DISTRIBUTION DATE: APRIL 21, 2020

CITY OF OAKLAND

AGENDA REPORT

TO:	Honorable Members of the City Council	**FROM:**	Adam Benson Director of Finance
SUBJECT:	FY 2019-20 Third Quarter Revenue & Expenditure Report (Preliminary)	**DATE:**	April 21, 2020
City Administrator Approval		Date	4-16-2020

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2019-20 Third Quarter Revenue And Expenditure Results And Updated FY 2020-21 Revenue Forecasts Impacted By The COVID-19 Crisis

EXECUTIVE SUMMARY

This informational report provides updated revenue and fund balance forecasts for the General Purpose Fund (GPF) in Fiscal Year (FY) 2019-20 and FY 2020-21 based on data through March 2020. It also provides in Appendix A updated revenue forecasts for select funds that will be most impacted by COVID-19.

FY 2019-20 year-end revenues in the GPF are projected to be $640.62 million, ($14.51) million lower than the Adopted Budget and ($35.64) million lower than second quarter projections ***(Table 1)***. Year-end expenditures are expected to be $666.79 million resulting in a projected operating shortfall of ($26.17) million. With various fund balance adjustments and reduced reserve obligations, the year-end available GPF fund balance is estimated to be negative ($25.46) million. Likewise, FY 2020-21 revenues in the GPF are projected to be $630.77 million, ($53.78) million lower than the Adopted Budget. The forecast assumes a possible recovery after the third quarter of FY 2020-21 ***(Table 3)***.

The size and scale of these revenue shortfalls is like nothing Oakland has ever before experienced. In sum, we project that, absent rapid adjustments by the City Council, the COVID-19 pandemic will result in a GPF budget shortfall over the next fourteen months of approximately $80 million ($26.17 million + $53.78 million). To give you a sense for the magnitude, consider that, if the full annual cost for a police officer is approximately $250,000 annually, then $80 million is equal to the cost of funding 320 police officers for one year – about half of the City's police force. Likewise, if it costs approximately $3 million annually to staff a fire station 24-hours, 7-days per week, then $80 million is equal to the annual cost of staffing 27 fire stations. Oakland currently has 25 fire stations.

The point is that – absent an unexpected State or Federal bailout – this problem will not be easily resolved, and it will not be fixed by tinkering at the margins. It will require significant action by City leaders.

This report also includes pessimistic revenue projections for FY 2020-21 assuming a more severe, prolonged economic contraction. Under this scenario, staff is projecting GPF revenues of $605.53 million in FY 2020-21, ($25.24 million) less than the baseline forecast of $630.77 million ***(Table 4)***. While staff is hopeful that this revenue scenario does not come to realization, it highlights the inherent risk in the City's finances, a sobering perspective that demonstrates the need to preserve reserves and develop contingencies to the greatest extent possible.

The City's response to the fiscal impacts of this crisis is somewhat analogous to the public health crisis itself in that if the City takes decisive action now to reduce expenditures and suspend actions that may compromise our revenue base, the City may be spared from deeper reductions in the medium- and longer-term. Early action is a necessary form of risk management given the abounding uncertainty on both the duration and depth of the current economic contraction.

The key criteria by which staff are examining options are: 1) the speed at which sufficient cost savings can be generated; and, 2) the speed at which the actions can be reversed to allow the City to quickly rebound with staffing and services once the crisis abates. Key options implemented and/or under consideration for both FY 2019-20 and FY 2020-21 include:

Implemented

- **A hiring freeze** was instituted as of March 31, 2020 with selective exceptions, at the time of final hiring actions;

- **Temporary reductions to city services and positions** especially those associated with services that the City cannot provide during the shelter-in-place order;

Under consideration

- **Reduction of all non-essential expenses,** both personnel and O&M, across all city services including public safety functions;
- **Elimination of any expenses for travel and education** that are not associated with the response to the public health emergency;
- **Suspending transfers** into and use of the Vital Services Stabilization Fund (VSSF);
- **Suspending the contribution to OPEB** unfunded liability;
- **Temporary suspension of the negative fund repayment plan**;
- **Suspension of proposals that would substantially affect the City's revenue tax base** including modifications to any of the City's tax codes, changes to the operating regulations, and enforcement of City codes not associated with the public health crisis;
- **Spending down certain city reserves** in recognition of the rapid, rare, large, and unforeseen nature of this crisis;
- **Sale of certain key city real estate assets** to help fill the budget gap.

