



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Margaret L. O'Brien
Director of Finance, Interim

SUBJECT: Fiscal Year 2022-26
Five-Year Financial Forecast

DATE: March 9, 2021

City Administrator Approval 

Date: Mar 10, 2021

RECOMMENDATION

Staff Recommends That City Council 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 No. 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) 2021-22 to FY 2025-26. 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. The Forecast is not a budget and does not include any proposed balancing solutions or revised service levels.

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. The amended Consolidated Fiscal Policy was designed to facilitate various goals and objectives, including enhanced public participation, adoption of best practices and to provide budgetary flexibility.

ANALYSIS AND POLICY ALTERNATIVES

The COVID-19 pandemic resulted in significant increases in unemployment and reductions in economic activity, both in the City of Oakland and in communities across the world. While the City's economy has proved resilient, the economic and accompanying fiscal effects of the pandemic continue. Near-term revenue shortfalls and expenditure challenges pose risks to the City's structural balance. Revenues from sales, hotel, and parking taxes have been especially hard hit, as consumers stayed home, travelers stayed away, and commuters and shoppers

City Council
March 16, 2021

reduced the number of trips requiring parking. Business license taxes also were impacted by the pandemic, as residential and commercial rental vacancies and rent declines resulted in lower gross receipts. Business tax categories related to retail sales (including automobiles) and recreation and entertainment were also negatively impacted by the pandemic. Property tax and real estate transfer tax revenues, however, have continued to increase, driven mostly by mortgage rates being at historic lows and many area residents sought larger spaces from which to work from home.

While many categories of revenue were impacted by the pandemic, most expenditure categories, such as personnel costs for wages and retirement, have not been affected; they have continued to increase at a rate greater than inflation. As a result, the City faces a General Purpose Fund (GPF) shortfall in the current 2020-21 fiscal year and is projected to see this gap increase in the first year of the Forecast. As revenues recover with an improving economy, revenue growth is expected to outpace expenditure growth, resulting in the initial shortfall decreasing each year throughout the five- year forecast period.

Prior to the pandemic, the City made progress toward attaining a structurally balanced budget in a responsible measured manner. The City maintained a 7.5% General Purpose Fund Emergency Reserve and in 2014 approved a Rainy Day policy. These responsible fiscal policies also enabled the City to set aside funds for long-term obligations and establish a Vital Services Stabilization Fund, which had approximately \$14.9 million as of June 30, 2020. However, as pandemic-induced revenue shortfalls mounted, the City utilized these funds to help balance the FY 2020-21 budget.

Although many signs point to a resurgence of economic activity as the pandemic recedes, *substantial uncertainty remains*. Whether and to what extent residents will resume in-person dining, shopping, and recreation; whether adherence to public health protocols and vaccination progress will continue and how they will fare relative to the spread of virus variants; how the pandemic will affect the desirability of living in the relatively high-cost Bay Area as remote work options proliferate; and the extent and speed with which travelers return to the City and its airport are all significant unknowns. 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 prioritizing funding to meet its current mandates (including long-term obligations, such as legally binding promises made to current and retired City employees) and needs, rather than adding services or programs that would expand the projected gap.

The issues the City is facing relative to substantial revenue declines stemming from the pandemic 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.

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.

FISCAL IMPACT

This is an informational report and has no fiscal impact.

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, Assistant Budget Administrator, at (510) 238-6119.

Respectfully submitted,

Margaret L. O'Brien

Margaret L. O'Brien
Director of Finance, Interim

Attachments (1):

A: Five-Year Financial Forecast Fiscal Year 2021-22 – Fiscal Year 2023-26

FIVE-YEAR FINANCIAL FORECAST

Fiscal Year 2021-22 – Fiscal Year 2025-26



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CITY OF OAKLAND

Five-Year Financial Forecast

Fiscal Year 2021-22 to Fiscal Year 2025-26

MAYOR

Libby Schaaf

MEMBERS OF THE CITY COUNCIL

Nikki Fortunato Bas - District 2
Council President

Dan Kalb - District 1

Noel Gallo - District 5

Carroll Fife - District 3

Loren Taylor - District 6

Sheng Thao - District 4
President Pro Tempore

Treva Reid - District 7

Rebecca Kaplan - At-Large
Vice Mayor

ADMINISTRATION

Edward D. Reiskin
City Administrator

Jason Mitchell
Assistant City Administrator

LaTonda Simmons
Assistant City Administrator

Elizabeth Lake
Deputy City Administrator

ELECTED OFFICERS

Barbara Parker
City Attorney

Courtney Ruby
City Auditor

FINANCE DEPARTMENT

Margaret O'Brien

Interim Director

Lisa Agustin

Budget
Administrator

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ACKNOWLEDGEMENTS

Staff wishes to acknowledge the team from the Blue Sky Consulting Group who prepared most of the analysis contained in this report. In addition, City Administrator's Office, the Finance Department, Department of Human Resource Management, and the Planning & Building Department provided 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.



CITY OF OAKLAND

Table of Contents

EXECUTIVE SUMMARY 1
Purpose..... 1
Key Findings..... 1
Revenues 5
Expenditures 7
Forecast Results Summary..... 8
Other Likely Forecast Scenarios 9
INTRODUCTION 12
Purpose & Development Process..... 12
Purpose..... 12
Development Process..... 13
BACKGROUND INFORMATION 13
General Information..... 13
Form of Government 14
The City of Oakland’s Role in Service Provision..... 14
Services Provided to Residents of Oakland by Service Provider 14
Economic and Demographic Profile of the City of Oakland..... 15
Economic Profile 15
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 21
Budget Balancing, Surplus, Projected Surplus, Deficit & Projected Shortfall..... 21
Fund Balances & Reserves 22
REVENUES..... 23
Methodology and Assumptions 23
Revenue Forecast by Category 23
Property Tax..... 25
Sales & Use Tax..... 28

Business License Tax.....	29
Real Estate Transfer Tax.....	30
Transient Occupancy Tax (TOT).....	32
Parking Tax.....	33
Local (Parcel) Taxes.....	34
Utility Consumption Tax.....	34
Licenses, Permits, and Service Charges Including Parking Meter Collections.....	35
Parking Citations, Fines and Penalties.....	35
Interest Income & Miscellaneous Revenue.....	35
Internal Service Revenue.....	35
Grants & Subsidies.....	35
Interfund Transfers.....	36
Transfers from Fund Balance.....	36
Impact Fees.....	36
Revenue Forecast Summary.....	36
Outcomes by Category of Revenue.....	37
Revenue Growth Rates.....	38
EXPENDITURES.....	41
Background Information and Assumptions.....	41
Summary of Assumptions.....	42
Salaries & Payroll Expenditures.....	43
Active Retirement & Pension Plans (CalPERS).....	44
Fringe Benefits.....	45
Other Post-Employment Benefits.....	46
Operations & Maintenance.....	47
Debt, Transfers & Other.....	47
Capital Projects.....	47
Expenditure Forecast Summary.....	48
Historic Cost Containment & Fiscal Planning.....	50
Prior Legislative Action.....	50
Long-Term Structural Measures.....	50
Administrative Actions.....	51
SUMMARY & CONCLUSIONS.....	52
Comparison of Revenues & Expenditures.....	52
Risks, Opportunities & Uncertainties.....	53
Lingering Effects of COVID-19.....	53
Future Demographic Trends and Pressures on Service Levels.....	53
Sworn Police & Fire Services (Overtime).....	54
Baby Boomer Retirements.....	54
Pre-Funding Unfunded Liabilities.....	54

Negative Fund Balances	54
Real Estate & Economic Development.....	54
Medical Cost Inflation	55
Reserves	55
New Revenue Sources	55
Fee Recovery	55
Investing in Employee Skills & Wellness	55
Investing in Technology	56
New Practices & Service Delivery Models.....	56
Key Conclusions	57
APPENDIX A- Consolidated Fiscal Policy.....	58
Section 1. Budgeting Practices	59
Section 2. Reserve Funds	64
Section 3. Budget Process, Fiscal Planning, Transparency, and Public Participation.....	66
APPENDIX B-Background on California Legal Revenue Limitations	72
Propositions 13.....	72
Proposition 8	72
Proposition 218	72
Proposition 26	73

EXECUTIVE SUMMARY

Purpose

The Five-Year Financial Forecast (Forecast) for the City of Oakland (City) covers Fiscal Years (FY) 2021-22 to FY 2025-26. 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**

None of the Mayor's and City Council's goals can be effectively advanced without a stable fiscal foundation.

Council's goals can be effectively advanced without a stable fiscal foundation. 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 is not a budget and does not include any proposed**

balancing solutions or revised service levels.

Instead, the Forecast is a planning tool to identify opportunities and challenges over a longer time frame.

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

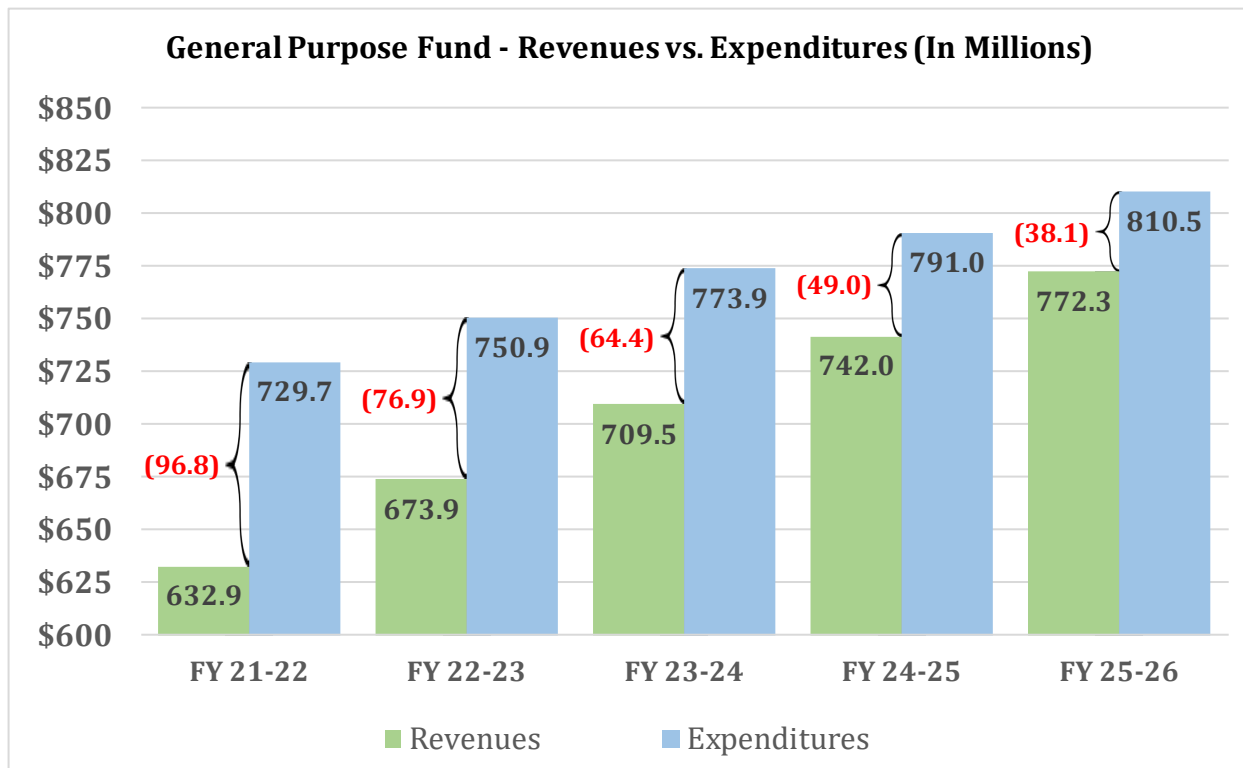
The Forecast serves as a resource for a diverse audience – residents, businesses, elected officials and City employees. The Forecast provides detailed information regarding the City's revenue, expenditures, assets and liabilities, as well as the assumptions, uncertainties, and external factors that are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

Key Findings

The COVID-19 pandemic resulted in significant increases in unemployment and reductions in economic activity, both in the City of Oakland and in communities across the world. And, while the City's economy has proved resilient, the economic and accompanying fiscal effects of the pandemic continue. Near-term revenue shortfalls and expenditure challenges pose risks to the City's structural balance. Revenues from sales, hotel, and parking taxes have been especially hard hit, as consumers stayed home, travelers stayed away, and commuters and shoppers reduced the number of trips requiring parking. Business license taxes also were impacted by the pandemic, as residential and commercial rental vacancies and rent declines resulted in lower gross receipts. Business tax categories related to retail sales (including automobiles) and recreation and entertainment were also negatively impacted by the pandemic. Property tax and real estate transfer tax revenues, however, have continued to increase, driven mostly by mortgage rates being at historic lows and many area residents sought larger spaces from which to work from home.

