DISTRIBUTION DATE: 12/12/13

CITY OF OAKLAND

MEMORANDUM

TO: HONORABLE MAYOR & CITY COUNCIL

FROM: Deanna J. Santana

SUBJECT: Five-Year Financial Forecast Update and Unfunded Actuarial Accrued Liabilities

DATE: December 12, 2013

INFORMATION

The purpose of this information memo is to transmit two key documents that provide an update of the City's fiscal condition and outlook:

(1) Five-Year Financial Forecast Update: October 2012 through June 30, 2013
(2) City's Pension Plans' Unfunded Actuarial Accrued Liabilities (UAAL)

The Five-Year Financial Forecast (FYFF) revision accounts for the FY 2013-15 Adopted Policy Budget, which includes labor costs, sunset of the Wildfire Prevention Assessment District, and re-evaluation of the City's unfunded liabilities. The revisions are based on known information as of June 30, 2013 and a set of assumptions that are stated in the document. This update should be read in the context of the original FYFF, which presents more detailed information and assumptions. The original FYFF (issued October 2012) can be found at: http://www.oaklandnet.com/w/OAK038273.

The Unfunded Actuarial Accrued Liabilities (UAAL) memorandum provides information regarding the City's Unfunded UAAL for the City's four pension plans and retiree health benefits with the latest available re-evaluation. It also includes the active pension plan payment history and projections as well as background and current status of outstanding bonds.

Deanna Santana

DEANNA J. SANTANA
City Administrator

For questions about the FYFF, please contact Donna Hom, Budget Director, at 238-2038. For questions regarding the UALL, please contact Katano Kasaine, Treasurer, at 238-2989.

Attachments (2)
A) Five-Year Financial Forecast Update: October 2012 through June 30, 2013
B) City's Pension Plans' Unfunded Actuarial Accrued Liabilities (UAAL)

ATTACHMENT A

CITY OF OAKLAND

MEMORANDUM

TO: HONORABLE MAYOR & CITY COUNCIL

FROM: Donna Hom, Budget Director

SUBJECT: Update to the FY2013-14 to FY2017-18 Five-Year Financial Forecast

DATE: December 12, 2013

City Administrator Approval: Deanna Santana

Date: 12-12-13

INFORMATION

The purpose of this informational memorandum is to provide an update to the original FY 2013-14 to FY 2017-18 Five-Year Financial Forecast (FYFF) that was released on October 29, 2012 and subsequently updated in the FY 2013-15 Biennial Budget. The data reflects revenue and expenditure projections through June 30, 2013 and have not been adjusted for estimated operational costs and/or potential over spending in FY 2013-14, which will be reported after the second quarter is closed in February 2014.This memorandum also summarizes legislative and administrative actions taken to address the short-term and long-term financial viability of the City and fiscal challenges that will need to be addressed in this and future years.

The FYFF outlines the progress made on closing the gap between projected revenues and expenditures. Whereas a policy budget is a financial plan that supports the organizational goals and priorities and must balance between revenues and expenditures, the FYFF is a tool to assist decision makers and our community in identifying future resource needs and fiscal challenges that will have impacts on the City's financial condition. It is important to note that when formulating a financial plan (budget), the city's service level, economic climate, and priorities must be considered holistically in the context of the quality of life in our City. Resolving the City's financial challenges and structural issues will require long-term strategies and must be balanced with the City's mission to provide services to residents. These challenges are neither recent nor new and will require continued attention and financial discipline. This updated FYFF is a straightforward revised projection of the City's revenues and expenditures over the forecast period (FY 2013-14 to FY 2017-18) based on the 4th quarter unaudited financial report and the known labor agreement terms. It generally assumes that service levels and revenue mechanisms will remain constant at base year (FY 2013-14), but with several exceptions as detailed within this memorandum.

The City Council, City Administration, and other stakeholders, including community members, labor unions, and non-profit service providers have continuously and collectively worked to meet the City's service needs within its limited resources. The City has improved its financial condition despite the economic recession and strengthened its internal controls; nonetheless, tremendous challenges are still ahead and require financial planning on the part of the City. A number of these challenges are described in this memorandum.

Updates to the FY2013-14 to FY2017-18 Five-Year Financial Forecast

On October 29, 2012, the FY2013-14 to FY2017-18 Five-Year Financial Forecast (formerly referred to as the Five-Year Financial Plan) was released, which was subsequently within the FY2013-15 Mayor's proposed budget. Since then, a number of changes have occurred impacting both the expenditure and revenue figures in the original forecast. The Five-Year Financial Forecast has been updated to incorporate revisions that include, but are not limited to:

- Revenue adjustments that incorporate information, trends, and revenue receipts through the close of the fourth quarter of FY 2012-13;
- Eight percent annual increase (estimated) in fringe benefit costs, including medical and other benefits;
- Increased costs related to retirement from increases in CalPERS rate;
- The City's Budget proposal achieves a budgeted staffing at 707 FTEs (10 of which are funded by the COPS grant), which will result in the City exceeding the attrition rate;
- Adjustments to account for ratification of civilian union labor agreements that include Cost of Living Adjustments, pending a Local 21 Temporary Part Time (TPT) agreement;
- Unfunded liability re-evaluation; and,
- Failure to approve the Wildfire Prevention District Assessment.

The 2nd Revenue and Expenditure Report for FY 2013-14 is scheduled to be completed and issued in February 2014, which will account for the latest financial status. At that time, the administration will propose the balancing measure to account for both latest known expenditure and revenue growth. Based on 4th quarter revenue and expenditure, staff projected that in FY 2013-14, the General Purpose Fund will have a surplus of approximately $3.5 million in FY 2013-14 and $5.4 million in FY2014-15. These projections **do not** incorporate projections of expenditures and revenue based on current year (FY2013-14) data, which will be presented in the Second Quarter Revenues and Expenditures report. However, the 2% cost of living adjustment (COLA) for civilian employees in FY 2013-14 and 1% in FY 2014-15 are included. As such, the "surplus" may or may not be realized after accounted for potential overspending and required unfunded expenditures, especially given the historical spending trend at the Police Department. Due to unfunded/deferred capital costs, escalating benefits liabilities, and a number of other issues as detailed above, the City is projected to experience shortfalls of approximately $142.7 million in FY 2015-16, $152.65 million in FY 2016-17, and $177.25 million in FY 2017-18. The majority of the shortfall is the result of needed capital investments that have been differed for years/decades but which the City does have some discretion to delay. Ultimately though, the City will need to fiscally plan for these deferred costs in the near term and begin implementation.

Attached to this memorandum are charts, which incorporate updated Five-Year Financial Forecast figures. **Attachment A** is a side-by-side comparison of projected General Purpose Fund revenues and expenditures for FY 2013-14 to FY 2017-18, while **Attachment B** identifies that same information, but for "All Funds." **Attachments C** and **D** list the major revenue and expenditure categories and their respective values, that were used to create Attachments A and B.

As is the nature of financial forecasts, the data used for this update is subject to change as updated information becomes available and/or changes to the economy occur. The original FY2013-14 to FY2017-18 Five-Year Financial Forecast dated October 29, 2012 can be accessed by using the following link: http://www.oaklandnet.com/w/OAK038273.

Legislative Actions

The City Council has adopted number of financial polices to narrow the gap between projected revenue and expenditure. A list of these financial policies is detailed in **Table 1** below.

