



BUDGET FACTS: Fiscal Year 2010-11

City Faces \$32 million Deficit; Balancing Options are Few

How Did the Budget Crisis Get So Bad?

Oakland, like the State of California and many governments across the nation and abroad, is facing the worst financial crisis in our history. Despite addressing \$170 million in shortfalls during the last 20 months, the City is still facing a deficit of nearly \$32 million for fiscal year 2010-11.

Although we have significantly decreased spending, our revenues have collapsed, primarily due to the global financial crisis and nationwide real estate crash. Over the past five years, general fund revenues have plummeted from \$476 million to about \$407 million, representing a \$69 million drop.

Declines in property, sales and real estate transfer taxes due to the housing market meltdown were responsible for the greatest portion of the drop. Five years ago, the real estate transfer tax

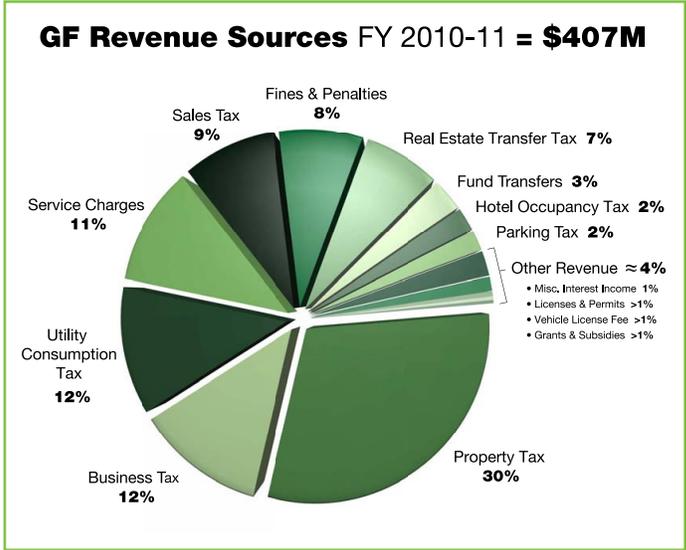


Figure 2: GF Revenue Sources FY 2010-11 = \$407 M

generated almost \$80 million per year. This year it's projected at \$28 million, a 65 percent drop. According to Alameda County, the property assessment roll has a negative assessed value for the first time in more than 50 years, and median home values countywide have taken a 42 percent nosedive since July 2007.

Compounding the pain, the State of California has attempted to balance its staggering budget deficit by grabbing local revenues. This year, the State raided \$2 billion in local redevelopment funds, costing Oakland \$41 million. Instead of going to fund local job creation, economic growth and urban revitalization projects, this money is being siphoned off to help pay the State's obligations.

How Much is the City's Budget?

The City's annual budget (across all funds) for FY 2009-11 is approximately \$1 billion. The General Fund represents 41 percent of the City's total budget, and this is where the City is facing a \$32 million deficit. The General Fund pays for basic programs and services such as police and fire protection, libraries, senior centers and recreation programs, as well as elected offices and municipal business functions. The remaining 59 percent of the City's funds are restricted for specific purposes such as streets, housing development, sewer maintenance, economic and redevelopment and bond-funded programs.