BACKGROUND / LEGISLATIVE HISTORY

In reaction to the COVID-19 pandemic, Alameda County issued a Shelter-in-Place (Order No. 20-04) effective March 17, 2020, directing individuals to stay at home except to provide or receive essential services. The order is in effect until May 3, 2020, but may be amended or extended. The State of California issued a similar "Stay at Home" order effective Thursday, March 19, 2020. Non-essential businesses are ordered to close, effectively leaving only gas stations, grocery stores, take-out/delivery restaurants, and pharmacies open. These necessary actions to curb the transmission of the virus will result in a negative impact on the City's anticipated FY 2019-20 and FY 2020-21 revenues. Sales Taxes, Transient Occupancy Taxes, and Parking Taxes, all of which are heavily dependent on purchases and patronage by everyday consumers and travelers alike, are almost certainly impacted.

On April 2, 2020 Governor Newsom announced new measures to help small business weather the economic impacts of COVID-19. One measure allows small businesses with taxable sales of $5 million or less to defer payment of sales and use taxes of up to $50,000, for up to 12 months.

The deferral of sales tax will create an additional negative impact on the receipt of sales and use taxes in the City's GPF and Measure BB funds.

There is limited data available to analyze the economic impact of the virus. Staff are using a variety of sources to drill down into each of the major tax revenues. This includes historical analysis of previous U.S. economic recessions (2001 & 2008) as well as current news and industry reports.

In addition, staff is continuing to monitor the impact of the pandemic on the City's pension liabilities. The global and domestic market has experienced unprecedented volatility in the last few weeks which is certainly affecting the asset value in both the CalPERS and PFRS pension funds. While this year's returns will not impact the current fiscal year or FY 2020-21 as those contribution rates are already built into the budget, staff is expecting significant increases to the required contributions in the next 2-3 fiscal years.

ANALYSIS AND POLICY ALTERNATIVES

FY 2019-20 GENERAL PURPOSE FUND REVENUES

In the Second Quarter (Q2) Revenue & Expenditure report, year-end GPF revenues were projected to be $676.26 million. Due to the COVID-19 crisis, year-end revenues are now projected to be $640.62 million, a ($35.64) million decrease from the second quarter projections ***(Table 1)***.

Table 1. FY 2019-20 Projected GPF Revenue Adjustments as of Third Quarter

(in millions)

Revenue Category	Adopted Budget	Q2 Year-End Estimate	Q3 2020 Estimate	Variance Q3 to Q2
PROPERTY TAX	$215.02	$224.26	$224.26	-
SALES TAX	$59.95	$59.57	$55.42	($4.16)
BUSINESS LICENSE TAX	$99.67	$99.67	$95.14	($4.53)
UTILITY CONSUMPTION TAX	$55.16	$51.03	$51.03	-
REAL ESTATE TRANSFER TAX	$82.87	$98.96	$90.42	($8.54)
TRANSIENT OCCUPANCY TAX	$27.80	$27.08	$18.01	($9.07)
PARKING TAX	$11.46	$11.46	$8.87	($2.59)
LICENSES & PERMITS	$2.95	$2.95	$2.95	-
INTEREST INCOME	$1.21	$1.21	$1.21	-
SERVICE CHARGES	$67.23	$67.23	$64.08	($3.15)
GRANTS & SUBSIDIES	$0.12	$1.15	$1.32	$0.16
MISCELLANEOUS	$0.97	$0.97	$1.51	$0.54
INTER-FUND TRANSFERS	$6.81	$6.81	$4.01	($2.80)
Sub-Total Revenue	**$651.01**	**$672.15**	**$636.51**	**($35.64)**
TRANSFERS FROM FUND BALANCE	$4.11	$4.11	$4.11	-
Total Revenue	**$655.13**	**$676.26**	**$640.62**	**($35.64)**

