

FY 2013-2015 BUDGET HIGHLIGHTS

I. BUDGET-BALANCING PRINCIPLES

The following budget-balancing principles were used to develop budget proposals and present the City Council with a proposed Policy Budget: essentially, they guide expenditure priorities and impacts. These budget-balancing principles are largely the same as presented in the past (January 2012) and have worked to stabilize our limited public funds and investment in essential services:

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Comply with Court rulings and orders, such as the dissolution of Redevelopment and Negotiated Settlement Agreement.
3. Resolve shortfalls with ongoing revenue to fund ongoing expenditures. Align one-time resources with one-time costs for programs or projects. To the greatest extent possible, one-time resources should not be used for ongoing costs.
4. Minimize the negative impact of service reductions/eliminations on Oakland residents, businesses, and employees.
5. General Purpose Fund revenues shall not be earmarked for any particular purpose, unless required by law or generally accepted accounting principles (GAAP).
6. All Enterprise Funds shall work to become fully self-supporting from revenues generated by rates, fees and charges.
7. Ensure that services address the diverse community and preserve efforts that the City Council has put in place to address social equity and access to quality of life services.
8. Rates, fees and charges should become fully cost recovering and the General Purpose Fund should not provide subsidies, unless authorized by the City Council and funds are appropriately allocated/appropriated.
9. Ensure that budget-balancing approaches have no negative impact, or minimal impact, on future budgets to ensure high standards of fiscal integrity and management, along with the goal and interest of preserving the City's credit ratings.
10. Focus on services for both the short- and long-term that are unique to what a full-service local government should offer. As a goal, analyze all existing services and target service consolidations, reductions, or eliminations in areas where service is less essential.
11. Explore personnel services cost savings, subject to the meet-and-confer process where applicable.
12. Make every effort, if operationally feasible, to eliminate vacant positions, rather than filled positions, to minimize the number of employee layoffs while at the same time being mindful of the services that the community demands and/or needs. As programs are consolidated, reduced or eliminated, ensure that management and administration are reduced as appropriate.
13. Defer any new program commitments and initiatives or program expansions, unless those programs reduce crime, stimulate the local economy, create jobs, are cost neutral, generate new revenues, are required by law, have a significant return on investment for the General Purpose Fund, and/or are funded through redeployment of existing resources.
14. Explore interdepartmental/interagency partnerships to leverage service delivery models.

II. FINANCIAL/ECONOMIC MARKET CONSIDERATIONS

Consistent with national, state, and regional economic market trends, the City of Oakland economy is showing signs of stabilization and modest growth.

Key Oakland Economic Indicators at a Glance

Recent economic indicators confirm modest economic recoveries for Oakland:

- **Vacancy rates** have decreased across all commercial sectors, with the industrial sector falling to its lowest ever of 4.7%. Commercial and retail vacancy rates are declining.¹
- From calendar years 2009 to 2012, **retail sales** increased 23.1%. In calendar year 2012, the gain in taxable retail sales from 2011 alone increased by 7.6%.²
- In calendar year 2012, the City experienced a net increase of 5.3% (823 net new) **Residential and commercial businesses** in Oakland (non-rental businesses).³
- **Property transfers** continue on an upward trend. In 2012, there was an average of 749 transfers per month for all properties, compared with 712 per month in 2011.⁴
- **Employment** in Oakland in January 2012 was 175,100; in January 2013, employment grew to 181,500, for a net gain of 6,400 jobs.⁵

Housing Market Activity

Oakland's housing market is complex. The rate of foreclosure activities has significantly decreased in Oakland. However, there are still many Oakland residents in or at risk for foreclosure and the number of underwater borrowers is also high. Notices of Default have decreased 64.1% since the prior year, and the rate of short sales has increased 35% from 2011 to 2012.⁶ Like state and national trends, the number of short sales in Oakland has impacted the market. Additionally the significant number of foreclosed home purchases by investors has also contributed to higher home prices and a larger rental market.

Additionally, newly constructed condominium units that were converted to rental units are now returning to the sale market. Vacancy rates in rental markets are low, with rents rising. According to the data published by real estate trends site Realtor.com, the average U.S. home spent 84 days on the market last month. In 10 housing markets, homes spent 48 days or less on the market before being sold. In Oakland, homes spent just 24 days on the market.⁷

¹ Colliers International 2012 4th Quarter Report

² HdL Companies

³ City of Oakland Business License Office

⁴ HdL Companies

⁵ State of California EDD

⁶ ForeclosureRadar <http://www.foreclosureradar.com/california/alameda-county/oakland-foreclosures>

⁷ <http://www.foxbusiness.com/industries/2012/07/25/american-cities-where-homes-sell-fastest/>

In terms of new housing, construction starts remain slow, but major housing developments proposed in Oakland are expected to come on line in the next several years. For example, Brooklyn Basin Development (Oak to Ninth development), along the Embarcadero adjacent to Jack London Square, where construction will begin in spring 2014, will contain 3,100 new units of housing, as well as 30 acres of open space and 200,000 square feet of commercial space. The City is positioned now for a “10k 2.0” initiative.

