

News from: **The City of Oakland**

FOR IMMEDIATE RELEASE

May 24, 2012

City Administration Releases Proposed Mid-cycle Budget for FY 2012-13

For First Time in 4 Years, No Service or Staff Cuts Proposed

Oakland, CA — This afternoon, Mayor Jean Quan and City Administrator Deanna J. Santana released a proposed Mid-cycle Policy Budget for fiscal years 2012-13, to maintain a balanced budget for the second year of the two-year budget cycle. It proposes:

- No layoffs, for the first time in more than four years;
- Modest revenue growth;
- Investment in essential services, such as an additional police academy, restoration of senior centers, economic development, funding for police evaluation and reforms, and street and parking meter repair;
- Preservation of the reserve at a level not achieved in more than five years;
- Investment in economic development and jobs growth.

“After four straight years of budget shortfalls and service eliminations, the City’s overall fiscal condition is stabilizing, but we remain cautious,” said Mayor Quan. “Despite the worst financial crisis since the Great Depression, we have made key investments that have primed Oakland for the economic recovery. Our goal has been to be fiscally and socially responsible in our budget practices while maintaining the infrastructure essential for sustainable growth.”

While Oakland’s long-term forecast is beginning to look more positive than it has in recent years, the City is still assessing the impacts of the Governor’s May Revised budget. The specific effects are unknown at this time; staff are actively monitoring developments in Sacramento that may impact the City of Oakland.

The City has moved steadily over the past 17 months to build a sustainable budget through reductions and reorganizations, repaying internal debt, and building a more accurate baseline budget accounting for all major costs.

“The year-end forecast for FY 2011-12 projects a balanced budget, despite the increased costs due to frequent protests/demonstrations and other police overtime charges,” said City Administrator Deanna J. Santana. “Evidence of our city’s recovery and renaissance is everywhere; and there is tremendous work still to be done to further strengthen our financial situation. These Proposed Mid-cycle Budget amendments reflect the administration’s steadfast commitment to putting Oakland on long term, stable financial ground.”

By City Charter, the City Council must pass a balanced budget by June 30. A fact sheet summarizing the Administration’s budget proposals, modest revenue increases, status of the reserve and other details is available at oaklandnet.com.

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BUDGET FACTS

Mayor Jean Quan's Proposed Midcycle Policy Budget FY 2012-13



Oakland Rising -

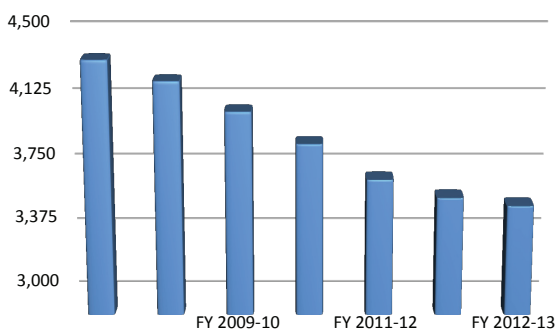
After four straight years of budget shortfalls and service eliminations, the City's overall fiscal condition is stabilizing, but we remain cautious.

This budget proposes no layoffs or service cuts. It includes modest add-backs, revenue increases and enhanced reserves.

Despite the worst financial crisis since the Great Depression, we have made key investments that have primed Oakland for the economic recovery.

- Mayor Jean Quan

Figure 1



Over the past 10 years, the City has eliminated approximately 1,000 Full-Time positions, a reduction of about 22 percent of the workforce. The City's workforce now stands at approximately 3,600 FTEs.

Fellow Oaklanders,

Like the State of California and many other local governments, the City continues to face some of the most daunting budget challenges in our history. After four straight years of budget shortfalls and service eliminations, the City's overall fiscal condition is stabilizing, but we remain cautious.

The proposed Midcycle Policy Budget for fiscal years 2012-13 maintains a balanced budget for the second year of the two-year budget cycle. It proposes:

- No layoffs, for the first time in more than 4 years;
- Modest revenue growth;
- Investment in essential services, such as an additional police academy, restoration of senior centers, economic development, funding for police evaluation and reforms, and street and parking meter repair;
- Preservation of the reserve at a level not achieved in more than 5 years;
- Investment in economic development and jobs growth.