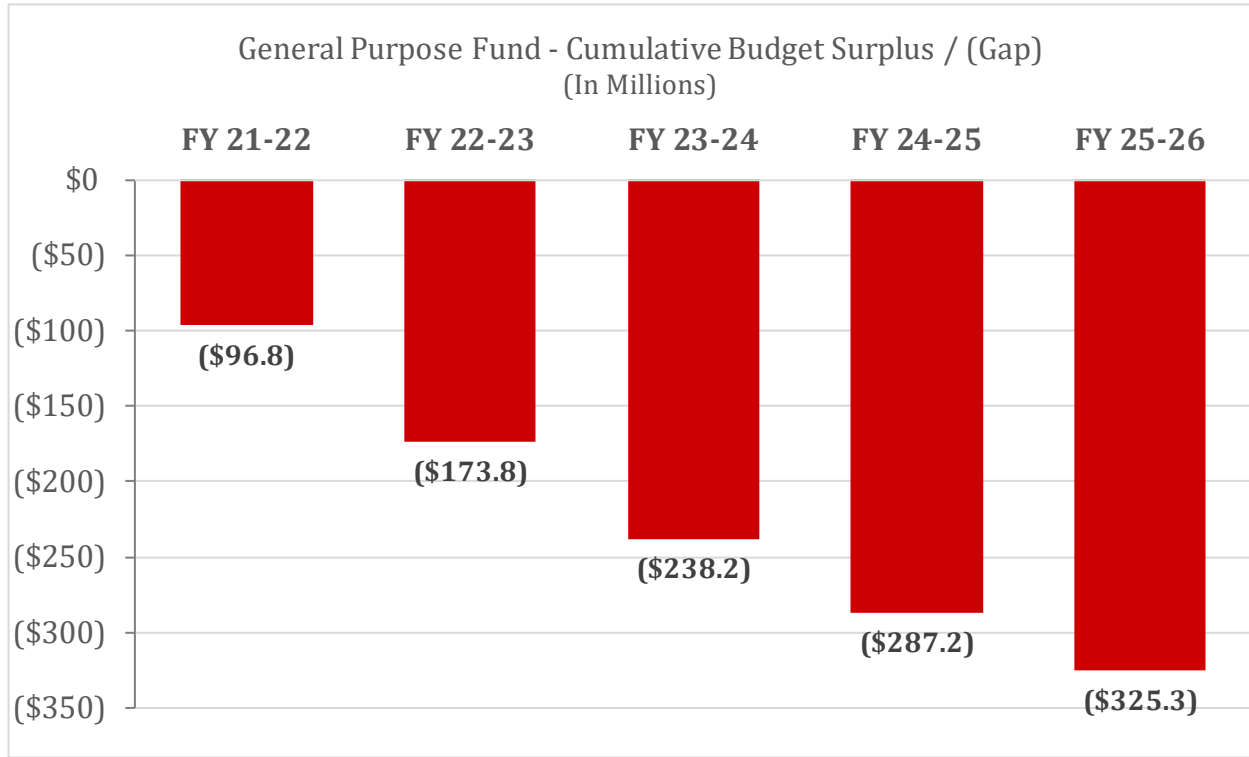
While many categories of revenue were impacted by the pandemic, most expenditure categories, such as personnel costs for wages and retirement, have not been affected; they have continued to increase at a rate greater than inflation. As a result, the City faces a General Purpose Fund (GPF) shortfall in the current 2020-21 fiscal year and is projected to see this gap increase in the first year of the Forecast. As revenues recover with an improving economy, revenue growth is expected to outpace expenditure growth, resulting in the initial shortfall decreasing each year throughout the five-year forecast period as shown in Figure 1 (GPF Forecast Revenues, Expenditures & Shortfall) and Figure 3 (All Funds Forecast Revenues, Expenditures & Shortfall).

Figure 1 - GPF Forecast Revenues, Expenditures & Shortfall



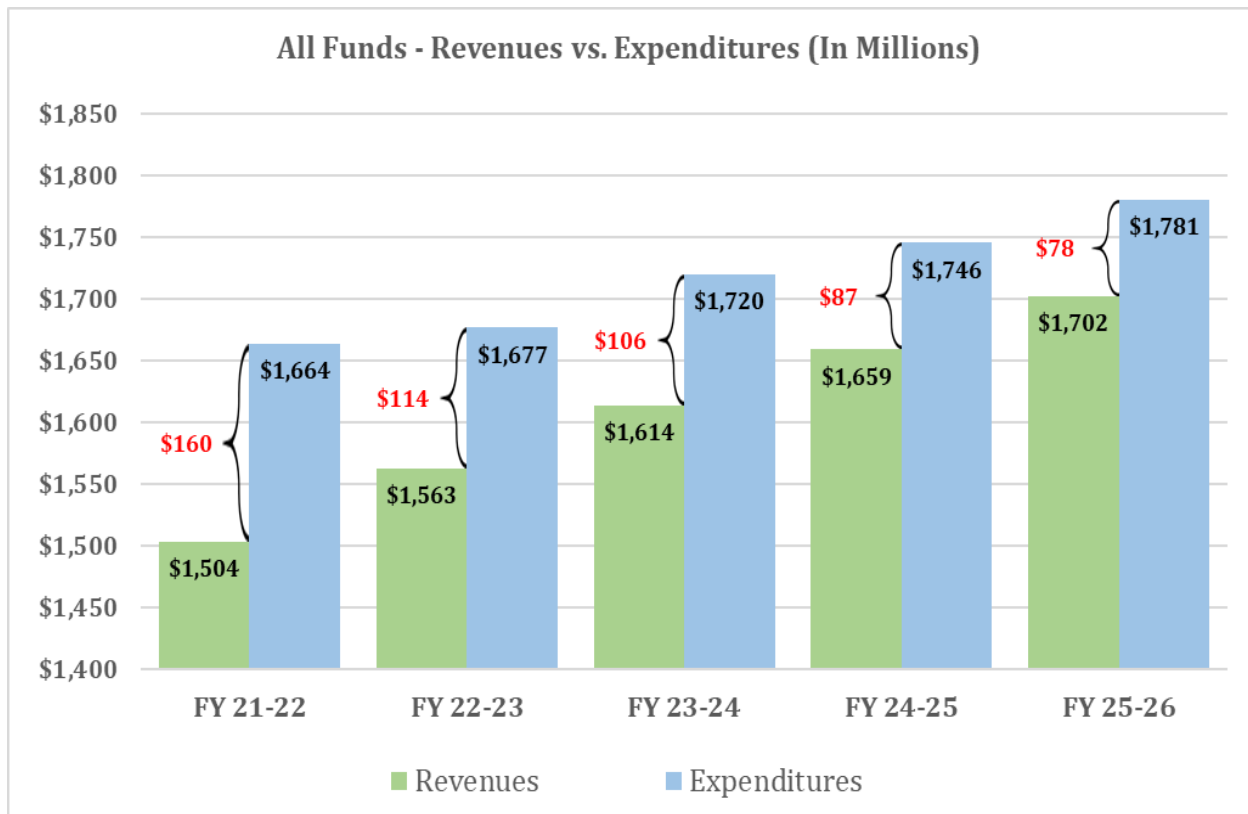
Although General Purpose Fund (GPF) shortfalls are expected to decrease during the forecast period, the cumulative gap in the City's GPF over this period (assuming no corrective actions) is expected to exceed \$325 million, as shown in Figure 2. The City's Charter and Consolidated Fiscal Policy requires adoption of a balanced budget each fiscal year, and the City will therefore need to develop strategies to address the shortfalls projected in the Forecast. **This forecast assumes that the City's economy begins to improve in the next fiscal year, and that economic conditions continue to improve without significant long-term dislocations in economic activity due to the pandemic. If that improvement does not happen according to the forecast – and there remain many unknowns with regard to the pace and contours of economic recovery – projected shortfalls could be larger. Even modest changes in the assumed revenue growth rates or the onset of a new recession could significantly alter these results.**

Figure 2 - GPF Cumulative Budget Gap



The forecast for All Funds (see Figure 3) shows a trend similar to the GPF: shortfalls persist throughout the forecast period, although the expected economic rebound results in revenue growth somewhat outpacing expected expenditure increases.

Figure 3 - All Funds Forecast Revenues, Expenditures & Shortfall



Prior to the pandemic, the City had made progress toward attaining a structurally balanced budget in a responsible, measured manner. The City maintained a 7.5% General Purpose Fund Emergency Reserve and in 2014 approved a Rainy Day policy. These responsible fiscal policies also enabled the City to set aside funds for long-term obligations and establish a Vital Services Stabilization Fund, which had approximately \$14.9 million as of June 30, 2020. However, as pandemic-induced revenue shortfalls mounted, the City utilized these funds to help balance the FY 2020-21 budget.

Although many signs point to a resurgence of economic activity as the pandemic recedes, *substantial uncertainty remains*. Whether and to what extent residents will resume in-person dining, shopping, and recreation; whether adherence to public health protocols and vaccination progress will continue and how they will fare relative to the spread of virus variants; how the pandemic will affect the desirability of living in the relatively high-cost Bay Area as remote work options proliferate; and the extent and speed with which travelers return to the City and its airport are all significant unknowns. 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 prioritizing funding to meet its current mandates (including long-term obligations, such as legally binding promises made to current and retired City employees) and needs, rather than adding services or programs that would expand the projected gap.

Revenues

The General Purpose Fund is the City's main operating fund and typically accounts for roughly 40% of total City expenditures. This fund is different from the General Fund as reported in the City's Comprehensive Annual Financial Report (CAFR) in that it includes other funds that are restricted by ordinance or the City Charter. As shown in Table 1, total General Purpose Fund revenues are anticipated to increase by more than 4% per year throughout the forecast period. These projected increases are driven mainly by increases in property tax, sales tax, business license tax, transient occupancy tax, and parking related revenues, particularly in the second year of the forecast as the anticipated economic recovery takes hold and business activity increases as restrictions related to the COVID-19 pandemic are relaxed and travel and other economic activities recover from their 2020 lows.

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

General Purpose Fund (1010)	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue in Millions	Forecast	Forecast	Forecast	Forecast	Forecast
Property Tax	\$242.44	\$257.98	\$273.11	\$287.09	\$301.30
Sales Tax	\$58.97	\$66.19	\$68.04	\$70.54	\$72.78
Business License Tax	\$92.66	\$94.31	\$98.59	\$103.87	\$109.05
Utility Consumption Tax	\$49.14	\$48.80	\$48.45	\$48.12	\$47.73
Real Estate Transfer Tax	\$94.64	\$98.29	\$104.27	\$111.28	\$117.79
Transient Occupancy Tax	\$16.23	\$19.99	\$23.75	\$25.33	\$25.55
Parking Tax	\$7.84	\$9.91	\$10.85	\$11.21	\$11.53
Licenses & Permits	\$2.45	\$2.51	\$2.57	\$2.63	\$2.70
Fines & Penalties	\$14.69	\$18.11	\$19.69	\$20.33	\$20.90
Interest Income	\$0.48	\$0.48	\$0.48	\$0.48	\$0.48
Service Charges	\$49.33	\$53.36	\$55.67	\$57.13	\$58.53
Grants & Subsidies	\$0.12	\$0.13	\$0.13	\$0.13	\$0.14
Miscellaneous Revenue	\$0.97	\$0.97	\$0.97	\$0.97	\$0.97
Interfund Transfers	\$2.90	\$2.90	\$2.90	\$2.90	\$2.90
Sub-Total GPF	\$632.88	\$673.93	\$709.48	\$742.02	\$772.36
Growth	N/A	6.49%	5.28%	4.59%	4.09%

During the forecast period, All Funds revenues are projected to grow at a somewhat slower rate than the revenues in the GPF. Increases in property tax, local tax, and sales tax are expected to drive growth, along with parking tax and transient occupancy tax revenues as described above. A summary of All Funds revenue during the forecast period is provided in the Table 2 below:

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

All Funds Revenue in Millions	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast	FY 2024-25 Forecast	FY 2025-26 Forecast
Property Tax	\$254.05	\$271.69	\$288.58	\$303.66	\$318.82
Local Tax	\$266.90	\$268.13	\$269.33	\$270.61	\$271.94
Sales Tax	\$87.73	\$98.47	\$101.23	\$104.95	\$108.28
Gas Tax	\$19.14	\$19.24	\$19.31	\$19.36	\$19.50
Business License Tax	\$92.66	\$94.31	\$98.59	\$103.87	\$109.05
Utility Consumption Tax	\$49.14	\$48.80	\$48.45	\$48.12	\$47.73
Real Estate Transfer Tax	\$94.64	\$98.29	\$104.27	\$111.28	\$117.79
Transient Occupancy Tax	\$20.66	\$25.45	\$30.23	\$32.24	\$32.52
Parking Tax	\$15.27	\$19.30	\$21.13	\$21.84	\$22.45
Licenses & Permits	\$16.87	\$17.36	\$18.01	\$18.65	\$19.35
Fines & Penalties	\$16.15	\$19.75	\$21.43	\$22.12	\$22.73
Interest Income	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58
Service Charges	\$217.86	\$227.91	\$234.99	\$240.81	\$246.62
Internal Service Funds	\$101.95	\$101.95	\$104.29	\$105.58	\$107.61
Grants & Subsidies	\$70.14	\$71.95	\$73.71	\$75.56	\$77.44
Miscellaneous Revenue	\$34.77	\$34.77	\$34.77	\$34.77	\$34.77
Interfund Transfers	\$145.20	\$145.20	\$145.20	\$145.20	\$145.20
Total	\$1,503.71	\$1,563.16	\$1,614.11	\$1,659.17	\$1,702.38
Growth	N/A	3.95%	3.26%	2.79%	2.60%

Expenditures

Expenditures are projected to increase over the forecast period, but at a slower rate than revenues. The largest category of expenditures relates to employee wages and benefits. Growth in non-personnel expenditures include insurance premiums, claims in the City's Self-Insurance Fund, and other fixed operational expenses such as fuel and utilities. The expenditure forecast is based on current staffing and service levels; in most cases, future expenditures are based on current year (FY 2020-21) estimated expenditures adjusted for inflation, previously negotiated salary increases, and anticipated changes due to economic conditions. Current memoranda of understanding for unions representing miscellaneous (civilian) employees expire at the end of the current fiscal year, therefore no salary increases for these employees are included in the forecast. To the extent that there are known trends in expenditures, they are captured in this forecast.

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 4,617 and does not propose staffing level increases, although anticipated cost of living adjustments are reflected in the Forecast during the three final years.