Labor Market Activity

Over the past year, 6,400 jobs were created in Oakland compared to 5,000 jobs created in the previous year.⁸

The unemployment rate in the Oakland-Fremont-Hayward MD was 8.0% in February 2013, down from 8.6% in January 2013, and below the year-ago estimate of 9.5%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. The unemployment rate was 8.0% in Alameda County, and 8.1% in Contra Costa County.

Two major development projects are expected to add significantly to employment in the City over the next two years. The construction of a new marine terminal and one million square feet of trade and logistics space at the former Oakland Army Base, which will begin in December 2013, is expected to create approximately two thousand new jobs over the course of its build out. In addition, Brooklyn Basin Development referenced above will create approximately 8,000 jobs over the six to eight year build out of the project, which will begin in spring 2014. At the same time, the City currently has about 1 million sq. feet of retail development underway which will have a positive impact on jobs, as reported by the San Francisco Business Times.

Taxable Sales Activity

The country’s major economic recession in 2008 has had a significant impact on retailing, and the sector is still recovering. In Oakland overall, retail sales had been relatively flat from 2001 to 2004, increased notably from 2004 to 2007, declined in 2008 and 2009, and have been increasing again in 2010 and 2011.

Retail sales activity in 2012 is continuing to show improvement and on an upward trend. Eating and drinking and convenience retailing have shown the largest increases and strongest recovery, while department and apparel sales have lagged and have not recovered as quickly. Retail sales are anticipated to continue growing over the next several years as the economy and consumer confidence continue to recover and grow. Per HdL Economist Jordan Levine, auto sales activity is a good economic indicator for consumer confidence – in Oakland, auto sales are strong – all Oakland auto dealerships are part of Oakland’s top 30 sales tax producers.⁹

⁸ State of California, EDD

⁹ HdL Sales Tax Report 2012

III. OAKLAND WEATHERING ITS FINANCIAL CHALLENGES: 2008-2013

The City of Oakland is steadily emerging from the recession and collapse of the housing market in 2008. Since then, the City has addressed \$318 million in budget shortfalls caused by sharp revenue declines and eliminated 720 full-time equivalent positions.

Workforce and Community Service Reductions

Over the past 10 years, the City’s workforce has shrunk by about 20% to an all-time low of 3,680 employees. Although the City has tried to sustain service levels despite diminishing staff and resources, the reality is that losing 20% of our staff has had a significant impact on service delivery. And yet, the demand for services has only increased as a result of growing community needs that are heightened during a recession. Adding to the challenge, we have preserved front-line services by dramatically cutting internal service departments such as information technology, finance, and human resources, which are critical to sustaining quality community services. We must seek a better balance moving forward between workload capacity and services delivered.

Past Short-Term and Long-Term Cost-Cutting Measures

The City’s sworn and civilian employees have made significant contributions to help bridge multi-million shortfalls. Pursuant to the collective bargaining agreements, City employee’s wages were reduced and all employees are now contributing the full employee share of pension costs. Current labor agreements that include these cost-cutting concessions are set to begin expiring in June 2013. Examples of austerity and cost-cutting measures to address the \$318 million in cumulative shortfalls since July 2008 include the following:

Table 1: Past Short-term and Long-term Cost-Cutting Measures Taken

Short-Term Measures	Long-Term Measures
<ul style="list-style-type: none"> ● Employees temporarily contributed 10% of compensation 	<ul style="list-style-type: none"> ● Eliminated 720 full-time equivalent positions
<ul style="list-style-type: none"> ● Initiated hiring freeze 	<ul style="list-style-type: none"> ● Increased employee’s retirement contribution
<ul style="list-style-type: none"> ● Closed City offices 12 days per year and added floating furlough days 	<ul style="list-style-type: none"> ● Implemented new two-tier retirement system
<ul style="list-style-type: none"> ● Deferred maintenance of facilities and streets 	<ul style="list-style-type: none"> ● Reorganized and combined several City departments to achieve operational efficiencies
<ul style="list-style-type: none"> ● Eliminated two fire engine companies and implemented rolling brown outs 	<ul style="list-style-type: none"> ● Eliminated façade improvement grants, graffiti abatement and illegal dumping programs
<ul style="list-style-type: none"> ● Closed branch libraries one day per week 	
<ul style="list-style-type: none"> ● Reduced hours at recreation centers, branch libraries, and senior centers 	<ul style="list-style-type: none"> ● Transferred eligible expenditures to