While Oakland's long-term forecast is beginning to look more positive than it has in recent years, the City is still assessing the impacts of the Governor's May Revised budget. The specific effects are unknown at this time, and we are actively monitoring the activity in Sacramento that may impact the City of Oakland.

The City is at a crossroads. Despite the worst financial crisis since the Great Depression, we have made key investments that have primed Oakland for the economic recovery and put us in a strong position to fulfill our promise as a great city. Our goal has been to be fiscally and socially responsible in our budget practices while maintaining the infrastructure essential for sustainable growth.

The City has moved steadily over the past 17 months to build a sustainable budget through reductions and reorganizations, repaying internal debt, and building a more accurate baseline budget accounting for all major costs. The year-end forecast for FY 2011-12 projects a balanced budget, despite the increased costs due to frequent protests/demonstrations and other police overtime charges.

Evidence of our city's recovery and renaissance is everywhere; and there is tremendous work still to be done to further strengthen our financial situation. The Proposed Amended Midcycle Policy Budget for FY 2012-13 will continue to keep Oakland moving forward for the long term.

Sincerely,
Jean Quan
Mayor

Deanna J. Santana
City Administrator



Balanced Budget Without Cuts

Over the past year alone, the City has resolved approximately \$175M in aggregate budget deficits—that’s in addition to the \$170 million in shortfalls closed since July 2008 in response to the global economic crisis. As a result of the budget-balancing measures adopted in both June 2011, and January 2012 following the elimination of Redevelopment—in addition to a modest projected increase in revenues—this year’s **Proposed Midcycle Budget amendments are without additional position and service eliminations for the first time in four years.** The City is projected to achieve a balanced budget by year-end.

In June 2011, the City Council passed the FY 2011-13 Two-Year Policy Budget, resolving a projected \$58 million shortfall in FY 11-12, and \$76 million in FY 12-13. The shortfalls were eliminated through generous employee contributions by ALL City employees (including furloughs, pension contributions, and salary reductions), departmental reductions including the elimination of approximately 200 positions, and the use of minimal one-time revenues.

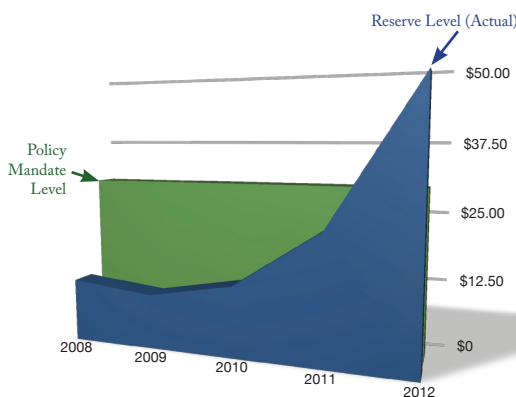
In January 2012, as a result of the State’s dissolution of 400 Redevelopment Agencies statewide, the City Council adopted an amended policy budget for the remainder of FY 2011-12 and FY 2012-13, to resolve the \$28 million annual revenue shortfall related to the loss of Redevelopment funds.

The City was again able to achieve a balanced budget through the elimination of 129 positions, substantial reorganizations and consolidations of departments, use of non-General Funds (including Successor Agency resources), and the downgrading of high-level manager positions, all while focusing on preserving core government services like public safety, infrastructure investment and protecting our social safety net. This effort required very complex budgetary transactions in order to achieve the necessary savings. **In all, more than 600 positions were ultimately affected in this major overhaul of the budget—changes that many suggest are on an order-of-magnitude the City has not implemented since Proposition 13 in the 1970s.**

Revenues Show Modest Increases

Revenue collections for FY 11-12 are on track to exceed budget targets by \$10.7 million, including one-time revenues of approximately \$6 million:

