.04</b>      | <b>\$1,551.80</b>      | <b>\$1,601.07</b>      | <b>\$1,652.83</b>      |
| <b>Growth rate</b>                                   |                                             | <b>-2.36%</b>          | <b>2.32%</b>           | <b>3.24%</b>           | <b>3.17%</b>           | <b>3.23%</b>           |
| <b>Growth rate net of transfer from fund balance</b> |                                             | <b>0.95%</b>           | <b>2.32%</b>           | <b>3.24%</b>           | <b>3.17%</b>           | <b>3.23%</b>           |

\*First Year is in comparison to FY 2018-19 Midcycle Adopted Budget.

### Revenue Growth Rates

On a percentage basis, GPF revenues are forecasted to grow as shown below. Note that the rates below may vary in some cases from the general revenue growth rate assumptions due to specific one-time incidents. Also, note that the FY 2019-20 forecasted growth rate is the difference between the FY 2018-19 budgeted revenue and the forecasted FY 2019-20 revenue. The Revenue Forecast Assumptions section beginning on page 36 provides more information on the rates reflected below.

**Table 10 - GPF Revenue Growth Rates by Category\***

| General Purpose Fund (1010)-<br>Revenue in Millions | FY 2019-20<br>Forecast | FY 2020-21<br>Forecast | FY 2021-22<br>Forecast | FY 2022-23<br>Forecast | FY 2023-24<br>Forecast |
|-----------------------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Property Tax                                        | 9.01%                  | 6.70%                  | 5.98%                  | 6.08%                  | 6.10%                  |
| Sales Tax                                           | 2.53%                  | 2.82%                  | 2.83%                  | 2.85%                  | 2.85%                  |
| Business License Tax                                | 13.60%                 | 3.57%                  | 3.00%                  | 3.00%                  | 3.00%                  |
| Utility Consumption Tax                             | 1.75%                  | 3.01%                  | 2.99%                  | 3.01%                  | 2.99%                  |
| Real Estate Transfer Tax                            | 11.71%                 | 3.03%                  | 3.24%                  | 2.30%                  | 2.75%                  |
| Transient Occupancy Tax                             | 10.10%                 | 3.99%                  | 2.99%                  | 3.01%                  | 2.99%                  |
| Parking Tax                                         | 0.17%                  | 2.97%                  | 3.05%                  | 2.96%                  | 3.04%                  |
| Licenses & Permits                                  | 28.57%                 | 0.74%                  | 3.31%                  | 2.85%                  | 3.11%                  |
| Fines & Penalties                                   | -7.30%                 | 0.15%                  | 1.12%                  | 1.10%                  | 1.14%                  |
| Interest Income                                     | 0.00%                  | 0.00%                  | 0.00%                  | 0.00%                  | 0.00%                  |
| Service Charges                                     | 1.85%                  | 2.40%                  | 2.89%                  | 2.90%                  | 2.91%                  |
| Grants & Subsidies                                  | 0.00%                  | 0.00%                  | 0.00%                  | 0.00%                  | 0.00%                  |
| Miscellaneous Revenue                               | -82.33%                | 0.00%                  | 1.03%                  | 2.04%                  | 1.00%                  |
| Interfund Transfers                                 | -35.01%                | 0.00%                  | 0.00%                  | 0.00%                  | 0.00%                  |
| <b>Subtotal GPF</b>                                 | <b>6.15%</b>           | <b>4.18%</b>           | <b>3.95%</b>           | <b>3.89%</b>           | <b>3.98%</b>           |
| Transfers from Fund Balance                         | \$1.23                 | \$0.00                 | \$0.00                 | \$0.00                 | \$0.00                 |
| <b>Total</b>                                        | <b>5.94%</b>           | <b>4.18%</b>           | <b>3.95%</b>           | <b>3.89%</b>           | <b>3.98%</b>           |
| <b>Growth- rate local taxes only</b>                | <b>8.53%</b>           | <b>4.58%</b>           | <b>4.21%</b>           | <b>4.13%</b>           | <b>4.23%</b>           |

\*First Year is in comparison to FY 2018-19 Midcycle Adopted Budget.

Table 11 - All Funds Revenue Growth Rates by Category\*

| All Funds- Revenue in Millions | FY 2019-20 Forecast | FY 2020-21 Forecast | FY 2021-22 Forecast | FY 2022-23 Forecast | FY 2023-24 Forecast |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Property Tax                   | 9.55%               | 6.73%               | 6.04%               | 6.14%               | 6.17%               |
| Local Tax                      | 3.08%               | 5.76%               | 5.05%               | 4.71%               | 4.75%               |
| Sales Tax                      | 4.60%               | 2.89%               | 2.89%               | 2.89%               | 2.90%               |
| Gas Tax                        | 0.44%               | 0.00%               | 3.00%               | 3.00%               | 3.00%               |
| Business License Tax           | 13.60%              | 3.57%               | 3.00%               | 3.00%               | 3.00%               |
| Utility Consumption Tax        | 1.76%               | 3.00%               | 3.00%               | 3.00%               | 3.00%               |
| Real Estate Transfer Tax       | 11.72%              | 3.02%               | 3.25%               | 2.30%               | 2.75%               |
| Transient Occupancy Tax        | 8.75%               | 4.00%               | 3.00%               | 3.00%               | 3.00%               |
| Parking Tax                    | 0.84%               | 3.02%               | 3.00%               | 3.00%               | 3.00%               |
| Licenses & Permits             | 2.07%               | 0.07%               | 4.17%               | 3.59%               | 3.00%               |
| Fines & Penalties              | -9.07%              | 0.15%               | 1.13%               | 1.13%               | 1.13%               |
| Interest Income                | -8.01%              | 0.00%               | 0.00%               | 0.00%               | 0.00%               |
| Service Charges                | 2.12%               | 2.14%               | 2.94%               | 2.92%               | 2.91%               |
| Internal Service Funds         | 19.64%              | -1.17%              | 0.00%               | 0.00%               | 0.00%               |
| Grants & Subsidies             | -21.08%             | -12.84%             | 1.87%               | 1.88%               | 1.88%               |
| Miscellaneous Revenue          | -56.01%             | -1.40%              | 2.72%               | 2.73%               | 2.73%               |
| Interfund Transfers            | 3.59%               | 0.79%               | 0.00%               | 0.00%               | 0.00%               |
| <b>Total</b>                   | <b>-2.36%</b>       | <b>2.32%</b>        | <b>3.24%</b>        | <b>3.17%</b>        | <b>3.23%</b>        |

\*First Year is in comparison to FY 2018-19 Midcycle Adopted Budget.

## EXPENDITURES

In this section, expenditure background information is discussed, followed by expenditure historical trends, assumptions for projections, and a summary of the projection. Key expenditure categories include salary, pension, healthcare, post-employment benefit, and unfunded needs. Finally, a summary of the forecast expenditures is presented by category.

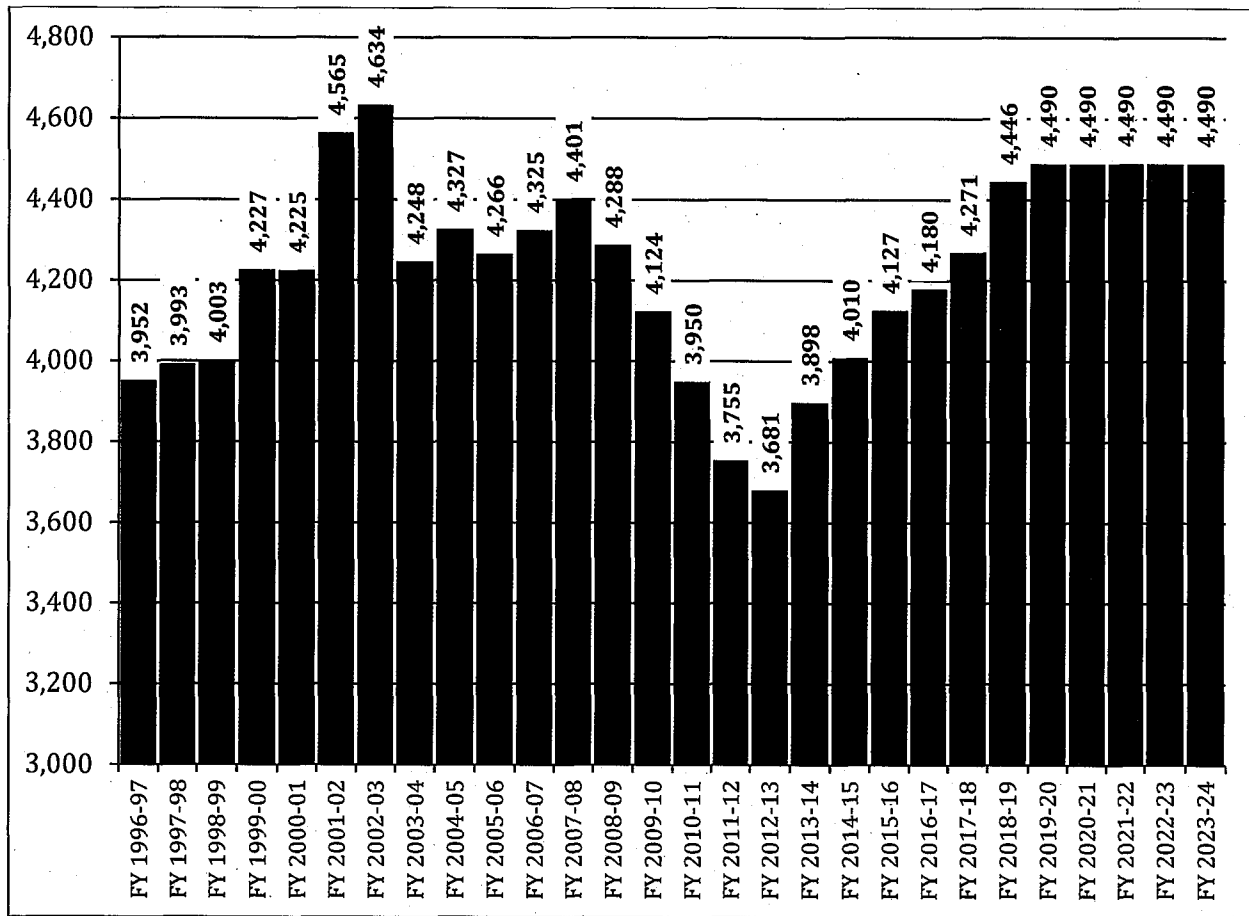
### Background Information

The expenditure forecast follows the guidance of the Government Finance Officers Association (GFOA), which recommends that expenditures be grouped into meaningful units of analysis, such as departments and standard budget categories of expenditures. It also directs that operating, capital, and non-current liability expenditures be addressed.

Expenditure information is presented by major expenditure category – civilian personnel, police personnel, fire personnel, operations & maintenance (O&M), capital acquisitions, debt service, and transfers & other. The personnel expenditure can be further divided into salaries & payroll expenditures (which include overtime & premiums), retirement, and fringe benefits such as healthcare and worker's compensation costs. Expenditure data are also presented by Department and by Fund (please see the Principles of Government Finance section on page 18 for additional information).

The Forecast assumes that staffing and services will continue at existing levels. Thus, changes in personnel and O&M expenditures reflect increases to the costs that drive those expenditures rather than additional positions or services. Figure 13 shows historical budgeted Full Time Equivalent (FTE) count across all City Funds and the forecast FTE assuming staffing and services will continue at existing levels.