<ul style="list-style-type: none"> ● Eliminated more than 239 vehicles in the fleet ● Significantly reduced tree trimming ● Restricted travel , training, and discretionary spending ● Reduced grants and subsidies to community organizations ● Sold surplus property and land 	<p>restricted funds, freeing up General Fund dollars</p> <ul style="list-style-type: none"> ● Increased fees ● Invested in economic development strategies
--	--

Maximizing Revenue

The City has pursued ways to maximize revenue. State law limits the City’s ability to levee new taxes, so the only means of increasing revenues without voter approval is to raise fees associated with certain City services. By law, these fees can only cover the City’s actual cost to provide the service (e.g., the City cannot make a profit from basic service fees). To maximize revenue, the City has employed a variety of strategies, which have significantly yielded results, such as:

- Pursued grants from federal and state governments as well as foundations and the private sector;
- Aggressively pursued dollars owed the City through special revenue collection efforts;
- Developed more public/private partnerships; and,
- Increased fees to fully recover the costs related to providing services.

Measures Taken During Last Five Years

Over the past five years, the City has made significant strides in stabilizing our finances. We have:

- Instituted strong fiscal controls and strengthened financial policies;
- Maintained solid credit ratings which reflect strong financial management practices, a deep and diversified economic base, positive cash flows and liquidity levels, and healthy general fund reserves;
- Fully funded the General Fund reserve to meet the level mandated by City Council policy for the first time in five years;
- Paid down 28% of our negative fund balances, which have gone from \$138 million to \$99 million over a three-year period (this is internal debt that comes from borrowing between funds); and,
- Planned for anticipated additional fiscal impacts from the dissolution of Redevelopment and compliance costs associated with the Negotiated Settlement Agreement.

IV. BUDGET OVERVIEW

Total City Budget

This FY 2013-15 Budget Proposal contains appropriations totaling about \$1 billion per year for the next two years across all funding sources. The General Purpose Fund accounts for approximately 41% of the City's total budget. It pays for essential programs and services such as police and fire protection, libraries, senior centers, recreational programs, elected offices and municipal business functions. It also includes some restricted funds such as ballot measure earmarks. For FY 2013-14, the proposed General Fund budget is about \$430.16 million (Table 2).

The remainder of the City's budget is comprised of funds that are restricted for special purposes such as grant programs, sewer services, bond-funded projects, capital projects and debt payments. Restricted funds come from grants, fees, bonds, or revenues that are collected for a specific purpose.

	FY 2013-14		FY 2014-15	
	Revenues	Expenditures	Revenue	Expenditures
GPF	\$ 430.16	\$ 430.16	\$ 457.40	\$ 457.40
All-Funds*	\$ 1,052.69	\$ 1,039.01	\$ 1,071.70	\$ 1,060.58
* The revenues in All-Funds exceed the All-Funds expenditures due to Council's policy to amortize the repayment to negative funds created in prior years.				

General Purpose Fund (GPF)

Despite having addressed budget shortfalls totaling \$318 million over the past six years, significant conditions continue to impact our fiscal condition, such as: rising costs, police staffing shortages, modest revenue growth, and ongoing recovery from the dissolution of Redevelopment.

In addition, this Proposed Budget takes into account that two special assessments—Measure Y (the Violence Prevention Act and Public Safety Act of 2004) and the Wildfire Prevention Assessment District—are nearing the end of their 10-year lifespan; and that employee contributions, which are estimated to save the City \$37 million per year across all funds in FY 2012-13, are set to expire and are subject to meet-and-confer bargaining to continue at any level after the expiration date. The next year must be used to prepare for the renewal of these initiatives to further stabilize the City's fiscal condition in the next years: otherwise, there will be greater adverse impacts than already anticipated.

Summary of Former Baseline Estimates

Shortly after publishing the FY 2013-18 Five Year Forecast in the fall of 2012, staff developed the FY 2013-15 baseline revenue and expenditure estimates. These former estimates from the FY 2013-15

baseline indicated that despite modest revenue growth, continuation of the current FY 2012-13 levels of service plus Council approved augmentations (baseline) would result in a shortfall of \$15.64 million in FY 2013-14 and \$24.86 million in FY 2014-15, as reflected in the table below:

Table 3: FYs 2013-2015 GPF Revenue & Expenditures Former BASELINE Summary

	<u>FY 2013-14</u>	<u>FY 2014-15</u>
Former Baseline GPF Revenues	\$417.99 million	\$430.07 million
Former Baseline GPF Expenditures	<u>\$433.63 million</u>	<u>\$457.93 million</u>
Former Baseline GPF Shortfall	(\$15.64 million)	(\$24.86 million)

Note: Figures modified based on recent data, see Table 4 below.