Sales Tax

Staff, in conjunction with the City's sales tax consultant, are currently estimating a decrease in FY 2019-20 of **($4.16) million** from the second quarter forecast of $59.57 million. Specifically, staff anticipates a decrease of sales taxes from 1) Auto & Transportation, which consists of auto sales, gas sales and jet fuel; 2) Business & Industry; and 3) Restaurants & Hotels; and a flattening in all other categories. Furthermore, in March 2020, Governor Newsom announced a program that will allow small businesses with taxable sales of $5 million or less, to forgo remitting up to $50,000 of sales taxes over a 12-month period. This deferral is intended to serve as an interest free loan to help small businesses during the economic downturn, and may result in GPF revenue loss of ($12.87) million in FY 2019-20 and FY 2020-21.

A portion of the City's decrease will be offset by increases in use tax revenue derived from the County pool as consumers shift to online purchases. This anticipated increase in online sales is reflected in the forecast.

Business Tax

The City's business tax filings and payments are due on January 1 and are considered delinquent if not received by March 1. Most taxpayers have filed and remitted taxes. As such, there will be little impact on FY 2019-20 business taxes due to COVID-19. The City may see an impact with regards to revenue derived from delinquent filings, but staff expects that to be limited. There is approximately $5 million of business tax revenue forecasted to be derived from the lien process of delinquent residential and commercial landlords. **If the Council does not approve the lien of properties in FY 2019-20 to collect delinquent business taxes, the FY 2019-20 year-end forecast will be reduced by ($4.53) million.**

Real Estate Transfer Tax

There is much speculation around possible impacts to the real estate markets due to the COVID-19 pandemic. According to the California Association of REALTORS® (CAR), they "have processed all of the recent data and will likely revise its forecast lower in the coming weeks. However, based upon their current expectations for the trajectory of the virus, the revisions will be modest unless the outbreak accelerates beyond current expectations."[1] The sharp decline in the stock market will likely shift some buyers from all cash sales, to financed sales, creating more traditional closing timelines. The stock market decline is anticipated to produce less buyer traffic, as some buyers lost immediate access to capital for down payments if invested in the market.

Through the month of March 2020, real estate sales transactions were flat and gross sales were down (11.19%) when compared to sales through the Third Quarter of FY 2018-19. The biggest variance in the gross sales data is the transfer of large commercial properties (sale price over $100 million). At the Third Quarter of FY 2018-19, four large commercial properties transferred ownership, compared to Third Quarter FY 2019-20 where only a single large commercial property transferred ownership.

Staff is forecasting revenues of approximately $90.42 million in the GPF, which is still $7.55 above the FY 2019-20 Adopted Budget, but **($8.54) million** less than the second quarter forecast.

Transient Occupancy Tax (TOT)

As large public gatherings are canceled, as well as all non-essential business travel, and travel restrictions from Europe and China take effect, hotel occupancy rates in the Bay Area are plunging to 20 percent or less, down from occupancy rates around 80 percent. The unprecedented disruption caused by COVID-19 to the airline industry also creates a domino effect to the lodging industry because airlines no longer need hotel rooms for flight crews. This will impact many hotels that are near the airport. Significantly reduced hotel occupancies will have an immediate negative impact on revenues received from transient occupancies. Due to the

[1] https://www.car.org/en/aboutus/mediacenter/news/newsmarch12

extreme restrictions, staff is reducing the forecast TOT revenue by **($9.07) million** relative to the second quarter.