Figure 13- All Funds Historical FTE Summary



### Expenditure Categories & Forecast Assumptions

#### Summary of Assumptions

The following tables summarize the assumptions used in the forecast by category of expenditure. In the subsequent sections, each forecast category is discussed in detail. The forecast assumes a constant level of staffing and services. Thus, the FTE count for the City remains constant in years two through five of the Forecast (see Figure 13 above).

Table 12 Expenditure Assumption Summary

| Salary & Payroll Expenditure Assumptions % Growth |            |            |            |            |            |
|---------------------------------------------------|------------|------------|------------|------------|------------|
| Employee Group                                    | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
| Civilian                                          | 2.0%       | 2.0%       | CPI        | CPI        | CPI        |
| Police                                            | 0.0%       | 2.5%       | 3.0%       | 3.5%       | 3.5%       |
| Fire                                              | 2.0%       | CPI        | CPI        | CPI        | CPI        |

Note: Based on recently approved MOUs with the IBEW, Local 1245 and CMEA, IAFF, and OPOA. Assumes 2-3% CPI growth for other bargaining groups. Fire wages are effective November 1 of each year.



| Assumed PERS Retirement Rates - Employer Contribution |            |            |            |            |            |
|-------------------------------------------------------|------------|------------|------------|------------|------------|
| Employee Group                                        | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
| Civilian                                              | 42.2%      | 44.8%      | 46.7%      | 48.2%      | 48.5%      |
| Police                                                | 44.8%      | 48.7%      | 51.8%      | 53.9%      | 54.8%      |
| Fire                                                  | 43.8%      | 47.7%      | 50.8%      | 52.9%      | 53.8%      |

| Assumed Fringe Benefit Rates |            |            |            |            |            |
|------------------------------|------------|------------|------------|------------|------------|
| Employee Group               | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
| Civilian                     | 37.0%      | 37.7%      | 38.8%      | 39.1%      | 39.3%      |
| Police                       | 36.9%      | 37.9%      | 38.6%      | 38.9%      | 38.9%      |
| Fire                         | 41.2%      | 41.9%      | 42.2%      | 43.0%      | 43.2%      |

| Other Expenditures Assumed % Growth |                                      |            |            |            |            |
|-------------------------------------|--------------------------------------|------------|------------|------------|------------|
| Category                            | FY 2019-20                           | FY 2020-21 | FY 2021-22 | FY 2022-23 | FY 2023-24 |
| O&M                                 | 0.0%                                 | 0.0%       | 3.0%       | 3.0%       | 3.0%       |
| Electricity                         | 0.0%                                 | 0.0%       | 9.8%       | 9.8%       | 9.8%       |
| Water                               | 0.0%                                 | 0.0%       | 3.0%       | 3.0%       | 3.0%       |
| Debt Payments                       | According to Debt Repayment Schedule |            |            |            |            |

### Salaries & Payroll Expenditures

The base values of salaries and premiums used in the Forecast reflect actual values from the City's payroll system as of November 2018. This payroll snapshot captures salaries and premiums paid and is used as the base for FY 2019-20 and onward. The snapshot is then adjusted to incorporate any known changes in benefit rates that occur afterward. Overtime values are based upon the prior year's ongoing approved overtime budget.

The City's established baseline methodology captures negotiated wage increases approved in labor contracts that cover the relevant forecast period. For the OPOA, this includes all the economic provisions covering the duration of the recently approved agreement covering July 1, 2019 through June 30, 2024. These terms included no wage increase (0%) in FY 2019-20 and a 2.5% wage increase in FY 2020-21. For the City's Miscellaneous bargaining units, the City has assumed a 2.0% wage increase effective July 2019 and an additional 2.0% wage increase effective July 2020, consistent with the recently approved agreements with the International Brotherhood of Electrical Workers (IBEW), Local 1245 and the Confidential Management Employees Association (CMEA). For the IAFF, the Forecast reflects the terms of the labor agreement expiring October 31, 2020 and assumes 2% wage increase in November 2020. Each year thereafter, for which no agreements

exist, the City's forecast assumes wage growth commensurate with mainstream inflation expectations, ranging from 2% to 3%. The Forecast also assumes that the 1% "trigger" is achieved in FY 2018-19.

### Active Retirement & Pension Plans (CalPERS)

Projected future pension rates for active employees are based on estimates provided by the California Public Employees Retirement System (CalPERS). Table 13 below shows the retirement rates by employee group over the five-year forecast window. The projected rates are provided by CalPERS and assume that the expected rate of return is achieved in each year of the forecast. Modest variations in actual returns (including market losses) could result in substantially higher pension rates than what is shown in the table.

The rates are expressed as a percentage of payroll to facilitate comparison. However, beginning in FY 2017-18, CalPERS began requiring participating local employers to pay the unfunded actuarial liability (UAL) as a flat dollar amount to "decouple" wage growth (or lack thereof) from proper amortization of the UAL. The flat dollar UAL amounts are also shown in the table for comparison purposes.

**Table 13 Assumed CalPERS Retirement Rates & UAL Contribution**

| <b>Assumed PERS Retirement Rates - Employer Contribution</b> |                   |                   |                   |                   |                   |
|--------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Employee Group</b>                                        | <b>FY 2019-20</b> | <b>FY 2020-21</b> | <b>FY 2021-22</b> | <b>FY 2022-23</b> | <b>FY 2023-24</b> |
| Civilian                                                     | 42.2%             | 44.8%             | 46.7%             | 48.2%             | 48.5%             |
| Police                                                       | 44.8%             | 48.7%             | 51.8%             | 53.9%             | 54.8%             |
| Fire                                                         | 43.8%             | 47.7%             | 50.8%             | 52.9%             | 53.8%             |
|                                                              |                   |                   |                   |                   |                   |
| Combined UAL (\$)                                            | \$102.6 million   | \$114.4 million   | \$128.1 million   | \$139.7 million   | \$146.7 million   |
| UAL Increase (%)                                             | 16.1%             | 11.5%             | 12.0%             | 9.1%              | 5.0%              |

The funded ratios of the safety and miscellaneous (civilian) plan with CalPERS are below 100%. Based on the most recent actuarial report dated June 30, 2017, the Miscellaneous (Civilian) plan is funded at 68.2% with a \$832.6 million unfunded liability, and the Safety (Police & Fire) plan is funded at 64.2% with a \$714.3 million unfunded liability. The City will continue to improve these funded ratios through increases in CalPERS' required contributions.

**Table 14 City Pension Funded Ratios and Unfunded Amounts**

| Funded Ratios and Unfunded Amounts for City Pension Plans |                 |              |
|-----------------------------------------------------------|-----------------|--------------|
| Plan                                                      | Unfunded Amount | Funded Ratio |
| CalPERS – Miscellaneous                                   | \$832.6 million | 68.2%        |
| CalPERS – Public Safety                                   | \$714.3 million | 64.2%        |

The implementation of a three-tier pension benefit structure has helped to ease the financial condition in the long-term. Some of the features are within the State Pension Reform regulation (AB340), which is required to be implemented on or before January 1, 2018. Recent pension reform in Oakland is summarized in the table below:

**Table 15 - Pension Tiers**

| Pension Descriptions              | Public Safety Employees | Civilian Employees | Effective Dates                                                            |
|-----------------------------------|-------------------------|--------------------|----------------------------------------------------------------------------|
| 1 <sup>st</sup> tier <sup>1</sup> | 3% @ 50                 | 2.7% @ 55          | Prior to Feb. 2012                                                         |
| 2 <sup>nd</sup> tier <sup>2</sup> | 3% @ 55                 | 2.5% @ 55          | Feb. 2012 for public safety employees and June 2012 for civilian employees |
| 3 <sup>rd</sup> tier <sup>3</sup> | 2.7% @ 57               | 2.0% @ 62          | January 1, 2013                                                            |

<sup>1</sup> 3% of highest 12 consecutive month salary for each year of service at age 50 for public safety employees and 2.7% of highest 12 consecutive month salary for civilian employees

<sup>2</sup> 3% of the 3 year average salary at age 55 for public safety employees and 2.5% highest three consecutive year average at age 55 for civilian employees

<sup>3</sup> 2.7% of final 3 year average salary and subject to established cap at age 57 for public safety employees; 2.0% of final 3 year average salary and subject to established cap at age 62 for civilian employees. The third tier was added in accordance with the Public Employees' Pension Reform Act of 2013 (PEPRA)

### Fringe Benefits

Fringe benefits are paid by using an accrual methodology based upon payroll. Each year a rate is established, and that rate is used to capture income from the City's various funds to pay the fringe benefits that the City owes for its active and retired employees. Fringe benefit rates for the first two years of the Five-Year Forecast are identical to the estimates used in the baseline budget. Civilian fringe benefits are accrued at 36.08% of payroll, sworn police fringe benefits are accrued at 37.31% of payroll, and sworn fire fringe benefits are accrued at 41.55% of payroll. Civilian and sworn fringe benefit expenditures are comprised of many components, including health insurance, retiree medical benefits, workers' compensation, dental and vision insurance, disability insurance, unemployment insurance, and others. However, health expenses are by far the largest category composing roughly two-thirds of fringe benefit costs.

The City's current labor contracts have a provision that the City will pay the full amount required for an employee's medical coverage up to the amount required to provide a Kaiser Foundation Health Plan.

As medical benefits are by far the largest share of active employee fringe benefits the growth rate of fringe benefits (other than retiree medical) is assumed to grow at the rate of medical inflation. The forecast assumes a rate of medical inflation equal to the 10 year historical average of roughly 4.32%. This is lower than the historic rate of medical inflation over the 15-year time span as shown in the table below.

**Table 16 - Kaiser Health Plan History**

| Kaiser Foundation Health Plan HMO |         |            |         |            |          |            |
|-----------------------------------|---------|------------|---------|------------|----------|------------|
| Year                              | 1 Party |            | 2 Party |            | 3+ Party |            |
|                                   | Amount  | % Increase | Amount  | % Increase | Amount   | % Increase |
| 2003                              | \$259   | N/A        | \$518   | N/A        | \$674    | N/A        |
| 2004                              | \$305   | 17.80%     | \$611   | 17.80%     | \$794    | 17.80%     |
| 2005                              | \$355   | 16.10%     | \$709   | 16.10%     | \$922    | 16.10%     |
| 2006                              | \$355   | 0.00%      | \$779   | 9.80%      | \$1,012  | 9.80%      |
| 2007                              | \$389   | 9.80%      | \$862   | 10.70%     | \$1,121  | 10.70%     |
| 2008                              | \$471   | 20.90%     | \$941   | 9.20%      | \$1,224  | 9.20%      |
| 2009                              | \$508   | 8.00%      | \$1,016 | 7.90%      | \$1,322  | 8.00%      |
| 2010                              | \$533   | 4.80%      | \$1,065 | 4.80%      | \$1,385  | 4.80%      |
| 2011                              | \$569   | 6.80%      | \$1,138 | 6.80%      | \$1,479  | 6.80%      |
| 2012                              | \$610   | 7.30%      | \$1,221 | 7.30%      | \$1,587  | 7.30%      |
| 2013                              | \$669   | 9.50%      | \$1,337 | 9.50%      | \$1,738  | 9.50%      |
| 2014                              | \$743   | 11.10%     | \$1,485 | 11.00%     | \$1,931  | 11.10%     |
| 2015                              | \$714   | -3.90%     | \$1,429 | -3.80%     | \$1,858  | -3.80%     |
| 2016                              | \$746   | 4.48%      | \$1,493 | 4.48%      | \$1,941  | 4.47%      |
| 2017                              | \$733   | -1.74%     | \$1,467 | -1.74%     | \$1,907  | 1.75%      |
| 2018                              | \$780   | 6.39%      | \$1,560 | 6.32%      | \$2,028  | 6.33%      |
| 2019                              | \$768   | -1.49%     | \$1,537 | -1.49%     | \$1,997  | -1.49%     |
| 10-Year Average                   |         | 4.32%      |         | 4.32%      |          | 4.68%      |
| 15-Year Average                   |         | 6.54%      |         | 6.46%      |          | 6.70%      |

### Other Post-Employment Benefits

Fringe benefit accounts are also used to accrue payments for retiree medical, also known as Other Post-Employment Benefits (OPEB). The City pays a portion of health insurance premiums for retirees meeting certain requirements related to age and years of service. The OPEB are extended to retirees pursuant to approved labor agreements.