In recognition of the City's \$850 million unfunded liability for Other Postemployment Benefits (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. In addition, on February 26, 2019, the City Council approved a new OPEB Funding Policy that committed 2.5% of payroll (approximately \$10 million per year) to an irrevocable trust addressing unfunded liabilities. These contributions were suspended for FY 2019-20 and 2020-21 due to COVID-19 and financial emergencies. Nonetheless, between FY 2018-19 and FY 2019-20, the City's net OPEB liability decreased by more than \$240 million as a result of these multi-pronged efforts. **This positive trajectory is expected to reverse in FY 2020-21 as a result of the recent halt in OPEB trust contributions, but further liability reductions can be expected following assuming the resumption of contributions in FY 2021-22.** The full contribution of 2.5% of payroll is currently included in the FY 2021-23 Biennial baseline budget.

The steps the City has taken to address retirement and retiree medical costs have resulted in lower projected costs for these expenditure categories relative to previous forecasts. In large part as a result of these changes, expenditures are expected to grow more slowly than revenues over the forecast period. Nevertheless, 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 factors beyond the control of the City continue to put great pressure on the City's finances. **Regardless of forecast or what actually happens in our economy, we remain underfunded with regard to meeting these obligations to our current and past City employees to the tune of more than \$2 billion.** The

City will need to consider additional, more aggressive fiscal policies to increase funding to responsible levels to ensure the City will be able to meet its obligations.

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

Table 3 - GPF Expenditures by Category (In Millions)

Category	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Avg annual change
Wages	\$344.61	\$349.40	\$358.09	\$367.34	\$376.81	2.3%
Fringe Benefits	\$89.38	\$104.36	\$108.87	\$113.58	\$118.48	7.3%
Retirement	\$137.66	\$141.80	\$146.67	\$144.58	\$144.20	1.2%
Operations and Maintenance	\$105.08	\$105.76	\$109.03	\$112.51	\$116.14	2.5%
Debt, Transfers and Other	\$52.94	\$49.55	\$51.25	\$53.02	\$54.84	0.9%
Total	\$729.68	\$750.87	\$773.92	\$791.03	\$810.46	2.7%

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

Category	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Avg annual change
Wages	\$535.20	\$540.52	\$554.11	\$568.45	\$583.14	2.2%
Fringe Benefits	\$144.41	\$168.01	\$175.29	\$182.87	\$190.77	7.2%
Retirement	\$216.90	\$223.92	\$231.60	\$220.57	\$217.10	0.0%
Operations and Maintenance	\$368.12	\$359.46	\$369.52	\$380.24	\$391.40	1.5%
Debt, Transfers and Other	\$399.37	\$385.21	\$389.43	\$393.84	\$398.36	-0.1%
Total	\$1,664.00	\$1,677.12	\$1,719.95	\$1,745.96	\$1,780.77	1.7%

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 revenues outpaces the growth in expenditures over the period, primarily due to the economic recovery that is expected to occur as COVID-19 restrictions are relaxed as more Californians are vaccinated, and as travel and other economic activities return to pre-pandemic levels. As a result, the significant operating shortfalls projected in the first year of the forecast are expected to decrease throughout the forecast period. It is critical to note that these estimates do not incorporate any proposed changes or balancing solutions that will be considered as part of the budget process. Pursuant to the Oakland City Charter and the Consolidated Fiscal Policy, the City must adopt a balanced budget.

Table 5 - GPF and All Funds Shortfall

GPF	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$729.68	\$750.87	\$773.92	\$791.03	\$810.46
Revenues	\$632.88	\$673.93	\$709.48	\$742.02	\$772.36
Surplus/(Gap)	(\$96.80)	(\$76.94)	(\$64.43)	(\$49.01)	(\$38.11)

All Funds	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$1,664.00	\$1,677.12	\$1,719.95	\$1,745.96	\$1,780.77
Revenues	\$1,503.71	\$1,563.16	\$1,614.11	\$1,659.17	\$1,702.38
Surplus/(Gap)	(\$160.29)	(\$113.96)	(\$105.84)	(\$86.79)	(\$78.38)

The issues the City is facing relative to substantial revenue declines stemming from the pandemic 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.

Other Likely Forecast Scenarios

While all forecasts are inherently uncertain, the COVID-19 pandemic adds an additional level of uncertainty not presented in previous forecast periods. The Baseline Scenario presented in this report anticipates beginning a return to more normal levels of economic activity in the middle of Fiscal Year 2021-22, as more residents receive vaccinations and assumes COVID-19 case counts decline. The federal government has indicated that it has ordered sufficient doses for all American adults to receive a vaccine by the summer of 2021. Nevertheless, logistical challenges, vaccine hesitancy, the spread of virus variants, and the potential for manufacturing or distribution delays all suggest that the high levels of vaccination necessary to significantly reduce infections may not arrive until the end of calendar year 2021. At that time, the Baseline Scenario anticipates workers will begin returning to offices, consumers will start to shop and dine in-person, and business and leisure travel will begin a gradual recovery.

Rapid Recovery Scenario

While the Baseline Scenario represents one likely outcome, it is also possible that economic activity will begin a “return to normal” more quickly. Cases are already declining from their winter heights even as the vaccine roll-out accelerates. To the extent that most residents and workers are vaccinated by the early summer and COVID-19 cases decline significantly, an economic recovery could begin more quickly.

In order to evaluate the potential effects of a “Rapid Return to Normal” scenario, this forecast report presents the anticipated fiscal effects of a more rapid return to pre-pandemic levels of economic activity, beginning in July 2021 (the start of the 2021-22 fiscal year).

Table 6 - Rapid Recovery Scenario

GPF	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$729.68	\$750.87	\$773.92	\$791.03	\$810.46
Revenues	\$650.86	\$686.96	\$721.97	\$752.57	\$783.71
Surplus/(Gap)	(\$78.82)	(\$63.91)	(\$51.95)	(\$38.46)	(\$26.75)

All Funds	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$1,664.00	\$1,677.12	\$1,719.95	\$1,745.96	\$1,780.77
Revenues	\$1,527.98	\$1,578.84	\$1,628.36	\$1,670.79	\$1,714.86
Surplus/(Gap)	(\$136.02)	(\$98.28)	(\$91.60)	(\$75.17)	(\$65.90)

As shown in Table 6, even under the Rapid Recovery Scenario, the Forecast anticipates a General Purpose Fund shortfall of more than \$78 million in the 2021-22 Fiscal year, with continuing (and shrinking) shortfalls throughout the forecast period. Under this scenario, revenue growth is accelerated relative to the Baseline Scenario, with sales and property taxes exceeding their pre-pandemic levels in Fiscal Year 2021-22. Personal income is anticipated to resume its pre-pandemic trend beginning in early 2021 (helped by the three rounds of federal stimulus, including the proposed \$1.9 trillion stimulus proposed by the Biden Administration and currently being considered by Congress). This strong growth in personal income is associated with an increase in consumer spending, which in turn benefits City sales, business license, transient occupancy, and parking tax receipts. Nevertheless, some effects of the pandemic are expected to linger even under this scenario. Unemployment is expected to continue its decline but is not expected to reach pre-pandemic levels until 2025. Travel activity is also expected to begin recovering from pandemic-induced reductions in FY 2021-22, but is expected to recover more slowly than personal income as travelers adjust to post-pandemic life and continue to make use of video conferencing in lieu of some trips. As a result, travel-related revenues, including hotel or transient occupancy tax (TOT) and the travel-related component of parking tax revenue, are expected to remain below pre-pandemic levels throughout much of the forecast period.

Continued Slow Economic Growth Scenario

While already approved vaccines are highly effective in preventing COVID-19, new virus variants have appeared in multiple locations throughout the world, including in the Bay Area. To the extent that one or more of these variants proves resistant to existing vaccines or spreads at a rate faster than the vaccination rate, vaccine hesitancy prevents achieving “herd immunity” or other factors

conspire to prolong the pandemic, economic growth could be slower than anticipated in the baseline scenario.

Table 7 presents the results of the “Slow Growth Scenario.” Under this scenario, unemployment remains persistently high, above pre-pandemic levels throughout the forecast period. Personal income under this scenario would continue to fall during the beginning of calendar year 2021 before resuming gradual growth in 2022, but it is expected to remain below the pre-pandemic trend throughout the forecast period.

As shown in Table 7, revenue growth is substantially slower than in the Baseline Scenario, with the result that shortfalls in the General Purpose Fund remain above \$90 million for the majority of the forecast period. A similar trend is anticipated for All Funds, with shortfalls generally expected at \$160.8 million in FY 2021-22 and then holding steady at roughly \$140 million throughout the forecast period (rather than declining steadily in the baseline scenario).

Table 7 - Slow Growth Scenario

GPF	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$729.68	\$750.87	\$773.92	\$791.03	\$810.46
Revenues	\$631.34	\$650.75	\$675.91	\$700.49	\$727.28
Surplus/(Gap)	(\$98.34)	(\$100.12)	(\$98.01)	(\$90.54)	(\$83.18)

All Funds	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$1,664.00	\$1,677.12	\$1,719.95	\$1,745.96	\$1,780.77
Revenues	\$1,505.12	\$1,537.80	\$1,576.51	\$1,612.76	\$1,652.41
Surplus/(Gap)	(\$158.89)	(\$139.31)	(\$143.45)	(\$133.20)	(\$128.35)

Scenarios Summary

In spite of the arrival of effective vaccines for COVID-19, significant uncertainty exists with respect to the timing of and extent to which more normal levels of economic activity will resume. **The baseline presented in this report reflects the most likely scenario, however, it is also possible that a return to pre-pandemic levels economic activity could start sooner or later than anticipated in the Baseline Scenario.** As the two alternative scenarios presented in this section make clear, however, under any of the likely scenarios evaluated, the City is likely to face expenditure demands that outpace available revenues for the duration of the forecast period, necessitating actions now to address the structural shortfalls.

INTRODUCTION

Purpose & Development Process

Purpose

The Five-Year Financial 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 first 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 and engaged the services of an economic consulting firm, the Blue Sky Consulting Group, to develop the forecasts and confirm the soundness of the assumptions and analysis presented in this report.

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 a center of commerce and international trade for the Bay Area.

According to the State Department of Finance, Oakland is the seventh largest city in the State of California, with an estimated population of 433,697 in 2020. 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, the Mayor 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 8 - Oakland Service Providers & Services

The City of Oakland	Alameda County
Police Protection	Courts of Law
Fire Suppression	Jails & Juvenile Hall
Recreation Programs	Coroner & 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
Children & Youth Services	Child Support & Protection
Parking Management	Mental Health Services
Sewers & Storm Drains	Emergency Medical Transport (Ambulance)
Transportation Planning	
Street & Sidewalk Maintenance (local)	The Peralta Community Colleges
Parks, Trees, & Public Spaces	Laney Community College
Street Lights & Traffic Signals	Merritt Community College
Recycling and Solid Waste	
Workforce & Job Training	East Bay Regional Park District
	Operations of Regional Parks
The Oakland Unified School District	Bay Area Rapid Transit District (BART)
Public Elementary, Middle, and High Schools	Commuter Rail
Adult Education	
Charter Schools	Alameda-Contra Costa Transit District (AC Transit)
East Bay Municipal Utilities District (EBMUD)	Bus Transportation
Provision of Drinking Water	
Treatment of Wastewater	
Public Open Spaces near reservoirs	
The Port of Oakland	
Oakland International Airport	
Oakland Seaport	

Economic and Demographic Profile of the City of Oakland

Economic Profile

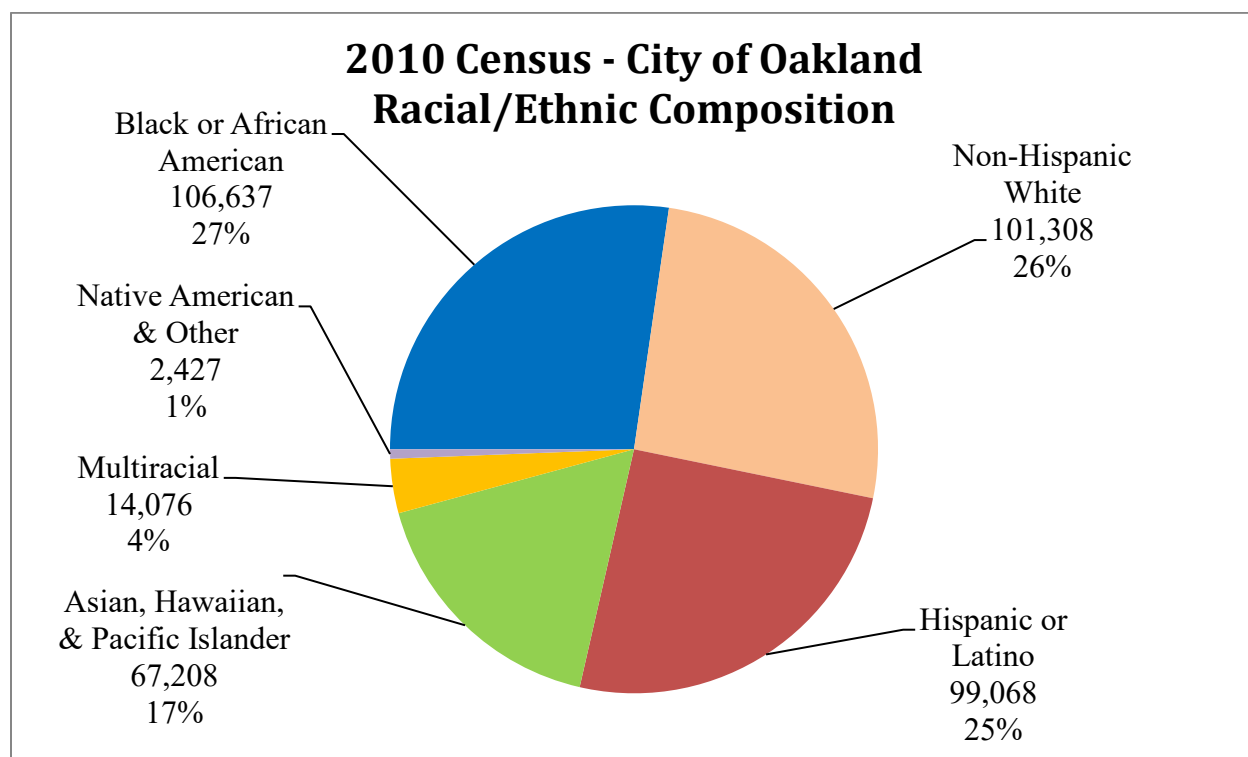
Prior to the onset of the pandemic, Oakland's economy had been growing strongly, offering a healthy mix of trade, government, financial, medical, information technology, publishing and service-oriented occupations. Oakland offers abundant resources to its businesses and residents: converging transportation 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 have

created 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 (during non-pandemic times). The City’s neighborhood retail areas also continued to grow prior to the pandemic, as evidenced by Oakland’s ten Business Improvement Districts and Community Benefit Districts. Manufacturing remains an important segment of the City’s economy, and the approval of Proposition 64 has positioned the City as a key hub for the medicinal and recreational cannabis industry. These economic characteristics mean that the City is well positioned to recover from the pandemic-induced recession and is expected to resume strong economic growth once infection rates decline.