The baseline shortfall is generally caused by increased costs of providing City services which are outpacing moderate revenue increases, prior reliance on the use of one-time funds to fund ongoing expenditures, and the expiration of employee contributions over the past five years (these contributions, for example, saved \$37 million in FY 2012-13 across all funds and \$23.6 million in the General Purpose Fund). A primary cost driver the city has been experiencing has been the growth in employee health and retirement benefits. For example, the City's pension costs are projected to grow from \$67.3 million in the current year (FY 2012-13) to \$85.3 million in FY 2014-15, representing an increase of 26.7% over the two year period; and the employee benefit costs (other than retirement) are projected to grow from \$91.3 million in the current year to \$107.3 million in FY 2014-15, representing a 17.5% increase over the two year period. Another driver of the baseline expenditure growth is ongoing funding for new police officers from the last three police academies (166, 167 and 168), as approved by the City Council in FY 2011-13 Policy Budget. In addition, when the City's Redevelopment Agency was dissolved due to the State's action, some of the positions were maintained to complete approved projects. As those projects are being completed, less funding is available for administrative positions proportionally.

Revised Revenue Estimates Based on Actual Trend Data through the 2nd Quarter of FY 2012-13

Since the development of the baseline budget, new information is available that has been factored into the proposed policy budget. Table 4 below provides a reconciliation of the projected GPF revenues based on new trend data and actual results of revenue the City has been experiencing through December 2012 (2nd qtr. FY 2012-13 Revenue and Expense Report) information available since the Five Year Forecast was developed that has better informed and updated our previous baseline revenue projections.

The FY 2013-15 Proposed Policy Budget assumes to use a net of \$10.81 million in General Purpose Fund balance as a balancing proposal to fund on-going operating costs, representing 1.2% of the total two year policy budget. It also assumes \$13.33 million new revenue (above the baseline) in FY 2013-14, of which \$0.5 million or .12% is one-time revenue. For FY 2014-15, \$15.37 million in new revenue is assumed (above the baseline). In addition for FY 2014-15, the budget assumes \$6 million or 1.31% from one-time revenue and the use of \$11.97 million of undesignated general fund balance; both of which are proposed to be used to balance the budget for on-going operations.

Table 4: Summary of Revised GPF Revenue Projections

Reconciliation of Projected GPF Revenue Reconciliation		
	<u>FY 2013-14</u>	<u>FY 2014-15</u>
Baseline GPF Revenues	\$417.99M	\$430.07M
Additional Revenue – Revised Estimates *	11.51M	8.05M
One-time Balancing Revenue (see Table 5)	.50M	6.00M
New Fees and Revenues (see below)	1.32M	1.32M
Use of Undesignated General Fund Balance	(1.16M)	11.97M
Total Revenue Estimates:	\$430.16M	\$457.41M

**The projected GPF baseline revenue in October 2012 was revised in March 2013 based on latest data available in property tax, sales tax, business license tax, etc. FY 2013-14 projected GPF revenue increased by \$11.51 million and \$8.05 million increased for FY 2014-15.*

Table 5: One-Time New Revenue Summary

One-Time Revenue		
Description	FY 2013-14	FY 2014-15
Billboard	\$ 500,000	\$ -
Property Sale		\$ 4,000,000
Parking Ticket Backlog		\$ 2,000,000
Total One-Time New Revenue	\$ 500,000	\$ 6,000,000
Total Revenue	\$ 430,155,612	\$ 457,401,684
Percentage of One-Time Revenue	.12%	1.31%

Revenue Adjustments

In addition to the revised revenue estimates in March 2013, the proposed General Purpose Fund budget includes additional revenue increases as follows:

- \$445,124 increases in service charges and fees each year
- Billboard revenue; \$500,000 one-time for the first year plus \$475,000 each year on-going
- \$400,000 revenue from former Redevelopment Agency per year due to debt refinancing plan
- For FY 2014-15, \$2 million one-time revenue from parking ticket backlog by implementing booting vehicles that have multiple unpaid parking tickets
- \$4 million property sales - implementation of asset management plan in the second year
- Use of \$10.81 million (net) from the General Purpose Fund to balance the two-year budget for on-going operating expenditures

Use of One-Time vs. Ongoing Revenue Sources

While recurring, one-time revenue sources are variable by nature, and to the greatest extent possible should not be relied upon to meet predictable ongoing expenses. As stated before, as a best practice, our goal is to use one-time resources or revenues to meet one-time costs for programs or projects. However, as a policy objective, it is reasonable to assume that each year about 3% of revenues will come from variable, one-time sources, which should be used to meet one-time expenses (such as large purchases of equipment or technology upgrades).

