CITY OF OAKLAND
AGENDA REPORT

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Budget Office
DATE: March 8, 2011

RE: **Receive A Report From The Budget Advisory Committee On Establishing A Rainy Day Fund**

SUMMARY

This document transmits the Budget Advisory Committee's (BAC) report, "Preparing for the Storm: Budgeting to Mitigate Future Fiscal Hardship".

FISCAL IMPACT

There are no immediate fiscal impacts associated with the acceptance of this presentation; however, the report does recommend revisions to the City Charter. The figures and recommendations contained in the report have not been reviewed by staff.

BACKGROUND

The BAC consists of 15 members, with four appointed by the Mayor, seven appointed by Councilmembers from each of the seven Districts, one by the Community and Economic Development Committee Chairperson, two by the Finance and Management Committee Chairperson, and one by the At-Large Councilmember. The BAC has prepared a report, titled "Preparing for the Storm: Budgeting to Mitigate Future Fiscal Hardship," which advocates the establishment of a Rainy Day Fund to address future fiscal downturns.

RECOMMENDATION

Staff transmits and recommends City Council accept this report.

Respectfully submitted,

Sabrina Landreth
Budget Director

Prepared by:
Herman Chen
City Administrator's Budget Office

FORWARD TO THE FINANCE AND MANAGEMENT COMMITTEE:

Office of the City Administrator

Attachment A: Preparing for the Storm: Budgeting to Mitigate Future Fiscal Hardship

Preparing for the Storm

Budgeting to Mitigate Future Fiscal Hardship

A Special Report with Recommendations
By the Members of Oakland's

Budget Advisory Committee

February 9, 2011

<u>Members</u>
Jay Ashford
Ken Benson
Nicolas Heidorn
Mario Juarez
Bruce Kariya
Michael Kilian
Kalie Moore
Tina Sims
Sherbeam Wright
Richard Zavala

The Oakland Budget Advisory Committee (BAC) was created in 1988 (Ordinance No. 11025 C.M.S., revised by Resolution No. 74826 C.M.S. (1999)) as a citizen panel whose purpose is to advise the City Council on the City's biannual budget and fiscal policies.

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I. Executive Summary

Local governments were hit hard by the recent and ongoing economic recession, but few suffered as much as Oakland.[1] A rapid growth in expenditures during the years leading up to the Housing Bust, coupled with the resulting revenue decline, created a perfect fiscal storm that the City has struggled to weather. In the twenty months leading up to the 2010-2011 fiscal year (FY 10-11) the City was forced to painfully bridge $170 million in budgetary shortfalls[2], largely through furloughs, reductions in service, and layoffs. From a revenue peak in FY 05-06 to the latest full fiscal year (FY 10-11), annual General Purpose Fund revenue plummeted by tens of million dollars.[3]

Although the City could not have predicted the global recession, better budgetary planning could have mitigated much of Oakland's current fiscal hardship. Presently, the City attempts to deal with revenue shortfalls through a General Purpose Fund (GPF) Reserve. Each year, the equivalent of 7.5 percent of GPF appropriations must be held in reserve. While the GPF Reserve provides a valuable cushion in case fiscal projections fall short within a budget cycle, it was not intended or equipped to handle several consecutive years of revenue shortfall. There are several reasons why the GPF Reserve, as presently structured, was not more useful; among them is the fact that the GPF Reserve is not a cumulative fund so it could not grow big enough to handle a recessionary period. The Budget Advisory Committee (BAC) suggests the City Council consider changes which would make the GPF Reserve more robust, and also recommends amendments to the GPF Reserve policy to clarify how it should be implemented and how it is reported.

In this memo the BAC also advocates that the City adopt a Rainy Day Fund (RDF), which – unlike the GPF Reserve – would require revenues to be deposited into a separate fund during good times so that they may be drawn down during bad times. Many other cities and states use RDFs to help smooth out their General Fund revenues over the cyclic up- and downswings of the economy. RDFs promote fiscal stability in two ways: first, by restricting how much money can be spent in periods of high revenue growth, the City is less likely to add services at the top of the economic cycle that cannot be sustained. Second, by building a reserve over multiple years, the City is better able to maintain existing services over the occasional periods of revenue decline. As proposed, Oakland's RDF policy would require the City to deposit money into a fund when revenue is 3 percent higher than the previous fiscal year. In years where there are shortfalls, the City could draw down the difference from the RDF by majority vote of the Council; any amount beyond that would require a supermajority vote. Had Oakland adopted such a policy beginning in FY 95-96, based on Budget Office numbers, the City would have been able to backfill the past three years of revenue shortfall and still have tens of millions left in its RDF going into FY 2011-2012.

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[1] *See* Max Neiman and Daniel Krimm, *Perceptions of Local Fiscal Stress During a State Budget Crisis*, Public Policy Institute of California (Dec. 2009) p. 22 (only 30 percent of cities laid off employees in fiscal year 2008-2009; only 14 percent used work furloughs).

[2] City of Oakland, *Budget Facts: Fiscal Year 2010-2011*, available at: http://www2.oaklandnet.com/oakca/groups/cityadministrator/documents/marketingmaterial/dowd009068.pdf (accessed Dec. 20, 2010).

[3] *Ibid.*

II. General Purpose Fund Reserve

A. Background

The City of Oakland has historically attempted to handle fiscal uncertainty through use of a General Purpose Fund (GPF) Reserve. In 1994, the City first adopted an ordinance declaring that, in each two-year budget, the equivalent of 5 percent of GPF appropriations be held in reserve totally unencumbered (i.e. remain "uncommitted" and "undesignated") to pay for any expenditures which might unexpectedly arise.[4] In 2003, the reserve was increased to 7.5 percent.[5] In 2009, the City Council passed Ordinance No. 12946 to further clarify the Reserve Policy, and to establish criteria for use of the reserve.[6] This ordinance was superseded in 2010 by Ordinance No. 13008, which left the Reserve Policy unchanged.[7]

Ordinance 13008 declares that it shall be City policy to maintain a "undesignated, uncommitted fund balance equal to seven and one half percent (7.5%) of the General Purpose Fund (Fund 1010) appropriations for such fiscal year."[8] To ensure an adequate reserve, any real estate transfer tax collected over $40 million must first be allocated to the Reserve until the Reserve reaches 10 percent of budgeted GPF appropriations.[9] The status of the Reserve must be reported each year after the completion of the City's audited financial statements.[10] The Reserve may only be tapped to "fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency."[11] For the purposes of the ordinance, fiscal emergency may either be declared by the Mayor with the approval of a majority on the City Council, or by the City Council independently.[12]

There are two distinctive features of the Reserve worth highlighting at the outset. First, the 7.5 percent reserve seems to be a goal rather than a requirement. (If the reserve level is not met, the City Administrator must present to Council a strategy to meet the Reserve Policy.[13]) Second, the Reserve is not a separate fund but a yearly requirement that a percentage of the General Purpose Fund remain uncommitted; reserved funds do not accumulate year-to-year, but are set aside each year independent of the previous year's allocation.

B. Ambiguity in 13008

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[4] See Ordinance No. 11684 C.M.S. (1994).
[5] See Ordinance No. 12502 C.M.S. (2003).
[6] Ordinance No. 12946 C.M.S. (2009).
[7] Ordinance No. 13008 C.M.S. (2010).
[8] *Id.* § 3(A)(1).
[9] *Id.* § 3(D)(2).
[10] *Id.* § 3(A)(2).
[11] *Id.* § 3(A)(3).
[12] *Ibid.*
[13] *Id.* § 3(A)(2).

There are two ambiguities in Ordinance No. 13008 which makes it difficult to gauge whether the City has been complying with its requirements. First and foremost, it is unclear whether the reserve must be composed of funds solely in the GPF surplus, or if the reserve can come from the cumulative surpluses of other General Fund Group funds. The General Fund Group includes the GPF (which accounts for the vast majority of the General Fund Group) and other funds such as Kids First, Worker's Compensation, Self-Insurance Liability Fund, and others.[14] The cumulative surpluses in the General Fund Group will be much larger than the General Purpose Fund surplus, since the General Fund Group includes the General Purpose Fund. Which is selected as the measure of the reserve is significant, as will be seen in the next section, in determining whether the City has met the yearly reserve requirement.

Ordinance No. 13008 requires the City to "provide in each fiscal year a reserve of undesignated, uncommitted *fund* balance equal to [7.5% of GPF appropriations]."[15] Although the ordinance calls for creating a GPF Reserve, that could arguably refer to the fact that the reserve is pegged to GPF appropriations, and not be a requirement that the "fund balance" be in the GPF. It would appear that, at different times, various City agencies have interpreted this requirement differently. For instance, in the FY 07-09 budget the City Administrator's transmittal letter states that "[t]he Budget maintains the 7.5 percent *required reserve in the General Purpose* Fund."[16] In the FY 09-11 Budget, the City Administrator's transmittal letter omits the customary declaration of having met the reserve requirement because of a precipitous decline in the GPF surplus.[17] In contrast, the City's Certified Annual Financial Report (CAFR) explicitly takes the view that all undesignated/ unidentified funds in the General Fund Group should be considered in meeting this requirement.[18] The Financial Services Agency has also adopted this interpretation in at least one report.[19] In discussing Ordinance 13008's reserve requirements with City staff, the BAC has received conflicting interpretations on this point which, as of this writing, remain unresolved.