Parking Tax

Through the end of March 2020, GPF parking tax revenue was flat when compared to FY 2018-19, while the budget contemplated a 3.69% increase largely driven by approved increases in hourly and monthly parking rates at the City's garages. A breakdown of parking tax revenues include: approximately 37% from Oakland Airport/Port activity, 4% from hotels, 51% from parking garages and surface lots, and 8% from other sources. Due to the decrease in traffic through the Airport/Port and at hotels, garages and surface lots, staff anticipates parking taxes to decline by **($2.59) million** for the remainder of the fiscal year, a 50% reduction.

Parking Meters & Parking Citations

In response to the COVID-19 shelter-in-place order from both the County and the State, the City has turned off parking meters and seriously restricted the issuance of parking citations. Furthermore, due to limited staffing, the City has suspended the accrual of Parking Citation penalties for non-payment for 60 days to ensure that those who need to pay a citation in person, can do so without being penalized. Depending upon the duration of the shelter-in-place order, staff anticipates a reduction of **($3.15) million** in parking meter revenues and **($1.5) million** in parking citation revenues.

FY 2019-20 GENERAL PURPOSE FUND BALANCE

As shown in ***Table 2***, the audited FY 2019-20 GPF beginning fund balance was $97.86 million. The projected year-end available fund balance is estimated to be a negative **($25.46) million**, after projecting for year-end revenues and expenditures, project and encumbrance carryforward, and City Council authorized use of Fund Balance. Projected expenditures reflect cost savings from reduced part-time staffing and the city-wide hiring freeze implemented on March 31, 2020.

Assuming the City Council authorizes the use of the Vital Services Stabilization Fund reserves and Long-Term Obligations set-asides, the GPF is projected to have a negative balance of **($9.74) million**. The VSSF reserve has a balance of $14.65 million as of July 1, 2019 (beginning of the current fiscal year). If the City Council authorizes the use of the VSSF reserve to cover the full FY 2019-20 deficit, the VSSF reserve would have a balance of $4.91 million that could be used in FY 2020-21. A more detailed analysis of reserves is reflected in the *Use of Reserves Analysis* on page 9 of this report.

Table 2. FY 2019-20 Projected Year-End Available GPF Fund Balance as of Q3

	(in millions)
GENERAL PURPOSE FUND (1010)	**FY 2019-20 Projected FYE**
Beginning Fund Balance- Audited	**$97.86**
Revenue	$640.62
Expenditures	$666.79
Estimated Current Year Surplus/(Shortfall)	**($26.17)**
Subtotal Fund Balance	**$71.69**
Use of Fund Balance:	
Projects Carried Forward to FY 2019-20	($23.69)
FY 2019-20 Adopted Budget	($4.11)
FY 2019-20 Emergency Waste Collection (Res. No. 88079 C.M.S.)	($1.60)
FY 2020-21 Adopted Budget (Adjusted) *[1]*	($0.54)
Subtotal Use of Fund Balance	**($29.94)**
Designated / Mandated Reserves:	
7.5% GPF Required Reserve	($49.13)
VSSF & LTO Transfers for FY 2018-19 *[2]*	($10.98)
VSSF & LTO Transfers for FY 2019-20 *[2]*	($4.74)
OMERS Reversion Assets (held with Trustee; Resolution 85098)	($2.36)
Subtotal Reserves	**($67.21)**
Estimated Ending Available Fund Balance	**($25.46)**
Estimated Ending Available Fund Balance With Use of Reserves	**($9.74)**

[1] The FY 2020-21 Adopted Budget included use of Fund Balance of approximately $4.5 million. The table reflects lower estimated use of Fund Balance in FY 2020-21 due to voter approval of Measure Q in March 2020.

[2] Staff recommends that the City Council authorize use of $10.98 million in reserves from the VSSF/LTO in FY 2019-20. Staff also recommends that the City Council suspend the mandatory set-asides in FY 2019-20 based upon revised VSSF/LTO formula funding.