The charts below summarize revenues and expenditures for the two-year budget, showing the amounts and percentages of one-time revenues and expenditures vs. ongoing revenues and expenditures. This proposed Policy Budget reduces the City’s reliance on the use of one-time dollars for on-going expenditures. For example, for FY 2012-2013, the City used approximately \$14.3 million of one-time dollars for on-going expenditures; however, for FYs 2013-2014 and 2014-2015, it is proposed that the City use approximately \$10.83 million over both years for on-going expenditures. To the extent that on-going revenues are generated to cover these costs during the year, they will be replaced accordingly to further advance this fiscal priority.

On the expenditure side, in FY 2013-14, \$5.4 million or 1.26% of the \$430.16 million in expenditures are one-time reductions. In FY 2014-15, \$5.90 million or 1.29% of the \$457.40 million are one-time reductions (see summary below).

Table 6: Comparison of Ongoing vs. One Time Revenues and Expenditures

FY 2013-14	
\$430.16 million Total Revenue:	\$430.16 million Total Expenditures:
<i>\$.5 million one-time revenue (.12% of total)</i>	<i>\$5.4 million one-time exp. reduction (1.26% of total)</i>
<i>\$429.66 million ongoing revenue (99.88% of total)</i>	<i>\$424.76 million ongoing exp. (98.74% of total)</i>
[Net of \$1.16 million of fund balance to be programmed For balancing 2014-15)	
FY 2014-15	
\$457.40 million Total Revenue:	\$457.40 million Total Expenditures:
<i>\$6.0 million one-time revenue (1.31% of total)</i>	<i>\$5.9 million one-time exp. reduction (1.29% of total)</i>
<i>\$11.97 million fund balance (2.62% of total)</i>	
<i>\$439.44 million ongoing revenue (96.07% of total)</i>	<i>\$451.50 million ongoing exp. (98.71% of total)</i>

Table 7: One-Time Expenditure Summary

One-Time Expenditure Reductions		
Descriptions	FY 2013-14	FY 2014-15
SAFER Grant	\$ 3,900,000	\$ 3,900,000
IT Equip & Maintenance	\$ 1,500,000	\$ 2,000,000
Total One-Time Exp. Reductions	\$ 5,400,000	\$ 5,900,000
Total Exp. Reductions	\$ 430,155,612	\$ 457,401,684

Percentage of One-Time Exp. Reductions	1.26%	1.29%
--	-------	-------

V. BALANCING THE FY 2013-15 BUDGET

The Administration used the budget principles to guide its decision-making during the development of this budget and Table 11 summarizes the proposed budget.

The proposed FY 2013-15 GPF budget contains service level augmentation in some areas and reduction in other areas, which will be discussed in the later section. The General Purpose Fund shortfall is further increased due to reductions of other funds. Table 8 below shows the gaps between revenue and expenditure in the proposed FY 2013-15 budget and the related balancing measures proposed for the General Purpose Fund.

Table 8: Summary of Balancing Measures

<i>Balancing Measures</i>	<u>FY 2013-14</u>	<u>FY 2014-15</u>
Revised Projected GPF Revenues	\$429.50M *	\$438.12M*
Revised Baseline GPF Expenditures	<u>\$433.63M</u>	<u>\$454.93M</u>
Baseline GPF Shortfall	(\$ 4.13M)	(\$ 16.81M)
Non-Recovery of OH due to other funds cut	(\$ 1.13M)	(\$ 1.26M)
Increase in Expenditures	(\$ 7.02M)	(\$17.35M)
Total Shortfall:	(\$12.27M)	(\$35.42M)
Expenditure Reductions	\$11.63M	\$16.13M
Increase in Revenues	\$ 1.80M	\$ 7.32M
Utilized Fund Balance:	(\$ 1.16M)	\$11.97M
Net balance:	\$ -0-	\$-0-

**The projected GPF revenue in October 2012 was revised in March 2013 based on latest data available in property tax, sales tax, business license tax, etc. FY 2013-14 projected GPF revenue increased by \$11.51 million and \$8.05 million increased for FY 2014-15.*

Organizational Changes & Service Impacts

This budget makes the following organizational changes to reduce expenditures and administrative layers, and in an effort to improve the effectiveness of individual programs and services by aligning them closely with other related functions. In the Service Impacts section of the Proposed Policy Budget, you will find a summary of all of the proposed changes and related service impacts associated with this proposal.