There is a second ambiguity as to what counts as the GPF Reserve. Is the Reserve any budgeted, unidentified, undesignated surplus, or is it only the first 7.5 percent of budgeted surplus? To illustrate, imagine that a budget appropriates $100 million in the fiscal year and projects $130 million in revenues, leaving a surplus of $30 million. Is the reserve only the first $7.5 million (i.e. 7.5 percent of $100 million), or is the whole $30 million? This question is crucial because Ordinance 13008 states that "[t]he amounts identified as the General Purpose Fund Reserve may be appropriated by Council *only* to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City,

[14] City of Oakland, City Administrator's Transmittal Letter to FY 07-09 Adopted Policy Budget (Aug. 31, 2007) p. 2.
[15] Ordinance No. 13008 C.M.S. (2010), § 3(A)(1) (emphasis added).
[16] City of Oakland, City Administrator's Transmittal Letter to FY 07-09 Adopted Policy Budget (Aug. 31, 2007) p. 4.
[17] The City Administrator pegs the GPF reserve to the amount of the GPF surplus. Compare City of Oakland, City Administrator's Transmittal Letter to FY 09-11 Adopted Policy Budget (Dec. 2009) p. iv ("Oakland's problems are exacerbated by the very limited GPF Reserve, which in the beginning of FY 2009-10 was only $9.8 million.") *with id.* at D-25 (GPF ending fund balance of $9.8 million in FY 08-09).
[18] Finance and Management Agency, CAFR 2009 (Nov. 25, 2009) p. 3.
[19] Financial Services Agency, "A report on the City's financial policy on stabilization funds" (May 13, 2003) p. 4 (report indicates that the Self-Insurance Liability Fund, part of the General Fund Group, is counted in calculating the reserve).

and *only* upon declaration of fiscal emergency."[20] Thus, if the reserve is only the first $7.5 million the City could decide mid-way through the year to spend up to $22.5 million without a declaration of emergency; if it's the whole $30 million, the City's hands are more constrained.

There is ambiguity on this point as well, with the Budget Office and the CAFR again taking seemingly opposite perspectives. As of this writing, staff was not able to clarify which position is the correct one. In all likelihood, the former interpretation (that the reserve is only the first 7.5 percent) is correct since the Ordinance states that the City shall provide a fund balance "equal to" 7.5 percent, and not a fund balance of "at least" 7.5 percent. Nonetheless, as will be discussed in the sections below, this ambiguity Is magnified by the fact that the City's budget does not explicitly, borrowing the language of the Ordinance, identify the amounts of the GPF Reserve. Because of this, it is difficult to discern at what threshold point the city must declare a fiscal emergency to draw down funds.

A third potential ambiguity in Ordinance No. 13008 is whether the City is *required* to set 7.5 percent of appropriations in reserve, or whether this is merely a *goal*. The Ordinance declares that it "it shall be the *policy*" of the City to have the reserve[21]; whether "policy" is mandatory or aspirational could be ambiguous. This is only potentially ambiguous, as there seems to be a consensus among staff that the policy is not a mandate. This is no doubt the correct interpretation, as the ordinance continues to state that the City Administrator must provide a report if the reserve is not met, which suggests that the reserve is not an Ironclad requirement.[22] It is worth flagging, however, the open question as to whether the City must declare a fiscal emergency when it cannot meet its reserve requirements from the start.

C. Use of the Reserve

In its biannual budget, the City has asserted its compliance with the 7.5 percent Reserve Policy from its adoption in budget FY 03-05 through FY 07-09.[23] The Mayor's introductory letter is silent on the issue in the FY 09-11 budget. A possible cause is that, beginning in FY08-09, whether the City has complied with the requirement depends entirely on whether the GPF Reserve must be located in the GPF or the General Fund Group, an ambiguity discussed above. By that fiscal year's end, the GPF surplus had fallen precipitously to $9.8 million[24] – a reserve equivalent to 2 percent of GPF appropriations for that year, and thus potentially in violation of the GPF Reserve policy if the General Fund Group surpluses are not counted.[25] The City did not budget to increase the GPF surplus in the FY09-11 budget; according to informal discussions with staff, the GPF balance in FY 08-09 and FY 09-10 remained level around $10 million.

[20] Ordinance No. 13008 C.M.S. (2010), § 3(A)(3) (emphasis *added*).
[21] *Id.* § 3(A)(1) (emphasis *added*).
[22] *Id.* § 3(A)(2).
[23] See City of Oakland, *Mayor's Introductory Letter to the FY 03-05 Adopted Policy Budget* (Sep. 15, 2003) p. 6; City of Oakland, *Mayor's Introductory Letter to the FY 05-07 Adopted Policy Budget* (Aug. 19, 2005) p. 5; and City of Oakland, *Mayor's Introductory Letter to the FY 07-09 Adopted Policy Budget* (Aug. 31, 2007) p. iv.
[24] City of Oakland, *FY 09-11 Adopted Policy Budget* (Dec. 2009) pp. iv, D-40.
[25] Compare City of Oakland, *FY 09-11 Adopted Policy Budget* (Dec. 2009) p. D-25 ($9.8 million GPF Reserve) *with id.* at p. D-130 ($476 million GPF expenditures).

For the purposes of this memo, it shall be assumed that the GPF Reserve can be accounted for in any unidentified, undesignated surplus in the General Fund Group. If so, the City has consistently met its GPF Reserve Policy from FY 01-02 through FY 09-10, as documented in the CAFR.

Table 1: General Fund Unreserved, Undesignated Fund Balance by Fiscal Year End *

Fiscal Year:	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
General Fund Unreserved, Undesignated Balance (in millions of $):	29.7	38.8	39.8	46.3	59.4	56.1	37.5	40.7	41.4

Source: Finance and Management Agency, *Comprehensive Annual Financial Report (CAFR)*, 2003-2010.*

Since the GPF Reserve is not identified in the budget, it is difficult to identify any withdrawals from it. Staff responded to a records request by stating the Reserve has been tapped in two budget cycles, FY 05-07 and FY 07-09, since 2002:[26] $1.6 million was withdrawn in FY 05-06 and again in FY 06-07[27], $7 million was withdrawn in FY 07-08[28], and $6.4 million in FY 08-09.[29] The FY 09-11 budget is the only document the BAC could find that expressly indicates a draw-down from the "GPF Reserve": for the three fiscal years between FY 06-07 and FY 08-09, the budget indicates only one withdrawal of $16 million in FY 07-08.[30] This report conflicts with the records request response.

Given the ongoing fiscal crisis, it may seem surprising that the City continues to allocate around $40 million to the GPF Reserve each year, rather than draw the money down to address its chronic deficits. There are several reasons why the GPF Reserve has not been more helpful in blunting the budgetary effects of the recession.

First, Reserves are effective at covering unexpected revenue drops that pop up mid-budget cycle; they are less useful at weathering multi-year recessions. If the City were to spend its GPF Reserve at the outset of the fiscal year to cover a projected deficit, it

* Expanded sources:
FY 09-10: Finance and Management Agency, *CAFR* 2009 (Dec. 8, 2010) pp. 3, 83.
FY 08-09: ___________, *CAFR* 2009 (Nov. 25, 2009) pp. 3, 87.
FY 07-08: ___________, *CAFR* 2008 (Dec. 17, 2008) pp. 3, 81.
FY 06-07: ___________, *CAFR* 2007 (Dec. 7, 2007) pp. 3, 86.
FY 05-06: ___________, *CAFR* 2006 (Dec. 1, 2006) pp. 3, 84.
FY 04-05: ___________, *CAFR* 2005 (Dec. 16, 2005) pp. 3, 86.
FY 03-04: ___________, *CAFR* 2004 (Mar. 4, 2005) p. 3.
FY 02-03: ___________, *CAFR* 2003 (Feb. 29, 2004) pp. 3, 11
FY 01-02: ___________, *CAFR* 2003 (Feb. 29, 2004) pp. 3, 11

[26] E-mail exchange between Commissioner Heidorn and former Budget Director Cheryl Taylor (Dec. 8, 2010).

[27] City of Oakland, *FY 05-07 Adopted Policy Budget* (Aug. 19, 2005) p. X-7. **Note**: Staff indicated that this was a withdrawal from the Reserve; however, the budget document itself indicates that it is drawing from the FY 04-05 GPF surplus, and does not mention the Reserve. Moreover, the notes with this budget item would indicate that in fact $8.5 million, not just $3.2 million, were drawn from the GPF surplus/Reserve.

[28] City of Oakland, *FY 07-09 Adopted Policy Budget* (Aug. 31, 2007) p. D-36.