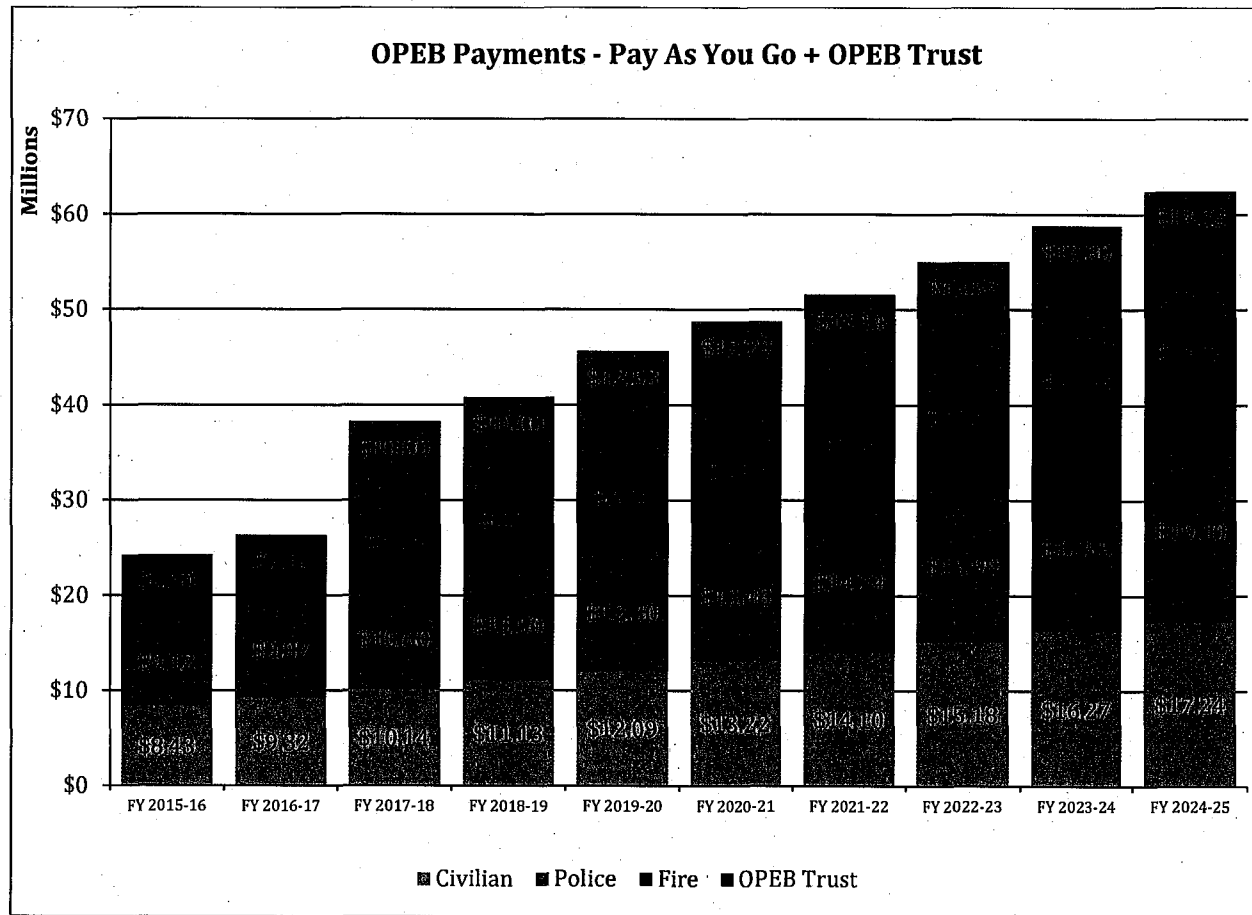
The City implemented Governmental Accounting Standard Board Statement No. 75 (“GASB 75”) in FY 2017-18 for the first time, which addresses how local governments are required to account for and report OPEB costs and liabilities in their financial statements. GASB 75 – which replaced GASB 45 – generally requires that employers recognize the full OPEB liability in their Statement of Net Position. For FY 2017-18 (most recent audited year), the City reported a net OPEB liability (including deferred inflows) of nearly \$1.09 billion in the Statement of Net Position.

In recognition of the City's significant unfunded liability for OPEB, in FY 2018-19 the City reached agreement with its sworn public safety (Fire and Police) unions – led by the Oakland Police Officers' Association (OPOA) – to cap retiree medical benefits for existing employees and implement new, lower-cost tiers for employees hired after January 1, 2019. These reforms provide significant – and much needed – long-term relief to the City's retiree medical program. As a result of these retiree medical reforms, in the first full fiscal year following enactment, the City's actuarial accrued liability is projected to decrease by more than \$175 million, and that savings is forecast to increase substantially over the next 15 years relative to the status quo.

But benefit reforms alone are not enough to address the City's OPEB funding challenge. On February 26, 2019, the City Council approved the City's OPEB Funding Policy that will authorize the set aside of 2.5% of payroll (approximately \$10 million per year) into the City's OPEB Trust in addition to regularly paying the pay-as-you-go premiums. This multi-pronged approach to OPEB will allow the City to incrementally address its long-term OPEB funding challenges and help to ensure this benefit is available to its workforce into the future. These revised OPEB costs have been included in the City's Forecast.

In FY 2013-14, the City began contributing into California Employer's Retirement Benefit Trust (CERBT), a multiple-employer defined benefit postemployment healthcare plan administered by CalPERS. After the dissolution of the former Redevelopment Agency, the City requested payments for OPEB through the Recognized Obligation Payment Schedule ("ROPS"). These payments were denied by the DOF. However, in FY 2017-19 Adopted Budget, the City Council authorized a total of \$20 million to be deposited into the CERBT trust for OPEB (\$10 million each fiscal year).

Figure 15 - Future Estimated Pay-As-You-Go OPEB payments (in millions)



**Operations & Maintenance**

Operations & Maintenance expenditures in the two-year baseline are reflected at the same values as in the FY 2018-19 Midcycle Adopted Budget. Any expenditures designated as one-time are removed from the baseline budget. No increases in O&M are assumed for the two-year baseline budget unless there are legal requirements. O&M for the three years beyond the two-year baseline are adjusted for assumed annual rate of inflation (2.7%).

**Debt, Transfers & Other**

Debt service expenditures are based on approved payment schedules. Many of the City's debt obligations are tied to specific dedicated revenue sources and thus do not impose a burden to the City's General Purpose Fund. However, most of the City's master leases are being supported by the General Purpose Fund (e.g., Parking Meters, Oracle, IBM, Vehicle & Equipment, etc.).

Transfers between funds, capital investments, and other expenditures are assumed to continue at baseline budget values unless there are other legal requirements or prescribed schedules. Examples include transfers related to approved debt obligations, the Kid's First transfer, and transfers to the Self Insurance Liability Fund based upon its negative fund balance repayment schedule.

**Capital Projects**

In addition to the operating expenditures noted above, the City has significant capital expenditures. The City appropriates funding for capital projects each two-year alongside the biennial budget. Through the Capital Improvement process, the City identifies and prioritizes capital projects from eligible funding sources. Most funding sources provide capital for infrastructure projects such as sewers, streets, and sidewalks.

The forecast assumes capital projects over the next five years in the same amount and from the sources as the capital allocations in FY 2018-19.

Historically, the City has lacked significant dedicated funding streams for capital improvement of buildings, facilities, parks and open space and as such most funding for these projects is derived from the General Purpose Fund or special one-time grant funds. With the passage of the Infrastructure Bond (Measure KK) in November 2016, an infusion of infrastructure funds will be available over the next decade totaling \$600 million - \$350 million for streets and sidewalks, \$150 million for public facilities, and \$100 million for affordable housing projects. The forecast does not include expenditures or revenue from Infrastructure Bond (Measure KK). As the capital outlays and revenues for Measure KK projects will be equal to one another, the exclusion of these revenues and expenditures will not affect the overall structural balance of the City's budget.

While the Infrastructure Bond will substantially help reduce the City's backlog of unfunded high priority capital projects, the City's capital needs will likely still exceed available funding in certain categories such as storm drains and information technology infrastructure.

## Expenditure Forecast Summary

The tables below provide Expenditures by Category for the GPF and All Funds, respectively.

**Table 17 GPF Expenditures by Category (In Millions)**

| Category                 | FY 2019-20      | FY 2020-21      | FY 2021-22      | FY 2022-23      | FY 2023-24      |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Wages                    | \$290.23        | \$296.20        | \$305.09        | \$314.85        | \$324.93        |
| Fringe Benefits          | \$94.88         | \$99.02         | \$103.98        | \$108.39        | \$112.29        |
| Retirement               | \$117.98        | \$129.74        | \$140.96        | \$154.89        | \$170.20        |
| Operations & Maintenance | \$107.56        | \$105.71        | \$107.10        | \$109.52        | \$112.04        |
| Debt, Transfers, & Other | \$45.20         | \$44.93         | \$47.33         | \$49.41         | \$52.21         |
| <b>Total</b>             | <b>\$655.86</b> | <b>\$675.61</b> | <b>\$704.46</b> | <b>\$737.06</b> | <b>\$771.67</b> |

**Table 18 All Funds Expenditures by Category (In Millions)**

| Category                 | FY 2019-20        | FY 2020-21        | FY 2021-22        | FY 2022-23        | FY 2023-24        |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Wages                    | \$501.19          | \$511.35          | \$526.69          | \$543.16          | \$560.14          |
| Fringe Benefits          | \$146.91          | \$153.17          | \$161.36          | \$167.91          | \$174.00          |
| Retirement               | \$178.68          | \$195.51          | \$211.67          | \$230.31          | \$248.90          |
| Operations & Maintenance | \$355.02          | \$359.12          | \$366.45          | \$376.26          | \$386.47          |
| Debt, Transfers, & Other | \$336.40          | \$327.76          | \$331.37          | \$334.64          | \$312.96          |
| <b>Total</b>             | <b>\$1,518.20</b> | <b>\$1,546.90</b> | <b>\$1,597.54</b> | <b>\$1,652.28</b> | <b>\$1,682.45</b> |



## Historic Cost Containment & Fiscal Planning

### Prior Legislative Action

City leadership has continuously recognized and addressed unfunded needs and planned for future circumstances. The City Council has adopted several policies to improve the City's financial conditions. The table below lists major relevant legislation.