Other Budget Challenges - Fiscal Uncertainties

Oakland faces uncertainties when it comes to financial planning; these include:

- Changes in federal spending (e.g., sequestration);
- Changes in state spending;
- Measure Y and Wildfire Prevention Assessment District renewal and the impact FYs 2015-17;
- Slower than expected economic recovery;
- Redevelopment “clawback”;
- CalPERS reforms that it will put in place over the next six years;
- Affordable Care Act during the term of this proposed budget, with fiscal impacts not yet settled and an abundance of questions yet to be resolved;
- Five years of structural deficit forecasted;
- \$1B+ of unfunded liabilities and/or deferred capital projects;
- Implementation of the Negotiated Settlement Agreement (NSA) and police staffing; and,
- Potential liabilities.

General Purpose Fund (Fund Balance as of March 2013)

City Council policy mandates that the City set aside 7.5% of the General Purpose Fund budgeted expenditures into a General Fund Reserve. Last year, FY 2011-12, was the first time in five years that the reserve fund had been fully funded at \$30.2 million.

As of March 2013, the General Fund Reserve balance was \$84.6 million. When accounting for City Council appropriations and other expenditures made from the fund balance, as detailed below, the net available “undesignated” fund balance is \$32.5 million.

Table 9: General Purpose Fund Reserve/Undesignated Fund Balance

Gross Ending Fund Balance:	\$84.6 million
Costs related to Redevelopment dissolution, one-time funds to balance	
FY 2012-13 budget, carry-forwards and encumbrances	<u>- \$18 million</u>
Net Fund Balance	\$66.6 million
7.5% GPF reserve per City Council policy	<u>- \$30.2 million</u>
Net Available Ending Fund Balance	\$36.4 million
City Council-approved or recognized revenues/expenditures Dec 2012 – June 2013	<u>- \$3.9 million</u>
General Purpose Fund Undesignated Fund Balance	\$32.5 million

Note: Does not account for anticipated expenditures in FYs 2012-2013 or 2013-2015 (see next section).

Other Anticipated Costs in Excess of Reserve Balance

There are number of anticipated costs, currently estimated at least more than \$40.3 million, which would eliminate the surplus fund balance of \$32.5 million. These costs are primarily related to the State Department of Finance and Controller’s Office’s ongoing review of actions related to Redevelopment

dissolution, litigation, and police overtime for FY 2012-13. Below is some detail related to these anticipated expenditures:

• Potential State reversal of third-party contracts and City Funding Agreement	\$ TBD
• State/ROPS Review	\$TBD
• Land sale reversals following State review of Redevelopment dissolution	\$31-35 million
• Pending litigation settlement agreements (minimum)	\$4.3 million
• Negotiated Settlement Agreement compliance costs	\$TBD
• Police overtime for FY 2012-13 (net after accounting revenue growth)	\$1 million
Total	\$40.3+ million

Budget Concerns in Other Funds

The City has also implemented a number of corrective action plans on non-GPF funds financial challenges. Some result from historical overspending and/or under collection. Others stem from more recent operational shortfalls. Currently, approximately \$99 million remains in negative fund balances which have been paid down by about \$40 million over the past three years. Negative fund balances are a result of overspending or under-recovery of costs. Historically the City has borrowed from available positive funds to cover shortfalls in negative funds. Most of the positive funds are restricted, and therefore the City must repay what it has borrowed. The FY 2013-15 Proposed Budget contains the Council’s policy repayment plan for the City to repay itself, and staff is monitoring this closely. Continued commitment to repayment, especially while interest rates are low, is needed to ensure the necessary financial progress.

Table 10: Status of Negative Fund Balance Repayments

Negative Fund Balance Summary for FY 2010 thru 2013				
Negative Fund Category	Ending Fund Balance FY 2009-10	Ending Fund Balance FY 2010-11	Ending Fund Balance FY 2011-12	Estimated Fund Balance FY 2012-13
1 Negative Funds with Repayment Plan	(98,175,474)	(94,379,909)	(78,766,947)	(69,755,454)
2 Reimbursable Negative Funds	(22,448,746)	(13,525,732)	(18,692,300)	(14,629,751)
3 Non-Reimbursable Negative Funds without Repayment Plan	(17,542,656)	(13,441,408)	(14,031,629)	(14,531,629)
Total Negative Funds	\$ (138,166,876)	\$ (121,347,049)	\$ (111,490,876)	\$ (98,916,834)
FY 2010-10 to FY 2012-13 repayment amount	\$ (39,250,042)			

VI. CAPITAL IMPROVEMENT PROJECTS

A Capital Improvement Program (CIP) represents a major investment in a city's infrastructure and assets. It must balance repair and replacement of existing assets with delivering new assets where they may be needed. It must reflect the overall priorities of the City. It has a huge impact on the health and vibrancy of the community.