[29] *Ibid*

[30] City of Oakland, *FY 09-11 Adopted Policy Budget* (Dec. 2009) p. D-121.

would have eliminated its cushion in case its projections were wrong. If further unexpected hardship befell the City, it would have no further reserves and would have to adjust the budget downward mid-cycle, meaning even more disruptive service cuts or layoffs. Moreover, because the 7.5 percent reserve requirement applies each fiscal year, liquidating the Reserve in one year (rather than carrying it over) would simply mean pushing the fiscal hit into the next year when the Reserve would have to be re-established. For instance, if in FY1 the Reserve is $40 million and in FY2 the Reserve must be $41 million, the strain to the budget in FY2 is only finding an extra $1 million, since the $40 million from the previous year can be carried over. If the Reserve is instead liquidated in FY1, however, in FY2 the strain to the budget will be the full $41 million. That will dig into spending for that year; alternatively, the City could choose the undesirable option of foregoing a reserve in FY2 as well.

Second, the City has *de facto* drawn down its discretionary reserves. Although the CAFR measures all "undesignated and unidentified" funds in the General Fund Group, to paraphrase Orwell, some of those funds are *more* undesignated than others. For instance, although money set aside in the City's Self-Insurance Liability Fund Is entirely free of designations and is counted in the Reserve[31], the City could not prudently liquidate that fund at the beginning of a fiscal year to reduce a deficit. Another example is that much of the undesignated money counted by the CAFR is money that would have gone to pay the City's pension costs but was not obligated to after the City passed a bond (and received a payment holiday); the City could spend this money, although since it is considering passing more bonds to cover its underfunded pension obligations this would not be wise.[32] By contrast, the General Purpose Fund surpluses, which are truly unencumbered in any way, have been drawn down to next to nothing. As the Mayor explained in his FY 09-11 budget transmittal letter, "Oakland's problems are exacerbated by the ***very limited GPF Reserve*** [i.e. GPF surplus], which In the beginning of FY 2009-10 was only $9.8 million."[33] The funds that remain in the GPF Reserve cannot be used as flexibly.

Table 2: General Purpose Fund Balance by Fiscal Year End

Fiscal Yean	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09*	09-10*	10-11*
GPF Balance (in millions of $)	62	62.8	30.6	16.8	21.3	59.1	76.8	75.5	26.2	9.8	9.8	9.8

Source: City fo Oakland, FY 09-11 *Adopted Policy Budget* (Dec. 2009) pp. D-23 - D-25. * *Estimated.*

Third, even the City's historically positive GPF Reserve is largely offset by substantial deficits from other funds, notably the Internal Service Funds (ISFs).[34] Since

[31] See Financial Services Agency, "A report on the City's financial policy on stabilization funds" (May 13, 2003) p. 3.
[32] Conversation with staff, February 2011.
[33] City of Oakland, Mayor's Introductory Letter to FY 09-11 Adopted Policy Budget (Dec. 2009) p. iv.
[34] From the 2009 CAFR, p. 21: "Internal service funds are used by the City to charge the costs of providing supplies and services, fleet and facilities management, and use of radio and communication equipment to individual funds."

these fund deficits must ultimately be backfilled primarily from the GPF[35], the City can be viewed as having decided to build up its reserves at the expense of paying off its ISF debts. The current liabilities for the ISFs has grown to around $50 million, dwarfing the GPF Reserve. Staff indicates that the longer-term repayment plans to fill the ISFs is placing ever-greater fiscal stress on the GPF. At present, the ISFs deficit is projected to be cured by FY 2018-19.[36]

Table 3: ISFs Current Liabilities Offset by Cash Assets, by Fiscal Year End[**]

Fiscal Year	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
ISFs Liabilities Offset by Cash Assets ($ millions)	17.7	25.5	33.5	37.7	44.4	53.8	54.5	48

Source: Finance and Management Agency, Comprehensive Annual Financial Report (CAFR), 2003-2010.

Fourth, largely eliminating the GPF Reserve would be disastrous to the City's bond rating, which affects the interest rate that Oakland pays on its bonds. Moody's recently put Oakland's general obligation bond rating at Aa2[37]; this is the third-highest rating Moody's offers and indicates that the City is considered to have a strong capacity to meet its financial commitments. This determination was based on the fact that overall fund reserves are high, so Oakland is unlikely to default on its commitments. Nonetheless, the report noted that "[t]he rating could be improved if the city established ongoing structural balance resulting in materially stronger unrestricted reserves."[38] By contrast, the report warned that "[t]he city's current projection of the fiscal 2011 budget includes a projected $32 million shortfall. Were the city to actually absorb a budget deficit of this magnitude, it would result in unrestricted reserves of approximately 19% [down from 25%], which could apply some pressure to the rating."[39]

D. GPF Reporting Requirements

As was noted earlier, the City has done a poor job of reporting the status of the GPF Reserve. The information is difficult to find, in some ways contradictory, and in other cases probably falls short of the requirements of Ordinance 13008. Much of the reporting difficulty may stem from the fact that the reserve policy is itself ambiguous, as was noted above. Under 13008, the City Administrator must report the "status of the [GPF] Reserve" each year "upon completion of the City's financial audited statements" and also whenever

[35] See City of Oakland, *Required Communication and Recommendations [Regarding the 2010 CAFR]*, p. 8.
[36] *Ibid.*
[**] See Finance and Management Agency, *Comprehensive Annual Financial Report* 2010 (*CAFR* 2010) (Dec. 8, 2010) p. 137; *CAFR* 2009 (Nov. 25, 2009) p. 131; *CAFR* 2008 (Dec. 17, 2008) p. 128; *CAFR* 2007 (Dec. 7, 2007) p. 121; *CAFR* 2006 (Dec. 1, 2006) p. 121; *CAFR* 2005 (Dec. 16, 2005) p. 121; *CAFR* 2004 (Mar. 4 2005) p. 111; and *CAFR* 2003 (Feb. 29, 2004) p. 111.
[37] Moody's, "Moody's affirms Aa2 rating on City of Oakland G.O. debt" (Nov. 30, 2010).
[38] *Ibid*
[39] *Ibid.*

the City wishes to "appropriat[e] monies from the reserves."[40] A third requirement in place since 2003 that the City Administrator annually "as part of the budget process prepare and submit to the City Council a report detailing the activity and status of the ... reserves" was abolished in 2009.[41]

Since a primary purpose of having a reserve is to ensure fiscal stability and minimize the need for mid-cycle adjustments, it is troubling that the budget process reporting requirement was eliminated. However, even when that requirement was in force, the City's reporting on the reserve was not presented in a useful manner. In the three budgets from FY 03-05 through FY 07-09, the Mayor's introductory letter states that the GPF Reserve requirement was met, without indicating how much was in the reserve, or what percentage of appropriations it corresponded to.[42] An interested party might be able to calculate the GPF Reserve looking at the figures listed in the budget, but this would require comparing different pages in the budget and resolving aforementioned ambiguities within Ordinance No. 13008.

In a records request staff was not able to locate any annual reports that update the Council on the status of the GPF Reserve, other than the CAFR itself. If the Council's intent was to have a separate report dedicated to explaining the status of the Reserve, this has not been performed.

Staff was not able to locate any prospective reports to Council indicating specifically that money will be drawn from the GPF Reserve. The clearest indication that the BAC could discern of when the GPF Reserve has been tapped was in the FY 09-11 budget.[43] Even so, this only Indicated that the GPF Reserve had been tapped in *prior* years. Additionally, the budget conflicts with other documents as to when the GPF Reserve was tapped and by how much. Again, the paucity of reporting may be due to ambiguity as to whether the GPF Reserve corresponds to only 7.5 percent of the General Fund Group (in which case, the reserve has never been tapped) or the budgeted GPF surplus (in which case it has been tapped multiple times and seemingly no report was Issued).

E. BAC Recommendations

Given the confusion surrounding the City's GPF Reserve policy, the BAC recommends that the City:

1) clarify whether the City is required to declare a fiscal emergency if it is *initially* unable to set aside a GPF Reserve of 7.5 percent of GPF appropriations in the budget;
2) clarify whether the GPF Reserve moneys can come from the cumulative General Fund Group surpluses or must come from the GPF surplus;

[40] Ordinance No. 13008 C.M.S. (2010), § 3(A)(2) & (C).
[41] *Compare* Ordinance No. 12502 C.M.S. (2003), §5 *with* Ordinance No. 12946 C.M.S. (2009).
[42] City of Oakland, *City Administrator's Introductory Letter to the FY 03-05 Adopted Policy Budget* (Sep. 15, 2003) p. 6; City of Oakland, *City Administrator's Introductory Letter to the FY 05-07 Adopted Policy Budget* (Aug. 19, 2005) p. 5; and City of Oakland, *City Administrator's Introductory Letter to the FY 07-09 Adopted Policy Budget* (Aug. 31, 2007) p. iv.
[43] City of Oakland, *FY 07-09 Adopted Policy Budget* (Aug. 31, 2007) p. D-121.

3) clarify whether the GPF Reserve is a set-aside of only those moneys *exactly* equivalent to 7.5 percent of GPF Appropriations or if the set-aside is any budgeted General Fund Group / GPF surplus;
4) require the adopted policy budget to identify the size of the reserve and the percentage of total GPF appropriations it represents; and
5) require a separate report on the status of the reserve (identifying the reserve size and percentage of GPF appropriations) and any actual or proposed withdrawals from the reserve be produced during (a) the budget process and (b) after the City's annual financial audit is completed.