Table 1: List of Financial Policies

Policy	Date of Adoption	Resolution/Ordinance #
Policy on Balanced 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	June 27, 2013	Ordinance #13170 C.M.S.
Investment Policy for FY 2013-14	June 18, 2013	Resolution # 84453 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.
FY 2013-15 Adopted Policy Budget	June 27, 2013	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. Some examples are:

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;

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 collections;
6. Closely monitor revenue realization and distinguish one-time vs. on-going revenue;
7. Review and modify service fee charges to the extent to cover costs;
8. Review and modify internal service rate calculation;
9. Provided City Council with a "policy tradeoff and service buyback list" for informed decision making;
10. Take refinancing opportunities to lower cost of debt and payments; and,
11. Expand expenditure controls (supplies, travel, etc.).

Long-Term Structural Measures

A few key actions to structurally manage the City's long-term financial practices are:

1. Maintain 7.5% General Purpose Fund reserve, which increases to up to 10% when funds are made available (Ordinance #13134 C.M.S.);
2. Use of one-time revenue for one-time expenditure (Ordinance #13134 C.M.S.);
3. Increase investment in the Capital Improvement Program (Ordinance #13134 C.M.S. and FY 2013-15 Budget, Resolution #86644 C.M.S.);
4. Negotiated with Oakland Police Officer's Association to make 9% contribution toward their pension effective **July 2011**;
5. Negotiated with all labor unions establishing the second tier of the pension benefit level, which modified for public safety employees from 3% @ 50 formula to 3% @ 55 (effective **February 2012)** and for civilian employees from 2.7% @55 formula to 2.5% @ 55 (effective **June 2012**);
6. 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**;
7. Pay down the long-term liability of $534,500 in FY 2013-15 (resolution #86644 C.M.S.) and $20 million in FY 2015-17;
8. Pay down the negative fund balance with a repayment plan by allocating funding and utilizing one-time revenues (Ordinance #13134 C.M.S. and FY 2013-15 Budget, Resolution #86644 C.M.S.); and
9. Issued a pension bond to reduce/refinance Police and Fire Retirement System (PFRS) outstanding debt and increase funding ratio to the amount of $250 million in 2012 (Resolution #83940). As the result, the PFRS outstanding debt funded ratio was increased from 37.5% in June 2012 to 68.3% in July 2012. While the City must pay the debt in the long-term, refunding some of the long-term liability also enables the available funds to generate greater returns and will thereby further reduce the City's Unfunded Actuarial Accrued Liabilities (UAAL).

The three-tier pension benefit helps to ease the financial condition in the long-term and anticipated savings are not projected and relatively unknown at this time because the savings are dependent on rate and type of hiring. Some of the features are within the State Pension Reform regulation (AB340), which is required to be implemented on or before January 1, 2018. The pension reform in Oakland is summarized in the **Table 2** below.

Table 2: Summary of Pension Reforms

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

[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 salary for civilian employees
[2] 3% of the 3 years average salary at age 55 for public safety employees and 2.5% highest three consecutive years average at age 55 for civilian employees
[3] 2.7% of final 3 years average salary and subject to established cap at age 57 for public safety employees; 2.0% of final 3 years average salary and subject to established cap at age 62 for civilian employees

Fiscal Issues on the Horizon

Presented at the July 16, 2013 City Council meeting were a number of fiscal issues that will have General Purpose Fund (GPF) impacts and should be considered in the context of developing future City budgets and/or the Jan/Feb 2014 rebalance or Mid-Cycle Budget Review (June 2014). Below is a list of those fiscal issues:

1. Unknown economic recovery level as well as state/federal budget status, and impact to FY13-15 budget projections;
2. Likely resources required as the result of the Labor-Management joint committee, which will work on outstanding concerns and issues;
3. Voter rejecting of Wildfire District renewal ($1.9M impact);
4. No subsidies funded for Head Start in the second year ($1.5M);
5. Unknown voter approval for reauthorization for "Measure Y" (or an amended version of Measure Y) in Y3 ($20M);
6. The likely termination of the SAFER grant inY3 ($7.8M/year);
7. GPF growth is subject to earmarks for Kid's First, as well as other recent earmarks (e.g. affordable housing, KTOP, etc.)
8. OPD's expenditures generally exceeds its budget each year and year-end accrued expenditures presently are above and beyond adopted budget with respect to overtime (approximately $10-$12M each year historically), causing a "balloon" payment due at end of fiscal year without Council identification of fund source;
9. A number of one-time Public Works projects: illegal dumping, littering, graffiti, & park maintenance ($700K with on-going staff costs, which means either future funding must be made available to continue the services or the services will be reduced when the one-time funding exhausted);

10. One-time funding gap in the adopted budget (One-time Exp. exceeds one-time Rev.);
11. Non-GPF accounts/expenditures will need GPF dollars to sustain Cost of Living Adjustment (COLA) for funds that have negative fund balance or can't absorb the 2%/1% COLAs approved;
12. Public safety MOUs expire during this two-year budget, fiscal impact unknown and no funding appropriation has been identified for the immediate Local 55 bargaining needs;
13. Radio equipment replacement cost for immediate operational needs ($25 + million);
14. Future escalating costs of pension and medical benefits provided through CalPERS;
15. IT staffing needs to sustain City's critical service needs.

Long-Term Unfunded Liabilities

Like many municipalities, the City has accrued significant unfunded long-term liabilities related to pension/retirement costs, which continue to escalate due to increases in health care costs and a number of other factors. Per the latest actuarial figures, the City has approximately $1.5 billion in unfunded pension/retirement costs. A breakdown of the unfunded liability by type is detailed in attached information memo titled, "Five Year Financial Forecast Update and Unfunded Actuarial Accrued Liabilities," dated December 12, 2013.

What this FYFF is <u>not</u> about?

The FYFF is **<u>not</u>** an actual report of revenues and expenditures, it is a forecast based on historical data, the adopted FY2013-15 Biennial Budget, professional economist forecasting methodologies, and a set of assumptions that were stated in the original document published on October 29, 2013. In February of 2014, the City will publish its Second Quarter Revenue and Expenditure report, which will forecast expenditure and revenues for the current FY2013-14 fiscal year and will incorporate trends in spending and economic activity observed in the first half of the fiscal year.

The FYFF is **<u>not</u>** a budget modification. The City Council may at any time consider amendments to its FY 2013-14 budget to address new challenges, fiscal issues, or service demands. The City Council will also consider amendments to its FY2014-15 budget through the mid-cycle budget amendment process in the spring of 2014.

The City has historically released five-year financial forecasts and biennial budgets. As such, the five-year forecast is **<u>not</u>** meant to be a five-year budget. The next FYFF is scheduled to be released in February 2015 in accordance with the Budget Process Transparency & Public Participation Policy (Resolution #84385 C.M.S.). .