Demographic Profile

According to the California Department of Finance, Oakland was ranked the seventh largest city in the State of California in 2020, with an estimated population of 433,697 residents within approximately 55 square miles. 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 was below the age of 18 and 11% was 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 9 - 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%
Total	399,484	100%	390,724	100%

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 1st of July and ends on the 30th of June of the following year. Fiscal Years are generally expressed as follows: The Fiscal Year which begins on July 1, 2021 and ends on June 30, 2022 is FY 2021-2022. This same fiscal year can also be expressed as FY 2021-22, FY21-22, or FY22 (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 2021-22 will end on December 31, 2021; this would commonly be expressed as Q2 FY 2021-22 or Q2-22. The 9th Period or Month of FY 2021-22 will end on March 31, 2022; this would commonly be expressed as Q3 FY 2021-22 or Q3-22.

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 30th of the preceding fiscal year. For instance, the City of Oakland will adopt the FY 2021-23 Biennial Budget by June 30, 2021.

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

finances 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 provides a detailed analysis of major revenue categories and presents the results of the Baseline Scenario forecast for each category.

Methodology and Assumptions

Revenue estimates were developed by applying estimated growth rates to the estimated actual receipts for the 2020-21 Fiscal Year to develop projections for the entire five year forecast period. This data was analyzed in Microsoft Excel to produce the various figures, tables, graphs, and charts in this document.

Key assumptions in developing the forecast include:

- Status quo service levels and staffing;
- 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 July 2020; and
- Economic conditions begin to recover from the pandemic-induced recession and continue to improve over the five year forecast period (i.e., no recession is forecast).
- The proposed \$1.9 trillion federal stimulus package is approved during Spring 2021 (note that the economic effects of this stimulus are incorporated into the forecast, but no specific assumption is made with respect to the amount or use of any direct payments that may be made to the City of Oakland).

Revenue Forecast by Category

Citywide revenues are projected based on the expected levels of economic growth, new development, and anticipated 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 levels, and various economic and demographic changes. City staff worked closely with an economic consulting firm, the Blue Sky Consulting Group, to develop the economic assumptions and growth rates contained in this forecast report. The baseline economic growth assumptions were developed based on an analysis of statewide economic forecasts produced by the California Legislative Analyst's Office, the Federal Reserve Bank, the California State Department of Finance, and the UCLA Anderson School. Historical correlations between levels of statewide economic activity and those observed in Oakland were developed and applied in order to develop Oakland-specific revenue forecasts.

Major assumptions used in developing the forecast include:

- Personal income is projected to increase at an average rate of approximately 4% over the forecast period.
- The unemployment rate is expected to fall steadily to about 6% by FY 2022-23, and to 4% by FY 2024-25.

- The Consumer Price Index (CPI) is projected to grow at annual rates between 2.5% and 2.8% over the forecast period.
- The economic effects of the proposed \$1.9 trillion federal stimulus are included in the forecast results.

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 (including the proposed \$1.9 trillion federal stimulus expected to be passed in Spring 2021). In addition, the revenue forecast takes into consideration local and regional economic factors and trends, including an expected decline in construction activity and pandemic-induced changes in business travel, commuting and shopping behavior.

Figure 5 depicts the historical General Purpose Fund (GPF) actual revenues since FY 1999-00 (over 20 years) as well as the expected GPF revenues during the forecast period. Historical data shows that over this period, GPF revenues have grown on average by 2.5% per year.

Figure 5 - Historical GPF Revenues (\$Millions)

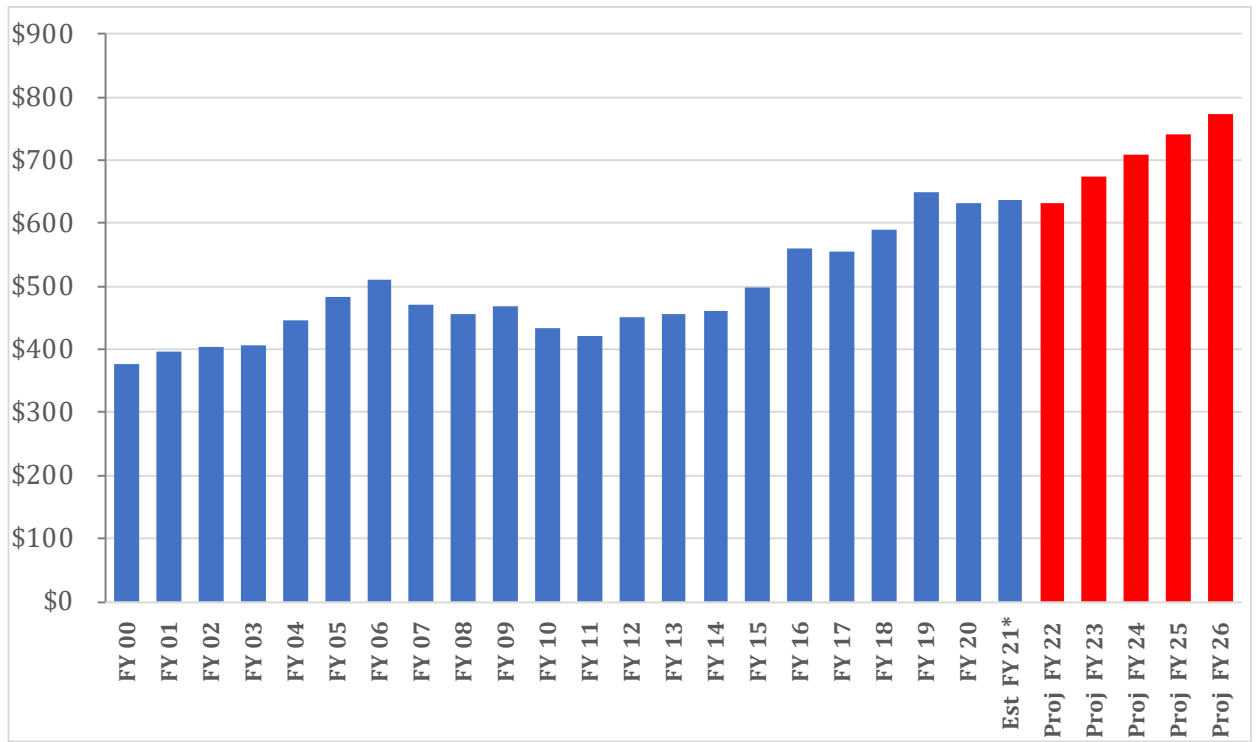


Table 10 presents General Purpose Fund revenues by category over the past 5 years, including the estimated receipts for the 2020-21 Fiscal Year.

Table 10 – General Purpose Funds by Category FY 2016-17 to FY 2020-21

General Purpose Fund (101)	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Revenue in Millions	Actuals	Actuals	Actuals	Actuals	Estimate
Property Tax	\$171.48	\$187.17	\$199.96	\$218.66	\$233.15
Sales Tax	\$53.70	\$57.47	\$62.05	\$55.52	\$52.55
Vehicle License Fee	\$0.19	\$0.22	\$0.21	\$0.34	\$0.00
Business License Tax	\$75.84	\$86.11	\$99.73	\$98.04	\$88.00
Utility Consumption Tax	\$52.62	\$52.05	\$49.60	\$49.83	\$52.00
Real Estate Transfer Tax	\$79.07	\$77.66	\$104.90	\$91.53	\$93.33
Transient Occupancy Tax	\$22.37	\$23.58	\$25.92	\$19.58	\$8.24
Parking Tax	\$10.64	\$10.80	\$11.05	\$9.07	\$4.50
Licenses & Permits	\$1.80	\$2.38	\$1.78	\$1.61	\$1.68
Fines & Penalties	\$21.69	\$18.47	\$21.20	\$19.04	\$14.04
Interest Income	\$1.21	\$0.97	\$1.10	\$0.90	\$0.48
Service Charges	\$54.61	\$60.57	\$64.57	\$58.17	\$51.90
Grants & Subsidies	\$1.52	\$2.48	\$1.98	\$2.22	\$3.71
Miscellaneous Revenue	\$6.53	\$6.76	\$2.31	\$3.24	\$10.80
Interfund Transfers	\$2.27	\$3.96	\$3.58	\$4.01	\$17.55
Sub-Total GPF	\$555.53	\$590.68	\$649.96	\$631.76	\$631.93
Transfers from Fund Balance	\$0.00	\$0.00	\$0.00	\$0.00	\$19.03
Total	\$555.53	\$590.68	\$649.96	\$631.76	\$650.97

*FY 2020-21 values are based on second quarter R&E Report Results.

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 assessed value. Under the terms of Proposition 13 passed in 1978: 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 APPENDIX B-Background on California Legal Revenue Limitations for additional detail).

Over the last 20 years, property tax revenue has grown, year-over-year, at an average pace of 7.6%. The growth for that period was accelerated by a rapid run-up of housing demand and accompanying new construction. The rise in 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.

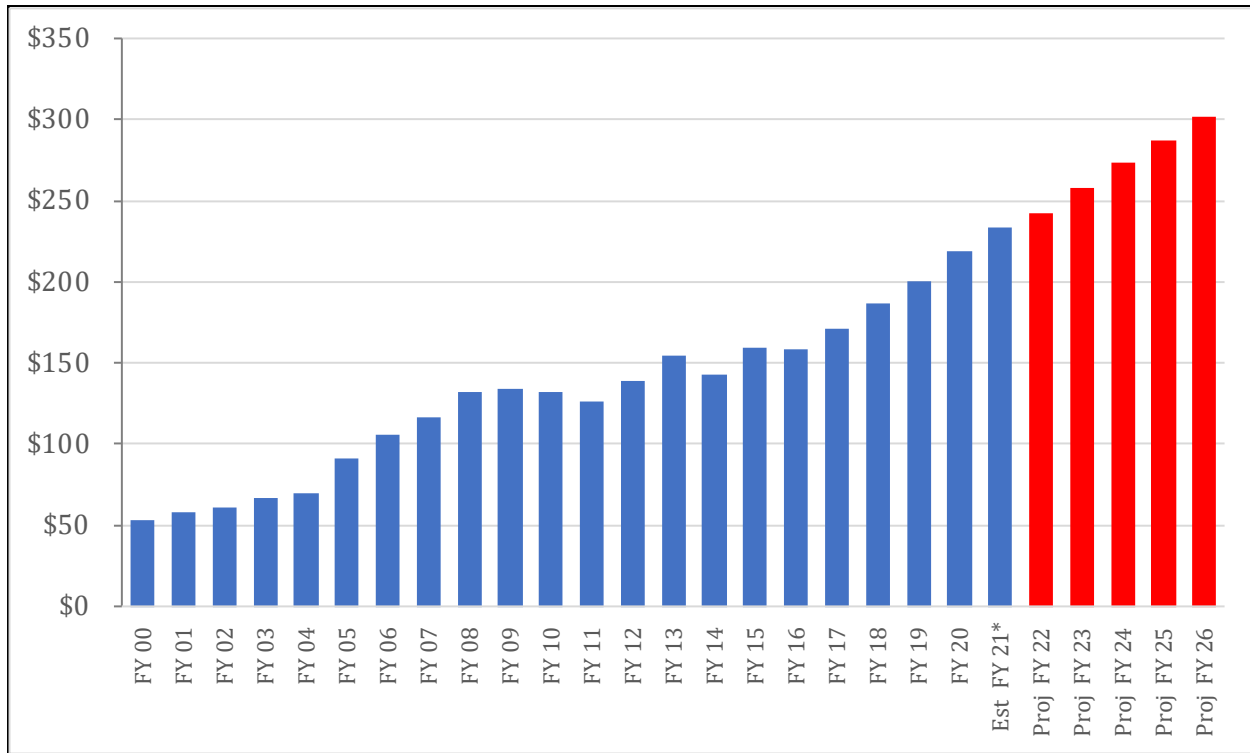
Beginning in FY 2004-05, property assessments rose quickly, propelled by high volume of home sales and rising home prices. Driven by economic growth and aggressive lending practices, the housing market accelerated and finally peaked in 2007, when the median single-family home price reached \$580,000. After this peak, housing demand and prices declined due to an economic downturn, loss of jobs, and tightened credit. At the start of the Great Recession, the median house price fell from \$580,000 in 2007 to \$315,000 in 2008. Median 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 experience a rebound in housing prices. Currently the median single-family home price is above \$800,000. Figure 6 shows property tax revenue since 2000 with a five-year projection. Since 2012, the City has been receiving a portion of the Redevelopment Property Tax Trust Fund (RPTTF) as the result of the dissolution of the Redevelopment Agency pursuant to state law. The RPTTF is the portion of property tax increment that would have gone to the redevelopment agency if it had not been dissolved, less the funding required to wind-down the obligations of agency, including any debt service payments owed on debt obligations issued prior to the dissolution of the agency.