**Table 19 - Past Legislative Actions Regarding Fiscal Policies**

| Policy                                                     | Date of Adoption                           | Resolution/Ordinance #                             |
|------------------------------------------------------------|--------------------------------------------|----------------------------------------------------|
| Policy on Balance Budget                                   | July 15, 2003                              | Resolution #77922 C.M.S.                           |
| Policy on Charges for Services                             | July 15, 2003                              | Resolution #77924 C.M.S.                           |
| Reserve Policy - General Fund and Capital Improvement Fund | October 2, 2012                            | Ordinance #13134 C.M.S.                            |
| Debt Management Policy and Swap Policy for FY 2012-13      | October 16, 2012                           | Resolution #84063 C.M.S.                           |
| Long-Term Financial Planning                               | April 2, 2013                              | Resolution #84264 C.M.S.                           |
| Consolidated Fiscal Policy                                 | December 9, 2014<br>May 15, 2018 (amended) | Ordinance #13279 C.M.S.<br>Ordinance #13487 C.M.S. |
| Investment Policy for FY 2018-19                           | July 10, 2018                              | Resolution # 87259 C.M.S.                          |
| OPEB Funding Policy                                        | February 26, 2019                          | Resolution #87551 C.M.S.                           |

### Long-Term Structural Measures

The City has taken several key actions to structurally manage the City's long-term financial practices, including:

1. OPEB Funding Policy authorizing the City to pre-fund retiree medical benefits at a rate of 2.5% of payroll in addition to pay-as-you-go funding (Resolution #87551 C.M.S.);
2. Authorizing Staff to pay down historical negative fund balances over a 10-year period (Resolution # 87245 C.M.S.);
3. Maintaining 7.5% General Purpose Fund Emergency Reserve (Ordinance #13487 C.M.S.);
4. Use of one-time revenue for one-time expenditure (Ordinance #13487 C.M.S.);
5. Creating a Vital Services Stabilization Fund to limit reductions in services in the case of a recession. Balance of over \$14 million as of December 31, 2018;
6. Approval of Measure KK, the Capital Improvement Bond that will provide additional funding for capital improvements and help stabilize or reduce the cost of maintaining City infrastructure;
7. Negotiated with Oakland Police Officer's Association to increase contribution toward their pension to 12% beginning January 2017, Local 55, International Association of Firefighters members contribute 13%, Civilian employees contribute 8%;
8. Negotiated with all labor unions establishing the third tier of the pension benefit level, which further modified for public safety employees from 3% @ 50 formula to 2.7% @ 57 and for civilian employees from 2.5% @ 55 to 2.00% @ 62 effective January 2013;
9. Repayment of negative fund balances and pay down long-term debt and liabilities (Ordinance #13487 C.M.S.);
10. Pay down the negative fund balance with a repayment plan and one-time revenues (Ordinance #13134 C.M.S. and FY 2013-15 Budget, Resolution #86644 C.M.S.);

**Administrative Actions**

The City has also undertaken a series of actions to ensure rigorous expenditure controls and proactive revenue collection. Examples include:

1. Implementation of the City Council's direction on financial policies and adopted budget items;
2. Closely monitor departmental expenditures and schedule regular meetings with departments to strengthen internal controls and communication;
3. Closely monitor hiring processes and ensure vacancies are only filled when positions are authorized and funded;
4. Closely review fund balance to avoid potential increase of negative fund balance;
5. Actively pursue revenue audits and collection;
6. Monitor revenue realization and use of one-time vs. on-going revenue;
7. Review and modify service fee charges to cover costs, where feasible; and
8. Review and modify internal service rate calculation.

The City will continue to address its fiscal challenges by growing its sustainable revenue base, reduce costs, improve its operational efficiency, and find innovative ways to operate.

## SUMMARY & CONCLUSIONS

### Comparison of Revenues & Expenditures

The following tables summarize both the expenditure and revenue forecast results by Fund Group and show the variance (shortfall) based on those values.

**Table 20 GPF and All Funds Shortfall (In Millions)**

| GPF              | FY 2019-20       | FY 2020-21       | FY 2021-22       | FY 2022-23       | FY 2023-24       |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Expenditures     | \$655.86         | \$675.61         | \$704.46         | \$737.06         | \$771.67         |
| Revenues         | \$638.48         | \$665.14         | \$691.43         | \$718.33         | \$746.93         |
| <b>Shortfall</b> | <b>(\$17.38)</b> | <b>(\$10.47)</b> | <b>(\$13.03)</b> | <b>(\$18.73)</b> | <b>(\$24.74)</b> |

| All Funds        | FY 2019-20       | FY 2020-21       | FY 2021-22       | FY 2022-23       | FY 2023-24       |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Expenditures     | \$1,518.20       | \$1,546.90       | \$1,597.54       | \$1,652.28       | \$1,682.45       |
| Revenues         | \$1,468.95       | \$1,503.04       | \$1,551.80       | \$1,601.07       | \$1,652.83       |
| <b>Shortfall</b> | <b>(\$49.25)</b> | <b>(\$43.86)</b> | <b>(\$45.74)</b> | <b>(\$51.21)</b> | <b>(\$29.62)</b> |

### Risks, Opportunities & Uncertainties

#### Possibility of Economic Contraction

Historically, periods of expansion are followed by economic contraction. According to the National Bureau of Economic Research, the average expansion period lasts for approximately 5-6 years. Since the end of the Great Depression, there have been 13 recessions. This current economic expansion has exceeded 9 years. The longest period of economic expansion in the Post-War War II period was 10 years from 1991 to 2001 during the "Dot Com" boom. Thus, it would be inconsistent with historical patterns not to experience an economic contraction during the Forecast period. However, staff have not included a contraction in the Forecast.

#### Future Demographic Trends and Pressures on Service Levels

The City of Oakland's population is dynamic and diverse with many cultures and age groups and it is growing. Currently the City is experiencing an increase in population in the downtown area as new housing developments are built and new developments are implemented. Many of these housing units are aimed at young professionals, both single and beginning families, as Oakland is viewed as an affordable place to live and has established and reliable mass transit. The growing downtown is spurring growth to other areas of the City. However, as Oakland grows, it puts greater pressure on its aging infrastructure, such as streets and sewers, and curbs and sidewalks. As the population increases, this will increase the demand for community service programs, parks and recreation, after school programs, animal services, homelessness/housing needs, family assistance, and public safety. The Bay Area regional housing crisis will also place additional pressure on the

City to prevent displacement of current residents and shelter & housing assistance to the most vulnerable.

### **Sworn Police & Fire Services (Overtime)**

Police & Fire costs remain one of the largest expenditures of the City of Oakland. Public safety is a top priority and to increase safety requires significant funding and puts strain on the General Purpose Fund. Over the past several years the Police and Fire Departments have exceeded their budgeted overtime allocations to meet public safety needs.

### **Baby Boomer Retirements**

Government employees are eligible to retire as early as age 55. As the population of employees increasingly reach or surpass this age, many retire and start collecting retirement benefits. Currently, the largest demographic age group able to retire are the "Baby Boomers," those born during 1946-1964 and are now between the ages of 53 and 71. The Baby Boomers represent the largest one period population increase of the country. As such, this impacts the ability of CalPERS to finance this age group's retirement, since there is such a large volume in the retirement pool. To balance this financing requirement, CalPERS has increased contribution rates from both the City of Oakland and employees. As the City pays the largest share, this requires large portions of the General Purpose Fund as retirement rates increase over time. Additionally, CalPERS recently issued a notice to its members that it would continue to reduce its assumed rate of return from 7.5% to 7.0% (effective with pension contributions for FY 2020-21).

### **Negative Fund Balances**

Many non-GPF City funds have negative fund balances. These negative fund balances are the result of historical overspending and/or under-recovery, as well as operational deficits (cost increases outpacing revenue growth). Several of these funds have formal or informal repayments plans designed to reduce the negative balance. Notably, the repayment of the negative balance in the Facilities Fund is projected to provide an additional \$3.6 million in facilities capital or savings to other funds beginning in FY 2019-20. Increasing repayments to the Self Insurance Liability Fund will, by contrast, place additional pressure on contributing funds. The negative fund balances of funds that lack sources or reimbursement and a repayment plan total roughly \$14 million and will require new revenue sources or diversion of existing resources to resolve the negative balances.

### **Real Estate & Economic Development**

Historically in the State of California, real estate developments, both residential and commercial, are major drivers of the state and local economic development. The employment rate and interest rate play a major role in determining housing demand. When the interest rate decreases and the employment rate increases, the result is an increase in construction. There are many subsections of the economy that are linked to the real estate development sector, such as professional trade services in the form of general contractors and architects, the purchase of durable consumer goods,

and the construction of commercial structures, such as office complexes, manufacturing, and warehousing sites.

According to data received from the City's Planning Department, the City has approximately 18,000 new residential units, from projects such as Brooklyn Basin (3,100 units) and Oak Knoll (960 units) in the pipeline. The fiscal impacts from these projects anticipated to be completed during the forecast period are reflected in the Forecast.

During FY 2015-16 and FY 2016-17, approximately one half of the new residential units projected to be complete are considered "affordable" to low- and moderate-income households and therefore are exempt from imposition of property taxes and business license taxes derived from rental income. Under state law, real and personal property owned and operated by certain nonprofit organizations can be exempted from local property taxation through a program jointly administered by the Board of Equalization and County Assessors' Offices in California. For additional information visit: <http://www.boe.ca.gov/proptaxes/proptax.htm>. This exemption, known as the Welfare Exemption, is available to qualifying organizations that have income-tax-exempt status under Internal Revenue Code section 501(c)(3) or 23701(d) of the Revenue and Taxation Code and are organized and operated exclusively for religious, charitable, scientific or hospital purposes. Furthermore, the City exempts registered nonprofits from remitting business tax and RETT when real property is purchased by a nonprofit.

Long-term impacts from the loss of redevelopment are still unknown. In the near term, there are still projects in the pipeline and remaining restricted bond funds that will help spur economic growth. However, without a replacement for the tools that redevelopment provided, surviving and recovering from the next economic recession may be even more difficult.

### **Medical Cost Inflation**

The cost of providing health care to employees remains a large portion of the General Purpose Fund expenditures. If medical costs continue to increase greater than revenues, health care costs will require an increased share to the General Purpose Fund. Furthermore, non-general funds that cannot bear the cost increase may put pressure on the General Purpose Fund for a subsidy, such as the Head Start program. To promote employees' health and reduce costs, the City is emphasizing preventative measures such as offering health assessments, onsite flu shots, and an employee wellness program.

### **Reserves**

Reserves help cities weather multi-year economic downturns, provide essential funding during natural disasters, provide for the support of essential City services, and reduces the financing costs through better credit ratings. As evidenced by the State, the City should continue to invest in reserves since economic downturns are inevitable.

### **New Revenue Sources**

With limited financial resources, the City could seek out for additional revenue sources. The passage of Measure Z (Violence Prevention & Public Safety) in 2014 and Measure KK (Infrastructure & Housing Bond) in 2016, by wide margins, indicate that residents have been willing to pay additional taxes for services. Additionally, in 2018 voters approved passage of a parcel tax measure for the Library, a vacant property parcel tax for homelessness and illegal dumping, and a revenue increasing change to the City's Real Estate Transfer Tax. Further recent polling suggests that more than two-thirds of Oaklanders are willing to pay additional taxes and fees to maintain and improve City services.

### **Fee Recovery**

Fee recovery is a funding source for which the City has substantial control. Many fees were reviewed and revised to be full cost recovery in the FY 2015-16 cycle. However, many City fees still do not meet full cost recovery, which results in the need for additional funding resources from the General Purpose Fund to fill the gap. When no additional funds are available, results in a lack of service provided to the community at large.