Respectfully submitted,

/s/

DONNA HOM
Budget Director

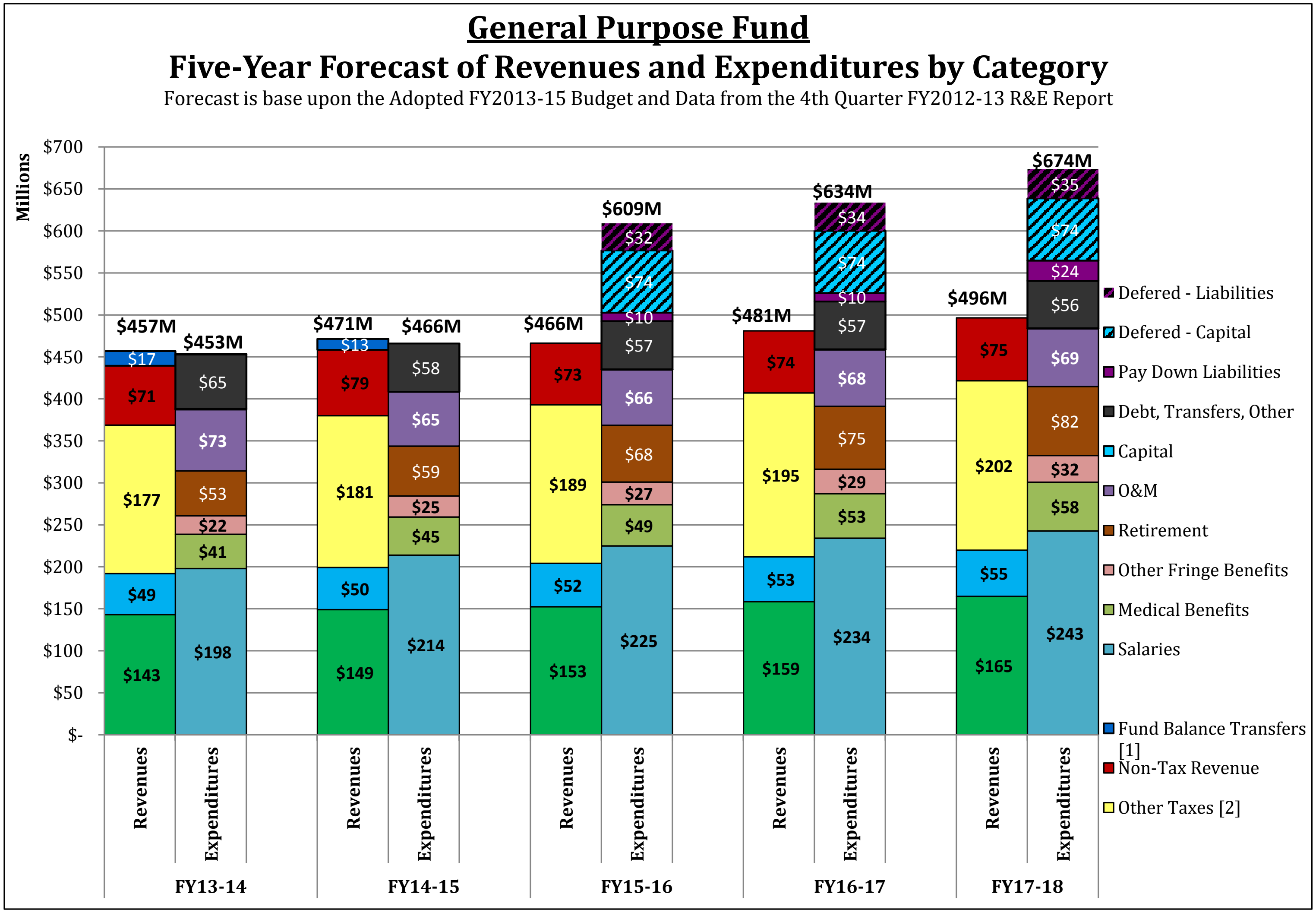
Prepared by: Michael K. Kek
Assistant to the City Administrator

Reviewed By: Bradley Johnson
City Administrator Analyst

For questions, please contact Donna Hom, Budget Director, at (510) 238-2038

Attachments (4)
A) Chart General Purpose Fund Five-Year Forecast of Revenues and Expenditures by Category
B) Chart All Funds Five Year Forecast of Revenues and Expenditures by Category
C) Detail General Purpose Fund Five Year Forecast of Revenues and Expenditures by Category
D) Detail All Funds Five Year Forecast of Revenues and Expenditures by Category

ATTACHMENT A

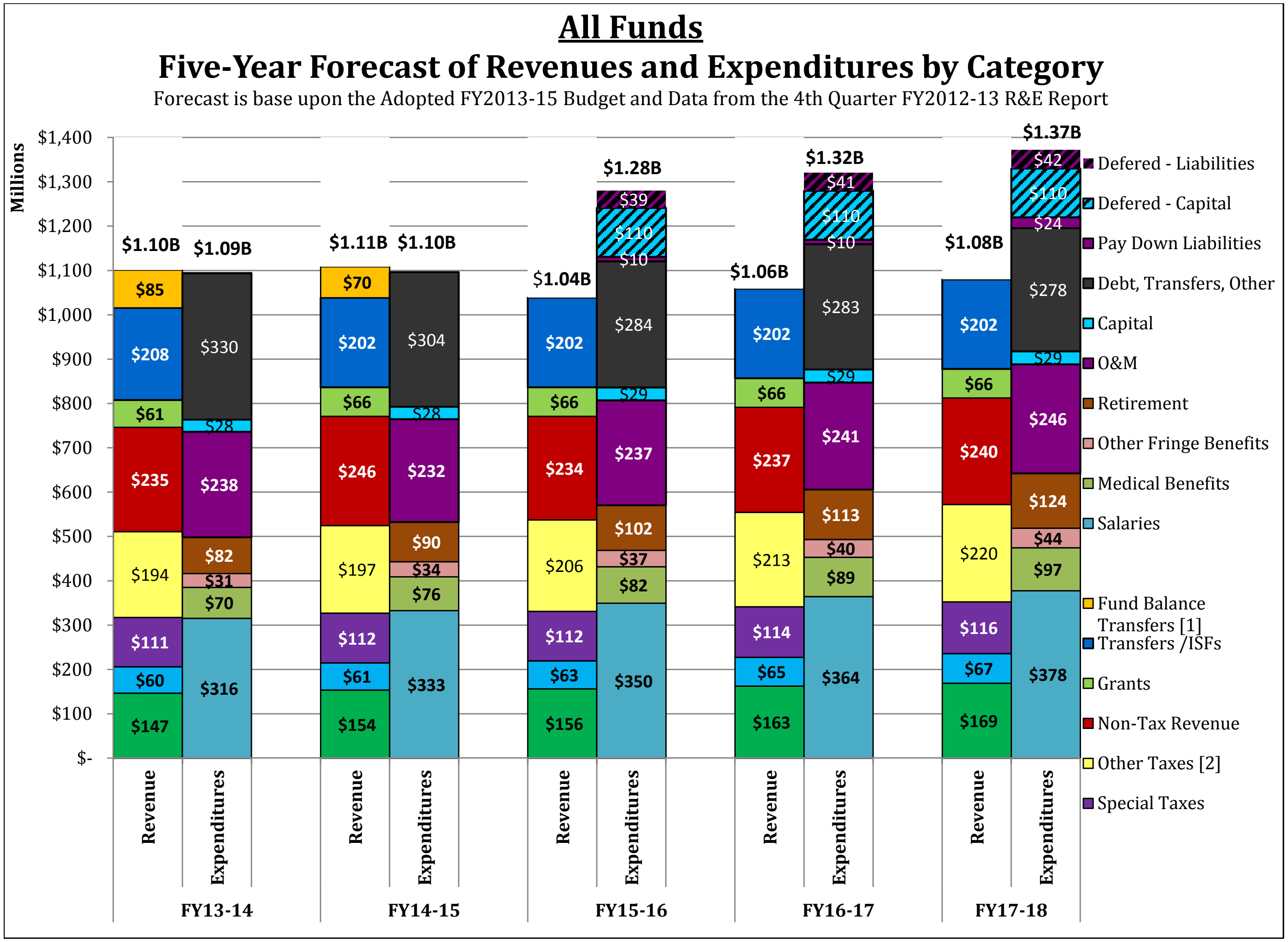


Notes: This chart is a comparison of projected revenue and expenditures over five-years. Revenue growth is based on year-end actuals and revenues forecasted per the FY2012-13 4th Quarter Revenue and Expenditure Report. Projected expenditure growth is based on budgeted expenditures per the Adopted Biennial FY2013-15 Policy Budget and projected expenditures. This data does not account for a potential decrease in FY 2017-18 police retirement expenditures as a result of State pension law reform.