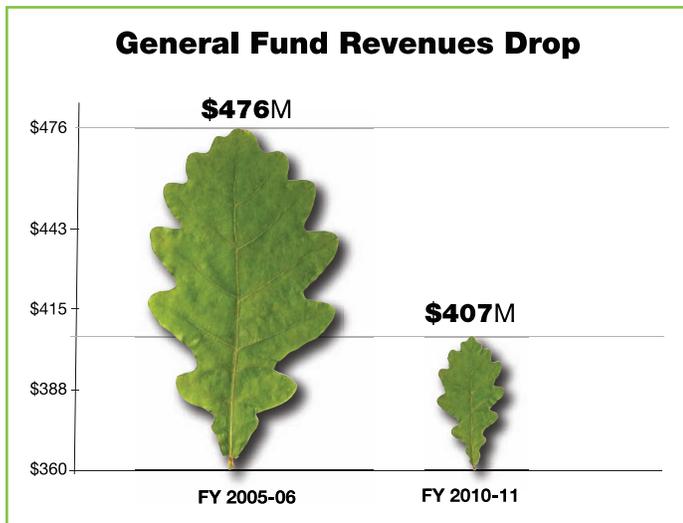


Figure 1: General Fund Revenues Drop

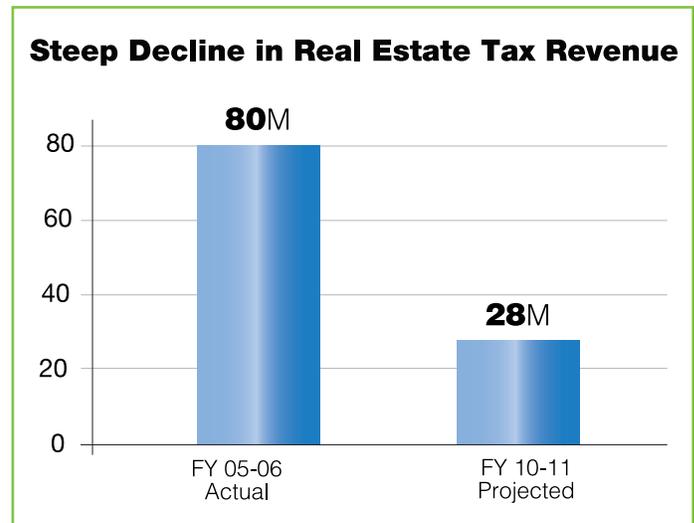


Figure 3: Steep Decline in Real Estate Tax Revenue

Unlike the federal government, which can print money to address financial shortfalls, and the State, which can pilfer funds from local government, by law the City of Oakland must balance its budget each year.

The available revenue-raising options to bridge the ever-widening budget gap are painfully few. Typical revenue fixes, such as raising fees or using one-time funds, have already been exhausted, as have reserves used to mitigate the drastic loss in revenue.

What Has Been Done to Cut Expenses?

As revenue has dwindled, the City has done what any householder would do: we cut our expenses. **Since July 2008, the City has closed \$170 million in shortfalls. In fact, the current two-year budget has been re-balanced seven times in the past 20 months.** We have slashed programs, eliminated maintenance crews and reorganized departments to enhance efficiency. The City has eliminated 237 jobs citywide and laid off 150 workers, and many workers have taken early retirement or sought other employment.

Spending Reductions at a Glance

Examples of belt-tightening measures to address \$170 million in cumulative shortfalls since July 2008:

- Closed City offices through furloughs
- Eliminated 237 jobs, laid off 150 workers, further reduced jobs through early retirement
- Closed branch libraries one day per week
- Reduced recreation staff
- Eliminated more than 100 cars in the City fleet
- Implemented travel restrictions
- Initiated hiring freeze
- Reduced staff in human resources, administration and elected offices
- Achieved 10 percent concessions from employee unions
- Reduced grants and subsidies to community organizations

Additionally, the City implemented 12 furlough days a year in 2009-10 and 2010-11, including a week-long closure in December, and City employees took a 10 percent hit in pay.

Despite these many cuts, the remaining deficit for fiscal year 2010-11 is anticipated to be \$32 million (the Council addressed \$10 million of what was a \$42 million deficit in April). This deficit is projected to grow to between \$60 and \$70 million over the next two years because of rising costs, pension and benefits obligations and the expiration of the federal COPS grant.

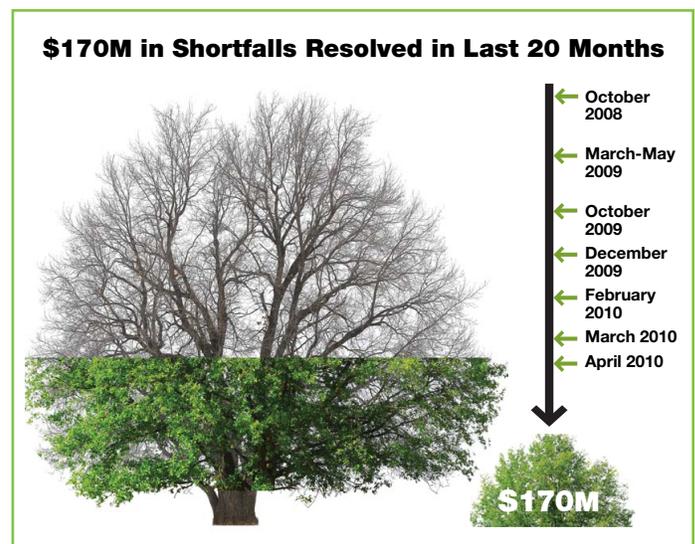


Figure 4: \$170 M in Shortfalls Resolved in Last 20 Months

Expense-Cutting Options are Limited

About 83 percent of General Fund revenues pay for public safety (72 percent) and debt service (11 percent). The remaining 17 percent is left to fund everything else—parks, libraries, senior centers, recreation centers and the internal functions required to keep a major municipality running.