The BAC suggests that the Council consider whether the City should:

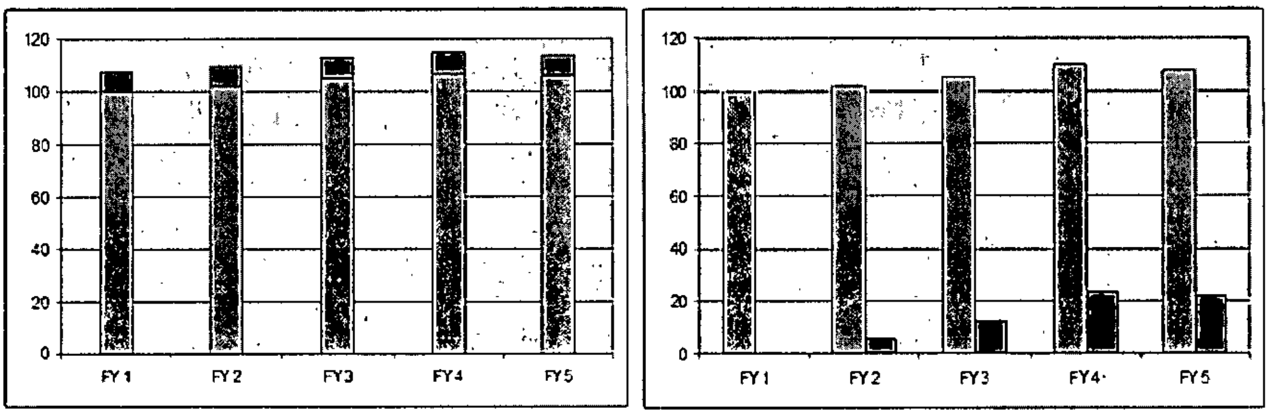
- raise the GPF Reserve percentage;
- amend the GPF Reserve into the City's charter and prohibit any withdrawals absent a fiscal emergency declaration and 2/3 vote of the City Council; or
- require the GPF Reserve to exceed 7.5 percent of GPF appropriations after subtracting deficits from other funds.

III. Rainy Day Fund

A. Background

Many cities, notably Los Angeles, San Francisco, and Sunnyvale, have supplemented their reserve policy with a separate budget stabilization fund, colloquially known as a Rainy Day Fund (RDF). Whereas a reserve sets aside a fixed percentage of expenditures each year and for that year only (i.e. a reserve does not accumulate money year-to-year), a RDF is an entirely separate fund that is only paid into during good times (when it grows) and can be drawn from in bad times (when it shrinks). Here's an example of the difference: Over a ten year period Oakland is presently expected to keep a constant 7.5% of GPF appropriations in reserve. Although how much money is equivalent to 7.5 percent may change slightly each year, the reserve policy largely carries over the same money year-to-year. In contrast, an RDF starts with no money in the first year, requires (assuming revenue growth) annual contributions perhaps equivalent to 1 to 2% of GPF in subsequent years, and in ten years may grow to a cushion equivalent to 20% of the GPF. The graph below visually illustrates the difference: Note that the money set aside in an RDF (purple bar) grows in times of revenue growth, whereas the fixed percentage set-aside under the Reserve remains largely the same.

Graph 1: Illustration of the Difference between a Reserve and RDF



GPF Reserve | Rainy Day Fund

Like a reserve, RDFs can be used as a cushion to cover emergency shortfalls when budgetary projections do not pan out. An additional benefit of RDFs, which sets them apart from reserves, is that they promote long-term "revenue smoothing;" revenue peaks are leveled off to fill in subsequent revenue troughs. Such smoothing makes it much less likely that a city will have to enact drastic cuts during recessionary periods. As one City Manager explained, having a RDF "functions very effectively to prevent us from adding services at the top of the economic cycle that cannot be sustained while allowing us to maintain Council-approved services levels during economic downturns."[44]

[44] City of Sunnyvale, "Adopted 2006/2007 Budget" (May 9, 2006) p. 61.

Most of the academic research on RDFs has been performed at the state level, since most states have enacted a RDF in some form.[45] Unsurprisingly, states "save significantly more following [RDF] adoption."[45] More importantly, RDFs can substantially reduce the volatility of government expenditures, making them more predictable and sustainable. One recent empirical study, covering over five decades of budgetary data, demonstrated that state expenditures are 20 percent less volatile following the adoption of a rule-bound RDF.[47]

B. The Sunnyvale Example

Sunnyvale, with a population of 140,000 and General Fund expenditures of $142 million in FY 08-09[48], is a model for how a mid-size city can effectively use a RDF in tough times. Sunnyvale has two policies in place to handle fiscal uncertainty. First it has a General Fund Contingency Reserve, which is equivalent to Oakland's GPF Reserve but is set at 20 percent of expenditures (as opposed to 7.5 percent).[49] Second, it has a rainy day fund called the Budget Stabilization Fund.[50] When revenue exceeds expenditures, the surplus is mechanically deposited into the Stabilization Fund.[51]

City officials and outside commentators credit the Stabilization Fund for Sunnyvale's benign weathering of past economic downturns. Although some services have been shrunk in response to the present recession, no employee has been fired or furloughed.[52] Perhaps more impressively, the City has been able to use its Stabilization Fund to cover all its shortfalls in the past few decades without once dipping into its Contingency Reserve.[53] The City Manager of Sunnyvale explained that the Stabilization Fund,

> which reached $61 million in FY 2002/2003, is exactly what allowed the City to weather the rapid economic downturn associated with the technology bust in 2001. It also helped us deal with a structural imbalance between revenues and expenditures of $15 million dollars identified in FY 2003/2004. [...] We have sufficient reserves to cover ourselves for a period of time [i.e. until FY 2022/2023, if infrastructure spending is also reduced,] during which we must plan for a more conservative future.[54]

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[45] Gary Wagner & Erick Elder, *Stabilization Funds in Smoothing Government Expenditures over the Business Cycle*, 33.4 Public Finance Review (Jul. 2005) p. 441.
[46] *Id.* at p. 444.
[47] *Id.* at p. 459.
[48] City of Sunnyvale, "Adopted 2010/2011 Budget" (May 7, 2010) p. 27.
[49] City of Sunnyvale, Fiscal Sub-Element of the General Plan (adopted 2006), §7.1E.1.1.
[50] *Id.* §7.1E.1.3 & §7.1E.1.4. Note that the Resource Allocation Plan Reserve was renamed the Budget Stabilization Fund to avoid confusion with the General Fund Contingency Reserve.
[51] Mary Bradley and Drew Corbett, "Sunnyvale's Tool for Surviving Fiscal Challenges," *Government Finance Review* (Apr. 2010) p. 29. "The key to developing Sunnyvale's 20-year financial plan each year is understanding the city's sustainable trend line for revenues, and then budgeting expenditures — and setting service levels — at that point. When revenues exceed the trend line, additional money is added to the budget stabilization fund, and that money does not go toward providing new or increased services."
[53] *Ibid.*
[53] Gary Luebbers, "City Manager's Message [Regarding the 2010/2011 Budget]" (May 7, 2010). PDF p. 12.
[54] *Ibid.*

C. Oakland's Lost Rainy Day Fund

In 2003, City staff proposed that the City adopt a RDF called the Stabilization Contingency Requirement.[55] At the time staff explained that, unlike the GPF Reserve, "this 'rainy day' or revenue shortfall contingency functions primarily to address financial volatility."[55] Staff proposed that, every budget cycle beginning in FY 05-07, the City should set aside two percent of General Fund expenditures to the Contingency.[57]

Whether this policy was adopted or not remains somewhat of a mystery. Prior to considering a RDF, the BAC asked several staff members if the City had an existing RDF policy. None were aware of such a policy. Subsequently, a 2004 report was found indicating that the Contingency Requirement was adopted in Ordinance No. 12502 C.M.S. (2003), but that staff proposed postponing implementation for the FY 05-07 budget.[55] The BAC was unable to find any further documentary reference to the Contingency Reserve in any budget, ordinance, resolution, or report. Perplexingly, even though the 2004 report quotes from language in Ordinance 12502, that language appears nowhere in Ordinance 12502 (or in ordinances subsequently amending 12502).[59]

As of the writing of this report, which has taken place in the middle of the hectic FY 11-13 budget process and during a change in Mayoral Administrations, neither the Budget Office nor staff from other offices have been able to locate the provenance of this language, or verify whether the Contingency Stabilization Requirement is (or ever was) technically the law. What is clear is that the City has never implemented this proposed RDF. Even if the City officially had an RDF policy, in the words of one staffer, it was apparently forgotten about.

In recreating a RDF, however, there are reasons (more fully elaborated on in the next section) not to follow this previously suggested model. First, the 2 percent appropriation requirement is not sensitive to whether the City is in a growth or recessionary period; it is unrealistic to expect the City to make deposits in a recessionary period, especially since the point of an RDF is to draw from the fund in such instances. Second, the 2 percent requirement may cause the City to save less than it should in particularly high-growth years. Finally, the Contingency Requirement did not have any mechanical rules governing withdrawal to ensure the fund is protected for use in times of true fiscal downswing.