[1] Fund Balances are utilized in fiscal years 2013-14 ($17M) and 2014-15 ($13M) to balance the budget but these revenues are projected to not be available in future fiscal years.

[2] "Other Taxes" includes the following revenue sources: Gas Tax, Business License Tax, Utility Consumption Tax, Real Estate Transfer Tax, Transient Occupancy Tax, and Parking Tax.

ATTACHMENT B



Notes: This chart is a comparison of projected revenue and expenditures over five-years. Revenue growth is based on year-end actuals and revenues forecasted per the FY2012-13 4th Quarter Revenue and Expenditure Report. Projected expenditure growth is based on budgeted expenditures per the Adopted Biennial FY2013-15 Policy Budget and projected expenditures. This data does not account for a potential decrease in FY 2017-18 police retirement expenditures as a result of State pension law reform.

Revenues have been adjusted for the 25% set-aside of redevelopment dissolution funds for the Affordable Housing Trust Fund (Ordinance #13193) and assumes no revenues for the Wildfire Prevention District for FY2015-16, FY2016-17, FY2017-18 due to non-passage in November 2013 and expenditure of all remaining fund balances.

[1] Fund Balances are utilized in fiscal years 2013-14 ($85M) and 2014-15 ($70M) to balance the budget but these revenues are projected to not be available in future fiscal years.

[2] "Other Taxes" includes the following revenue sources: Gas Tax, Business License Tax, Utility Consumption Tax, Real Estate Transfer Tax, Transient Occupancy Tax, and Parking Tax.

ATTACHMENT C

Five-Year General Purpose Fund Revenue and Expenditure Forecast					
Category	**FY13-14**	**FY14-15**	**FY15-16**	**FY16-17**	**FY17-18**
Revenues					
Property Tax	$ 143,208,460	$ 149,131,532	$ 152,518,213	$ 158,618,942	$ 164,963,699
Sales Tax	$ 48,780,000	$ 50,216,000	$ 51,722,480	$ 53,274,155	$ 54,872,379
Other Taxes	$ 176,795,000	$ 180,619,000	$ 188,784,600	$ 195,191,539	$ 201,860,787
Non-Tax Revenue	$ 70,780,122	$ 78,588,610	$ 73,306,009	$ 74,037,756	$ 74,784,138
Fund Balance Transfers	$ 17,456,277	$ 12,968,307	$ -	$ -	$ -
Total Revenues	**$ 457,019,858**	**$ 471,523,449**	**$ 466,331,302**	**$ 481,122,391**	**$ 496,481,003**
Expenditures					
Salaries	$ 198,030,155	$ 213,933,211	$ 224,877,488	$ 234,165,554	$ 242,677,946
Medical Benefits	$ 40,784,889	$ 45,487,927	$ 49,126,961	$ 53,057,118	$ 58,074,152
Other Fringe Benefits	$ 22,059,897	$ 24,975,973	$ 26,974,051	$ 29,131,975	$ 31,883,569
Retirement	$ 53,422,971	$ 59,390,349	$ 67,605,037	$ 74,777,577	$ 82,062,665
O&M	$ 73,044,371	$ 64,618,218	$ 66,256,052	$ 67,581,173	$ 68,932,797
Capital	$ 805,000	$ -	$ 500,000	$ 500,000	$ 500,000
Debt, Transfers, Other	$ 64,806,163	$ 57,738,570	$ 57,365,395	$ 56,885,529	$ 56,409,735
Pay Down Liabilities	$ 534,500	$ -	$ 10,000,000	$ 10,000,000	$ 24,239,438
Deferred - Capital	$ -	$ -	$ 74,090,000	$ 74,090,000	$ 74,090,000
Deferred - Liabilities	$ -	$ -	$ 32,244,399	$ 33,580,297	$ 34,859,939
Total Expenditures	**$ 453,487,946**	**$ 466,144,248**	**$ 609,039,384**	**$ 633,769,223**	**$ 673,730,240**
Differences:	**$ 3,531,912**	**$ 5,379,201**	**$ (142,708,082)**	**$ (152,646,832)**	**$ (177,249,237)**

ATTACHMENT D

All City Funds										
Category		**FY13-14**		**FY14-15**		**FY15-16**		**FY16-17**		**FY17-18**
Revenues										
Property Tax	$	146,756,312	$	153,646,312	$	156,354,058	$	162,608,220	$	169,112,549
Sales Tax	$	59,536,472	$	61,255,126	$	63,092,780	$	64,985,563	$	66,935,130
Special Taxes	$	111,328,464	$	112,240,359	$	111,841,632	$	114,078,465	$	116,360,034
Other Taxes	$	193,504,982	$	197,485,382	$	205,987,478	$	212,742,193	$	219,770,882
Non-Tax Revenue	$	235,227,938	$	246,378,694	$	233,844,564	$	236,996,495	$	240,211,464
Grants	$	61,499,051	$	65,565,704	$	65,565,704	$	65,565,704	$	65,565,704
Transfers /ISFs	$	207,916,831	$	202,040,148	$	202,040,148	$	202,040,148	$	202,040,148
Fund Balance Transfers	$	85,220,726	$	69,783,624	$	-	$	-	$	-
Total Revenues	**$**	**1,100,990,776**	**$**	**1,108,395,349**	**$**	**1,038,726,363**	**$**	**1,059,016,787**	**$**	**1,079,995,911**
Expenditures										
Salaries	$	315,626,050	$	332,840,549	$	349,593,315	$	364,449,584	$	377,573,736
Medical Benefits	$	69,733,661	$	76,056,137	$	82,093,406	$	88,658,758	$	97,079,900
Other Fringe Benefits	$	31,078,857	$	34,423,400	$	37,163,953	$	40,136,471	$	43,941,823
Retirement	$	81,931,182	$	89,519,189	$	101,551,434	$	112,607,092	$	123,679,030
O&M	$	237,882,141	$	231,739,160	$	236,678,181	$	241,407,419	$	246,231,337
Capital	$	27,524,939	$	28,290,419	$	29,290,419	$	29,290,419	$	29,290,419
Debt, Transfers, Other	$	329,944,141	$	303,525,079	$	284,356,996	$	283,083,055	$	277,914,947
Pay Down Liabilities	$	534,500	$	-	$	10,000,000	$	10,000,000	$	24,239,438
Deferred - Capital	$	-	$	-	$	110,200,000	$	110,200,000	$	110,200,000
Deferred - Liabilities	$	-	$	-	$	39,278,161	$	40,644,850	$	41,931,541
Total Expenditures	**$**	**1,094,255,471**	**$**	**1,096,393,933**	**$**	**1,280,205,865**	**$**	**1,320,477,649**	**$**	**1,372,082,172**
Differences:	**$**	**6,735,305**	**$**	**12,001,416**	**$**	**(241,479,501)**	**$**	**(261,460,861)**	**$**	**(292,086,261)**

ATTACHMENT B

CITY OF OAKLAND

MEMORANDUM

TO: HONORABLE MAYOR & CITY COUNCIL

FROM: Katano Kasaine

SUBJECT: SEE BELOW

DATE: December 12, 2013

City Administrator Approval: Deanna Santana   Date: 12-12-13

INFORMATION

SUBJECT: City's Pension Plans' Unfunded Actuarial Accrued Liabilities (UAAL)

The purpose of this memorandum is to provide information regarding the City's unfunded actuarial accrued liabilities (UAAL) for the City's pension plans and retiree health benefits.