- **Property tax**—the largest source of revenue to the General Fund—projections on target; flat next year
- **Sales tax**—up \$6 million (15% above projections) due to high fuel prices and the opening of Target, OneSource and new car dealerships
- **Business license tax**—up \$3.1 million (6% above projections) due to opening of new businesses as well as new medical and transportation construction projects
- **Utility consumption tax**—projections on target
- **Real estate transfer tax**—projections on target; flat next year
- **Transit Occupancy Tax**—up \$2.1 million (24% above projections) largely due to growth in business travel
- **Parking tax**—up by \$0.8 million (10% above projections) due to increased business travel and parking at Oakland International Airport
- **Parking meter collections**—down by \$0.3 million (2.5% below projections) due to delays in implementation of new parking meters and “parking holiday” policy
- **Parking citations**—up by \$1.8 million (8% above projections) consistent with increased activity in commercial districts and operational improvements
- **Interest income**—projections on target; flat next year due to low interest rates
- **Service charges**—down by \$1.5 million (4.5% below projections) due to unrealized revenue for the East Oakland Sports Center and fire inspections
- **Miscellaneous revenue**—down \$1.3 million (4% below projections) due to the delayed sale of billboard advertising



Status of the Reserve Fund

In addition to the modest revenue growth, and despite recent actions on the part of the State Controller’s Office, at this time we have a reserve of \$48 million dollars. The City Council-mandated reserve level of at least 7.5% of the General Fund budget requires a reserve at about \$30 million. The reserve may be subject to additional adjustments that are not entirely known at this time, so we are treating this reserve balance with caution.

Figure 2 (in millions): Our budget reserve is currently \$48 million dollars, and exceeds the \$30M requirement for the first time in 5 years.



Proposed Midcycle Budget Highlights

As we continue to reel from the effects of the global recession and the dissolution of Redevelopment Agencies in California, the City Administration presents Proposed Midcycle Budget amendments that:

- Continues implementation of the January 2012 budget action.
- Address post-Redevelopment and reorganization clean-up to maintain basic service delivery needs.
- Invest in economic development and police services to maximize the impact of limited resources and enhance efficiency.
- Make strategic investments in key areas of the City so that Oakland will be well-positioned as the economy continues its modest growth.

Budget-balancing measures that were adopted in June 2011 and January 2012 will continue in the coming fiscal year. Some of the modest General Fund revenue increases projected by the end of this fiscal year are projected to continue into FY 2012-13. These modest revenues will offset the proposed expenditure modifications and technical adjustments from the January 2012 amendments. The proposed expenditures are largely concentrated in public safety and economic development, which the City Council and the public have frequently expressed as their top priorities.

These Proposed Midcycle Budget amendments reflect the administration's steadfast commitment to putting Oakland on long term, stable financial ground.

Post-Redevelopment & Reorganization Adjustments

The Administration is proposing several technical clean-up items for FY 2012-13 that will enable full implementation of the amendments adopted by the City Council in January 2012 following dissolution of Redevelopment. These adjustments facilitate citywide reorganizations that are underway and for which savings have already been assumed.

Strategic Investments

In order to continue to move the City forward, the Proposed Midcycle Budget includes some strategic investments that will provide tremendous return and keep us on the path towards economic stabilization. Highlights include:

- Addition of economic development staff to seize economic growth opportunities that will position Oakland for long-term economic growth
- Addition of a civilian Fire Marshal to allow sworn staff to concentrate on fire suppression and emergency operations
- Fully fund Coliseum City EIR from reserve fund
- Investment in technology enhancements such as online civic engagement tools and new parking debit/credit meters to replace single-space meters

Investment in Police Services

Public Safety is a top City priority. Increased crime rates, chronically understaffed police beats, and recent unprecedented protests demonstrate that structural corrections are required to improve staffing and enhance systems to support sound constitutional policing in Oakland. The Proposed Midcycle Budget begins to fund the structural changes needed to continue to improve our Oakland Police Department and achieve a higher level of compliance with the Negotiated Settlement Agreement.