D. BAC's Proposed RDF

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[55] Financial Services Agency, "A report on the City's financial policy on stabilization funds" (May 13, 2003) p. 4.

[56] *Ibid.*

[57] From the legislative language available (see explanation below) it is not entirely clear whether this was supposed to be an annual set-aside or a cumulative reserve. For the purposes of this memo, it is assumed that this was intended to be a cumulative reserve.

[58] Budget Office, "Report on establishing the FY 05-07 Mayor and Council budget priorities" (Nov. 29, 2004) p. 9.

[59] See, City of Oakland, Ordinance No. 12502 C.M.S. (2003).

The BAC proposes that the City enact a strictly rulebound Rainy Day Fund, similar to the San Francisco RDF, which receives deposits in times of GPF revenue growth and can only be drawn from in times of GPF revenue decline or by supermajority vote. In particular, the BAC proposes that whenever GPF revenues grow over the previous year by more than 3 percent, half of that revenue be deposited into a separately-established RDF. If GPF revenue decreases compared with the previous year, the Council may appropriate the difference from the RDF Into the GPF. In all other cases, a supermajority City Council vote (e.g. two-thirds or seven-eights vote) and declaration of fiscal emergency would be required to draw from the RDF.

Had the City adopted such an RDF beginning in FY 95-96, it would have built sufficient reserves to weather the past few years of revenue shortfall. As Oakland's present deficits are also due to increased expenditures and liabilities, a RDF would not have been enough for the City to survive this recession unscathed, but it nonetheless would have mitigated a significant portion of Oakland's fiscal stress. (RDF-contribution requirements may, however, have forced the City to be more conservative in taking on some of the new costs that it did during growth years, which would have reduced the deficit.) At minimum, an RDF would have given the City the time and leeway to plan a more strategic reduction in services. The graph[60] below illustrates Oakland's actual GPF

[60] Note on the data: 1) All data for this graph and corresponding tables comes from the Budget Office, either as contained in the bi-annual budget or in Revenue and Expenditure Reports (whichever has the more recent data), using post-audited data to the maximum extent possible. It is critical to note, however, that these even apparently post-audit Budget and R&E numbers differ significantly from (and are consistently lower than) post-audit numbers received from the Controller as a records request (Request # 2656, received Jan. 26, 2011). For instance, the FY 01-03 Budget records post-audit GPF revenues of $319.4 million in FY 99-00, whereas the Controller reports post-audit GPF revenues of $377.7 million for the same period. The Controller also reported a steeper revenue decline; under such circumstances it is less likely that an RDF would have *fully* covered the past three years of revenue shortfall. Given other pressing obligations, staff could not explain the significant discrepancy between the two data sets. Although the Controller's data is likely more accurate, the BAC chose to rely on the Budget Office's figures because the Controller only had data available from 2000-2010 (data prior to that was stored on a defunct computer system that is no longer maintained and is thus inaccessible). To demonstrate the utility of an RDF the longer timeline was needed to permit time for the fund to grow. Because the Budget Office and Controller data are so divergent (and possibly calculated using different methodologies) it was not sensible to combine the data streams (which would show an inaccurate, huge jump in revenue when Budget Office data shifts to Controller data). Nonetheless, the Appendices show data and graphs using Controller data. 2) this graph assumes a conservative 4 percent annual growth rate in unused RDF funds, based on the City's average interest rate from 2000 through 2009. Source: Treasurer, Response to Records Request #3719 (Jan. 28, 2011). 3) This graph and data assumes, for illustrative purposes, that for FY 10-11 the City declares a fiscal emergency to appropriate money from the RDF past the annual withdrawal limit of 60 percent of beginning RDF balance (recommended in following sections).

Data Sources:

FY 10-11* (Projected): Budget Office, "Discussion and Possible Action on a Report on: (a) FY 2010-11 First Quarter Revenue and Expenditure Results" (Nov. 16, 2010) attach. A-1.

FY 09-10*: *Ibid.*

FY 08-09: Budget Office, "Report on FY 2009-10 Fourth Quarter Revenue and Expenditure Results" (Sep. 28, 2010) attach. A-1.

FY 07-08: City of Oakland, "General Purpose Fund Revenues," FY 09-11 Adopted *Policy* Budget (Dec. 2009) p. D-98. (*Compare with* Budget Office, "Report on FY 2004-05 First Quarter Revenue and Expenditure Results" (Dec. 2, 2008) attach. A-1.)

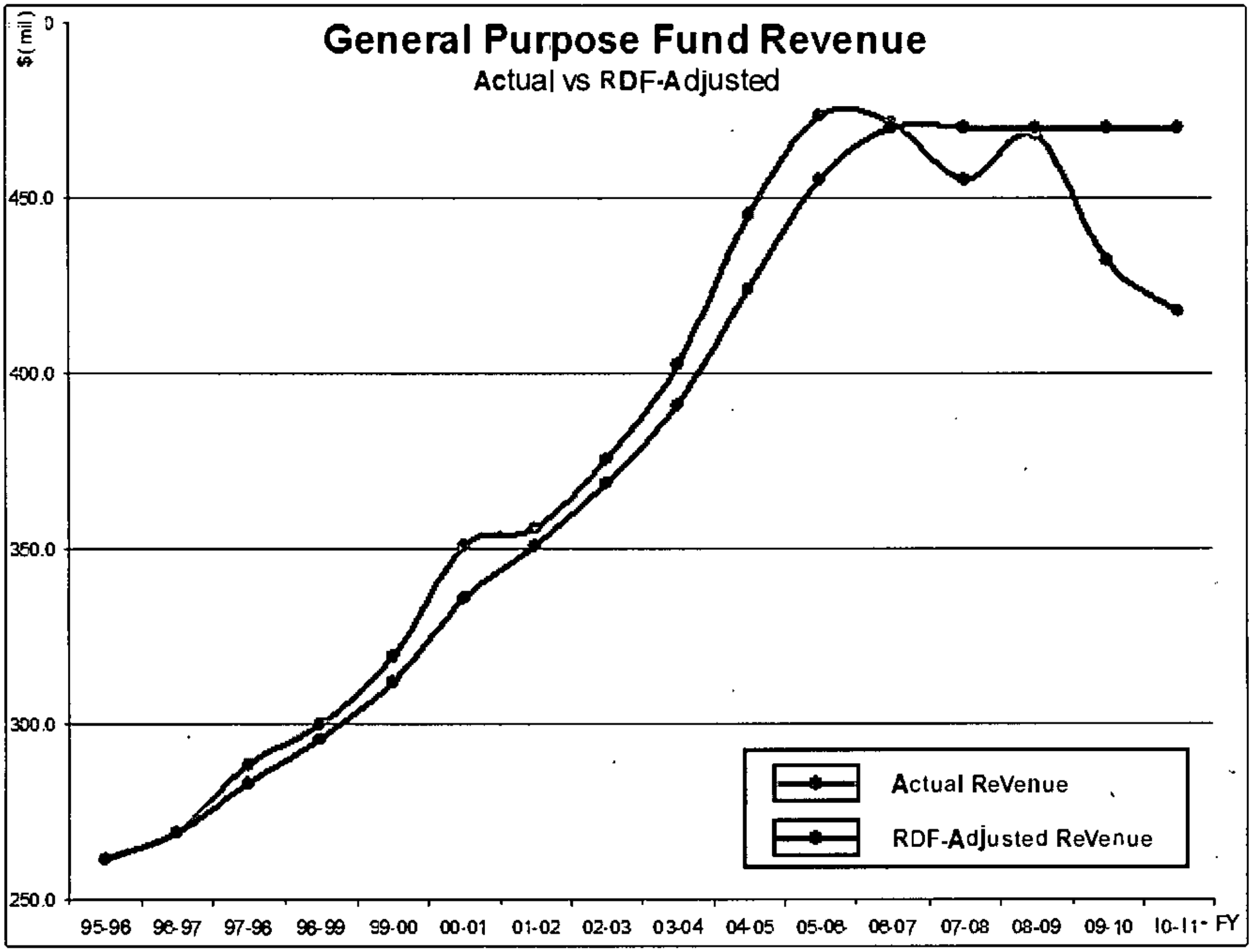
FY 06-07: Budget Office, "Report on FY 2007-08 First Quarter Revenue and Expenditure Results" (Dec. 11, 2007) attach. A-1.

FY 05-06: City of Oakland, "General Purpose Fund Revenue," FY 07-09 *Adopted Policy* Budget (Aug. 31, 2007) p. D-24. (*Compare with* Budget Office, "Report on FY 2006-07 Second Quarter Revenue and Expenditure Results" (Feb. 27, 2007) attach. A-1.)

FY 04-05: Budget Office, "Report on FY 2005-06 First Quarter Revenue and Expenditure Results" (Jan. 10, 2006) attach. A-1.