The City maintains two closed pension systems, the Police and Fire Retirement System ("PFRS") and the Oakland Municipal Employees Retirement System ("OMERS"). In addition, the City is a member of the California Public Employees' Retirement System ("CalPERS"), a multiple-employer pension system that provides a contributory defined-benefit pension for most current employees. ***The table below provides a summary of the City's pension plans.***

Plan	Accrued Liability	Assets	Unfunded Liability	Funded Ratio	Employer Rate[1]	Employer Contribution[1]	Valuation Date
PFRS	$640,908,000	$437,219,000	$203,689,000	68.20%	N/A	$0 [2]	7/1/2012
OMERS	$3,630,000	$4,448,000	($818,000)	122.50%	N/A	$0	7/1/2012
PERS--Public Safety	1,398,098,675	1,080,138,724	317,959,951	77.30%	35.15%	45,671,030	7/1/2012
PERS--Miscellaneous	2,080,205,749	1,655,997,001	424,208,748	79.60%	30.16%	60,825,829	7/1/2012

(1) Rates and Employer Contribution is for Fiscal Year 2014-2015
(2) FY 2013-14 contribution is zero based on the funding agreement between the City and PFRS. As part of this agreement, $210 million in pension obligation proceeds was deposited into the PFRS trust in late July 2012 and the City is not required to contribute during the prepayment period (7/1/2012 – 6/30/2017).

In addition, the City has three programs in place to pay the partial costs of health insurance premiums for certain classes of retirees. As of July 1, 2012, the City's Post-Employment Benefits Other than Pensions ("OPEB") liability is currently computed at $553.5 million as shown in the table below. For fiscal year 2013, the City's cumulative annual required contribution ("ARC") for post employment benefits was $215.3 million and the City anticipates paying approximately $17.6 million on a pay-as-you-go basis for retirees in a City-sponsored PERS health benefit plan.

FY Ended	Accrued Liability	Unfunded Liability	Annual OPEB Cost	Employer Contribution	Net OPEB Obligation
2013	$553,530,074	$553,530,074	$46,291,501	$17,622,496	$215,252,287

More detail regarding the City's pension plans and OPEB is provided below.

THE POLICE AND FIRE RETIREMENT SYSTEM DEBT OBLIGATIONS

Plan	Accrued Liability	Assets	Unfunded Liability	Funded Ratio	Employer Rate(1)	Employer Contribution(1)	Valuation Date
PFRS	$640,908,000	$437,219,000	$203,689,000	68.20%	N/A	$0 (2)	7/1/2012

(1) Rates and Employer Contribution is for Fiscal Year 2013-2014
(2) FY 2013-14 contribution is zero based on the funding agreement between the City and PFRS. As part of this agreement, $210 million in pension obligation proceeds was deposited into the PFRS trust in late July 2012 and the City is not required to contribute during the prepayment period (7/1/2012 – 6/30/2017).

The Police and Fire Retirement System ("PFRS System") is a closed pension system that provides pension, disability and beneficiary payments to retired Police and Fire sworn officers hired prior to July 1, 1976. As of July 1, 2012, PFRS covered one active employee and 1,082 retired employees and/or their beneficiaries. An actuarial valuation of PFRS is conducted at least every two years; the most recent valuation was based on data as of July 1, 2012. The City deposited $210 million in pension obligation proceeds into PFRS late July 2012 as part of the funding agreement between the City and PFRS (see "2012 Pension Obligation Bonds" section below). As of the July 1, 2012 actuarial report, The Actuarial Value of Plan Assets for PFRS was $437.2 million with an unfunded Actuarial Liability of $640.9 million, resulting in a funding ratio of 68.2%, which is the ratio of the plan's assets to its liabilities.

By making the one-time deposit to PFRS, the City will not be required to make any further periodic payments to PFRS through June 30, 2017. However, for comparison purposes and to track the impact of the 2012 POBs, the table below present the results of the contribution of the 2012 POBs when compared to if no contribution were made. The depositing of $210 million to PFRS increased the asset value which decreased the unfunded liability thus increasing the funded ratio. As a result, the employer annual contribution and contribution rate decreased from $37.7 million to $20.3 million and from 31.5% to 16.9% respectively for FY 2013-14 as shown in table below.

	FY 2013/14 Without POB	FY 2013-14 With POB
Actuarial Liability	$640,908	$640,908
Actuarial Value Asset	253,989	437,219
Unfunded Liability	386,919	203,689
Funding Ratio	39.6%	68.2%
Annual Employer Contribution	37,677	20,270
Contribution Rate (% of payroll)	31.5%	16.9%

2012 Pension Obligations Bonds

On July 30, 2012, the City issued Taxable Pension Obligation Bonds, Series 2012 ("2012 POBs") of approximately $212.5 million to fund (1) a portion of the current balance of the City's unfunded actuarial accrued liability ("UAAL") for retirement benefits for the members of PFRS and (2) a lump-sum payment in the amount of $210,000,000 to PRFS, which equals the present value of the payments the City would otherwise be required to make to amortize the current balance of the City's UAAL through June 30, 2017. As a result, the City will not be required to make any further periodic payments to the Retirement System through June 30, 2017, thereby providing temporary relief to the City's general fund.

By issuing the 2012 POBs and making a one-time deposit of approximately $210 million, the City reduced the PFRS' UAAL from $426.8 million to $216.8 million and increased the funded ratio from 37.5% to an estimated ratio of 68.3%, thus reducing the City's annual required contribution. Additionally, pre-funding some of the long-term liability will enable the fund the opportunity to generate greater returns and will thereby further reduce the City's UAAL over the long-term.

In fiscal year 2012, the general fund paid approximately $46.5 million to PFRS for pension, disability and beneficiary payments and would have continued to pay a net estimate of $30 million for fiscal year 2013 if the City did not issue the 2012 POBs. Given the current economic environment and the City's need to maintain a balanced budget, the General Fund would not support the payments to PFRS without major reductions to core services.

Most importantly, the 2012 POBs allow the City to structure the payment obligations for PFRS with the available dedicated revenue sources for PFRS, thus mitigating the fiscal impact on the City's general fund. PFRS has a dedicated revenue source, the Tax Override Revenues (TOR), in which Oakland property owners are assessed a special tax to fund PFRS obligations. The TOR is outside of the General Fund and is pledged to the bonds, unlike other pension obligation bond structures which generally do not have a dedicated revenue source to fund the debt payments. The 2012 POBs are structured to match the available TOR with the PFRS obligations, through maturity (2026).

2001 Pension Obligations Bonds

On October 17, 2001, the City issued $195.6 million of Taxable Pension Obligation Bonds ("2001 POBs"). The 2001 POBs refunded the 1997 POBs in order to reduce average annual debt service payments to a level at or below the anticipated Tax Override Revenues received by the City and to minimize the need for the City to use other revenues beside the Tax Override Revenues to pay for such debt service. It was restructured in a manner which extended the final maturity date from 2010 to 2023, resulting in reducing the annual debt service payments for the City. Given that in some past years the tax override revenue exceeded the debt service obligation due to the restructuring, resulted in excess tax override revenue of approximately $67.5 million.