### **Pre-Funding Unfunded Liabilities**

As detailed earlier in this report, unfunded liabilities, specifically pension obligations, represent a significant financial liability. New CalPERS regulations require that Cities contribute larger amounts towards pension obligations to account for increased medical costs and longer life expectancy rates. In general, allocating additional funds for paying down pension obligations will reduce the City's long-term liabilities.

### **Investing in Employee Skills & Wellness**

The Harvard Business Review reported in 2014 that 39% of employers had difficulty finding employees that have the necessary skills to fill vacancies. To be able to provide services that meet new demands, the City should seek out training opportunities for employees to learn new skills or update existing skills. This is especially true for the highly competitive technology fields that can attract qualified candidates with high salaries and perks, areas where cities generally cannot compete. One alternative could be for the City to focus on training internal candidates for these positions. Additionally, studies find the latest generation of workers are looking for jobs that offer better work-life balance.

Beginning in FY 2014-15 the City has been rebuilding its training program with approved funding for a training coordinator. This position has been able to organize training opportunities to improve employees' skills and on personal/health development, which could potentially decrease healthcare costs and other liabilities.

### **Investing in Technology**

The upgrade of the City's technology infrastructure and investment in new systems can increase productivity and ensure that decision makers have sufficient data to make informed decisions. The

City has a large amount of informative data but lacks tools to be able to sort and analyze these large data sets. In many areas of the City's operations, manual processes are present or there inefficient and/or inadequate IT systems that create additional burdens on City staff.

**New Practices & Service Delivery Models**

The continued review of our internal processes will help the City identify potential cost savings and the implementation of efficiencies. Critical City resources should be allocated to initiatives that prove to be effective, and the disinvestment should be encouraged in initiatives that are failing and/or underperforming. Pilot projects are an effective tool to test and gauge the level of effectiveness and assess results before citywide implementation. The implementations of large projects contain several variables that sometimes cannot be defined until they are implemented. Pilot projects allow one or multiple ideas to be tested and the effectiveness can be closely monitored to ensure effectiveness. Since these are often small scale projects, they require less financial and staff resources to implement.

## Key Conclusions

The local economy, particularly the real estate market, has recovered from the Great Recession. Given that City revenues are highly tied to real estate, revenues are growing at a stable rate. New economic development is expected to add a sustainable revenue base to the City. However, there is risk of contraction during the Forecast period based on historical experience with prior economic cycles.

Expenditures are rising faster than revenues at current service levels, particularly medical and retirement costs. The CalPERS Board of Administration's approval to reduce the rate of return, from 7.5 to 7.0 percent over the three fiscal years starting in FY 2017-18, is expected to continue to impact the City. In addition to service demands on the operating budget, there are pressures associated with long-term liabilities and capital needs not covered by recently passed Measure KK Infrastructure Bond, such as technology.

The combined risks of a possible economic contraction, uncertainty regarding the impact of federal policy changes, expenditure growth rates and long-term liability payments will continue to squeeze City finances in the near-term. The City should focus on long-term sustainability by 1) further diversifying the City's economic base, 2) managing expenditure growth and implementing service delivery efficiencies, and 3) prudent reduction of long-term liabilities. Rather than adding services or programs, the City must focus on properly funding and improving its current mandates and priorities. The City will consider an array of strategies to address the projected budget shortfall, which is often some combination of revenue growth and expenditure reduction.



### APPENDIX A- Major Projects FY 2018 to FY 2032

| Estimated Completion Year | Project Name                | PROJECT ADDRESS                                 | BUILDING STORIES | RESIDENTIAL |          |     |          | OFFICE SQUARE FOOTAGE | RETAIL SQUARE FOOTAGE | INDUSTRIAL SQUARE FOOTAGE | OTHER NON-RESIDENTIAL SQUARE FOOTAGE | PROJECT STATUS |
|---------------------------|-----------------------------|-------------------------------------------------|------------------|-------------|----------|-----|----------|-----------------------|-----------------------|---------------------------|--------------------------------------|----------------|
|                           |                             |                                                 |                  | Market      | Moderate | Low | Very Low |                       |                       |                           |                                      |                |
| 2018                      | Baxter Apts                 | 4901 Broadway                                   | 6                | 126         |          |     |          | 7,400                 |                       |                           | Under Construction                   |                |
| 2018                      | Temescal Muse               | 364 40th St                                     | 6                | 24          |          |     |          | 2,999                 |                       |                           | Under Construction                   |                |
| 2018                      | 4045 Broadway               | 4045 Broadway                                   | 5                | 39          |          |     | 4        | 2,999                 |                       |                           | Under Construction                   |                |
| 2018                      | The Amador                  | 4435 Piedmont Ave                               | 3                | 25          |          |     |          |                       |                       |                           | Under Construction                   |                |
| 2018                      | 1700 Webster                | 1700 Webster Street / 330 17th Street           | 23               | 206         |          |     |          | 3,000                 |                       |                           | Under Construction                   |                |
| 2018                      | Acts Cyrene Apartments      | 9400 International Blvd                         | 5                | 1           |          | 34  | 24       | 3,500                 |                       |                           | Under Construction                   |                |
| 2018                      | Seminary Point              | 5803 Foothill Blvd.                             | 1                |             |          |     |          | 27,000                |                       |                           | Under Construction                   |                |
| 2018                      | Hanover Uptown              | 325 27th Street / 2640 Broadway                 | 7                | 255         |          |     |          | 37,000                |                       |                           | Under Construction                   |                |
| 2018                      | Hanover Waverly             | 2400 Valdez Street / 2450 Valdez Street         | 7                | 225         |          |     |          | 23,000                |                       |                           | Under Construction                   |                |
| 2018                      | The Broadway                | 3073 - 3093 Broadway                            | 7                | 423         |          |     |          | 21,000                |                       |                           | Under Construction                   |                |
| 2018                      | 459 8th Street              | 459 8th Street                                  | 6                | 50          |          |     |          | 4,000                 |                       |                           | Under Construction                   |                |
| 2018                      | Oakland Acura               | 7001 Oakport Street                             | 1                |             |          |     |          | 20,000                |                       |                           | Under Construction                   |                |
| 2018                      | 2538 Telegraph              |                                                 |                  | 97          |          |     |          |                       |                       |                           | Under Construction                   |                |
| 2018                      | Children's Hospital         | 747 52nd Street                                 | 2, 5, & 6        |             |          |     |          |                       |                       | 399,000                   | Under Construction                   |                |
| 2018                      |                             | 3250 Hollis Street                              | 4                | 94          |          |     |          |                       |                       |                           | Under Construction                   |                |
| 2018                      |                             | 2935 Telegraph Ave                              | 5                | 162         |          |     |          |                       |                       |                           | Under Construction                   |                |
| 2018                      | Stationhuse South           | 0 10th streett/1805 14th                        | 3                | 47          |          |     |          |                       |                       |                           | Under Construction                   |                |
| 2018                      | Stationhouse North          | 1401 Wood Street                                | 3                | 176         |          |     |          |                       |                       |                           | Under Construction                   |                |
| 2018                      |                             | 4700 Telegraph Ave                              |                  | 48          |          |     |          | 4,662                 |                       |                           | Under Construction                   |                |
| 2019                      | The Webster                 | 2315 Valdez Street / 2330 Webster Street        | 7                | 234         |          |     |          | 16,000                |                       |                           | Under Construction                   |                |
| 2019                      | 19th & Harrison             | 301 19th Street / 1889 Harrison Street          | 7                | 224         |          |     |          | 3,500                 |                       |                           | Under Construction                   |                |
| 2019                      | 4th & Madison               | 150 & 155 4th Street                            | 7                | 330         |          |     |          | 5,000                 |                       |                           | Under Construction                   |                |
| 2019                      | Downtown Hampton Inn        | 378 11th Street                                 | 7                |             |          |     |          |                       |                       | 61,593                    | Under Construction                   |                |
| 2019                      | 3000 Broadway               | 3000 Broadway                                   | 7                | 127         |          |     |          | 8,000                 |                       |                           | Under Construction                   |                |
| 2019                      | Coliseum BART TOD - Phase 1 | 805 71st Ave                                    | 6                |             | 110      |     |          | 1000                  |                       |                           | Under Construction                   |                |
| 2019                      | Broadstone on Broadway      | 2800 Broadway, 2820 Broadway, and 2855 Broadway | 7                | 218         |          |     |          | 18,000                |                       |                           | Under Construction                   |                |
| 2019                      | 226 13th Street             | 226 13th Street                                 | 7                | 261         |          |     |          | 15,000                |                       |                           | Under Construction                   |                |
| 2019                      | Parcel C                    | 018 046501400                                   | 8                | 241         |          |     |          | 4,000                 |                       |                           | Application Approved                 |                |
| 2019                      | Site D                      | 018 041500101                                   | 8                | 135         |          |     |          |                       |                       |                           | Application Approved                 |                |