FY 03-04: City of Oakland, "General Purpose Fund Revenue," FY 05-07 *Adopted Policy* Budget (Aug. 31, 2007) p. D-28. (*Compare with* Budget Office, "Report on FY 2004-05 First Quarter Revenue and Expenditure Results" (Dec. 14, 2004) attach. A-1.)

revenues (orange line) and how much revenue would have been available in the GPF if the City had been depositing and withdrawing from an RDF (blue line). Where the orange line is above the blue line (FY95-96 – FY 05-06), the City is depositing the difference into the RDF; where the blue line is above the orange line (FY 05-06 – FY 09-10), the City is drawing from the RDF to cover the shortfall.



FY 02-03: Budget Office, "Fiscal Year 2003-04 Second Quarter Revenue & Expenditure Report" (Mar. 9, 2004) attach. A-1.pp. 109 9/15/2003
FY 01-02: City of Oakland, "General Purpose Fund Revenue," FY 03-05 *Adopted Policy Budget* (Sep. 15, 2003) p. D-37. (*Compare with* Budget Office, "Fiscal Year 2002-03 Third Quarter Revenue & Expenditure Report" (Jun. 10, 2003) attach. *A*.)
FY 00-01: *Id.* (*Compare with* Budget Office, "Fiscal Year 2001-02 First Quarter Revenue & Expenditure Report" (Oct. 30, 2001) attach. #1.)
FY 99-00: City of Oakland, "General Purpose Fund Revenues," FY 01-03 *Adopted Policy Budget* (Nov. 26, 2001) p. D-28. (*Compare with* Budget Office, "Fiscal Year 2000-01 Second Quarter Revenue & Expenditure Report" (Mar. 20, 2001) attach. #1.)
FY 98-99: *Id.*
FY 97-98: City of Oakland, "General Purpose Fund Revenues," FY 99-01 *Adopted Policy Budget* (Jul. 1, 1999) p. D-22.
FY 96-97: *Id.* (*Compare with* Budget and Finance Agency, "Third Quarter Revenue.and Expenditure Report" (May 19, 1998) p.4.)
FY 95-96: Budget and Finance Agency, "Second Quarter Revenue and Expenditure Report" (Feb. 25, 1997) p.5.)
FY 94-95*: Office of Budget and Finance, "First Quarter Revenue & Expenditure Report" (Nov. 14, 1995) p.3.)
**Indicates Pre-Audit Numbers.*

Table 4: Revenue and RDF-Adjusted Revenue, by Year

Fiscal Year	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Actual Revenue	261.7	269.5	288.6	300.0	319.4	351.2	355.6	375.6
RDF-Adjusted Revenue	261.7	269.5	283.1	295.8	312.0	336.3	351.0	368.5
RDF Size	0.0	0.0	5.5	10.0	17.7	33.3	39.3	47.9
RDF Contribution or Withdrawal	0.0	0.0	5.5	4.2	7.4	14.9	4.6	7.0

Fiscal Year	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11**
Actual Revenue	402.2	445.0	473.7	471.5	455.2	468.2	432.0	417.7
RDF-Adjusted Revenue	390.9	423.8	455.1	470.1	470.1	470.1	470.1	470.1
RDF Size	61.1	84.7	106.7	112.3	101.3	103.4	67.9	16.1
RDF Contribution or Withdrawal	11.3	21.2	18.6	1.4	(14.9)	(1.9)	(38.1)	(52.4)

* Data is in millions of dollars. Assumes a 4% annual interest rate on unspent RDF funds.
**Budget Projections

Impressively, not only would a RDF have allowed the City to entirely backfill its revenue losses for four fiscal years, but the City would still emerge with $16 million remaining in its RDF. Moreover, this is using a conservative assumption that the interest on unused RDF funds is only 4 percent. If the interest rate averaged at 7 percent, the estimate used in projecting returns on a potential PFRS bonds, there would be $44 million remaining in the RDF.[61] Of course, the effectiveness of an RDF will largely depend on how it is structured. Appendices 3 and 4 of this report shows RDF-adjusted revenue using other possible RDF contribution and withdrawal rules.

The following sub-sections explain the BAC's rationale for how it chose to structure its recommended RDF policy.

1. *Which* GPF *Revenues?*

The BAC chose to have the RDF cover all GPF revenues; however, it is worth noting that not all GPF revenues come from dedicated, ongoing funding streams. A sizeable percentage of GPF revenue comes from transfers from other funds; still other included revenues will be one-time, such as the income from the sale of City property or the receipt of grants. For instance in FY 09-10, of the $468 million in GPF revenues $38.7 million were from interfund transfers, $4.3 million were from grants, and $11.3 million were from non-tax or fee miscellaneous sources that could include property sales.[62]

A reasonable argument can be made that the RDF contribution requirement should only look to ongoing revenue sources, as they are the predictable sources of money to the GPF that fluctuate less. (Interestingly, excluding revenues from grants, land sales, and interfund transfers would generate around the same amount in RDF contributions.) However, the BAC chose not to recommend this approach for two reasons. First, it would not paint a true pictures of GPF revenues and might substantially undercount such

[61] *See* Appendix III of this report.
[62] Budget Office, "Report on FY 2009-10 Fourth Quarter Revenue and Expenditure Results" (Sep. 8, 2010) attachment A-1.

revenues (and thus the amount that should be contributed to the RDF). Although there is no duty to make interfund transfers to the GPF, for instance, such transfers have been made in the tens of millions of dollars on a regular basis, thus they should not be considered exceptional revenue streams. (The BAC would recommend, however, that interfund transfers that need to be repaid, i.e. loans, not be counted as GPF Revenue.) Second, even in the case where an exceptional windfall were to occur (say the City sells off property for $50 million) it is just as important that one-time revenue spikes be in-part stored for a rainy day. The only problem with this scenario is that a true spike would make it easier to withdraw money in the next year. (If the next year's revenue were lower than the spike this triggers a majority Council vote to draw up to the difference.) However, since the draw down is permissive, the expectation would be that the Council would not take money from the RDF in such instances.

The BAC also chose to calculate GPF revenue growth by comparing actual GPF revenue for the fiscal year in question with the RDF-adjusted GPF revenue in the prior fiscal year. In other words, if in the prior fiscal year $3 million was deposited into the RDF, that money would not be counted towards GPF revenue in that year for purposes of establishing a baseline. Similarly, if $3 million was withdrawn from the RDF in that prior fiscal year, that money would be counted as GPF revenue in that year for purposes of establishing a baseline. This approach can be contrasted to one which would look at whether actual GPF revenues, unmodified in previous years by RDF contributions or withdrawals, had increased. The BAC favors the former approach because it captures true increases in the City's expenditure capacity year-to-year. The later approach would result in significantly fewer RDF contributions and could have the perverse effect of registering a revenue decrease in one year even though, compared to the amount of money the City could actually spend from the GPF, there might be ah increase in revenue.

2. Inflation Exclusion

Revenues, like costs, generally rise each year due to inflation. Since the point of the RDF is to capture a portion of real (as opposed to nominal) increases in revenue, revenue increases attributable to inflation should be excluded from RDF capture. Otherwise, in cases where revenue increases are primarily attributable to inflation, the RDF would perversely decrease – rather than stabilize – real revenue.

However, it is nearly impossible to budget an exact exclusion percentage because annual inflation is difficult to predict. For this reason, San Francisco's RDF excludes the first five percent in revenue growth from RDF contribution.[63] The BAC recommends that Oakland adopt a more modest exclusion percentage of three percent of GPF revenue, which is slightly above the average annual inflation rate for the Bay Area over the past two decades. A five percent exclusion rate would simply exclude too many years from contributing to the RDF: for instance, with a three percent exclusion rate, there would have been eight contributions from FY95-96 to FY05-06, versus only five, using five percent as the cutoff. The Council might want to consider a safety valve, similar to what San Francisco has adopted, that when inflation does exceed 3 percent that higher rate will be the exclusion percentage.

[63] San Francisco Charter, § 9.113.5(b).

Table 5: Bay Area Inflation, 1990-2009

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Inflation (Dec. to Dec. % change)	6.0%	3.5%	3.2%	1.9%	1.6%	1.8%	2.6%	4.2%	3.0%	4.2%	5.5%
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	Avg.	
Inflation (Dec. to Dec. % change)	3.5%	1.4%	1.1%	2.2%	2.0%	3.4%	3.8%	0.0%	2.6%	2.9%	

Source: Association of Bay Area Governments, Bay Area Consumer Price Index, available at: http://www.abag.ca.gov/planning/research/cpi.html (accessed Dec. 20, 2010).

3. RDF Contribution Rate

The BAC proposes that the contribution rate, after the inflation exclusion, be fifty percent. This is the same percentage San Francisco selected for its RDF.[64] Fifty percent strikes a nice balance between allowing the City to expend added revenues on new programs while saving enough to hopefully make such new expenditures sustainable. A RDF contribution rate of one hundred percent would be too great and would essentially prevent the City from ever expanding, even during a growth year. Note, though, that a contribution rate of even 60 percent would result in substantially greater contributions to the RDF.