Series 2008 Bonds

The 2008 Bonds were issued to refund and defease all of the outstanding JPFA's Refunding Revenue Bonds, 2005 Series A and B, which refunded the outstanding Lease Revenue Bonds, 1998 Series A that refunded the original bonds, Special Refunding Revenue Bonds, (Pension Financing) 1988 Series A, which was issued by the City to fund a portion of the City's obligation under its Charter to make payments to its PFRS System in order to fund retirement benefits accruing to the members of the PFRS System.

To support funding the PFRS System, in 1976 Oakland voters approved a property tax add-on ("Tax Override") known as Measure R. The 1985 State legislation limited the Tax Override rate to 0.1575%, and the City has levied the 0.1575% rate since 1983. On June 7, 1988, the voters of the City adopted Measure O (the "Measure O") by a 71% vote extending the period for amortizing the unfunded liability by 10 years, to 2026, as described in Resolution No. 65264. Funding for the debt service of the pension bonds are allowed under Measure R and Measure O. In addition, the City purchased an annuity with New York Life (the "Annuity") in 1985 to be used to pay a portion of the City's obligation to PFRS retiree. Currently, the Tax Override and the Annuity are used to pay debt service on PFRS related bonds as shown in the table 1. ***The debt service on PFRS related bonds are structured in a manner that they could be fully covered from the tax override revenues as shown in the table 2 and table 3.*** Please note that a conservative growth rate assumption of 2% is used for the tax override revenue in table 2. In comparison, the City experienced a historical average growth of 5.69% the last 25 years, which is used in table 3. Also, shown in the chart below is the tax override revenue at 2% (solid line) and 5.69% (dotted line).

Summary of PFRS Debt Obligations
Table 1

Issue Name	Issue Date	Final Maturity Date	Original Par Amount	Outstanding Par Amount	Interest Rate
Taxable POBs Series 2001	10/17/2001	12/15/2022	$195,636,449	$174,776,566	6.09% - 6.89%
Taxable POBs Series 2012	7/12/2012	12/15/2025	212,540,000	212,540,000	2.37% - 4.68%
Tax-Exempt Series 2008A-1	4/16/2008	1/1/2017	107,630,000	64,865,000	3.00% - 5.25%
Taxable Series 2008A-2	4/16/2008	1/1/2014	20,330,000	10,285,000	3.45% - 4.69%

PFRS Debt Service
TOR[(1)] at 2% Growth
Table 2

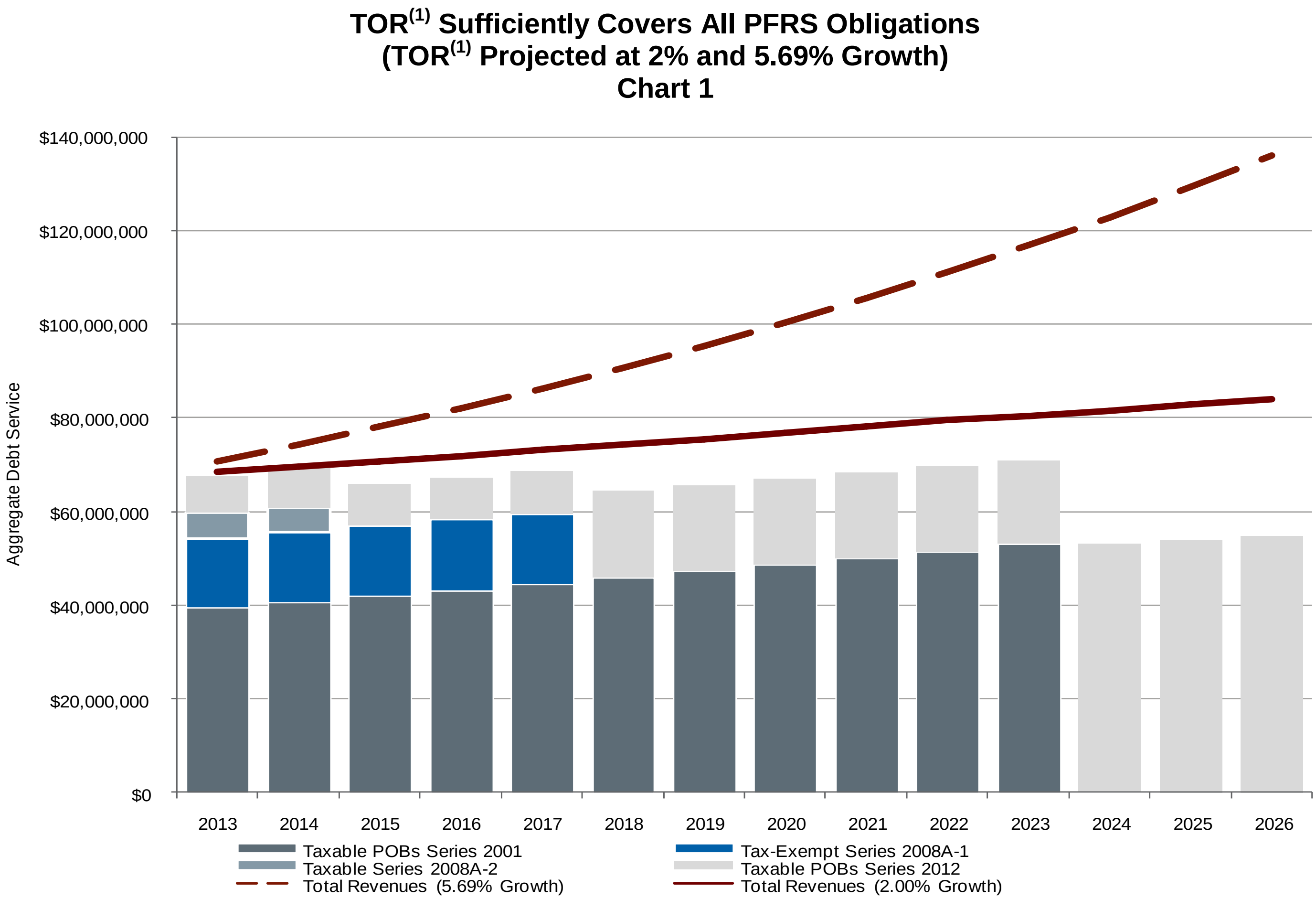
Fiscal Year (June 30)	Taxable POBs Series 2001	Taxable POBs Series 2012	Tax-Exempt Series 2008A-1	Taxable Series 2008A-2	Total Outstanding Debt Service	Total Revenues (2.00% Growth)	Excess TOR
2013	$39,555,000	$7,841,067	$14,697,750	$5,532,247	$67,626,064	$68,648,071	$1,022,007
2014	40,765,000	8,961,220	14,820,750	5,470,053	70,017,023	72,726,530	2,709,508
2015	42,010,000	8,961,220	14,935,550		65,906,770	73,429,550	7,522,780
2016	43,285,000	8,961,220	15,073,350		67,319,570	74,162,942	6,843,372
2017	44,590,000	8,961,220	15,095,950		68,647,170	74,932,831	6,285,661
2018	45,925,000	18,511,496			64,436,496	75,744,633	11,308,137
2019	47,295,000	18,413,458			65,708,458	76,603,334	10,894,876
2020	48,700,000	18,326,222			67,026,222	77,512,816	10,486,594
2021	50,140,000	18,241,900			68,381,900	78,475,754	10,093,854
2022	51,620,000	18,140,385			69,760,385	79,494,119	9,733,734
2023	53,130,000	17,894,170			71,024,170	80,569,096	9,544,926
2024		53,273,555			53,273,555	81,701,148	28,427,593
2025		54,079,805			54,079,805	82,890,115	28,810,310
2026		54,858,285			54,858,285	84,135,415	29,277,130
Total	**$507,015,000**	**$315,425,223**	**$74,623,350**	**$11,002,300**	**$908,065,873**	**$1,081,026,352**	**$172,960,480**