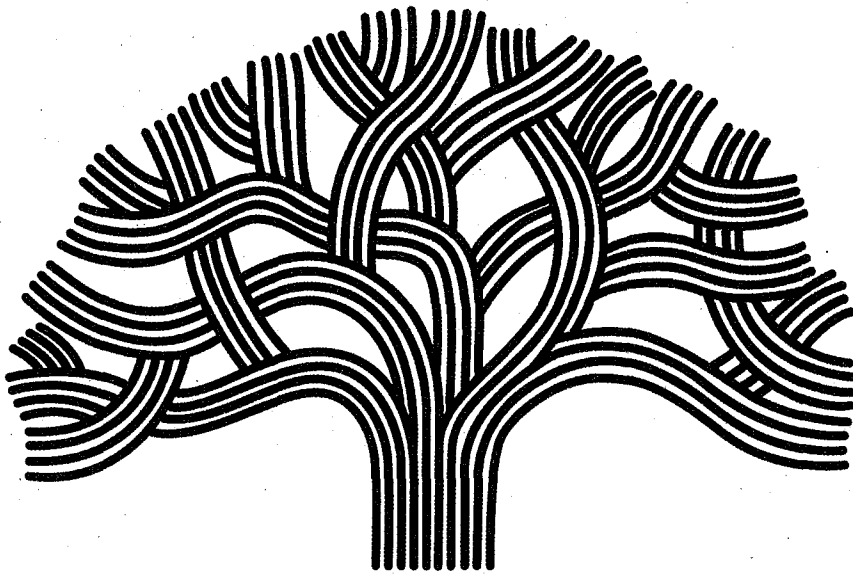
| Estimated Completion Year | Project Name                         | PROJECT ADDRESS                        | BUILDING STORIES | RESIDENTIAL |          |     |           | OFFICE SQUARE FOOTAGE | RETAIL SQUARE FOOTAGE | INDUSTRIAL SQUARE FOOTAGE | OTHER NON-RESIDENTIAL SQUARE FOOTAGE | PROJECT STATUS           |
|---------------------------|--------------------------------------|----------------------------------------|------------------|-------------|----------|-----|-----------|-----------------------|-----------------------|---------------------------|--------------------------------------|--------------------------|
|                           |                                      |                                        |                  | Market      | Moderate | Low | Very Low  |                       |                       |                           |                                      |                          |
|                           | 250 14th Street                      | 250 14th Street                        | 7                | 79          |          |     |           | 3,500                 |                       |                           |                                      | Application Approved     |
|                           | West Elm Hotel                       | 2401 Broadway                          | 7                | 72          |          |     |           | 16,000                |                       |                           | 100,000                              | Application Approved     |
|                           | 500 Grand                            | 500 Grand Avenue                       | 5                | 40          |          |     |           | 3,000                 |                       |                           |                                      | Application Approved     |
|                           | 1550 Jackson                         | 1550 Jackson Street                    | 5                | 20          |          |     |           |                       |                       |                           |                                      | Application Approved     |
|                           | International Senior Housing         | 10500 International Blvd               | 6                | 529         |          |     |           |                       |                       |                           |                                      | Application Approved     |
|                           | 420 13th Street                      | 420 13th Street                        |                  |             |          |     | 54,626    |                       |                       |                           |                                      | Application Approved     |
|                           | 1940 Webster                         | 1940 Webster Street                    | 7                | 173         |          |     |           | 2,000                 |                       |                           |                                      | Application Approved     |
|                           | 2305 Webster                         | 2305 Webster Street                    | 24               | 130         |          |     |           | 3,000                 |                       |                           |                                      | Application Approved     |
|                           | 2850 Hannah                          | 2850 Hannah Street                     | 5                | 90          |          |     |           | 2,500                 |                       |                           |                                      | Permit Issued            |
|                           | 2015 Telegraph                       | 2015 Telegraph Ave.                    | 14               | 114         |          |     |           | 2,000                 |                       |                           |                                      | Application Approved     |
|                           | 2016 Telegraph                       | 2016 Telegraph Ave.                    | 18               | 230         |          |     |           | 4,500                 |                       |                           |                                      | Application Approved     |
|                           | Eastline Project - FDP - Scenario #1 | 2100 Telegraph Ave.                    | 39               | 395         |          |     | 880,550   | 85,000                |                       |                           | 18,500                               | Application Under Review |
|                           | Eastline Project - FDP - Scenario #2 | 2100 Telegraph Ave.                    | 28               |             |          |     | 1,600,000 | 72,000                |                       |                           | 22,000                               | Application Under Review |
|                           | 1433 Webster                         | 1433 Webster Street                    | 29               | 168         |          |     | 55,000    | 2,000                 |                       |                           |                                      | Application Under Review |
|                           | 412 Madison                          | 412 Madison Street                     | 7                | 157         |          |     |           | 3,000                 |                       |                           |                                      | Application Under Review |
|                           | Monarch Tower                        | 1261 Harrison Street                   | 36               | 169         |          |     |           | 121,000               | 12,000                |                           |                                      | Application Under Review |
|                           | 2201 Valley                          | 2201 Valley Street                     | 27               |             |          |     | 750,000   |                       |                       |                           |                                      | Pre-application Request  |
|                           | 401 Alice                            | 401 Alice Street                       | 9                |             |          |     |           |                       |                       |                           | 55,550                               | Pre-application Request  |
|                           | Brooklyn Basin PUD                   | Embarcadero (between 5th and 9th Ave.) |                  |             |          |     |           |                       |                       |                           |                                      | Application Approved     |
|                           | Parcel F                             | 018 046500220                          | 6                |             |          |     |           |                       |                       |                           |                                      | Application Approved     |
|                           | Shoreline Park                       | 018 046500204                          |                  |             |          |     |           |                       |                       |                           | parks (10 acres)                     | Under Construction       |
|                           | Gateway and South Parks              | 018 046000404                          |                  |             |          |     |           |                       |                       |                           | parks (10 acres)                     |                          |
|                           | Channel Park                         | 018 043000112                          |                  |             |          |     |           |                       |                       |                           | parks (10 acres)                     |                          |
|                           | Jack London Square PUD               | Water St(between Clay & Alice Sts      |                  |             |          |     |           |                       |                       |                           |                                      |                          |
|                           | Site F3                              | 018 04200402                           |                  |             |          |     |           |                       |                       |                           | 155-key hotel                        | Application Under Review |
|                           | MacArthur BART PUD                   |                                        |                  | 729         |          | 146 |           |                       |                       |                           |                                      |                          |
|                           | Site A1                              | 012 102501001                          | 8                | 278         |          | 8   |           | 22,000                |                       |                           |                                      | Under Construction       |
|                           | Site C                               | 012 102501300                          | 8                | 89          |          | 4   |           |                       |                       |                           |                                      | Under Construction       |
|                           | Oakland Municipal Auditorium         | 018 045000500                          |                  |             |          |     |           |                       |                       |                           | 200,000                              |                          |

| Estimated Completion Year | Project Name                | PROJECT ADDRESS                  | BUILDING STORIES | RESIDENTIAL |          |     |          | OFFICE SQUARE FOOTAGE | RETAIL SQUARE FOOTAGE | INDUSTRIAL SQUARE FOOTAGE | OTHER NON-RESIDENTIAL SQUARE FOOTAGE | PROJECT STATUS |
|---------------------------|-----------------------------|----------------------------------|------------------|-------------|----------|-----|----------|-----------------------|-----------------------|---------------------------|--------------------------------------|----------------|
|                           |                             |                                  |                  | Market      | Moderate | Low | Very Low |                       |                       |                           |                                      |                |
|                           | Mountain View Cemetery      | 048A700200305                    |                  |             |          |     |          |                       |                       | 8 acres                   | Application Approved                 |                |
|                           | 2 Kaiser Plaza              | 325 22nd Street                  | 33               |             |          |     | 800,000  | 11,000                |                       |                           | Application Approved                 |                |
|                           | T5/6                        |                                  | 14               | 262         |          |     |          | 5,000                 |                       |                           | Permit Issued                        |                |
|                           | Viewcrest                   | 37A315100205                     |                  |             |          |     |          |                       |                       |                           |                                      |                |
|                           |                             | 377 2nd St                       | 7                | 134         |          |     |          | 5475                  |                       |                           | Under Construction                   |                |
|                           |                             | 4690 Tompkins Ave                | 3                | 40          |          |     |          |                       |                       |                           | Permit Issued                        |                |
|                           | Redwood Hill Senior Housing | 4868 Calaveras Ave               | 2                | 8 senior    |          |     |          |                       |                       |                           | Under Construction                   |                |
|                           | Lucasey Lofts               | 2744 E. 11th Street              | 6                |             |          |     |          |                       |                       |                           | Pre-Application                      |                |
|                           | 609 9th St.                 | 605 9th Street                   | 8                | 25          |          |     |          |                       |                       |                           | Application Approved                 |                |
|                           | Fallon                      | 925 Fallon Street                | 8                | 58          |          |     |          |                       |                       | 1,399                     | Application Approved                 |                |
|                           | 401 29th St.                | 401 29th Street                  | 4                | 83          |          |     |          |                       |                       | 2,500                     | Application Approved                 |                |
|                           | Coliseum Place              | 905 72nd Avenue                  | 7                |             |          |     |          |                       |                       |                           | Application Approved                 |                |
|                           | Mirador                     | 201 Broadway                     | 7                | 48          |          |     |          |                       |                       |                           | Permit Filed                         |                |
|                           | 1414 MLK                    | 1414 Martin Luther King Jr Way   | 6                | 45          |          |     |          |                       |                       |                           | Application Approved                 |                |
|                           | W-12 Phase 2                | 285 12th Street                  | 7                | 77          |          |     |          | 1,500                 |                       |                           | Permit Issued                        |                |
|                           | Oak Knoll Redevelopment     | 8750 Mountain Blvd               | varies           | 935         |          |     |          | 72,000                |                       | 10,000                    | Application Approved                 |                |
|                           | Wattling Street             | 3927 Wattling Street             | 3 & 5            | 78          |          |     |          |                       |                       |                           | Application Approved                 |                |
|                           | Siena Hills                 | Siena Drive                      | 3                | 22          |          |     |          |                       |                       |                           | Application Approved                 |                |
|                           | 2044 Franklin               | 2044 Franklin                    | 29               | 184         |          |     | 57,000   | 7,750                 |                       |                           |                                      |                |
|                           | Fruitvale Phase IIA         | 36078 30th Ave                   | 4                |             |          | 94  |          |                       |                       |                           | Under Construction                   |                |
|                           | Hanzel Apts                 | 2323 Valley St/456 23rd S        | 4                | 34          |          |     |          | 3,675                 |                       |                           | Application Under Review             |                |
|                           | 6733 Foothill               | 6733 Foothill Blvd               | 5                |             |          | 200 |          |                       |                       | 59,000                    | Application Under Review             |                |
|                           | The Haven                   | 3007 Telegraph Ave / 528 30th St | 4                | 41          |          |     |          |                       |                       |                           | Application Under Review             |                |
|                           | 29th St Apts                | 295 28th St                      | 7                | 91          |          |     |          |                       |                       |                           | Application Under Review             |                |
|                           | Claremont Hotel             | 41 Tunnel Rd                     | 4                | 43          |          |     |          |                       |                       | 7,000                     | Application Under Review             |                |
|                           | 1900 Broadway               | 1900 Broadway                    | 36               | 433         |          |     | 75,000   | 21,286                |                       |                           | Application Approved                 |                |
|                           | E. 12th Street Remainder    | 101 East 12th Street             | 26               | 90          |          |     |          | 1,476                 |                       |                           | Application Approved                 |                |
|                           | Balco                       | 325 7th Street                   | 27               | 380         |          |     |          | 9,110                 |                       |                           | Application Approved                 |                |
|                           |                             | 411 W. MacArthur Blvd.           | 6                | 20          |          |     |          | 2,540                 |                       |                           | Application Approved                 |                |
|                           |                             | 451 28th Street                  | 6                | 40          |          |     |          |                       |                       |                           | Application Approved                 |                |

**APPENDIX B-  
Consolidated Fiscal Policy**

**CITY OF OAKLAND**

**CONSOLIDATED  
FISCAL POLICY**



## Section 1. Budgeting Practices

### Part A. General Provisions

The City's Fiscal Year shall begin on July 1<sup>st</sup> of each year and end on June 30<sup>th</sup> of the subsequent year. The City shall adopt a two-year biennial policy budget by June 30<sup>th</sup> of odd-numbered calendar years. The City shall amend its biennial policy budget (midcycle) by June 30<sup>th</sup> of even-numbered years. The budget and midcycle amendments shall be adopted by resolution of the City Council as required by the City Charter.

### Part B. Policy on Balanced Budgets

The City shall adopt a balanced budget that limits appropriations to the total of estimated revenues and unallocated fund balances projected to be available at the close of the current fiscal year. The City Administrator shall be responsible for ensuring that the budget proposed to the City Council by the Mayor, adheres to the balanced budget policy.

This policy entails the following additional definitions and qualifications:

1. The budget must be balanced at an individual fund level.
2. City policies on reserve requirements for individual funds must be taken into account. The appropriated expenditures included in the balanced budget equation must include the appropriations necessary to achieve or maintain reserve targets.
3. Appropriated revenues can include transfers from unallocated fund balance where such fund balance is reasonably expected to exist by the end of the fiscal year preceding the year of the adopted budget. Transfers from fund balance are not to be counted as revenue if the fund balance is not reasonably expected to exist by the end of the fiscal year preceding the year of the adopted budget. (Note: The precise definition of 'fund balance' will vary from fund to fund, depending on the fund's characteristics and accounting treatment.)
4. Appropriated expenditures can include transfers to fund balance or to reserves.

From time to time the City Council may present changes in policy and consider additional appropriations that were not anticipated in the most recently adopted budget. Amendments by the City Council shall maintain a balanced budget.