PRELIMINARY FY 2020-21 GPF ANALYSIS

The COVID-19 epidemic is unprecedented. There are challenges with modeling the impact of COVID-19 into the coming fiscal year as the depth and duration of the crisis is unknown. To quote Dr. Anthony Fauci, Director of the National Institute of Allergy and Infectious Diseases, "You don't make the timeline, the virus makes the timeline."

The data is ever changing and Federal stimulus packages are still being revised. Furthermore, it is unknown what policies will be enacted that may impact GPF revenues. Even with an assumed lifting of the shelter-in-place order in FY 2020-21, it is likely that large gatherings will remain under restrictions for an extended period, resulting in lost GPF revenues. In response to the shelter-in-place, many employers may shift their operations, leading to reduced physical office presence, lower commercial property values and business tax revenues.

To complete an impact analysis, staff looked to the impact of the Great Recession on GPF revenues between FY 2007-08 and 2008-09, and the impact of the latest shelter-in-place and travel ban, and reached out to various consultants. *The forecast below generally assumes a recovery after the Third Quarter of FY 2020-21* ***(Table 3)***. This forecast is consistent with current mainstream economic expectations for recession and recovery. As such, this projection is considered the City's ***baseline*** forecast.

Table 3. FY 2020-21 General Purpose Fund Revenue Forecast (Baseline)

(in millions)

Revenue Category	Adopted Budget	Baseline Projection	Variance
PROPERTY TAX	$228.36	$237.86	$9.51
SALES TAX	$61.64	$53.55	($8.09)
BUSINESS LICENSE TAX	$103.22	$88.00	($15.22)
UTILITY CONSUMPTION TAX	$56.82	$52.00	($4.82)
REAL ESTATE TRANSFER TAX	$85.38	$89.06	$3.69
TRANSIENT OCCUPANCY TAX	$28.92	$15.91	($13.02)
PARKING TAX	$11.80	$8.85	($2.95)
LICENSES & PERMITS	$2.97	$1.68	($1.29)
FINES & PENALTIES	$19.82	$18.34	($1.49)
INTEREST INCOME	$1.21	$0.48	($0.73)
SERVICE CHARGES	$69.48	$61.47	($8.01)
GRANTS & SUBSIDIES	$0.12	$0.12	-
MISCELLANEOUS	$0.97	$0.80	($0.17)
INTER-FUND TRANSFERS	$5.10	$2.10	($3.00)
Sub-Total Revenue	**$675.81**	**$630.23**	**($45.58)**
TRANSFERS FROM FUND BALANCE	$8.74	$0.54	($8.20)
Total Revenue	**$684.55**	**$630.77**	**($53.78)**

As shown in Table 3, the City is projecting GPF revenues of $630.77 million, approximately ($53.78) million less than the FY 2020-21 Adopted Budget and ($9.85) million less than Third Quarter projections for FY 2019-20.

Table 4 shows the City's revenue projections for FY 2020-21 assuming a more severe, prolonged economic contraction. Under this "pessimistic" scenario, staff is projecting GPF revenues of $605.53 million in FY 2020-21, ($25.24 million) less than the baseline forecast of $630.77 million. While staff is hopeful that this revenue scenario does not come to realization, it highlights the inherent risk in the City's finances, **a sobering prospect that demonstrates the need to preserve reserves and develop contingencies to the greatest extent possible.**

Table 4. FY 2020-21 General Purpose Fund Revenue Forecast (Pessimistic)

(in millions)

Revenue Category	Adopted Budget	Pessimistic Projection	Variance
PROPERTY TAX	$228.36	$233.20	$4.84
SALES TAX	$61.64	$51.22	($10.42)
BUSINESS LICENSE TAX	$103.22	$80.97	($22.25)
UTILITY CONSUMPTION TAX	$56.82	$52.00	($4.82)
REAL ESTATE TRANSFER TAX	$85.38	$80.00	($5.38)
TRANSIENT OCCUPANCY TAX	$28.92	$15.11	($13.81)
PARKING TAX	$11.80	$8.41	($3.39)
LICENSES & PERMITS	$2.97	$1.68	($1.29)
FINES & PENALTIES	$19.82	$17.42	($2.40)
INTEREST INCOME	$1.21	$0.48	($0.73)
SERVICE CHARGES	$69.48	$61.47	($8.01)
GRANTS & SUBSIDIES	$0.12	$0.12	($0.00)
MISCELLANEOUS	$0.97	$0.80	($0.17)
INTER-FUND TRANSFERS	$5.10	$2.10	($3.00)
Sub-Total Revenue	**$675.81**	**$604.99**	**($70.82)**
TRANSFERS FROM FUND BALANCE	$8.74	$0.54	($8.20)
Total Revenue	**$684.55**	**$605.53**	**($79.02)**