[(1)] **Tax Override Revenues (TOR)**

PFRS Debt Service
TOR[1] at 5.69% Growth (historical 25 year average)
Table 3

Fiscal Year (June 30)	Taxable POBs Series 2001	Taxable POBs Series 2012	Tax-Exempt Series 2008A-1	Taxable Series 2008A-2	Total Outstanding Debt Service	Total Revenues (5.69% Growth)	Excess TOR
2013	$39,555,000	$7,841,067	$14,697,750	$5,532,247	$67,626,064	$70,906,310	$3,280,246
2014	40,765,000	8,961,220	14,820,750	5,470,053	70,017,023	77,416,667	7,399,644
2015	42,010,000	8,961,220	14,935,550		65,906,770	80,736,026	14,829,256
2016	43,285,000	8,961,220	15,073,350		67,319,570	84,281,618	16,962,048
2017	44,590,000	8,961,220	15,095,950		68,647,170	88,071,650	19,424,480
2018	45,925,000	18,511,496			64,436,496	92,124,329	27,687,833
2019	47,295,000	18,413,458			65,708,458	96,458,179	30,749,721
2020	48,700,000	18,326,222			67,026,222	101,091,408	34,065,186
2021	50,140,000	18,241,900			68,381,900	106,041,854	37,659,954
2022	51,620,000	18,140,385			69,760,385	111,327,534	41,567,149
2023	53,130,000	17,894,170			71,024,170	116,966,613	45,942,443
2024		53,273,555			53,273,555	122,977,520	69,703,965
2025		54,079,805			54,079,805	129,379,105	75,299,300
2026		54,858,285			54,858,285	136,190,902	81,332,617
Total	**$507,015,000**	**$315,425,223**	**$74,623,350**	**$11,002,300**	**$908,065,873**	**$1,413,969,715**	**$505,903,843**

[1] **Tax Override Revenues (TOR)**



(1) Tax Override Revenues (TOR)

As depicted in the table and chart above, two of the PFRS-related debt obligations will mature in 2013-14 and 2017-18 (i.e., 2008 JPFA Refunding Bonds, Series A-1 and Series A-2). Also, beginning in FY 2015-16 general fund related debt will mature (i.e., Convention Center and Master Leases). As a result, the City will realize savings from these debt maturities (2015 to 2018). Therefore, after the prepayment period ends for 2012 POBs (June 30, 2017), the City is in a better position to support the annual contribution to PFRS with additional general fund contributions due to the declining debt service. In addition, the City will appropriate $10M in FY 2015-16 and an additional $10M in FY 2016-17 to a reserve for unfunded pension and OPEB liabilities, as directed by City Council.

OAKLAND MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (OMERS)

Plan	Accrued Liability	Assets	Unfunded Liability	Funded Ratio	Employer Rate[1]	Employer Contribution[1]	Valuation Date
OMERS	$3,630,000	$4,448,000	($818,000)	122.50%	N/A	$0	7/1/2012

(1) Rates and Employer Contribution is for Fiscal Year 2013-2014

Oakland Municipal Employees Retirement System ("OMERS") is the second closed pension system, which covers active non-uniformed employees hired prior to September 1, 1970 who have not transferred to CalPERS. The program covers no active employees and 28 retired employees as of July 1, 2012. OMERS is administered by a seven-member Board of Administration. An actuarial valuation of OMERS is conducted every three years; the most recent complete valuation was for the period ended July 1, 2012 prepared by Bartel Associates, LLC. Significant actuarial assumptions used to compute the contribution requirement include a 6.25% investment rate of return, inflation rate of 3.25%, future benefit increase of 3% and mortality rates. Based on the actuarial report, the plan is overfunded (122.5%) with an actuarial value of plan assets of $4.4 million and actuarial liabilities of $3.6 million.

As part of the actuarial valuation, Bartel did an actuarial experience study of OMERS fund which resulted in the following assumption changes for the July 1, 2012 actuarial valuation.

- Lowering the discount rate from 6.50% to 6.25%
- Decrease in the assumed rate of increase in administrative expense from 3.5% to 3.375%
- Adjust the COLA benefit
- Update data on eligible spouses resulted in removal of 3 spouses from valuation data

Along with the changes mentioned above, higher than expected investment returns averaging 12.7% per year, lower administrative charges than anticipated, and a greater number of deaths with fewer surviving spouses than anticipated increased the funded ratio from 86.4% to 122.5% and resulted in no contribution for FY 2013-14.

Alternative Funding Option for OMERS

The cost to administer OMERS continues to rise relative to the amount of monthly benefits being disbursed to retirees, so OMERS Board decided to hire Dietrich & Associate, Inc. as the annuity service provider to educate and discuss the potential of transferring the plan liability to a more cost-effective structure utilizing group annuity contracts.

The OMERS Board is exploring the option of group annuity contracts in place of the current administrative and third party services being provided, including the investment managers, consultant, and actuarial services.

Group annuity contracts allow for the complete transfer of pension risk away from the plan sponsor, in this case the City of Oakland, to a third party insurance provider. The annuity provider then assumes 100% of the liability of administering plan benefits to plan participants for the life of their retirement. All benefits currently offered to OMERS retirees would be continued under the group annuity contract. The Group Annuity provides the following benefits:

- Fully transfers risk, including investment, longevity and benefit option risk
- Completely assumes administrative, actuarial, consulting and investment management expenses
- Removes the pension liability from the City of Oakland balance sheet

The cost of funding a group annuity is a one-time charge of approximately 10% of the market value of the plan assets at the time of funding. It is important to note that this is a one-time charge and alleviates the City from incurring additional expenses in the future years.

There is counterparty risk associated with the annuity structure that needs to be considered. In general, OMERS retirees would have little to no recourse in the event that the insurance provider was to become insolvent. This area needs to be explored by the OMERS Board and its legal counsel.

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CalPERS)

Plan	Accrued Liability	Assets	Unfunded Liability	Funded Ratio	Employer Rate(1)	Employer Contribution(1)	Valuation Date
PERS--Public Safety	1,398,098,675	1,080,138,724	317,959,951	77.30%	35.15%	45,671,030	7/1/2012
PERS--Miscellaneous	2,080,205,749	1,655,997,001	424,208,748	79.60%	30.16%	60,825,829	7/1/2012

(1) Rates and Employer Contribution is for Fiscal Year 2014-2015

California Public Employees Retirement System ("CalPERS") is a defined-benefit plan administered by the State and covers all uniformed employees hired after June 30, 1976 and all non-uniformed employees hired after September 1, 1970 as well as certain former members of PFRS and OMERS. CalPERS acts as a common investment and administrative agent for public entities participating with the State of California. CalPERS is a contributory plan deriving funds from employee contributions as well as employer contributions and earnings from investments. A menu of benefit provisions is established by State statutes within the Public Employees' Retirement Law. The City selects its optional benefit provisions, subject to collective bargaining with the City's employee labor groups, from the benefit menu by contract with CalPERS.

CalPERS recently made changes to its new smoothing and amortization policy that was approved on April 17, 2013. Under the new smoothing and amortization policy changes as provided in CalPERS circular letter dated April 26, 2013, investment gains and losses would be recognized over a fixed 30-year period with the increases or decreased in the rate spread directly over a 5-year period. According to CalPERS, this action will result in an increase in employer rates in the near term but lower contributions rates in the long term. The smoothing will increase the employer rate volatility in normal years but a much-reduced chance of very large rate increase in extreme years if there was a large investment loss. In addition, the adoption of this new amortization and smoothing method will improve funding levels, which would reduce the funding level risk and ultimately achieve a fully funded status for its plans in thirty years. The adopted policy changes intend to protect the beneficiaries and reduce the long-term cost of benefits for all. This new change will be implemented in the June 30, 2013 actuarial valuations.