4. Deposit Ceiling

The BAC proposes that, once the RDF grows to exceed thirty-five percent of GPF revenues, no further contribution need be made to the RDF. This adopts a rough mid-point between San Francisco, which adopted a ten percent limit[66], and Sunnyvale, which adopted no ceiling but whose RDF hovered for many years just above fifty percent.[66] Although a bigger RDF is always better for preventing harsh fiscal downturns, a balance must be struck between present needs and future savings. The BAC felt that thirty-five percent was high enough to sustain revenues over most recessionary periods, without being so large as to be politically unpalatable. Generally-speaking, the City is unlikely to ever accumulate enough funds in its RDF to hit that ceiling (and, using the proposed deposit rules, would not have done so between 1995 and 2010).

5. Withdrawal Threshold

The BAC recommends that, when GPF revenues decline from their highest point in any of the three previous fiscal years, a simple City Council majority vote (without

[64] Id., § 9.113.5(b)(1). Note, though, that San Francisco requires an additional 25 percent be placed into the capital reserve, leaving only 25 percent of revenue (over 5 percent growth) as disposable GPF revenue.
[66] Id., § 9.113.5(c).
[66] Sunnyvale City Manager, "Report to Mayor and Council No. 09-146" (Jun. 2, 2009) attach. C.

declaration of fiscal emergency) be sufficient to withdraw money up to the difference from the RDF. The purpose of the RDF is precisely to smooth out incomes, so the barriers to withdrawing from the RDF in times where the money is needed should be low.

However, if the City Council wishes to suspend the RDF contribution or withdraw money when revenue increases (or withdraw money beyond the shortfall when revenues decrease), the BAC recommends that the City Council, by supermajority vote, must first declare that the City is facing a fiscal emergency. The BAC also recommends that in such cases the City Council must notify Oakland's largest daily and weekly print news organizations (and any other organization or individual signing up to receive such notice) that a fiscal emergency has been declared. The supermajority vote requirement and the public notice requirement will make it less likely that the RDF will be tapped unless the City is truly in a dire fiscal situation. The BAC does not recommend adding language in the RDF limiting its use to situations of "unanticipated and seemingly insurmountable events of hardship"[67], as with the GPF Reserve, because at best that language is vague and open to interpretation and at worst opens the City up to pointless lawsuits.

Finally, the BAC also recommends allowing the Mayor to declare a fiscal emergency and be able to withdraw from the RDF in cases where there is a significant, immediate, and extraordinary threat to the life or property of Oakland residents; substantial funds are immediately needed to address the situation; and it would not be reasonable to await a Council declaration of fiscal emergency. Past examples of such a situation might include the 1989 Loma Prieta earthquake or the 1991 Oakland Hills firestorm.

6. *Withdrawal Limit*

Lastly the BAC recommends that, in circumstances where GPF revenues decline but a fiscal emergency has not been declared, the total RDF withdrawal amount be limited to no more than 60 percent of the present RDF balance, even if this is less than the difference between prior and current GPF revenues. The reason for this is so that, in periods of sustained recession, the City does not deplete its RDF over a few fiscal cycles and suddenly fall off a revenue cliff. By limiting how much can be withdrawn, the City is forced to make progressive cuts in sustained bad times such that the revenue decrease is gentler.

For instance, imagine Oakland starts with an RDF of $80 million (gaining 5 percent interest a year) and that GPF revenues go from $500 million in FY 0 to $475 in FY 1, to $450 in FY 2, and to $425 in FY 3. The RDF would have enough to sustain GPF revenues at $500 million in FY 1 and FY 2, but in FY 3 the City would face a $75 million shortfall with only $8 million remaining in the RDF. By contrast, if the City limited its withdrawals to only 60 percent of the RDF balance, adjusted revenues would decline slightly in FY 2 and the drop off from FY 2 to FY 3 would be a still-painful but more manageable $45 million.

[67] Ordinance No. 13008 (C.M.S.) § 3(A)(3).

Table 6: *Hypothetical Adjusted Revenue where RDF Withdrawal is Limited*

Fiscal Year		0	1	2	3
Actual Revenue		500	475	450	425
No Limit	Adjusted Revenue	500	500	500	433.1
	RDF Size	80	57.8	8.1	0
60% Limit	Adjusted Revenue	500	500	484.7	439.6
	RDF Size	80	57.8	24.3	10.2

The San Francisco Charter adopts a similar provision, but limits RDF withdrawal to 50 percent of the beginning RDF balance.[66] This is a sounder provision for extreme multi-year recessions like the City is currently facing, where it is more likely that an RDF will suddenly be depleted. However, in most cases, recessionary spells are not as sustained as the current economic downturn. For instance, from 1976 through today, the State of California's General Fund experienced six periods of revenue decline over previous fiscal years: four of those periods of decline were for one year only; another period was over two years; and only the last period (the present recession) has been for more than three years.[69] Because the primary goal of an RDF is revenue smoothing, and the current recession has been abnormally long, the BAC recommends a higher percentage to make it more likely that the RDF will fully cover revenue shortfalls over a two-year period, while not abandoning the downward smoothing concept if a sustained recession hits.

E. Charter Amendment

Whatever RDF deposit and withdrawal rules are selected, they should be amended into the City's Charter. RDFs are effective only if sustained for the long-term to accumulate sufficient money to cover future shortfalls. It is politically unpopular to set aside money when times are flush. A RDF Policy where contributions and withdrawal's are in the City Council's discretion (versus more mechanical allocations), or where the policy itself can be amended by majority vote, is vulnerable to being eliminated, underfunded, or raided. The current climate in favor of budget reform is unlikely to persist when there is no immediate crisis; yet, it is precisely in good times that strict adherence to RDF deposit and withdrawal rules is at its most important. The empirical research on state legislatures with RDFs was adamant on this point:

> [R]esults indicate that while the "average" state has not experienced a more stable expenditure stream from utilizing a [RDF] we do find the degree of expenditure smoothing to be directly related to the stringency of the deposit and withdrawal rules governing the fund's operation. In other words, the empirical results show that states that adopt and/or utilize more rule-bound

[68] San Francisco Charter, § 9.113.5(f).

[69] California Department of Finance, Historical Data: General Fund Budget Summary, available from: http://www.dof ca.gov/budgeting/budget_faqs/information/documents/Chart-A.pdf (accessed Feb. 1, 2011).

stabilization funds experience significantly less expenditure volatility than do states without (or with improperly structured) [RDFs].[70]

The best way to protect the integrity of a RDF from political pressures is to enshrine it in the City's Charter, as San Francisco has done, where it could not be modified by the majority vote of a future City Council. The City Council should propose such a charter amendment to the voters on the next ballot. The City Council should also pass the RDF as an ordinance in the interim until the charter amendment is adopted.

F. Trigger

Lastly, although a RDF is sound long-term policy for mitigating the revenue decreases that accompany economic downturns, it does not make sense to begin depositing funds into a RDF until the City has recovered from the current recession. A collapsed roof needs to be fixed before saving for the next rainy day. Therefore, RDF deposit rules should not be triggered until the City's GPF revenue again exceeds its peak of $473 million in FY 05-06.[71] This will ensure that a RDF is politically viable and can protect Oakland's fiscal future without harming Oakland's present recovery.

G. BAC Recommendations

The BAC recommends that the City charter be amended to include a RDF with the following elements:

- *Deposit Rules*: The following three rules shall govern whether the City is required to make a deposit into the RDF:
    1) *Revenue Growth:* GPF revenue in a fiscal year which exceeds GPF revenue in the previous fiscal year by 3 percent is subject to a RDF contribution of 50 percent.
    2) *Ceiling*: No contribution is required once the RDF exceeds 35 percent of GPF revenues for that fiscal year.
    3) *Trigger*: No contribution is required until GPF revenues once again exceed $473 million.
- ***Withdrawal Rules***: Money can be withdrawn from the RDF under three conditions:
    1) *Revenue Decline*: If GPF revenue is lower than the adjusted GPF revenue* in the previous fiscal year, the City Council can appropriate the

[70] Gary Wagner & Erick Elder, *Stabilization Funds in Smoothing Government Expenditures over the Business Cycle*, 33.4 Public Finance Review (Jul. 2005) p. 441.
[71] City of Oakland, "General Purpose Fund Revenue," FY 07-09 *Adopted Policy Budget* (Aug. 31, 2007) p. D-24. Note: This is one instance where using the Controller's figures for revenue, if more accurate and calculated in the same way as the Budget Office, might be preferable. The Controller reports that GPF Revenue peaked in FY 05-06 at $511 million. Controller's Office, Records Request # 3656 (Jan. 26, 2011).
* Adjusted GPF Revenue = prior year's revenue minus RDF contribution *or* prior year's revenue plus RDF withdrawal.

difference to the GPF from the RDF by majority vote. However, this appropriation cannot exceed 60 percent of the total RDF balance.

2) *Fiscal Emergency – Council*: When there is no GPF revenue decline over the previous year, the City Council may only suspend RDF contributions or appropriate money from the RDF into the GPF by supermajority vote and a declaration of fiscal emergency transmitted to the media.