USE OF RESERVES ANALYSIS

The City has two main reserves: 1) the Economic Contingency Reserve that is equal to the 7.5% of GPF appropriations; and, 2) the Vital Services Stabilization Fund reserve. The City Council has expressed a desire generally to use reserves to close the projected budget deficit in both FY 2019-20 and FY 2020-21. **Staff recommends against using the Economic Contingency Reserve to balance the FY 2020-21 budget at this time.** Staff agrees that the current economic contraction may necessitate the need to use the Vital Services Stabilization Fund to preserve critical services next fiscal year.

Table 5. Estimated FY 2020-21 Reserves & Uncertainties

Reserves	($ in Millions)
VSSF Beginning Balance (19/20)	14.65
Economic Contingency Reserve Beginning Balance (19/20)	49.13
Total Reserves	**63.78**
Financial Uncertainties	
Third Quarter Projected GPF Deficit (19/20)	(9.74)
Difference Between GPF Baseline & Pessimistic Revenues (20/21)	(25.24)
All Other Funds (Non-GPF) (20/21)	(6.81)
Total Financial Uncertainties	**(41.79)**
Variance Between Current Reserves & Uncertainties	**21.99**

As discussed earlier in this report, the City's financial projections include a substantial amount of downside risk in both FY 2019-20 and FY 2020-21. Use of the City's reserves must be considered in the context of the risks that expenditures come in higher than anticipated and revenues come in lower. As shown in ***Table 5***, the difference in projected revenues between the City's baseline and pessimistic forecast is ($25.24) million. At a minimum, it would be prudent to maintain reserves equal to the amount of financial uncertainty, ($41.79) million. However, these are not the only considerations for use of reserves. Council must also consider other risks, including the need to maintain resources to respond to unexpected events, including natural disasters, which may result in the need for reserves in excess of this minimum amount.

The VSSF and Economic Contingency Reserves may be used with Council resolution. Use of the Economic Contingency Reserve also requires a specific declaration and findings of a fiscal emergency.

RECOMMENDATIONS

Staff is in the process of examining numerous options for City Council consideration to address the fiscal impacts of the COVID-19 public health emergency in FY 2019-20 and FY 2020-21. A key purpose of this report is to begin discussions on the numerous critical measures that staff may recommend in future legislation, once further analysis is completed.

The City's response to the fiscal impacts of this crisis is somewhat analogous to the public health crisis itself. If the City takes urgent action to reduce expenditures and suspends actions that may compromise our revenue base, it will be spared deeper reductions in the near-term. While urgent action may at first seem alarmist; it can prevent a more profound City fiscal crisis. All financial decisions must be considered in the context of what we know and what we don't know.

What We Know	What We Don't Know
• There will be impacts on sales taxes, hotel taxes, user fees and charges • We do not have local policies to deal with this unprecedented event	• How long this crisis will last • What will happen to local revenues • How hard-hit our revenues will be • If this will trigger a recession and how long it will take to recover

The criteria by which we are examining the options noted below, and any additional options that may arise are two-fold:

- To quickly generate sufficient cost savings to cover the rapid and immediate drop of City revenues, allowing the City to avoid more severe and lasting reductions to services in the coming fiscal years.