Property Tax Revenue Forecast

General Purpose Fund property taxes, inclusive of RPTTF, are expected to grow from an estimated \$233.1 million in FY 2020-21 to \$301 million in FY 2025-26. This is an average annual increase of 5.26% over the five years of the forecast period. In FY 2021-22, the growth, inclusive of RPTTF, is projected to be 4.0% over the estimated FY 2020-21 amount.

Figure 6 - GPF Property Tax Revenues Over Time (\$Millions)



In general, property taxes have been relatively unaffected by the pandemic and are expected to continue to grow throughout the forecast period. In part this reflects the underlying resilience of the property tax, in which assessed values are generally lower than market values. As a result, even during times of relatively slow appreciation in property values, property tax revenues tend to increase since most assessed values still increase by at least two percent per year. In addition, many types of properties have continued to experience increases in market value during the pandemic as residents from throughout the Bay Area sought larger homes with more space to shelter in place, work from home, or enjoy backyards. For example, prices for single family homes increased by more than 9% during 2020 according to Zillow housing market data. These increases are expected to more than offset any declines in commercial or multifamily residential assessed values.

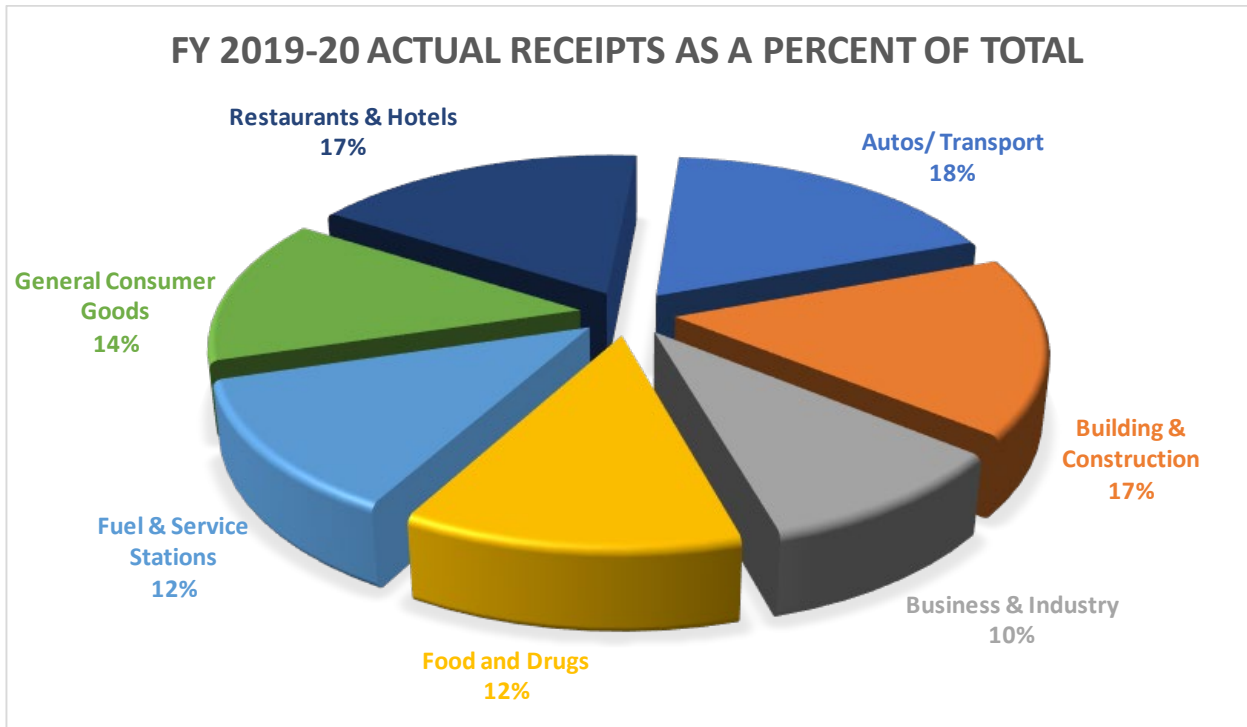
In addition, over the five year forecast period, RPPTF revenues are expected to increase rapidly as obligations of the former redevelopment agency are retired. For example, debt service is expected to decline from approximately \$45 million annually to just over \$20 million during the forecast period, a decline of more than \$25 million. Of this amount, approximately one-third is passed through to the City, with the remaining amounts going to other entities that receive property taxes. Overall, annual passthrough property tax revenues from the former redevelopment agency are anticipated to increase by more than \$28 million during the forecast period. Note that the RPTTF should not be viewed as an increase in the property tax, but rather as a shift of local resources after losing redevelopment agency funding.

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 that a \$1 taxable purchase results in sales tax of 9.25 cents. The City receives 1% of the total sale as a distribution to its General Fund, meaning the City receives 1 cent on a \$1 purchase.

Oakland’s diverse Sales Tax base consists of 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 dominates the City’s sales tax revenues, as shown in Figure 7, which presents the sources of sales tax revenue for the City of Oakland during the 2019-20 Fiscal Year.

Figure 7 - Sales Tax by Category

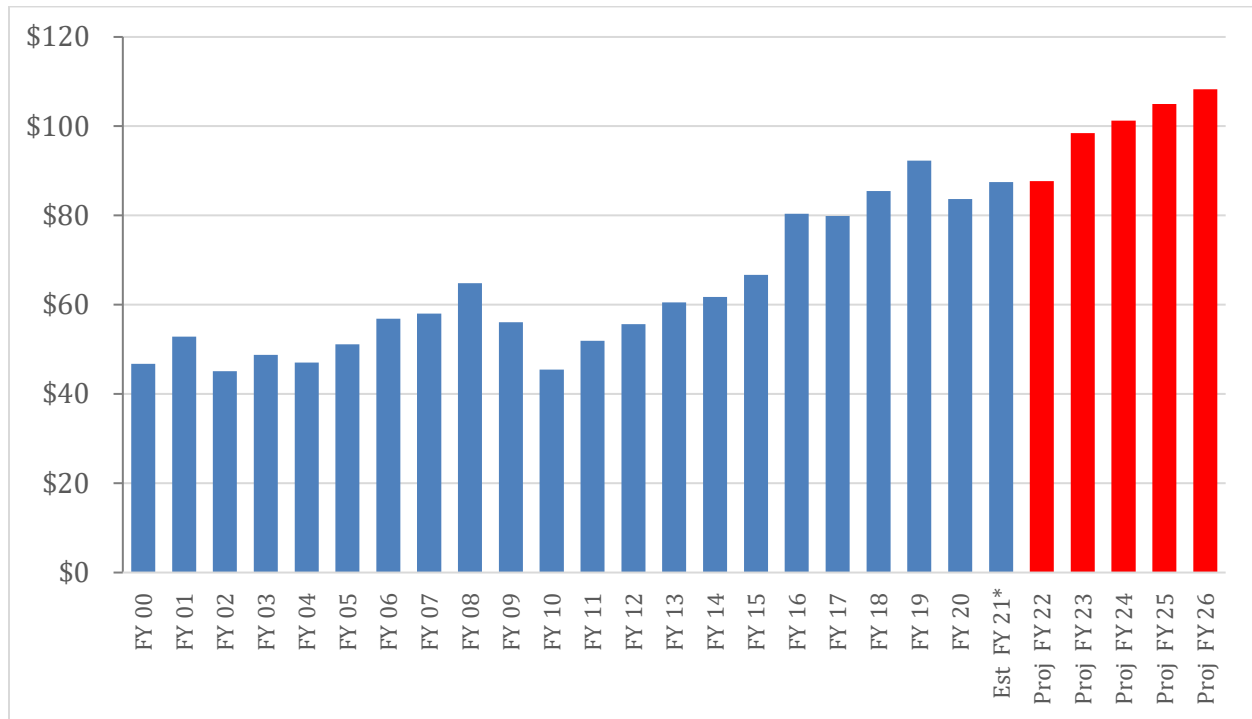


Sales tax revenue generally coincides with overall strength of the local, regional, and national economies. During the COVID-19 pandemic, however, many types of businesses have been closed, resulting in significant declines in sales tax revenues. Taxable sales fell dramatically during the pandemic and local sales taxes are not projected to return to pre-pandemic levels until FY 2022-23, despite the return to economic growth predicted to begin in FY 2021-22. Two pandemic-related trends are expected to impede the growth of the sales tax base. First, because sales taxes are allocated to jurisdictions based on the point of sale, e-commerce sales typically generate revenues in jurisdictions that are home to e-commerce warehouses. As a result, a pandemic-driven increase in the shift to e-commerce (and away from brick-and-mortar retailers located within the City) will erode Oakland’s sales tax base. Second, to the extent the pandemic permanently alters

employment-related travel and commute patterns, fewer shoppers will visit downtown retail establishments and restaurants. Overall, sales tax proceeds in the first three quarters of Calendar Year 2020 were down over 19% year-over-year.

Figure 8 shows the historical All Fund actual sales tax revenue since 2000 and projects the next five years of sales tax revenue. Historically, sales tax revenue has been correlated with personal income. The growth in projected sales tax revenue included in the forecast reflects the expectation that personal income will grow steadily during the forecast period, driven in part by the three rounds of federal stimulus and the increase in savings and reductions in consumer debt that many households experienced during the pandemic. These gains are offset to some extent by an anticipated, ongoing acceleration in the shift to e-commerce.

Figure 8 - All Funds Sales Tax Over Time (\$Millions)



Business License Tax

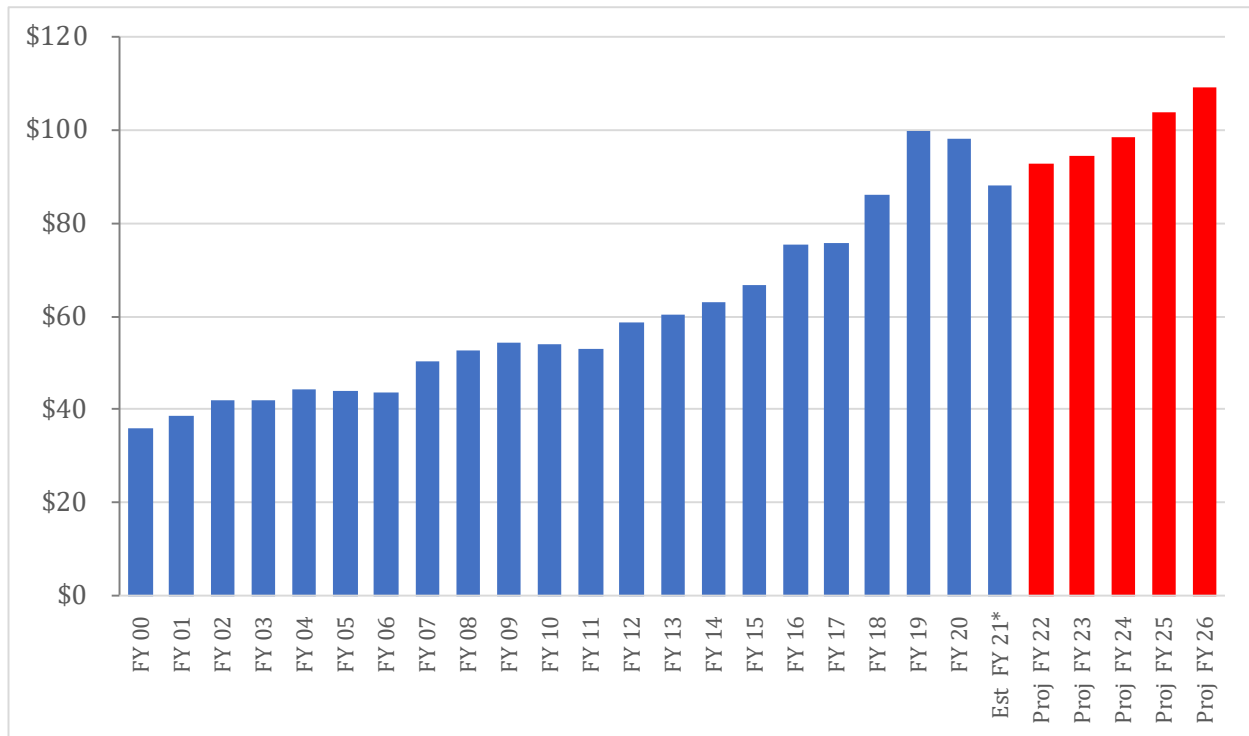
The Business License Tax (BLT) is charged annually to Oakland businesses based on either gross receipts (accounts for approximately 60% of business license tax revenue) or rental income (40% of revenue). The rate on gross receipts varies by type of business, ranging from a low of \$0.60 per \$1,000 of 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. During the COVID-19 pandemic, revenue from several classes of businesses was affected, including retail and wholesale sales, personal services, recreation/entertainment, and residential and commercial rentals. For many of

these businesses, pandemic related economic effects may linger even as the economy gradually recovers and consumers resume more normal economic activity. The most significant ongoing effects of the pandemic are likely to be in the commercial and residential rental sectors. Both commercial and residential real estate have experienced increased vacancies and declines in rental rates, resulting in reduced gross receipts; new construction activity is also expected to slow in response to heightened uncertainty about the prospects for commercial and multifamily residential real estate in the near term.

In FY 2021-22, the estimated growth over the FY 2020-21 amount is 5.3%. Thereafter, the forecast anticipates annual increases of 4.16% on average. During the forecast period, retail and wholesale trade related activities are expected increase as consumers resume in- person shopping and personal income growth accelerates. In addition, residential and commercial vacancies are expected to decline and rental rates to increase. Although tax rates have been reduced on cannabis businesses, revenue is not expected to decline significantly, as sales increases and the transition to a legal cannabis market continue.

Figure 9 - Business License Tax Over Time (\$Millions)



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.