Each fiscal year the City Administrator shall report to the City Council on actual revenues and expenditures in the General Purpose Fund and other funds as deemed necessary.

### Part C. Use of Excess Real Estate Transfer Tax (RETT) Revenues

To ensure adequate levels of the General Purpose Fund reserves and to provide necessary funding for municipal capital improvement projects and one-time expenses, the City shall require that excess Real Estate Transfer Tax revenues be defined and used as follows:

1. The excess Real Estate Transfer Tax (RETT) revenue is hereby defined as any amount of projected RETT revenues that exceed 15% of General Purpose Fund Tax Revenues (inclusive of RETT).
2. The excess Real Estate Transfer Tax, as described in this section, shall be used in the following manner and appropriated through the budget process:
  - a. At least 25% shall be allocated to the Vital Services Stabilization Fund, until the value in such fund is projected to equal to 15% of total General Purpose Fund revenues over the coming fiscal year; and
  - b. At least 25% shall be used to fund debt retirement and unfunded long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post-Employment Benefits (OPEB) unfunded liabilities; and
  - c. The remainder shall be used to fund one-time expenses or to augment reserves.
3. Use of the excess RETT revenues for purposes other than those established in this section must be authorized by City Council resolution. The resolution shall explain the need for using excess RETT revenues for purposes other than those established in this section. The resolution shall also include steps the City will take to return to using excess RETT revenues pursuant to this section.
4. Following the completion of the annual audit, excess RETT revenues will be analyzed to determine whether the transfers to the Vital Services Stabilization Fund or expenditures to fund debt retirement and unfunded long-term obligations were sufficient. If insufficient funds were transferred, a true-up payment shall be made in the next fiscal year. If the transfers exceed the actual requirement, the amounts in excess may be credited against allocations in the next fiscal year.

#### **Part D. Use of One-Time Revenues**

1. One-time revenues are defined as resources that the City cannot reasonably expect to receive on an ongoing basis, such as proceeds from asset sales and debt refinancing. This part shall not apply to the use of excess RETT revenues pursuant to Section 1. Part C.
2. Fiscal prudence requires that any unrestricted one-time revenues be used for one-time expenses. Therefore, one-time revenues shall be used in the following manner, unless they are legally restricted to other purposes: to fund one-time expenditures, to fund debt retirement and unfunded long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post-Employment Benefits (OPEB) unfunded liabilities; or shall remain as fund balance.

3. Use of one-time revenues for purposes other than those established in in this section must be authorized by City Council resolution. The resolution shall explain the need for using one-time revenues for purposes other than those established in this section. The resolution shall also include steps the City will take to return to using one-time revenues pursuant to this section.

#### **Part E. Use of Unassigned General Purpose Fund Balance**

Any unassigned General Purpose Fund balance, as projected in the 3rd Quarter Revenue and Expenditure Report, and not budgeted for other purposes, shall be used in accordance with Section 1, Part D.

#### **Part F. Analysis of Funding for Debt or Unfunded Long-Term Obligations From Certain Revenues**

When excess RETT or other one-time revenues are used to fund accelerated debt retirement or unfunded long-term obligations, the City Administrator shall present his or her analysis and recommendations to the Council based on the best long-term financial interest of the City.

#### **Part G. Criteria for Project Carryforwards and Encumbrances**

Previously approved but unspent project appropriations ("carryforwards") and contingent liability reserves for current purchases or contracts that are paid in the following fiscal year ("encumbrances") are financial obligations against reserves. Fiscal prudence requires that such obligations be limited.

Each fiscal year, the Finance Department will submit a list of eligible carryforwards and encumbrances to all departments for evaluation for all funds, including the General Purpose Fund. Departments may request to retain some or all carryforwards and encumbrances when such balances are:

1. Deemed essential to the delivery of active city projects, programs and services; or
2. If the liquidation of such balances would be in violation of legislative or legal requirements.

A departmental request to retain project carryforwards and/or encumbrances must be submitted to the Finance Department. Departments shall provide specific reasons for requested project carryforwards and encumbrance carryforwards, including, but not limited to, those reasons outlined above. Carryforward of project appropriations in funds with negative balances will only be allowed on an exception basis.

The Finance Department will recommend to the City Administrator an action on the departmental requests. The City Administrator shall make a final determination on project carryforward and encumbrances, and will direct the Finance Department to make carryforwards

available to the appropriate department.

#### **Part H. Grant Retention Clauses**

Prior to the appropriation of revenues from any grant outside of the budget process, the City Council shall be informed of any retention clauses that require the City to retain grant-funded staff, services, programs, or operations beyond the term of the grant. The fiscal impacts of such retention clauses shall be disclosed. During the biennial budget process staff shall report to the Council the ongoing projected fiscal impacts of such retention clauses.

#### **Part I. Alterations to the Budget**

Substantial or material alterations to the adopted budget including shifting the allocation of funds between departments and substantial or material changes to funded service levels, shall be made by resolution of the City Council.

The Finance Department will include departmental expenditure projections for the General Purpose Fund in the Second Quarter Revenue & Expenditure Report. In the event that a department is projected to overspend in the General Purpose Fund by more than one percent (1%), the City Administrator 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.

#### **Part J. Transfers of Funds between accounts.**

The City Administrator shall have the authority to transfer funds between personnel accounts, and between non-personnel accounts within a department. The City Administrator shall have the authority to transfer funds allocated to personnel accounts to non-personnel accounts within a department provided that cumulative transfers within one fiscal year do not exceed 5% of the original personnel account allocation of that department. The City Administrator shall have the authority to transfer funds from non-personnel accounts to personnel accounts within a department. The City Administrator shall have the authority to transfer funds allocated to personnel accounts to non-personnel accounts if the transfer is required to meet the conditions of or maximize the funding derived from a grant that has been approved by the City Council. For the purposes of this section accounts for the provision of temporary personnel services shall be considered personnel accounts.

#### **Part K. Pay-Go Account Expenditures, Priority Project Fund Expenditures, and Grants**

The City Council hereby finds and determines that it is in the public interest to spend Pay-go account fund to facilitate and support programs & services of the City of Oakland, capital improvement projects of the City of Oakland, and programs & capital improvement projects of the public schools and other public entities within the City of Oakland. The Council authorizes Pay-Go account funds to be used for the following purposes:



**Capital Improvements:**

1. To pay for or augment funding for a City of Oakland capital improvement project including planning and pre-construction services for projects such as, but not limited to, feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and decorative elements of the project; and
2. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or other public entity for use on capital improvement project within the City of Oakland, including planning and pre-construction services for projects such as, but not limited to, feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and decorative elements of the project; and

**Furniture & Equipment:**

3. To pay for or augment funding for purchase of furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the City of Oakland; and
4. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or another public entity to be used for furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the public school or public entity.

Pay-go purposes stated above shall operate as restrictions on Pay-go expenditures or Pay-go grants, regardless of the Pay-go account funding source.

Pay-go purposes stated above shall apply to any and all Pay-go expenditures or grants made by the Mayor and each City Councilmember. All Pay-go expenditures and grants shall be administered by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

In accord with the City Council's motion approving the initial allocation of Councilmember Priority Project funds on June 8, 2006, the City Councilmembers must obtain City Council approval for all Priority Project expenditures.

All Priority Project fund grants approved by the City Council and shall be administered and executed by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

## Section 2. Reserve Funds

### Part A. General Purpose Fund Emergency Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland maintain in each fiscal year a reserve equal to seven and one-half (7.5%) of the General Purpose Fund (Fund 1010) appropriations as adopted in the biennial or midcycle budget, and not including prior year carryforwards, encumbrances, or appropriations to Fund Balance for, such fiscal year (the "General Purpose Fund Emergency Reserve Policy"),
2. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the General Purpose Funds Emergency Reserve to the City Council and on the adequacy of the of the 7.5% reserve level. If in any fiscal year the General Purpose Fund Reserve Policy is not met, the City Administrator shall present to Council a strategy to meet the General Purpose Funds Emergency Reserve Policy. Each year, the City Administrator shall determine whether the 7.5% reserve level requires adjustment and recommend any changes to the City Council.
3. The amounts identified as the General Purpose Funds Emergency Reserve may be appropriated by Council only to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council, or (2) by a majority vote of the City Council.
4. Prior to appropriating monies from the General Purpose Funds Emergency Reserve, the City Administrator shall prepare and present such analysis to the City Council. Upon review and approval of the proposed expenditure by the City Council, and appropriate fiscal emergency declaration necessary for the use of GPF reserve, the City Administrator will have the authority to allocate from the reserves.

### Part B. Vital Services Stabilization Fund Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Vital Services Stabilization Fund (VSSF) with a target funding level of 15% of General Purpose Fund Revenues. The funding of the Vital Services Stabilization Fund shall be made pursuant to Section 1, Part C concerning excess Real Estate Transfer Tax.
2. In years when the City forecasts that total General Purpose Fund revenues will be less than the current year's revenues, or anytime significant service reductions, such as layoffs or furloughs, are contemplated due to adverse financial conditions, use of this fund must be considered to maintain existing services.
3. Use of the VSSF must be authorized by City Council resolution. The resolution shall explain the need for using the VSSF. The resolution shall also include steps the City will take in order to replenish the VSSF in future years.

**Part C. Capital Improvements Reserve Fund**

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Capital Improvements Reserve Fund.
2. Revenue received from one time activities, including the sale of Real Property, shall be deposited into the Capital Improvements Reserve Fund, unless otherwise directed by a majority vote of the City Council. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein.
3. Monies on deposit in the Capital Improvements Reserve Fund may be appropriated by Council to fund unexpected emergencies, major capital maintenance, repair costs to City-owned facilities and to fund capital improvement projects through the Five-Year Capital Improvement Program.

### Section 3. Budget Process, Fiscal Planning, Transparency, and Public Participation

Unless otherwise noted all timelines apply only to budget development years, normally odd numbered years and not to mid-cycle revisions to an adopted two-year budget.

#### 1. Assessment of Stakeholder Needs, Concerns and Priorities

**Timeline:** Budget Advisory Committee review prior to survey release. Survey completion by December 5<sup>th</sup> of even-numbered years. Results publicly available within three weeks of survey's close.

**Requirements:** The City Administrator should develop or secure a statistically valid survey for assessing the public's concerns, needs and priorities prior to the development of the biennial budget. Whenever feasible, the City should conduct a professional poll administered to a statistically relevant and valid sample of residents that is representative of Oakland's population in terms of race, income, neighborhood, age, profession, family size, homeownership/renter-ship, etc. If that's not possible, then demographic information should be collected and reported out with the survey results.

Prior to release, the survey questions shall be submitted to the Budget Advisory Committee by September 1st of even numbered years for review of bias, relevance, consistency in administration, inclusion of benchmark questions, and ability to assess concerns, needs and priorities. The survey instrument, method of dissemination, and any instructions for administration shall be publicly available. The survey should be conducted following the November election and before December 5<sup>th</sup>.

If the City cannot afford a professional survey, an informal survey shall be made available for broad dissemination by the Mayor and Councilmembers through community list serves and other communication channels. Furthermore, the City Administrator shall take steps to promote participation, such as issuing a Flyer promoting participation in the survey and methods of participation (survey internet link, email, phone number) and posting such Fliers near publicly available computers in all City libraries, Recreation Centers, and Senior Centers. A list of those dissemination channels should be publicly available along with survey results.