- To allow for the quick rebound of City staffing and services once the crisis abates. A lesson learned from the 2001 and 2008 contractions is that certain actions to generate savings cannot quickly be reversed leading to a painfully slow return of staffing and services to prior levels.

Options under consideration include:

Instituting hiring freeze with selective exceptions

The Interim City Administrator instituted a hiring freeze effective March 31, 2020. The freeze stops non-critical hiring actions at the candidate offer letter stage. This allows for continued operation of the other stages of the recruitment process such as job posting, civil service exams, creation of eligible lists and candidate selection interviews. This enables the City to maintain eligible lists of qualified candidates to allow Departments the ability to quickly hire for vacancies once the fiscal effects of this crisis abate. Critical positions could be selectively filled when identified. In past recessions, recruitment activities were severely curtailed, human resources staff was reduced and organizational development capacity diminished. It is critical that the City maintain its ability to re-staff quickly. By leaving positions vacant, the City can realize significant salary savings which can avert the need to make deeper cuts to existing staff and services.

Temporary Reductions to City Services and Positions

Staff is examining the impacts of reducing staffing and O&M costs associated with services that the City cannot provide during the shelter-in-place order. To the extent possible, the administration is promoting telecommuting. However, this is not a sustainable business approach as many services require in-person interaction. Staff continues to evaluate the City's essential functions and to what degree City business can adapt.

Staff is also investigating the reduction of all non-essential expenses, both personnel and O&M, across all City services including public safety functions such as public safety overtime expenses.

Other expenses that are under examination include travel and education that are not associated with the response to the public health emergency, and City internal services that can be reduced due in correlation to reduction in direct services.

In preparation for potential reduction in force activities, the administration will identify and activate an interdepartmental team led by the Department of Human Resources Management, which will include Finance, City Administration and departmental representatives. To conduct a layoff action, the team will need approximately 6-8 weeks advance notice to prepare. The process is manually intensive due to the utmost need for accuracy and will require extensive engagement with the City's bargaining groups.

Financial & Policy Actions

Staff is recommending that the City Council authorize the use of the VSSF reserves and LTO in both FY 2019-20 and FY 2020-21 (Resolution No. 13487 C.M.S.).

Staff is examining suspending the Other Post Employment Benefits (OPEB) funding policy which requires a contribution of 2.5% of payroll (approximately $10 million) to the OPEB Trust Fund (Resolution No. 87551 C.M.S.).

Staff is also examining various sources that are restricted by Council Ordinance or Resolution and which may be temporarily made available to sustain operations. These actions include the temporary use of one-time revenues for ongoing costs (Resolution No. 13487 C.M.S.) and a one-year suspension of negative fund repayments (Resolution No. 87140 C.M.S.).

Staff is examining the suspension of proposals that would substantially affect the City's revenue tax base due to the adverse impacts that additional uncertainty may have on local business. These include: modifications to any of the City's tax codes, changes to the operating regulations, and enforcement of City codes not associated with the public health crisis.

PUBLIC OUTREACH / INTEREST

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

COORDINATION

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

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental: No direct environmental impacts have been identified.

Race & Equity: No race or equity opportunities have been identified.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2019-20 Third Quarter Revenue And Expenditure Results And Updated FY 2020-21 Revenue Forecasts Impacted By The COVID-19 Crisis

For questions regarding this report, please contact Adam Benson, Director of Finance, at (510) 238-2026.

Respectfully submitted,

ADAM BENSON
Director of Finance

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ATTACHMENTS

- *ATTACHMENT A: NON-GPF FINANCIAL IMPACTS*

ATTACHMENT A

FY 2019-21 NON-GPF FUND REVENUES

Measures B & BB

($ in millions)

MEASURE B (2211, 2212, 2213)	Adopted Budget	Projection	Variance
FY 2019-20	$ 15.51	$ 14.43	$ (1.08)
FY 2020-21	$ 15.97	$ 13.48	$ (2.49)

MEASURE BB (2216, 2218, 2219, 2220)	Adopted Budget	Projection	Variance
FY 2019-20	$ 14.32	$ 10.31	$ (4.01)
FY 2020-21	$ 14.75	$ 12.43	$ (2.32)

Both Measures B & BB are quarter ($0.25) cent sales taxes. Staff, working the City's sales tax consultant, anticipates a sales tax decrease at point of sale of approximately 8.0%. Both Measure B & BB FY 2019-20 year-end forecast has been decreased accordingly.