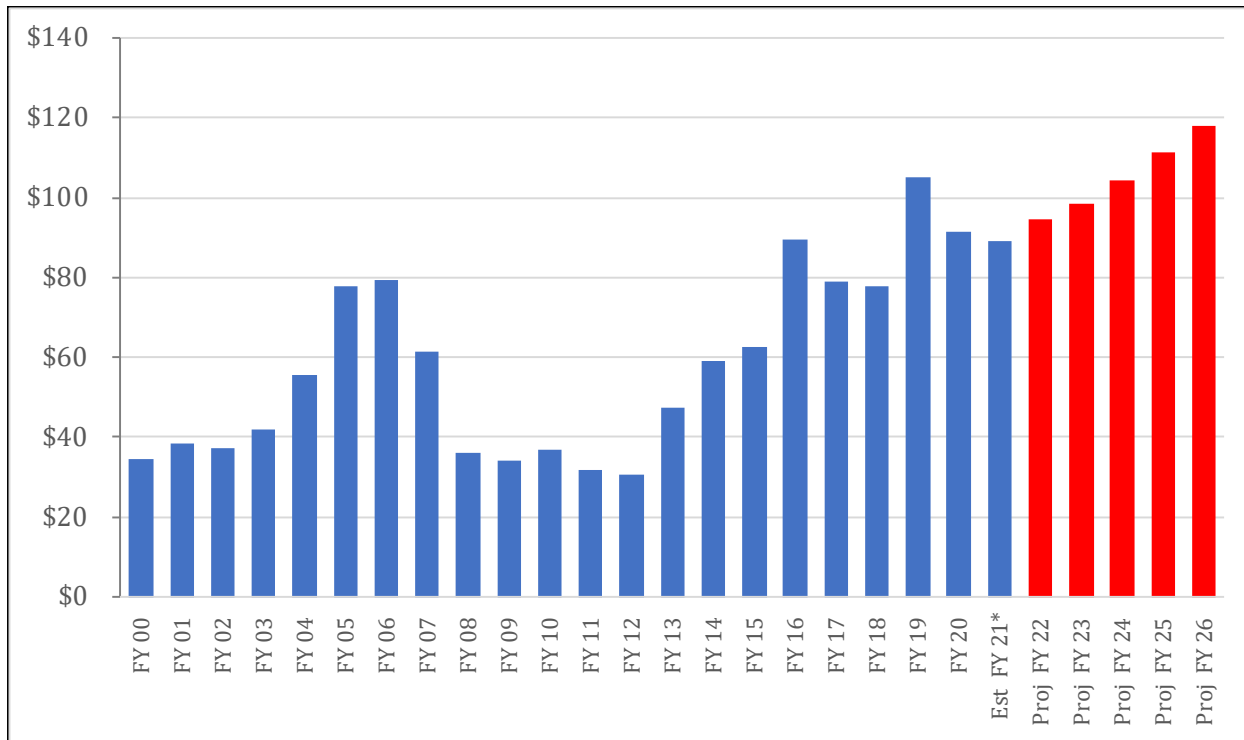
On November 6, 2018, Oakland voters approved Measure X, establishing a progressive real estate transfer tax rate for the City. The new rates became effective on January 1, 2019 and are as follows:

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%

As shown in Figure 10, RETT revenues can be volatile, subject to fluctuations based on a handful of high value transfers in a given year. For example, in FY 2018-19, the 10 highest-value transfers were worth, in aggregate, over \$1.2 billion; two of the properties sold for more than \$250 million. By comparison, in FY 2019-20, the 10 highest-value transfers were worth just \$769 million. The number and value of these very large transactions cannot be easily predicted year to year. 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.

In spite of the increases in unemployment, real estate transfer activity has continued throughout the pandemic. Fiscal Year 2020-21 RETT revenue is on pace to exceed the revenue received during the 2019-20 fiscal year, in part as a result of continued increases in residential property values and sales activity as residents sought larger spaces from which to shelter in place and work from home. In addition, the recent growth in RETT is also due to the sale of several large commercial buildings, as well as the tax rate increase. The forecast envisions an average growth of 4.8% in RETT over the forecast period.

Figure 10 - Real Estate Transfer Tax Over Time

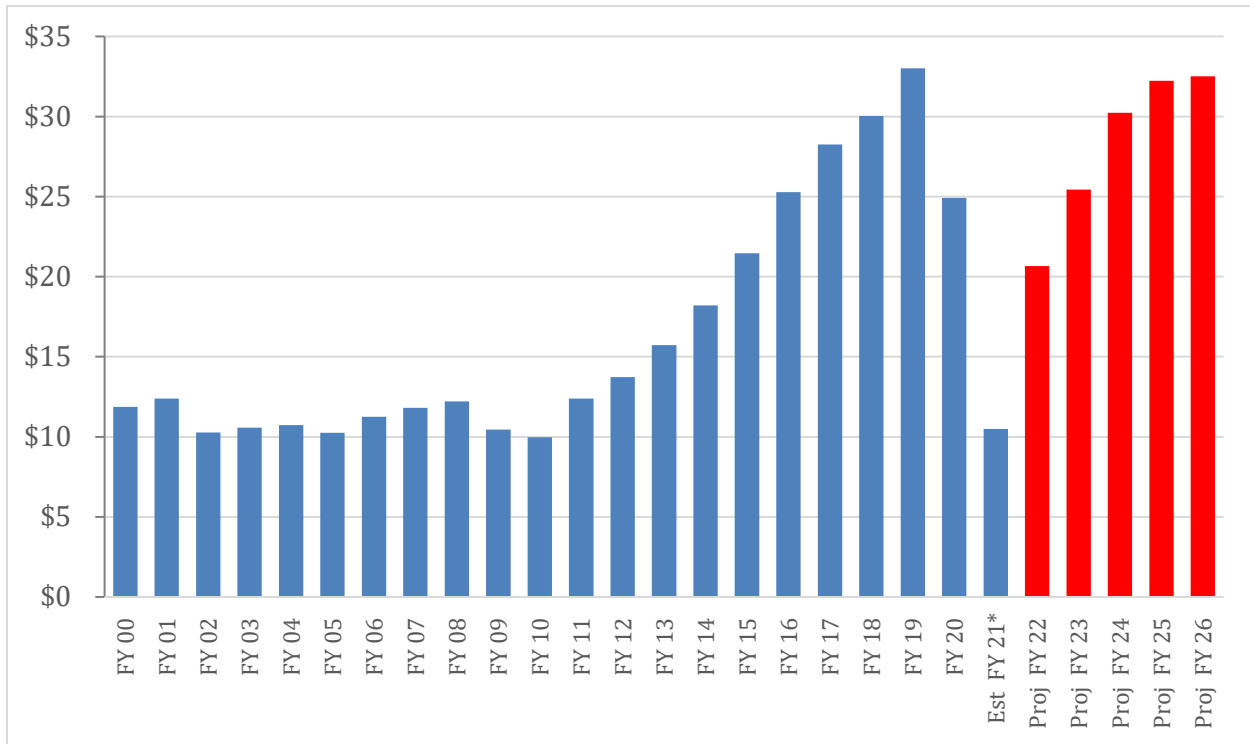


Transient Occupancy Tax (TOT)

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.

The outbreak of COVID-19 in March 2020 significantly reduced both FY 2019-20 and FY 2020-21 TOT revenues. After steadily increasing throughout the preceding decade, total TOT revenue exceeded \$33 million in FY 2018-19. In FY2019-20, revenues declined nearly 25%, to just under \$25 million. In FY 2020-21, the City is expected to receive \$10.5 million in TOT—a significant drop from its FY 2018-19 peak. This decline far exceeds previous TOT revenue downturns resulting from the Great Recession of 2008-2009 (down 18% between FY 2007-08 and FY 2009-10, not including revenues from the Measure C tax surcharge collected in FY 2009-10) or the September 11th terrorist attacks (down 17% between FY 2000-01 and FY 2001-02). Figure 9 shows the TOT revenue historical trend since 2000 and provides a five-year projection.

Figure 11 - Transient Occupancy Tax Over Time (\$Millions)

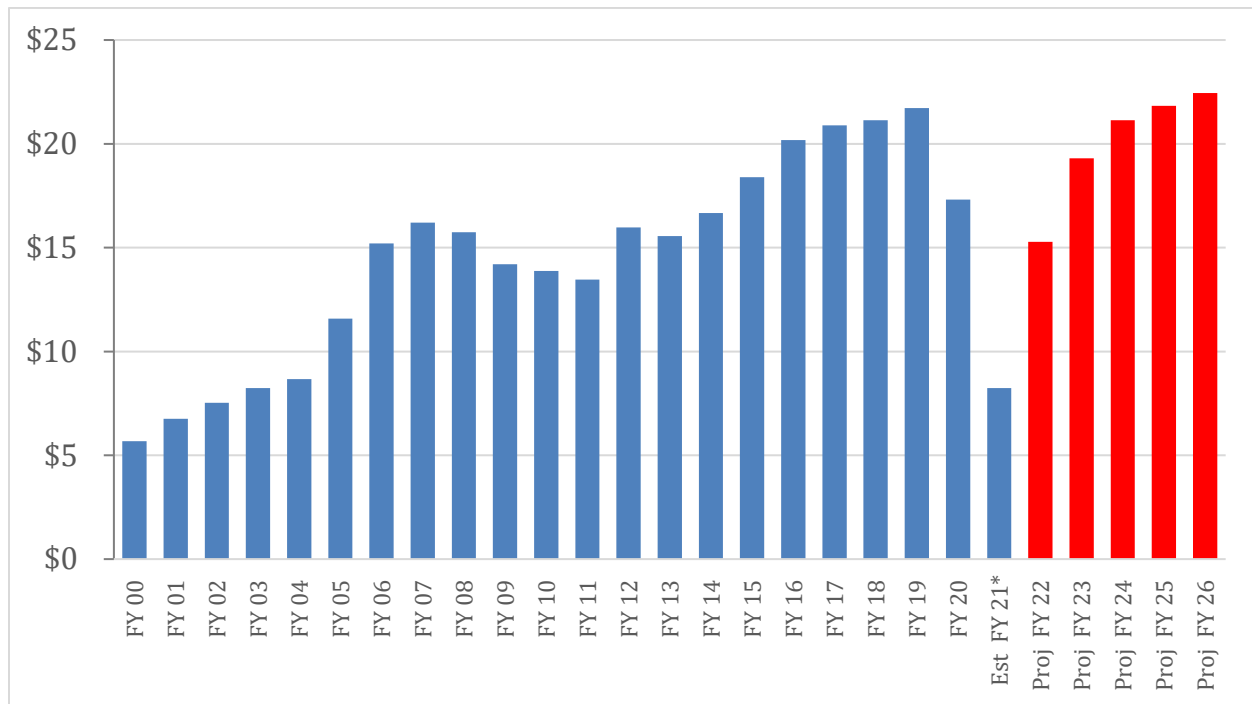


As more of the U.S. and global population achieves immunity from COVID-19, travel into the Bay Area is expected to increase, although surveys of the business community suggest the widespread adoption of remote work technologies during the pandemic may mean that even in 2022 and beyond, business travel—which accounts for 36% of all overnight visitors to Oakland—may not fully return to its pre-pandemic levels. In addition, passenger hesitancy to travel by air due to safety concerns is also expected to depress travel demand for the next several years, with the travel sector expected to recover more slowly than other sectors of the City’s economy.

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 lot and garage operators. Approximately half of the City’s Parking Tax revenue is generated from travel-related activities, including parking at or near the Oakland International Airport. As such, the Parking Tax revenues are strongly correlated with passenger volume at the airport and travel activity more generally. Parking revenue reached its peak of roughly \$21.7 million in FY 2018-19 following years of steady economic growth but declined sharply in FY 2019-20, to just \$17.3 million, following the onset of the COVID-19 pandemic, which emptied downtown offices and triggered large reductions in both business and personal travel. Parking tax revenues are expected to stay far below the historical average for the next two years and not return to pre-pandemic levels until FY 2024-25. Figure 12 shows the historical parking tax revenue trend and five-year projection.

Figure 12 - Parking Tax Over Time



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 taxes, such as the pension override tax, 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) and violence prevention and public safety (Measure Z). Local taxes used to pay debt service obligations are projected to grow in line with debt payment obligations. Parcel taxes with a built-in escalator (e.g. CPI) are projected to grow with inflation, while others are expected to remain at their current levels (e.g. vacant parcel tax).

Utility Consumption Tax

In FY 2020-21, Utility Consumption Tax (UCT) revenues are projected to increase slightly in the current year relative to their FY 2019-20 levels due to increasing use of heat and electricity in homes and apartments as many workers are now staying home on weekdays even as office buildings’ utilities consumption continues. Going forward, increases energy usage are expected to be offset by energy efficiency gains; thus, beginning in FY 2021-22 and continuing throughout the forecast period, UCT is projected to continue a gradual decline from its pre-pandemic level of \$49.6 million.

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 Spring 2021, and at the City Council's direction will be incorporated into the FY 2021-22 Budget.

Parking meter collections are anticipated to rebound from pandemic induced lows once office workers return to downtown offices and in-person shopping resumes. Thereafter, they are expected to grow modestly over the forecast period, in line with increases in personal income and employment.

Parking Citations, Fines and Penalties

Revenues from the City's fines and penalties (largely parking citations) declined during both FY 2019-20 and FY 2021-22 as a result of reduced driving during the pandemic and suspension of street sweeping. These revenues are expected to increase (as with Parking Tax revenues) once workers return to offices and consumers resume in person shopping.

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. As such, revenues are assumed 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. For the first two years these revenues are held constant. Starting in the third year of the forecast, these revenues are estimated to grow as the component costs associated with the services grow, such as labor costs or fuel costs. On the expenditure side, these additional revenues are offset by identical costs that are allocated to each fund in proportion to its share of those costs in the second-year forecast. In this way, any increase in revenues associated with internal service revenue activities for the last three years of the forecast period are offset with corresponding expenditures.