Capital projects are defined as a long-term investment that builds, replaces or improves an asset (buildings, roads, parks, sewer and drainage lines, technology systems, etc.) and that has a useful design life of at least ten years and a minimum cost of \$50,000. Oakland's Capital Improvement Program (CIP) is formally reviewed and approved every two years, as part of the biennial policy budget.

There are limited sources of internal funding available for capital improvements, typically with restrictions on their use within broad categories, described below. Grants are another source of funding for capital projects. While often a major source of capital funding, they are even more limited, typically competitive and cyclical in nature.

Internal Sources: The following are the major sources of funding for capital investment in Oakland:

- Sewer Service Fund (Fund 3100). Limited to funding maintenance and capital improvements to the sanitary sewer collection system.
- Measure B - Transportation (Fund 2211). Limited to funding transportation and traffic safety improvements within the public right-of-way.
- Measure B - Bicycle and Pedestrian (Fund 2212). Limited to funding bicycle and pedestrian safety and accessibility improvements within the public right-of-way.
- Vehicle Registration Fee (Fund 2215). Limited to funding transportation and traffic safety improvements within the public right-of-way.

Grant Sources: Additionally, Oakland aggressively pursues grant opportunities for various capital improvements. While by their nature these grants are only available for specific projects and purposes, they do represent a significant addition to local funds. They represent the most viable source to fund new improvements and allow internal funds to be kept available for existing assets.

In the period including the last two fiscal years to date, staff successfully applied for and received a total of \$36 million in grants for 29 capital projects. Staff will continue to seek grants when projects are competitive and meet the City's need to address unfunded priorities.

A total of \$87.8 million is recommended for investment in 27 projects, summarized here:

- Buildings and Facilities — 7 projects, \$1.4 million
- Sewers — 12 projects, \$29.1 million
- Streets, Sidewalks — 10 projects, \$19.6 million
- Traffic Improvements — 5 projects, 4.5 million
- Garage Improvements — 3 projects, \$33.2 million (subject to State Approval of Redevelopment disposition)

Like many older cities, Oakland has an aging infrastructure and a significant backlog of deferred maintenance. The proposed CIP includes funding for only a small portion of this backlog or need, reflecting the limits of existing fund sources. Because of this, a strategic approach to prioritizing the remaining unmet needs is needed. Such an approach will necessarily require an assessment of core City programs, the assets needed to deliver those programs, a condition assessment of those City's assets,

and a long-term funding approach to addressing those assets considered critical to core functions and future growth.

Equipment/Vehicles

The City of Oakland fleet has a current replacement value of \$105 million with an average annual capital funding requirement of \$10.2 million in current dollars. Due to the high number of vehicles currently overdue for replacement, immediate funding needs are high with normal cyclical patterns afterward. In FY 2013-15, the City will purchase \$11.8M in new vehicles.

Information Technology

A Capital Improvement Program (CIP) represents a major investment in a City's Information Technology infrastructure and services. It must maintain, operate and support existing Information Technology architecture in order to provide the necessary services for internal and external City customers. It must reflect the overall priorities of the City. It has a huge impact on public safety, economic development and day to day efficiencies of City government.

Capital projects are defined as a long-term investment that builds and replaces critical technical infrastructure (911 systems, public safety, telecommunications, payroll, etc.) and has a useful design life of three to five years. Staff identified 29 critical projects in an amount of \$85.23 million in the next five years that are in need of upgrade, purchase, and maintenance, but they are not funded. Examples are:

- Infrastructure Improvements – Includes Citywide email replacement, Document and Records Management system, Network Security, and End-User computer devices (replacements laptops and desktops).
- Enterprise Application Services – (Oracle Release 12 upgrade) Payroll, Advanced Benefits, Advanced Collections and Universal Content Management system.
- Public Safety Radio System – provides for additional sites which will enhance coverage in the field and within buildings.
- Data Center Improvements – continuity of operations in a major disaster scenario, which requires having a redundant data center site for preservation of data.
- Accela Fire Prevention – Fire plan checks and inspections are currently handled on a separate system from Accela (CEDA). Implementation of the Accela Fire module will allow for one platform to handle inspections and permits and provide more transparency by allowing citizens to schedule inspections, apply for a permit and print out permits from a centralized point online.