State Gas Tax

($ in millions)

STATE GAS TAX (2230, 2232)	Adopted Budget	Projection	Variance
FY 2019-20	$ 19.82	$ 16.88	$ (2.94)
FY 2020-21	$ 18.81	$ 18.81	$ (0.00)

The impact on gas tax from COVID-19 is difficult to model. Gas tax is a flat rate per gallon assessed at the gas pump. Gas tax will decrease if fewer gallons of gas are sold. The best data currently available is from the 2008 financial crisis, where the City experienced a negative growth rate of -17% when comparing FY 2007-08 to FY 2008-09. However, in FY 2009-10, gas tax grew 15%. The year-end estimate reflects a similar drop for the remainder of FY 2019-20 and no change to the FY 2020-21 Adopted Budget. Staff anticipates that the State of California will release new estimates soon and will update these numbers accordingly.

Development Services Fund (Fund 2415)

($ in millions)

DEVELOPMENT SERVICE FUND (2415)	Adopted Budget	Projection	Variance
FY 2019-20	$ 61.58	$ 58.18	$ (3.40)
FY 2020-21	$ 61.61	$ 46.58	$ (15.03)

As of February 2020, Fund 2415 revenues were 81% of budget with four months remaining in the fiscal year. The impact from COVID-19 will be minimal in FY 2019-20. Staff anticipates substantial impact in FY 2020-21 if the economic engine that drives construction comes to a halt or significantly slows. During the Great Recession, in FY 2008-09, the City experienced a 25% decrease in permit revenues, a 34% decrease in inspection revenues and a 4% decrease in other revenues. Using those numbers as a model the City could see a decline of as much as ($15.03) million in FY 2020-21.

Measure Z Parking Tax

($ in millions)

MEASURE Z - VIOLENCE PREVENTION (2252)	Adopted Budget	Projection	Variance
FY 2019-20	$ 29.31	$ 26.91	$ (2.40)
FY 2020-21	$ 30.14	$ 26.39	$ (3.75)

Through the end of March 2020, GPF parking tax revenue was flat when compared to FY 2018-19, while the budget contemplated a 3.69% increase largely driven by approved increases in hourly and monthly parking rates at the City's garages. A breakdown of parking tax revenues include: approximately 37% from Oakland Airport/Port activity, 4% from hotels, 51% from parking garages and surface lots, and 8% from other sources. Due to the decrease in traffic through the Airport/Port and at hotels, garages and surface lots, staff anticipates parking taxes to decline by **($2.59) million** for the remainder of the fiscal year, a 50% reduction.

Measure C Transient Occupancy Tax

($ in millions)

MEASURE C - TRANSIENT OCCUPANY TAX (2419)	Adopted Budget	Projection	Variance
FY 2019-20	$ 7.58	$ 4.91	$ (2.67)
FY 2020-21	$ 7.89	$ 4.34	$ (3.55)

At the Q2 analysis (FY 2019-20, July-December 2019), Transient Occupancy Tax was growing 4.48% when compared to FY 2019-20, which was already less than the budgeted growth of 7.23%.

As large public gatherings are canceled, as well as all non-essential business travel, and travel restrictions from Europe and China take effect, hotel occupancy rates in the Bay Area are plunging to 20% or less from highs of 80%. The unprecedented disruption caused by COVID-19 to the airline industry also creates a domino effect to the lodging industry because airlines no longer need as many hotel rooms as they may once have for the flight crew that represents a stable and predictable source of revenue for many local hotels close to the airport. Drastically reduced hotel occupancies will have an immediate negative impact on revenues received from transient occupancies.