Survey results should be publicly available within three weeks of the completion and analysis of the survey. Survey results should be made widely available, shared on social media, and published on the City's Budget website. In the event that City's statistically valid survey has been completed, the Mayor and City Administrator shall include in their proposed budget a summary of the survey data and a statement regarding how the data was or was not incorporated into the final proposed budget. Informal surveys and their results shall be made public but not included in their proposed budget document.

The City Administrator shall development a standardized and diverse means of collecting resident input via other means prior to budget development.

#### 2. Council Initial Budget Briefing and Priorities Discussion

**Timeline:** February

**Requirements:** The Mayor and City Council will hold a bi-annual budget workshop soon after the commencement of the Council term. The workshop will include briefings on estimated baseline expenditures, revenue projections and an overview of the City's budgeting process. The workshop will provide the Mayor and Council with the opportunity to begin discussing priorities for the next budget year based on the Assessment of Stakeholder Needs, Concerns and Priorities.

### **3. Five-Year Forecast**

**Timeline:** Produced and heard by the Council's Finance & Management Committee or the full City Council in February or March. Forecast Fact Sheets should be distributed to City community centers and Forecast data should be available on Open Data Portal within two weeks of the Council hearing.

**Requirements:** Each Budget Cycle, the City Administrator must prepare a Five-Year Forecast.

The Five-Year Financial Forecast ("Forecast") is a planning tool that estimates the City's likely revenues and expenditures over five-years, based on appropriate financial, economic, and demographic data. The purpose of the Forecast is to surface all major financial issues and estimate future financial conditions to support informed long-term decision making. Such planning provides for greater financial stability, signals a prudent approach to financial management, and is consistent with best practices.

The Forecast shall contain the two-year baseline budget for the forthcoming budget period, clearly reflecting projected expenditures to maintain existing service levels and obligations, plus an additional three-year forecast of revenues and expenditures. The Baseline Budget shall consist of projected expenditures necessary to maintain existing staffing and service levels, plus an estimate of anticipated revenues for the two-year period.

The Forecast shall also contain information on the variance between prior forecasts and actual amounts, including the factors that influenced these variances. Revenue estimates shall be based on the most current data available; minimally revenue projections shall take into account projected revenue for the current fiscal year, as reflected in the 2nd quarter Revenue and Expenditure Report, with appropriate trending into future years and an explanation as to how such revenue projections were derived.

The report shall include a Five-Year Forecast "Fact Sheet" document, which summarizes the Forecast's key findings with simplified text and graphics to make this important budgetary information more accessible to the general public. Within two weeks after the Forecast is heard by the City Council, the City Administrator shall print and distribute the Forecast Fact Sheet to all City libraries, recreation centers and senior centers, including in languages required by Oakland's Equal Access Ordinance. The full Forecast shall also be posted on the City of Oakland's website. Forecast data shall be available in open data format on Oakland's data portal.

#### 4. Statement of Councilmember Priorities

**Timeline:** Written submission due by March 15th.

**Requirements:** City Council Members will have the opportunity to advise the Mayor and City Administrator publicly of their priorities. Each Councilmember shall be invited to submit up to seven expenditure priorities in ranked and/or weighted order for changes to the baseline budget as presented in the Five-Year Forecast. Councilmember priority statements must be submitted as part of a report to be heard by the City Council and/or in a publicly available writing to the Mayor and City Administrator by March 15. In addition to the priorities, Councilmembers may also submit other suggestions, including revenue suggestions.

#### 5. Administrator's Budget Outlook Message & Calendar Report

**Timeline:** Heard by City Council before April 15th.

**Requirements:** The City Administrator shall bring as a report to the City Council a Budget Outlook Message & Calendar no later than April 15th that provides an overview of the budget development process and lists all key dates and estimated dates of key budget events, including, but not limited to the release of the Mayor and Administrator's Proposed Budget, Community Budget Forums, Council meetings, and formal budget passage dates. This publication shall be posted on the City's website and by other means determined by the City Administrator.

#### 6. Release of Mayor & Administrator's Proposed Budget & Fact Sheet

**Timeline:** Published and publicly available by May 1st. Heard by City Council and Fact Sheet distributed by May 15th.

**Requirements:** The Proposed Budget must be released by May 1st and shall clearly indicate any substantive changes from the current baseline budget, including all changes to service levels from the current budget. The Proposed Budget shall indicate staffing by listing the number of positions in each classification for each Department, including a listing of each position proposed for addition or deletion. The Council shall hold a public meeting to present the Proposed Budget no later than May 15th in budget adoption years. The full proposed budget document shall be made available online from the City's website, and printed copies shall be available in all City libraries. Additionally, the proposed budget data shall be available in open data format on the City's open data portal by May 1st. Every effort should be made to thoroughly respond to any public request for departmental budget details, such as line item budgets. The requested information shall also be made available on the City's website and open data portal within a reasonable time following the request.

The Proposed Budget must include a Budget Fact Sheet with easy-to-understand graphics and text explaining the City's overall finances, the Proposed Budget and that year's Budget Calendar. The Fact Sheet shall be published in languages required by Oakland's Equal Access Ordinance. The Fact Sheet shall be printed and made available in all City Recreation Centers and Senior Centers as well as all City libraries by May 15th or the presentation to the Council, whichever is

sooner.

### **7. Community Budget Forums**

**Timeline:** During the months of May and June of odd-numbered years

**Requirements:** The Administration and Council shall hold at least one (1) Community Budget Forum in each council district. These forums, organized by the City Administrator's Office in partnership with Councilmembers, shall be scheduled to maximize residents' access. The forums should include sufficient time for a question and answer period in a format that maximizes community participation, as well as a presentation of budget facts by City staff. One or more of the forums must be scheduled in the evening. Another must be scheduled on the weekend. These meetings shall also be scheduled so that Councilmembers have sufficient opportunity to attend a meeting close to their council district. Every member of the City Council shall make their best effort to attend the Community Budget Forum in their council district. Sufficient Fact Sheets in all available languages shall be available at all Forums.

These forums should be publicized in social media and via other means in a manner that is linguistically and culturally appropriate. City Council staff shall work with community-based, faith-based, identity based, and district specific organizations to ensure that a representative and broad group of residents is aware and encouraged to attend each forum.

### **8. Ongoing Public Education**

**Timeline:** During the months of May and June of even-numbered years

**Requirements:** Beginning with the first even-numbered year following adoption of this ordinance, the Administration and City Council shall hold at least three (3) Community Budget Education Presentations in different neighborhoods throughout the City and outside of City Hall. These presentations shall seek to increase Oakland residents understanding and awareness of the City Budget and Budget process.

### **9. Budget Advisory Commission's Report**

**Timeline:** June 1st

**Requirements:** The Budget Advisory Committee (BAC) shall be requested to submit published, written report to the full City Council regarding the proposed budget with any suggested amendments no later than June 1 in budget adoption years. If submitted, the statement shall be published as part of the next budget report to the City Council. The BAC is encouraged to provide similar statements during the mid-cycle budget revise and any other significant budget actions.

### **10. Council President's Proposed Budget**

**Timeline:** June 17th

**Requirements:** The City Council President, on behalf of the City Council, shall prepare a proposed budget for Council consideration to be heard at a Special City Council Budget Hearing occurring on or before June 17th. The Council President may delegate the duty to prepare a budget proposal to another member of the Council. The Finance Department will provide a costing analysis for proposed amendments. The City Council may schedule additional Special City Council Budget Hearings or Workshops as needed.

## 11. Council Budget Amendments

**Timeline:** No later than up to three (3) days prior to final budget adoption for public noticing

**Requirements:** In addition to the Council President's proposed budget, any Councilmember or group of Councilmembers may submit proposed budget amendments at any time during the budget process. However, the adopted budget shall not contain substantive amendments made on the floor by Councilmembers at the final meeting when the budget is adopted. All substantive amendments must have been published in the City Council agenda packet for at least three days prior to the budget's final adoption and posted on the City's budget website. This shall not preclude Council members from combining elements from various proposals, provided each element considered has been published in the City Council agenda packet as a component of one proposal. This three-day noticing requirement may be waived by a vote of Council upon a finding that (1) new information impacting the budget by at least \$1 million dollars came to the attention of the body after the publication deadline making it not reasonably possible to meet the additional notice requirement and (2) the need to take immediate action on the item is required to avoid a substantial adverse impact that would occur if the action were deferred to a subsequent special or regular meeting, such as employee layoffs.

Councilmembers will present their proposed amendments in an easy to understand, standardized format provided by the City Administrator. The format should allow the proposals to be easily compared to the Mayor's Proposed Budget and to one another. Additions and reductions shall be clearly noted in separate sections.

In order to provide sufficient time to evaluate the cost of proposals, Councilmembers should request costing analyses for proposed budget amendments or line-items within a budget amendment to the City Administrator at least six (6) working days prior to the City Council meeting where that amendment will be considered.

## 12. Process Feedback & Continual Improvement

**Timeline:** September 30<sup>th</sup> following budget adoption

**Requirements:** The Budget Advisory Commission (BAC) shall be requested to submit an Informational Report to the Council's Finance and Management Committee and City Council containing their analysis of the budget adoption process including, but not limited to: 1) the informational quality of the Proposed Budget; 2) the City Administration's and City Council's attention to engaging the public and its impacts on the budget process and product; 3) the level of



transparency and open dialogue in all public meetings dedicated to the budget; and 4) opportunities for improving the process in future years. In assessing opportunities for continually improving public participation in the budget process, the Administration, City Council and BAC shall be requested to consider the following guiding principles:

- **Inclusive Design:** The design of a public participation process includes input from appropriate local officials as well as from members of intended participant communities. Public participation is an early and integral part of issue and opportunity identification, concept development, design, and implementation of city policies, programs, and projects.
- **Authentic Intent:** A primary purpose of the public participation process is to generate public views and ideas to help shape local government action or policy.
- **Transparency:** Public participation processes are open, honest, and understandable. There is clarity and transparency about public participation process sponsorship, purpose, design, and how decision makers will use the process results.
- **Inclusiveness and Equity:** Public participation processes identify, reach out to, and encourage participation of the community in its full diversity. Processes respect a range of values and interests and the knowledge of those involved. Historically excluded individuals and groups are included authentically in processes, activities, and decision and policymaking. Impacts, including costs and benefits, are identified and distributed fairly.
- **Informed Participation:** Participants in the process have information and/or access to expertise consistent with the work that sponsors and conveners ask them to do. Members of the public receive the information they need, and with enough lead time, to participate effectively.
- **Accessible Participation:** Public participation processes are broadly accessible in terms of location, time, and language, and support the engagement of community members with disabilities.
- **Appropriate Process:** The public participation process uses one or more engagement formats that are responsive to the needs of identified participant groups; and encourage full, authentic, effective and equitable participation consistent with process purposes. Participation processes and techniques are well- designed to appropriately fit the scope, character, and impact of a policy or project. Processes adapt to changing needs and issues as they move forward.
- **Use of Information:** The ideas, preferences, and/or recommendations contributed by community members are documented and given consideration by decision-makers. Local officials communicate decisions back to process participants and the broader public, with a description of how the public input was considered and used.
- **Building Relationships and Community Capacity:** Public participation processes invest in and develop long-term, collaborative working relationships and learning opportunities with community partners and stakeholders. This may include relationships with other temporary or ongoing community participation venues.
- **Evaluation:** Sponsors and participants evaluate each public participation process with the collected feedback and learning shared broadly and applied to future public participation efforts.

**Website**

<https://www.oaklandca.gov/topics/budget>