Grants & Subsidies

In the first two years of the forecast period, re-occurring grants are expected 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 remain constant throughout the forecast period or to grow 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.

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.

Revenue Forecast Summary

As shown in the tables below, GPF revenues are projected to grow from \$650.97 million (before transfers) to \$772.34 million between FY 2021-22 and FY 2025-26, increasing at an average rate of approximately 4.1% over the forecast period.

Outcomes by Category of Revenue

Table 11 - GPF Revenues by Category (In Millions)*

General Purpose Fund (1010)	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue in Millions	Forecast	Forecast	Forecast	Forecast	Forecast
Property Tax	\$242.44	\$257.98	\$273.11	\$287.09	\$301.30
Sales Tax	\$58.97	\$66.19	\$68.04	\$70.54	\$72.78
Business License Tax	\$92.66	\$94.31	\$98.59	\$103.87	\$109.05
Utility Consumption Tax	\$49.14	\$48.80	\$48.45	\$48.12	\$47.73
Real Estate Transfer Tax	\$94.64	\$98.29	\$104.27	\$111.28	\$117.79
Transient Occupancy Tax	\$16.23	\$19.99	\$23.75	\$25.33	\$25.55
Parking Tax	\$7.84	\$9.91	\$10.85	\$11.21	\$11.53
Licenses & Permits	\$2.45	\$2.51	\$2.57	\$2.63	\$2.70
Fines & Penalties	\$14.69	\$18.11	\$19.69	\$20.33	\$20.90
Interest Income	\$0.48	\$0.48	\$0.48	\$0.48	\$0.48
Service Charges	\$49.33	\$53.36	\$55.67	\$57.13	\$58.53
Grants & Subsidies	\$0.12	\$0.13	\$0.13	\$0.13	\$0.14
Miscellaneous Revenue	\$0.97	\$0.97	\$0.97	\$0.97	\$0.97
Interfund Transfers	\$2.90	\$2.90	\$2.90	\$2.90	\$2.90
Sub-Total GPF	\$632.88	\$673.93	\$709.48	\$742.02	\$772.36
Growth	N/A	6.49%	5.28%	4.59%	4.09%

All Funds (which includes the GPF) are projected rise from \$5 billion in the first year of the forecast to \$1.69 billion by FY 2025-26, as shown in Table 11.

Table 12 - All Fund Revenues by Category (In Millions)*

All Funds Revenue in Millions	FY 2021-22 Forecast	FY 2022-23 Forecast	FY 2023-24 Forecast	FY 2024-25 Forecast	FY 2025-26 Forecast
Property Tax	\$254.05	\$271.69	\$288.58	\$303.66	\$318.82
Local Tax	\$266.90	\$268.13	\$269.33	\$270.61	\$271.94
Sales Tax	\$87.73	\$98.47	\$101.23	\$104.95	\$108.28
Gas Tax	\$19.14	\$19.24	\$19.31	\$19.36	\$19.50
Business License Tax	\$92.66	\$94.31	\$98.59	\$103.87	\$109.05
Utility Consumption Tax	\$49.14	\$48.80	\$48.45	\$48.12	\$47.73
Real Estate Transfer Tax	\$94.64	\$98.29	\$104.27	\$111.28	\$117.79
Transient Occupancy Tax	\$20.66	\$25.45	\$30.23	\$32.24	\$32.52
Parking Tax	\$15.27	\$19.30	\$21.13	\$21.84	\$22.45
Licenses & Permits	\$16.87	\$17.36	\$18.01	\$18.65	\$19.35
Fines & Penalties	\$16.15	\$19.75	\$21.43	\$22.12	\$22.73
Interest Income	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58
Service Charges	\$217.86	\$227.91	\$234.99	\$240.81	\$246.62
Internal Service Funds	\$101.95	\$101.95	\$104.29	\$105.58	\$107.61
Grants & Subsidies	\$70.14	\$71.95	\$73.71	\$75.56	\$77.44
Miscellaneous Revenue	\$34.77	\$34.77	\$34.77	\$34.77	\$34.77
Interfund Transfers	\$145.20	\$145.20	\$145.20	\$145.20	\$145.20
Total	\$1,503.71	\$1,563.16	\$1,614.11	\$1,659.17	\$1,702.38
Growth	N/A	3.95%	3.26%	2.79%	2.60%

Revenue Growth Rates

On a percentage basis, GPF revenues are forecasted to grow as shown below. The Revenue Forecast Assumptions section beginning on page 23 provides more information on the rates reflected below.

Table 13 - GPF Revenue Growth Rates by Category*

General Purpose Fund (1010)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue Growth Rates	Forecast	Forecast	Forecast	Forecast
Property Tax	6.41%	5.86%	5.12%	4.95%
Sales Tax	12.24%	2.80%	3.67%	3.18%
Business License Tax	1.77%	4.54%	5.36%	4.98%
Utility Consumption Tax	-0.70%	-0.70%	-0.70%	-0.80%
Real Estate Transfer Tax	3.86%	6.09%	6.72%	5.85%
Transient Occupancy Tax	23.16%	18.81%	6.64%	0.87%
Parking Tax	26.38%	9.49%	3.32%	2.82%
Licenses & Permits	2.59%	2.45%	2.50%	2.50%
Fines & Penalties	23.30%	8.73%	3.24%	2.79%
Interest Income	0.00%	0.00%	0.00%	0.00%
Service Charges	8.16%	4.32%	2.63%	2.46%
Grants & Subsidies	2.59%	2.45%	2.50%	2.50%
Miscellaneous Revenue	0.00%	0.00%	0.00%	0.00%
Interfund Transfers	0.00%	0.00%	0.00%	0.00%
Total	6.49%	5.28%	4.59%	4.09%

Table 14 - All Funds Revenue Growth Rates by Category*

All Funds Revenue Growth Rates	FY 2022-23 Forecast	FY 2023-24 Forecast	FY 2024-25 Forecast	FY 2025-26 Forecast
Property Tax	6.95%	6.21%	5.23%	4.99%
Local Tax	0.46%	0.45%	0.47%	0.49%
Sales Tax	12.24%	2.80%	3.67%	3.18%
Gas Tax	0.55%	0.37%	0.26%	0.68%
Business License Tax	1.77%	4.54%	5.36%	4.98%
Utility Consumption Tax	-0.70%	-0.70%	-0.70%	-0.80%
Real Estate Transfer Tax	3.86%	6.09%	6.72%	5.85%
Transient Occupancy Tax	23.16%	18.81%	6.64%	0.87%
Parking Tax	26.38%	9.49%	3.32%	2.82%
Licenses & Permits	2.91%	3.75%	3.53%	3.75%
Fines & Penalties	22.31%	8.48%	3.21%	2.78%
Interest Income	0.00%	0.00%	0.00%	0.00%
Service Charges	4.62%	3.10%	2.48%	2.42%
Internal Service Funds	0.00%	2.29%	1.24%	1.93%
Grants & Subsidies	2.59%	2.45%	2.50%	2.50%
Miscellaneous Revenue	0.00%	0.00%	0.00%	0.00%
Interfund Transfers	0.00%	0.00%	0.00%	0.00%
Total	3.95%	3.26%	2.79%	2.60%

EXPENDITURES

This section presents background information on each major category of expenditure, historical trends, assumptions for projections, and a summary of the forecast results. Key expenditure categories include salary, pension, healthcare, post-employment benefits, and unfunded needs.

Background Information and Assumptions

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.

The expenditure forecast is based on current staffing and service levels; in most cases, future expenditures are based on current year (FY 2020-21) estimated expenditures adjusted for inflation, previously negotiated salary increases, and anticipated changes due to economic conditions. To the extent that the cost of providing the current service level exceeds the budgetary allocation, the forecast is adjusted to reflect actual anticipated expenditures. Changes in personnel and O&M expenditures reflect increases in the costs that drive those expenditures rather than additional positions or services. Figure 13 shows historical budgeted Full Time Equivalent (FTE) personnel counts across all City Funds and the forecast FTE assuming staffing and services will continue at existing levels.

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 Budget Baseline, which reflects projected expenditures necessary to maintain existing staffing and service levels for the two-year budget period.

For purposes of estimating future expenditures, the second year (FY 2022-23) of the 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 designated for different types of expenditure items. Growth rates were developed for items such as health care cost increases, inflation, and fuel and utility costs. Estimates of retirement costs were developed based on projections developed by CalPERS actuaries.

Figure 13 - All Funds Historical FTE Summary

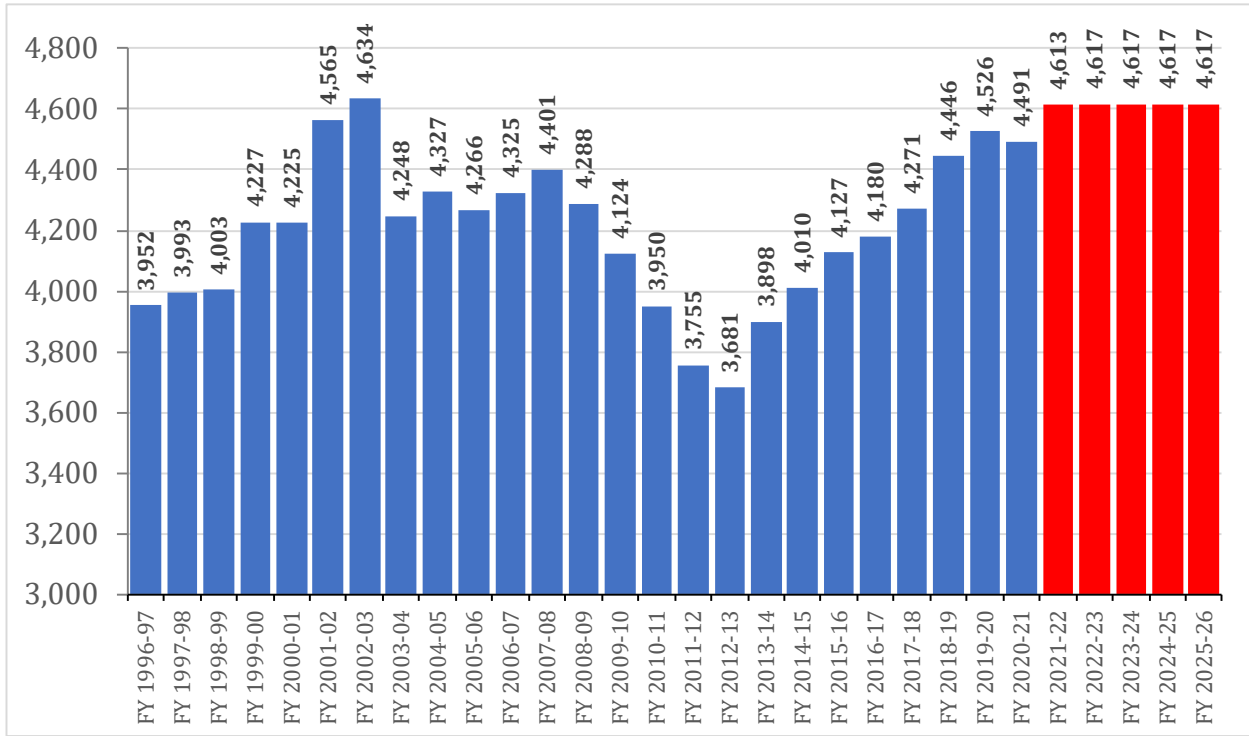


Table 15 presents the historical General Purpose Fund expenditures by category for the FY 2016-17 to FY 2020-21 period.

Table 15 - General Purpose Fund Expenditures FY 2016-17 to 2020-21

Funded Ratios and Unfunded Amounts for City Pension Plans		
Plan	Unfunded Amount	Funded Ratio
CalPERS – Miscellaneous	\$904 million	68.40%
CalPERS – Public Safety	\$788 million	64.70%

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; as such, the FTE count for the City remains constant in years two through five of the Forecast.

Table 16- Expenditure Assumption Summary

Salary and Payroll Expenditure Assumptions % Growth					
Employee Group	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Civilian	0.00%	0.00%	CPI	CPI	CPI
Police	3.00%	3.50%	3.50%	CPI	CPI
Fire*	2.50%	1.00%	1.17%	CPI	CPI

Note: Approved MOUs with the IAFF and OPOA. Assumes 2-3% CPI growth for other bargaining groups. *Annualized rate for each fiscal year. Cumulative rate will vary due to mid-year COLAs.

Assumed PERS Retirement Rates - Employer Contribution					
Employee Group	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Civilian	45.83%	47.30%	47.70%	41.40%	38.60%
Police and Fire	54.02%	55.70%	56.10%	56.40%	55.80%

Assumed Fringe Benefit Rates					
Employee Group	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Civilian	29.64%	34.18%	34.76%	35.32%	35.90%
Police	20.67%	24.10%	24.41%	24.80%	25.21%
Fire	31.59%	35.81%	36.79%	37.39%	38.00%

Other Expenditures Assumed % Growth					
Category	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Fuel	4.82%	0.00%	1.49%	2.20%	3.33%
Natural Gas	0.00%	0.00%	3.91%	5.72%	6.56%
Electricity	15.66%	0.00%	2.69%	3.29%	3.57%
Water	0.00%	0.00%	7.75%	7.75%	7.75%
Utility Services	-0.15%	0.10%	2.86%	3.63%	4.01%
Debt Payments	-16.03%	-4.56%	0.00%	0.00%	0.00%

Salaries & Payroll Expenditures

The base values of salaries and premiums used in the Forecast reflect actual values from the City's baseline budget as of February 2021. This payroll snapshot captures salaries and premiums paid and is used as the base for FY 2021-22 and onward. The snapshot is then adjusted to incorporate any known changes in wage rates. 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 approved agreement covering July 1, 2021 through June 30, 2024. These terms included a 3% wage increase in FY 2021-22 and a 3.5% wage increase in FY 2022-23. For the IAFF, the Forecast reflects the terms of the labor agreement expiring October 31, 2023 and assumes a 1.5% wage increase in July 2021, a 2% wage increase January 2022, and a 1% wage increase in July 2022. For the City's Miscellaneous bargaining units, contracts are set to expire June 30, 2021. The forecast assumes no wage increase in the first two years (FY 2021-22 and FY 2022-23). 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%.