However, there are constraints on how much that remaining 17 percent can be cut due to the requirements of several voter-approved ballot measures, including Measure Q (libraries) and Measure K/OO/D (Kids First!). These measures generate revenue, but they also require baseline spending levels. Cutting into the minimum spending requirements to balance the budget would jeopardize the revenue they generate.

For example, in order to get \$13 million in parcel tax revenue each year under Measure Q, we have to spend at least \$9 million from the general fund on library services. So even a small cut to the Library's baseline budget could result in a 55 percent

\$32 million Deficit; Balancing Options are Few

reduction in the overall budget for the Library. For Measure K/OO/D (Kids First!), the General Fund mandate totals \$23 million, including the \$11 million baseline spending requirement and additional \$12 million in annual set aside.

A substantial portion of the remaining budget pays for revenue-generating staff, so cuts into those departments will further erode revenues, forcing even greater cuts to essential services.

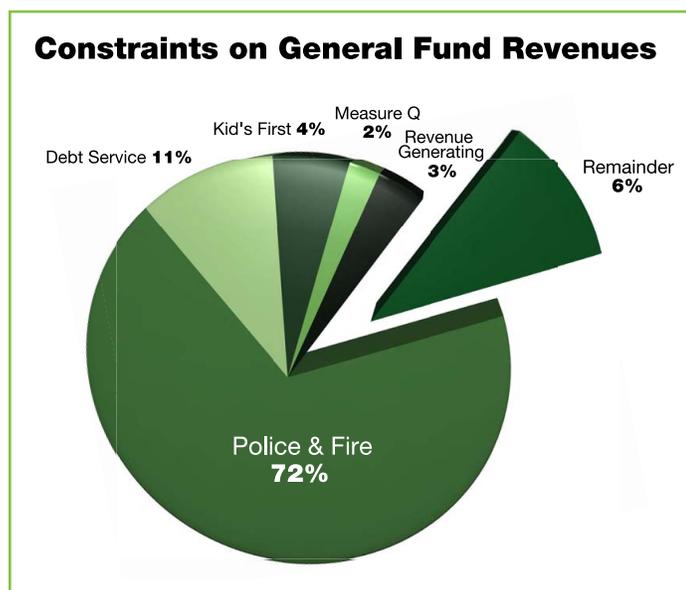


Figure 5: Constraints on General Fund Revenues

After accounting for public safety spending, debt service, the ballot measure requirements and revenue-generating constraints described above, only 6 percent or \$26 million is left to fund \$58 million in necessary spending. Necessary spending includes \$33 million in additional mandates for essential services to keep the City running—facilities and equipment, paying invoices, grants management and oversight, technology infrastructure, risk management, payroll, Federal and State mandates and elected offices—and another \$25 million in program costs, resulting in a total remaining deficit of \$32 million for FY 2010-11.

Although further cuts to departmental budgets are proposed, in the absence of additional revenue, reductions to sworn police personnel are unavoidable.

How Can Oakland Consider Cutting Police Officers?

Oakland has made enormous strides in addressing its public safety challenges over the past few years: a 16 percent drop in

violent crime including homicide, and an overall crime reduction rate that is triple the national average. These results demonstrate that our strategic, three-pronged approach to public safety is working: 1) increase our police force, 2) fund community policing efforts and 3) create innovative violence prevention programs.