The strategy to invest in police services to maximize the impact of limited resources and enhance efficiency includes:

- A review to add civilians where sworn staff are doing civilian work; a significant reduction in civilian OPD employees has led to the redeployment of sworn officers to support some of these duties at a premium cost, removing them from the duties they were trained to perform.
- Full police academy (50 officers) in January 2013 in addition to the one starting in August 2012
- Obtain investigative services due to new state law
- Organizational assessment and systemic review of OPD
- Civilianization of the Office of Inspector General to free up sworn officers and advance NSA compliance
- Add to risk management capacity to strengthen efforts for workplace safety and help safely return employees to work

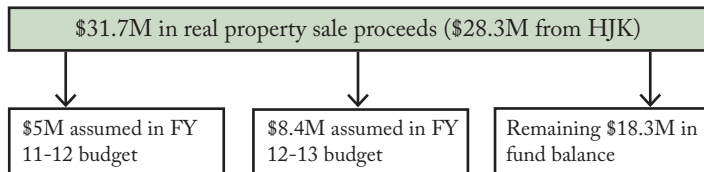


Potential Impact of State Controller “Clawback”

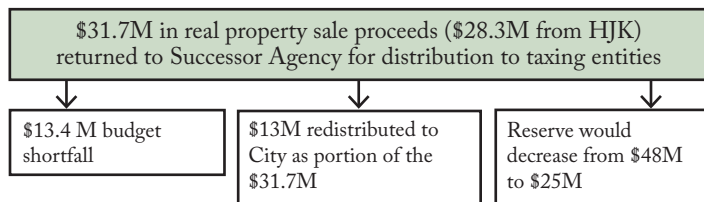
The State Controller has ordered California cities to return assets to the State that were transferred to them by their former redevelopment agencies after January 1, 2011. We expect long legal challenges, but certain transactions between the City and its former Redevelopment Agency are potentially subject to this “clawback” order.

The diagram below illustrates how the City used the proceeds from the sale of the Henry J. Kaiser Convention Center and several other properties, and the potential impact on the General Fund budget should those transactions be reversed by the State Controller’s order.

The estimated impact of potential State Controller clawback of these funds will have a minimal impact on the General Fund, as the budget shortfall that might be created (\$13.4 million) would be covered by the City’s portion of the cash returned from the reversal of the transactions (\$13 million).



If transactions are reversed:

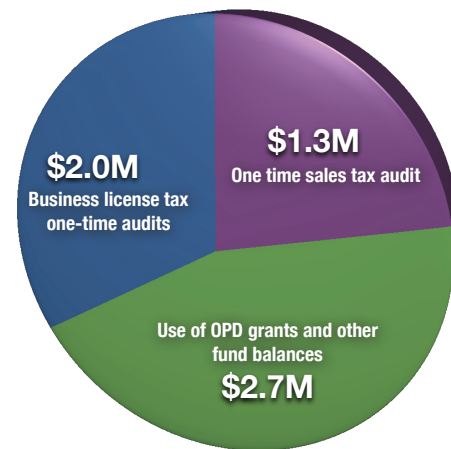


Fiscal Impact of Protests and Demonstrations

This year the City has experienced an extraordinary number of protests and demonstrations. Total expenditures associated with Occupy Oakland, weekly anti-police demonstrations, General Strikes/Port protests and closures, and other demonstrations this fiscal year are estimated to reach approximately \$6 million by year-end. The City will balance these unanticipated expenses through the use of grant funds and other one-time revenues without dipping into the fragile reserve.

Figure 3

Funding Sources to Pay for Demonstration-Related Expenses



Expenditures associated with protests and demonstrations are estimated to reach approximately \$6 million by year-end. The City will balance these unanticipated expenses through the use of grant funds and other one-time revenues.

Long-Term Budget Challenges on the Horizon

The City of Oakland, like states and other municipal governments, is grappling with large, structural fiscal issues. These include:

- Growing cost of retiree pensions and medical plans.
- Underfunded Police and Fire Retirement System (PFRS) for sworn police and fire members hired before 1976 (all retired sworn staff now covered under CalPERS).
- \$1.5 billion in unfunded capital improvement needs.
- \$8.4 million in unfunded annual costs to replace aging fleet and equipment.

The Administration is developing a five-year financial plan to inform planning for the next two-year budget and identify revenue sources to address unfunded liabilities and expenditures.

Unfunded Liabilities

Type	Estimated Amount
PFRS	\$494M
OPEB*	\$520M
CalPERS	\$TBD
Capital Improvement	\$1.5B
Equipment Replacement	\$8.4M
Estimated Total	\$2.5B

*OPEB is Other Post Employment Benefits (retiree health care benefit)