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 (or lower) 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. As shown in Table 13, retirement costs as a percent of payroll are expected to decrease for the civilian workforce. This is due largely to the increasing number of newly hired workers entering a lower cost pension benefit tier and the decline in workers in the more expensive previous benefit tier as current employees retire or employee turnover occurs (see Table 19 - Pension Tiers on page 45).

Table 17 - Assumed CalPERS Retirement Rates & UAL Contribution

Assumed PERS Retirement Rates - Employer Contribution					
Employee Group	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Civilian	45.83%	47.30%	47.70%	41.40%	38.60%
Police and Fire	54.02%	55.70%	56.10%	56.40%	55.80%
Combined UAL (\$)	\$150.2 million	\$163.1 million	\$171.5 million	\$161.2 million	\$158.5 million
UAL Increase (%)	13.59%	8.62%	5.11%	-6.00%	-1.66%

The funded ratios of the safety and miscellaneous (civilian) plan with CalPERS are below 100%. Based on the most recent Comprehensive Annual Financial Report dated June 30, 2020, the Miscellaneous (Civilian) plan is funded at 68.4% with a \$904.0 million unfunded liability, and the

Safety (Police & Fire) plan is funded at 64.7% with a \$787.7 million unfunded liability. The City will continue to improve these funded ratios through increases in CalPERS' required contributions.

Table 18 - City Pension Funded Ratios and Unfunded Amounts

Funded Ratios and Unfunded Amount for City Pension Plans		
Plan	Unfunded Amount	Funded Ratio
CalPERS - Miscellaneous	\$904 million	68.40%
CalPers - Public Safety	\$788 million	64.70%

The implementation of a multi-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 19 - Pension Tiers

Pension Descriptions	Public Safety Employees	Civilian Employees	Effective Dates
1st tier1	3% @ 50	2.7% @ 55	Prior to Feb. 2012
2nd tier2	3% @ 55	2.5% @ 55	Feb. 2012 for public safety employees and June 2012 for civilian employees
3rd tier3	2.7% @ 57	2.0% @ 62	1-Jan-13

- Tier 1: 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
- Tier 2: 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
- Tier 3: 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 32.48% of payroll in the first year and 37.43% of payroll in the second year, sworn police fringe benefits are accrued at 32.84% of payroll in the first year and 37.79% of payroll in the second year, and sworn fire fringe benefits are accrued at 37.08% of payroll in the first year and 42.03% of payroll in the second year. 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 is assumed to grow at the rate of medical inflation. The forecast relies on the Centers for Medicare & Medicaid Services' (CMS) projected health care cost inflation rates for the years of the forecast period.

Table 20 – Projected Health Care Inflation, Centers for Medicare & Medicaid Services

Fiscal Year	2021-22	2022-23	2023-24	2024-25	2025-26
Increase in Per-Capita Health Exp.	4.17%	4.27%	4.17%	4.17%	4.17%

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 2019-20 (most recent audited year), the City will report a net OPEB liability (including deferred inflows) of nearly \$893 million 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 authorized the set aside of 2.5% of payroll (approximately \$10 million per year) into the City's OPEB Trust in

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.

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.

Operations & Maintenance

Operations & Maintenance expenditures in the two-year baseline are reflected at the same values as in the FY 2020-21 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 (CPI) for most expenditure categories such as supplies and contract services. Expenditures for energy, including motor fuel, natural gas, and electricity are based on forecasts from the U.S. Energy Information Administration. Utility services expenditures are forecast to grow at the blended rate for electricity and natural gas expenditures, while expenditures for water are expected to continue to grow at 7.75% per year, which is the average over the past four fiscal years. In addition, internal service funds are estimated to grow beyond the two-year baseline based on the associated expense category, such as salaries and wages or fuel costs associated with each activity (e.g., City Vehicle Rentals), and this expenditure growth is allocated proportionately to each fund based on its expected utilization in the second year of the two-year baseline.

Debt, Transfers & Other

Debt service expenditures are based on approved payment schedules included in the baseline. 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 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 2020-21.

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. On August 1, 2017, the City issued the first tranche, or portion, of general obligation bonds for Measure KK in the amount of \$117,855,000 and on February 13, 2020, the City issued the second tranche of general obligation bonds for Measure KK in the amount of \$184,890,000. A total of \$134.0 million of bond proceeds has been spent and \$35.3 million has been committed to the projects and programs for by Measure KK. As of January 1, 2021, \$297,255,000 of Measure KK general obligation bonds remains authorized but unissued. 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

Tables 21 and 22 below provide Expenditures by Category for the GPF and All Funds, respectively.

Table 21 - GPF Expenditures by Category (In Millions)

Category	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Avg annual change
Wages	\$344.61	\$349.40	\$358.09	\$367.34	\$376.81	2.3%
Fringe Benefits	\$89.38	\$104.36	\$108.87	\$113.58	\$118.48	7.3%
Retirement	\$137.66	\$141.80	\$146.67	\$144.58	\$144.20	1.2%
Operations and Maintenance	\$105.08	\$105.76	\$109.03	\$112.51	\$116.14	2.5%
Debt, Transfers and Other	\$52.94	\$49.55	\$51.25	\$53.02	\$54.84	0.9%
Total	\$729.68	\$750.87	\$773.92	\$791.03	\$810.46	2.7%

Table 22 - All Funds Expenditures by Category (In Millions)

Category	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Avg annual change
Wages	\$535.20	\$540.52	\$554.11	\$568.45	\$583.14	2.2%
Fringe Benefits	\$144.41	\$168.01	\$175.29	\$182.87	\$190.77	7.2%
Retirement	\$216.90	\$223.92	\$231.60	\$220.57	\$217.10	0.0%
Operations and Maintenance	\$368.12	\$359.46	\$369.52	\$380.24	\$391.40	1.5%
Debt, Transfers and Other	\$399.37	\$385.21	\$389.43	\$393.84	\$398.36	-0.1%
Total	\$1,664.00	\$1,677.12	\$1,719.95	\$1,745.96	\$1,780.77	1.7%

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 23 - 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	Ordinance #13279 C.M.S.
	May 15, 2018 (amended)	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% and 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

The recession brought about by the COVID-19 pandemic has resulted in steep and sudden increases in unemployment and reductions in economic activity in the City of Oakland as many businesses closed to prevent the spread of the infection. Although other businesses remained open, economic losses also impacted these businesses as customers sheltered in place. As a result, many of the City’s most important revenue sources, including sales tax, BLT, TOT, and parking-related revenues have been significantly affected.

With effective vaccines now being deployed, many observers are looking ahead to a return to pre-pandemic levels of economic activity. The extent and timing of such a shift, however, remains a source of substantial uncertainty. While some signs point to a relatively rapid recovery, other indications suggest that the any “return to normal” may be delayed months or years, and that the pandemic will result in ongoing reductions in local economic activity. Any forecast is subject to uncertainty; however, the extraordinary circumstances surrounding a global pandemic have produced an extraordinary amount of uncertainty with respect to the likely future course of the City’s economy and budget.

The Baseline Scenario presented in this report reflects the most likely outcome based on currently available information; however, because of the substantial uncertainty surrounding the current economic climate, two additional scenarios, both also based on reasonable assumptions, are presented in order to provide context for users of this report.

Comparison of Revenues & Expenditures

As shown in Table 20, under Baseline Scenario, the City faces budget shortfalls throughout the five year forecast period if no corrective action is taken. These shortfalls are expected to decrease over time, as the economy recovers and growth in revenues outpaces increases in expenditures.

Table 24 - GPF and All Funds Shortfall (In Millions)

GPF	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$729.68	\$750.87	\$773.92	\$791.03	\$810.46
Revenues	\$632.88	\$673.93	\$709.48	\$742.02	\$772.36
Surplus/(Gap)	(\$96.80)	(\$76.94)	(\$64.43)	(\$49.01)	(\$38.11)

All Funds	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Expenditures	\$1,664.00	\$1,677.12	\$1,719.95	\$1,745.96	\$1,780.77
Revenues	\$1,503.71	\$1,563.16	\$1,614.11	\$1,659.17	\$1,702.38
Surplus/(Gap)	(\$160.29)	(\$113.96)	(\$105.84)	(\$86.79)	(\$78.38)

Risks, Opportunities & Uncertainties

Lingering Effects of COVID-19

The COVID-19 pandemic brought about a sharp increase in unemployment, as many businesses were temporarily closed and consumers stayed home. The City's economy has already started to recover from the worst of the economic declines as residents and businesses have learned to cope with the pandemic. The arrival of effective vaccines has encouraged epidemiologists and economists alike that conditions will begin to improve once widespread vaccinations and infection-acquired immunity lower case counts.

From an economic standpoint, however, substantial uncertainty around both the timing and form of the recovery remain. The speed of vaccination deployment, the extent to which residents will choose to be vaccinated, and the extent to which new virus variants may continue to drive additional COVID-19 cases are all currently unknown. To the extent delays in vaccine production or distribution, vaccine hesitancy, or prevalence of more serious virus variants cause the pandemic to linger, a return to pre-pandemic levels of economic activity will be delayed.

Equally uncertain is whether lingering effects of the pandemic will lead to long-term or even permanent shifts in behavior. To the extent business travelers choose video conferences over in-person meetings, consumers continue to prefer online to in-person shopping, and employees relocate or telecommute rather than return to in-person work, Oakland's economy will suffer, and with it the City's revenue receipts. Current indications suggest that all of these effects will persist, at least to some extent. Nevertheless, the most likely outcome remains a substantial return to pre-pandemic behaviors, with many travelers returning to the City's hotels, most workers returning to offices, and shoppers resuming purchases at local stores. Indeed, Oakland remains an attractive place to live and work, as demonstrated by the relatively modest declines in local rents for both residential and commercial structures during the pandemic, particularly when compared with cities such as San Francisco, where vacancy rates are higher and rent declines larger.

Future Demographic Trends and Pressures on Service Levels

To the extent economic activity in the City returns to pre-pandemic levels, the economic pressures that preceded the pandemic are likely to return as well. Prior to the pandemic, population in the downtown area was increasing rapidly as new housing developments were built. 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. Oakland's growth in the pre-pandemic period put greater pressure on the City's aging infrastructure, such as streets, sewers, 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 provide shelter & housing assistance to the most vulnerable communities.

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 reaches or surpasses this age, many individuals will retire and start collecting retirement benefits. Currently, the largest demographic age group able to retire is the “Baby Boomers,” those born during 1946-1964. 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.

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.

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. Increasing repayments to the Self Insurance Liability Fund will 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, real estate developments, both residential and commercial, have been major drivers of state and local economic development. The impact of the pandemic on real estate development remains uncertain. In the near term, local and regional demand for both commercial and residential structures has declined with higher vacancies and lower asking rents. These effects will inevitably decrease development activity in the near term with resulting impacts on property, business license

and sales taxes. Over the medium term, development activity is expected to resume, although, the pace and extent of such development remains unknown.

Medical Cost Inflation

The cost of providing health care to employees remains a large portion of General Purpose Fund expenditures. If medical costs increase at a faster rate 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 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. Whether and to what extent the pandemic has decreased the appetite among city residents for further revenue increases remains unknown. The City has planned to review the Business License Tax during 2021, which may result in additional revenues if the plan is placed on the ballot and approved by voters in 2022.

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 this results in a lack of service provided to the community at large.

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 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 are 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 COVID-19 induced recession resulted in significant declines in several important City revenue sources including sales taxes, BLT, TOT, and parking-related revenues. Going forward, the pace and timing of a return to pre-pandemic levels of economic activity remains uncertain. This forecast presents a Baseline or most likely scenario, which envisions a recovery from Pandemic-induced reductions in economic activity beginning in 2022. Under this scenario, travel, shopping, recreating, and commuting all begin their “return to normal” early next year. Under this scenario, many revenue sources will begin to return to pre-pandemic levels in the 2021-22 fiscal year, although the recovery will take several years for some revenue sources, especially those related to travel such as the TOT and parking-related revenues. Other revenue sources will experience ongoing pandemic-related effects as consumers continue to shop online at increasing rates, and at least some workers choose to telecommute or even relocate entirely. These impacts will also result in reductions in both commercial and residential development activity relative to pre-pandemic levels.

Under this Baseline Scenario, revenues are expected to grow more rapidly than expenditures; however, the sharp drop in revenues due to the pandemic will cause significant budget shortfalls in the early years of the forecast (if no corrective action is taken). Over time, as economic activity accelerates, the extent of these shortfalls will decrease, although shortfalls are projected for each year of the forecast period.

The economic recovery expected to begin next year is not, however, guaranteed. Significant uncertainty remains with respect to the extent and severity of new virus variants, the pace of vaccine deployment, the extent of vaccine hesitancy, and the willingness of consumers to return to in-person work, shopping, travel, and recreation. To the extent these activities are delayed beyond the beginning of 2022, revenue receipts will also be delayed. Under this Slow Growth Scenario, the projected shortfall for the 2021-22 fiscal year will be larger, as will the projected shortfalls for subsequent years. Even under the Rapid Recovery Scenario, shortfalls are projected throughout the forecast period (assuming no corrective action is taken), though these shortfalls would be smaller than those under the Baseline and Slow Growth Scenarios.

**APPENDIX A-
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 1st of each year and end on June 30th of the subsequent year. The City shall adopt a two-year biennial policy budget by June 30th of odd-numbered calendar years. The City shall amend its biennial policy budget (midcycle) by June 30th 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 5th 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 5th.

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 30th 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.

APPENDIX B-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, special districts, and schools 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.

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