Budget Constraints

During the budget development process, consideration was given to the restrictions placed on the use of the City's General Purpose Fund. Outside of public safety and mandated services, only a small portion of the expenditures are discretionary. Nearly three-quarters of the GPF goes to pay for police, fire, voter-approved ballot measure earmarks, and debt service. Much of the remainder is dedicated to several ballot measures such as Measure Q (libraries) and Measure K/OO/D (Kids First!). These measures require baseline spending levels, so the funds cannot be cut without jeopardizing either the

revenue they generate or other charter requirements. About 5% of the GPF pays for revenue-generating staff and charter-mandated positions, such as elected officials.

VII. FIVE-YEAR PLAN TO FISCAL SUSTAINABILITY

The City has demonstrated its resolve in addressing economic challenges; now is the time to strategically plan for the future in order to preserve essential City services over the long term and increase investment in top community priorities, while maintaining long-term fiscal stability. Under current conditions, our expenditures and long-term financial liabilities are expected to outpace our modest revenue growth. Last fall, the City presented a five-year forecast to establish a clear roadmap of the financial obligations and challenges ahead. Based on historic trends and conservative assumptions, the forecast includes estimates on future revenues and long-term obligations, including retiree medical costs, pension costs and about \$100 million annually in critical deferred maintenance for City building and road repairs, technology upgrades and critical fleet and equipment replacement. Table 11 below illustrates the unfunded and long-term liabilities the City faces over time.

Table 11: Unfunded and Long-Term Liabilities

Unfunded		
Amount	Description	
\$743M	CalPERS	California Public Employees Retirement System. 75% funded.
\$520M	OPEB	Other Post-Employment Benefits. Retiree medical benefits.
\$216M	PFRS	Police and Fire Retirement System. Closed system. City issued bonds to reduce the liability and made advance payments for five years. No new payments until 2017-18, then GPF payment of \$28.5 million/yr. until 2026.
\$743K	OMERS	Oakland Municipal Employees Retirement System. Closed retirement system.
\$ 99M	Negative	Projected by June 30, 2013, 54 out of 173 funds have negative balance; \$70 million of total on repayment plan after \$39 million paid over past 3 years.
\$29.5M	Accrued	Estimated amount owed to employees for accrued vacation and leaves.
\$1.6 Billion	TOTAL	

Deferred Capital Expenses

Additionally, the City has deferred various capital expenses over time because funds have not been available to invest in these critical needs. Below are three categories that illustrated needed levels of investment to keep pace with the City’s capital needs.

- \$7.5 million/year Technology upgrades and replacements.
- \$10.2 million/year Equipment and vehicles.
- \$100 million/year Deferred maintenance and replacement.

Legislative Activities

In Sacramento, a number of legislative proposals are being developed that pertain to economic development and local government. These bills seek to fill the void left by the elimination of redevelopment agencies and provide tools used by local governments to remedy blight, provide affordable housing, and spur local economic development. Several bills are also being proposed that

would change the State Constitution to lower the vote threshold for ballot measures from 2/3 to 55%. Additionally, the State Department of Housing and Community Development has proposed major changes to the Enterprise Zone program which would have a negative impact on Oakland. The legislative process has just begun. Bills would have to go through the legislative process and reach to the Governor's desk to be vetoed or signed into law by October 13.

VIII. BUDGET DEVELOPMENT SCHEDULE, ENGAGEMENT

City Administration has planned several opportunities for residents to participate and provide input with respect to the City's budget-balancing efforts. Table 12 below illustrates key milestones.

Table 12: Budget Development Schedule and Planned Milestones

Date	Planned Milestone
April 2	Council budget workshop held and City Employee Feedback Due
April 15-19	Public Release of Proposed Budget
April 30	Presentation of Proposed Budget to City Council
May	Budget Town Hall Meetings Citywide
May 23	Proposed City Council Budget Hearing #1*
June 13	Proposed City Council Budget Hearing #2*
June 27	Proposed Final City Council Budget Hearing/Adoption*
July 1	Implementation of FY 13-15 Adopted Budget

**Note: Subject to Rules Committee approval.*

Engagement Opportunities for Residents and Employees

City staff has been working hard to open our government to wider public view and increase transparency. This year, for the first time, we will upload the budget to the newly launched open data platform which will allow visualization of budget data and community data "hacking." In addition, there are a number of public information tools and community engagement opportunities underway that will educate and inform the community about the budget and budget-balancing options. These include:

- Fact sheets in English, Spanish and Chinese;
- A survey and community engagement opportunities on EngageOakland.com; and,
- Updated budget web page with all relevant budget documents and resource materials.