In light of this progress, it seems unthinkable that we are now forced to consider laying off more than 200 police officers and

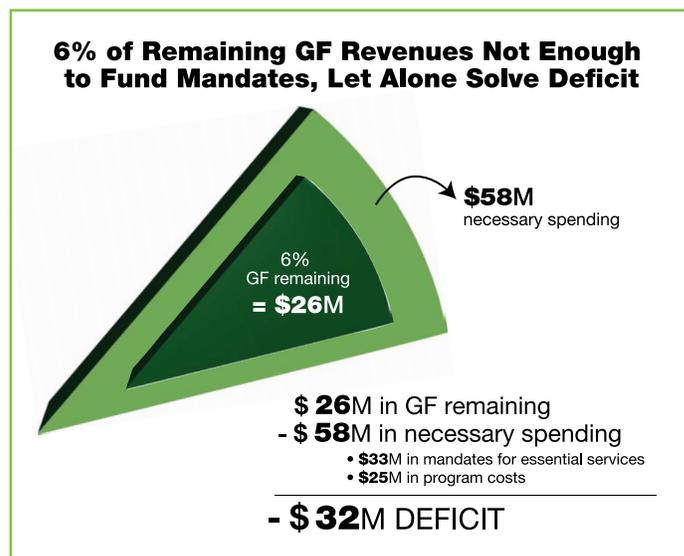


Figure 6: 6% of Remaining GF Revenues Not Enough to Fund Mandates, Let Alone Solve Deficit

eliminating our violence prevention programs. However deplorable, these choices may be unavoidable. The magnitude of the City's budget deficit and the limited remaining options to address the looming crisis are forcing City leaders to consider several draconian alternatives.

The Dilemma of Measure Y

Although no one thinks it's prudent to cut police officers, the City is in a dilemma. Considering that it costs \$1 million for every six police officers, we would have to cut a significant number of officers to finally balance the budget.

The problem is exacerbated by a provision of Measure Y which requires the City to budget for a minimum of 739 police officers.

If we lay off even one police officer for budget-reduction purposes, we have to cut the 63 officers funded by Measure Y and lose the \$20 million it generates in revenue, including \$6 million that funds violence-prevention programs.



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Furthermore, with the **loss of Measure Y revenue, we lose \$4 million in funding that goes to the Fire Department.** Because the Fire union’s contract prohibits the City from cutting firefighters, we have no other choice other than to backfill that \$4 million by further reducing police personnel. At a cost of six police officers per \$1 million, **making up the \$4 million to the Fire Department results in a loss of 24 additional officers, or 87 total (63 Measure Y-funded officers plus 24 officers to offset the loss of Measure Y revenue to the Fire Department).** So the first General Fund dollar cut in police actually results in the loss of 87 officers.

Only then would we begin to make reductions to balance the \$32 million general fund deficit not addressed in April. To make matters worse, additional reductions would be necessary in future years when the deficit increases to between \$60 and \$70 million.

What Budget-Balancing Options are Being Considered?

There are only three ways to balance the budget: cut expenses, raise revenues or use some combination of the two. Every option is on the table for consideration: eliminating entire programs, reorganizing to eliminate layers of management and looking at ways to increase revenues to offset the depth of the cut to public safety and restore police officers. Several revenue-generating options are being considered, including a parcel tax, a utility users’ tax, a quarter-percent sales tax increase or a telephone access line tax (see below).

Still, we must cut first, because if proposed voter measures being considered do not pass in November 2010, the consequence of delaying expenditure reductions until the second half of the fiscal year could double the amount of cuts necessary to balance the budget. If the voter measures are approved, some positions could be restored as soon as January 2011.

Voter Measures Under Consideration (Menu of Options)

Options	FY 10-11	FY 11-12	FY 12-13	Notes
Measure Y fix	--	--	--	No new taxes; waives 739 minimum base staffing, which would save at least 87 police officers. Also allows us to keep successful violence prevention and intervention programs such as gang prevention, domestic violence and street outreach. Still may require cut of 200 police officers, and more in future years.
Parcel Tax	\$24.5	\$53.8	\$54.4	\$360 per parcel for single family properties (\$0.99 per day)
Utility Consumption Tax	\$0.61	\$7.33	\$8.0	Modernize to include water, garbage and new technologies in taxable base; revenue not realized until 2011-12
Sales Tax	--	\$7.5	\$8.0	Increase by 0.25%; revenue not realized until 2011-12
Telephone Access Line Tax	\$0.7	\$8.3	\$8.3	Most revenue realized in 2011-12

Try it Yourself!

Take the budget challenge and try to balance the budget with this interactive tool:

www.oaklandbudgetchallenge.com

Upcoming Community Budget Forums:

- **Monday, June 14 from 7 – 9 pm:**
Eastmont Substation, 2651 73rd Avenue
- **Thursday, June 17 from 7 – 9 pm:**
Peralta Elementary School, 460 63rd Street

Join us, or send your ideas to:
budgetsuggestions@oaklandnet.com