Based on updated data, the cost will increase by 21% in FY 2013-14 and an additional 8.6% is projected to increase in FY 2014-15, respectively. The table below provides the detail of the City's employer contribution rates and projected annual costs based on the FY 2013-15 Proposed Policy Budget and CalPERS' new smoothing and amortization policy changes, as well as historical rates and costs.

	MISCELLANEOUS		FIRE		POLICE		
	Annual Cost	Rate	Annual Cost	Rate(3)	Annual Cost	Rate(3)	Total Annual Cost
2008-2009	41,909,512.12	19.550	14,799,733.04	27.090	35,228,553.86	27.090	91,937,799.02
2009-2010	28,609,780.59	19.590	14,450,896.34	27.448	34,554,042.38	27.448	77,614,719.31
2010-2011	23,436,093.61	19.890	14,175,460.08	27.682	30,221,552.26	27.682	67,833,105.95
2011-2012	31,440,003.39	23.604	13,113,234.90	28.561	21,058,342.21	28.561	65,611,580.50
2012-2013	32,393,751.60	24.248(4)	12,053,557.32	26.479(5)	22,023,820.86	30.479(6)	66,471,129.78
2013-2014(1)(7)	41,076,011.00	27.300	15,960,302.00	28.857	23,397,368.00	32.857	80,433,681.00
2014-2015(1)(7)	43,525,191.00	30.159	18,128,464.00	30.589	25,717,197.00	34.589	87,370,852.00
2015-2016(2)(8)	47,508,102.00	31.200	19,380,749.00	32.510	28,563,822.00	36.510	95,452,673.00
2016-2017(2)(8)	50,705,762.00	33.300	20,632,658.00	34.610	30,206,770.00	38.610	101,545,191.00
2017-2018(2)(8)	53,903,426.00	35.400	21,884,568.00	36.710	31,849,718.00	40.710	107,637,709.00
2018-2019(2)(8)	57,101,084.00	37.500	23,136,477.00	38.810	33,492,666.00	42.810	113,730,227.00
2019-2020(2)(8)	60,298,745.00	39.600	24,388,386.00	40.910	35,135,614.00	44.910	119,822,745.00

(1) Projections
(2) Covered Payroll is based on FY 2014-2015.
(3) Net of Port's payment (approximately 0.489%)
(4) Miscellaneous rate changed on PPE 03/01/2012 from 25.115% to 24.248%
(5) Police rate change from 29.064% to 30.479% on 8/31/12
(6) Fire rate changed from 29.064% to 26.479% on 8/31/12
(7) computed on baseline payroll, projected as of April 12, 2013
(8) Projections based on CalPERS new policy change date April 26, 2013 circular letter
Note: total may not add up due to rounding

Tier Pension Plans

In order to address the growing concerns of the unfunded liability in PERS, the City successfully negotiated with all labor unions for a two-tiered system and implemented the two-tiered pension plans in July 2011. The City approved two-tiered pension plans for all labor unions, one benefit plan for existing employees (classic member), and a less expensive plan for new employees hired after June 9, 2011 to reduce the City's costs overtime. The two-tiered pension plans were approved through collective bargaining agreements between the City and labor organizations representing Miscellaneous and Safety employees. The City implemented the two-tiered pension plan for the Safety group on February 9, 2012, pursuant to Ordinance No. 13106 C.M.S., and on June 8, 2012 for the Miscellaneous Group, pursuant to Ordinance No. 13119 C.M.S. The level of benefits under the second tier is described in Table 1 below.

In September 2012, Governor Brown signed Assembly Bill 340, known as PEPRA, which reforms all state and local public retirement systems and their participating employers with the exception of charter cities or counties that operate an independent retirement system (not governed by the 37 Act) that took effect on and after January 1, 2013. PEPRA limits the pension benefits offered to new employees and increases flexibility for employee and employer cost sharing for current employees. **The most significant savings will be realized only as new members are hired in the future, short-term savings will be minimal.** Table 1 below provides information on the amount of benefits for Tier Three. The only mechanism to realize greater short-term savings is through greater employee cost sharing, subject to collective bargaining with the City's employee labor bargaining groups.

The table below summarizes the key differences in the three tiers of the PERS pension plan the City participates in.

Table 1
Tier Pension Plans

Employee Organization	Tier One (Classic Members)	Tier Two (New Hires as of June 9, 2012)	Tier Three: AB 340 (January 1, 2013)
Safety	Receive 3% at age 50 Pension benefits are based on the one year of highest salary	Receive 3% at age 55 Pension benefits are based on the final average salary of 3 years under the Government Code 20037	Basic: 2% at age 57 Option 1: 2.5% at age 57 Option 2: 2.7% at age 57 Pension benefits are based on the final average salary of 3 years subject to established cap
Miscellaneous	Receive 2.7% at age 55 Final compensation is based on the twelve (12) highest paid consecutive months.	Receive 2.5% at 55 Final compensation is based on the highest average annual compensation of the three consecutive years	2% at age 62 Pension benefits are based on the final average salary of 3 years subject to established cap

Additional information on PEPRA can be found at the Official California Legislative Information website: http://www.leginfo.ca.gov/.

POST-EMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

The City pays the partial costs of health insurance premiums for certain classes of retirees from City employment. Retirees meeting certain requirements relating to age and years of service are eligible for health benefits. The health benefits are extended to retirees pursuant to labor agreements between the City and certain of its employee labor unions and in resolutions adopted by the City. Approximately $16.8 million was paid on behalf of retirees under these programs for the year ended June 30, 2012.

The City implemented Governmental Accounting Standard Board ("GASB 45") in fiscal year 2008, which addresses how state and local governments should account for and report the annual Post-Employment Benefits Other than Pensions ("OPEB") cost. GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. As of July 1, 2012, the Actuarial Accrued Liability (the "AAL"), which is equal to that portion of the Actuarial Present Value of Benefits deemed to have been earned to date, was $553.5 million.

Based on the most recent actuarial report prepared by Aon Hewitt as of July 1, 2012, assuming 4.00% interest earnings, the City's projected net OPEB obligation (defined, in terms of balance sheet liability, as the cumulative difference between the annual OPEB cost, on an actuarial basis, and the City's actual contribution to the OPEB plan since 2008) will be approximately $215.3 million. Currently, the City is funding OPEB on a pay-as-you-go basis and anticipates paying approximately $17.6 million for Fiscal Year 2013-14 as shown in the table below.

FY Ended	Accrued Liability	Unfunded Liability	Annual OPEB Cost	Employer Contribution	Net OPEB Obligation
2009	$591,575,250	$591,575,250	$54,564,000	$12,474,000	$85,758,000
2010	$591,575,250	$591,575,250	$54,495,000	$14,016,000	$126,237,000
2011	$520,882,498	$520,882,498	$46,451,000	$15,710,000	$156,978,000
2012	$520,882,498	$520,882,498	$46,401,000	$16,795,999	$186,583,000
2013	$553,530,074	$553,530,074	$46,291,501	$17,622,496	$215,252,287

For questions please contact Katano Kasaine, Treasurer, at (510) 238-2989.

Respectfully submitted,

/s/

KATANO KASAINE
Treasurer, Treasury Division