3) *Fiscal Emergency – Mayor*: If the City is confronted with a severe and extraordinary hardship that threatens human life or property and where there is no time to seek a declaration of fiscal emergency from the City Council, the Mayor may declare a fiscal emergency upon his or her own authority and appropriate money from the GPF as is necessary to handle the emergency.

IV. Conclusion

The United States is hopefully emerging from one of the worst recessions this nation has felt in over a generation. Like many other cities, Oakland's budget has suffered greatly over the past few years. The City has been forced to make many painful decisions: services have been slashed, libraries have been closed, and police officers have been laid off. Although it is unlikely that better planning could have avoided all these reductions, it would have greatly lessened the depth of each cut.

The City's present policy to mitigate fiscal uncertainty, the GPF Reserve, is inadequate to deal with multi-year revenue declines. The policy is also poorly defined and reported, making it difficult for policymakers to appropriately gauge how at-risk the City is when fiscal hardship hits. The City should clarify its reserve policy and consider various amendments to ensure it is more than a paper reserve.

In addition to clarifying the GPF Reserve, the City should follow the example of San Francisco and Sunnyvale and adopt a Rainy Day Fund. By building up a reserve in the tens of millions of dollars in good times the City may be able to avoid painful cuts in future recessions, or at least buy itself time to cut services intelligently. Smoothing out revenues makes budgeting more predictable, and ensures more stability for employees and residents expecting a certain level of city services.

Reforming the City's GPF Reserve and adopting an RDF will not help the City get out of the present recession, but it will place the City on the right track to weathering the next one.

Appendix 1 – Sample Ordinance Incorporating BAC Recommendations

(This __sample__ ordinance has __not__ been reviewed by the City Attorney's Office.)

APPROVED AS TO FORM AND LEGALITY

INTRODUCED BY COUNCILMEMBER ____________________ ____________________
CITY ATTORNEY

OAKLAND CITY COUNCIL

ORDINANCE NO.____________C.M.S.

ORDINANCE AMENDING ORDINANCE NO. 13008 C.M.S., WHICH SETS FORTH THE CITY COUNCIL'S GENERAL PURPOSE FUND (GPF) FINANCIAL POLICIES, TO CLARIFY THE CITY'S GPF RESERVE POLICY AND TO ADD A FISCAL POLICY REQUIRING THE CITY TO ESTABLISH A RAINY DAY FUND; AND PROPOSING THE RAINY DAY FUND BE ADOPTED INTO THE CITY CHARTER; AND SETTING FORTH THE COUNCIL'S GPF FINANCIAL POLICIES IN THEIR ENTIRETY, AS AMENDED.

WHEREAS, in 2010, the City Council adopted Ordinance No. 13008 C.M.S., which stated the City's General Purpose Fund (GPF) financial policies; and

WHEREAS, to ensure fiscal prudence and responsibility, the City desires to amend its GPF financial policies to clarify the GPF Reserve requirement and to require that the City establish a rainy day fund; and

WHEREAS, the purpose of a rainy day fund is smooth out the City's revenues and provide a reserve for times of fiscal hardship; now therefore,

THE COUNCIL OF THE CITY OF OAKLAND DOES ORDAIN AS FOLLOWS:

SECTION 1. The City Council finds and determines the forgoing recitals to be true and correct and hereby adopts and incorporates them into this Ordinance.

SECTION 2. The Municipal Code is hereby amended to add, delete, or modify sections as set forth below (section numbers and titles are indicated in bold type; additions are indicated by <u>underscoring</u> and deletions are indicated by ~~strike-through~~ type; portions of the regulations not cited or not shown in underscoring or strike-through type are not changed).

SECTION 3. Ordinance No. 13008 C.M.S. is hereby amended in its entirety to read as follows:

A. General Purpose Fund Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland to provide in each fiscal year a reserve of undesignated, uncommitted General Purpose Fund (Fund 1010) ("GPF") fund balance of at least ~~equal to~~ seven and one-half percent (7.5%) of the GPF ~~General Purpose Fund (Fund 1010)~~ appropriations for such fiscal year (the "General Purpose Fund Reserve Policy"). The amount held in reserve pursuant to the GPF Reserve policy shall be identified in the adopted budget.

2. Each year, upon completion of the City's financial audited statements, the City Administrator shall separately report the status of the General Purpose Fund Reserve to City Council and on the adequacy of the 7.5% reserve level. This report shall identify the amount initially allocated to the GPF Reserve, what percentage of GPF appropriations this amount represented, and any amounts withdrawn from the GPF Reserve during the course of the year. If in any fiscal year the General Purpose Fund Reserve Policy is not met, the City Administrator shall present to Council a strategy to meet the General Purpose Fund Reserve Policy. Each year, the City Administrator shall determine whether the 7.5 % reserve level requires adjustment, and recommend any changes to the City Council.

3. The amounts identified as the General Purpose Fund Reserve may be appropriated by Council only to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency. The City Council may adopt a budget with a reserve of less than 7.5% of GPF appropriations only upon declaration of a fiscal emergency. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of the City Council.

B. Rainy Day Fund

1. There is hereby established a fund in the Treasury of the City of Oakland to be known as the "Rainy Day Fund".

Deposit Rules:

2. If the Budget Office projects that total General Purpose Fund revenues for the upcoming fiscal year will exceed total General Purpose Fund revenues for the current fiscal year by more than three percent (3%), the adopted budget shall appropriate fifty percent (50%) of the anticipated General Purpose Fund revenues in excess of that 3% growth (the excess revenues) to the Rainy Day Fund.

3. If the amount held in the Rainy Day Fund exceeds thirty-five percent (35%) of prejected GPF revenues for the upcoming budget, no further appropriations to the Rainy Day Fund are required.

4. Notwithstanding Section 3(B)(2), if the projected GPF revenues for the upcoming fiscal year are less than $470,000,000 then there shall be no requirement that the adopted budget appropriate any money to the Rainy Day Fund.

Withdrawal Rules:

5. If the Budget Office projects that total General Purpose Fund revenues for the upcoming fiscal year will be less than the current fiscal year's total General Purpose

Fund revenues, or the highest of either of the two (2) previous fiscal years' total General Purpose Fund revenues, the adopted budget may appropriate Rainy Day Fund monies up to that revenue shortfall for any lawful governmental purpose; however, the adopted budget shall not appropriate more than sixty percent (60%) of the current Rainy Day Fund balance absent a declaration of fiscal emergency by the City Council.

6. Other than the situation described in Section 3(B)(5), no money shall be appropriated from the Rainy Day Fund, and no mandatory deposit into the Rainy Day Fund shall be suspended, without a declaration of fiscal emergency.

7. For the purposes of this section (Section 3(B)), a fiscal emergency can only be declared in two ways:

a. The City Council may declare a fiscal emergency by a seven-eighths vote.

b. The Mayor may declare a fiscal emergency if the City is confronted with a sudden, severe, and extraordinary hardship that threatens human life or real property and where there is no time to seek a declaration of fiscal emergency from the City Council.

8. Immediately after declaring a fiscal emergency, the City Council or Mayor shall notify the largest-circulation daily and the largest-circulation weekly print local news organizations of such a declaration.

Reporting

9. Each year, upon completion of the City's financial audited statements, the City Administrator shall separately report the status of the Rainy Day Fund to the City Council. This report shall identify the Rainy Day Fund balance at the start and end of the fiscal year, how much interest accumulated in the Rainy Day Fund during the fiscal year, and how much money was withdrawn from the Rainy Day Fund.

Other

10. For the calculations required under Sections 3(B)(2) and 3(B)(5), current and previous fiscal years' General Purpose Fund revenues shall not include any money deposited into the Rainy Day Fund and shall include any money withdrawn from the Rainy Day Fund.

11. The City Clerk and City Administrator are hereby authorized and directed to take any and all actions necessary under law, including the State Elections Code and Chapter 11 of the Oakland Municipal Code, to submit to Oakland voters at the next citywide local election Section 3(B)(1)-(10) of this ordinance as a proposed amendment to the Charter of the City of Oakland. The City Clerk and City Administrator are also hereby authorized and directed to appropriate all monies necessary to conduct and prepare for such election. Section 3(B)(1)-(10) shall be proposed to the voters as a new Section 813 under Article VIII of the City Charter. Paragraphs numbered (1)-(10) shall be redesignated (a)-(i), respectively, and subparagraphs (a) and (b) of paragraph (7) shall be redesignated as subparagraphs (1) and (2), respectively.

C.~~B.~~ Capital Improvements Reserve Fund

1. There is hereby established a fund in the Treasury of the City of Oakland to be known as the "Capital Improvements Reserve Fund".

2. On an annual basis, an amount equal to $6,000,000 shall be held in the Capital Improvements Reserve Fund. Revenues received from one-time activities, including the sale of real property, shall be deposited into the Capital Improvements Reserve Fund, unless otherwise provided in Sections ~~D~~E and EF of this ordinance or otherwise directed by a majority vote of the City Council. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein.

3. Monies on deposit in the Capital Improvements Reserve Fund may be appropriated by Council to fund unexpected emergency or major capital maintenance or repair costs to City-owned facilities and to fund capital improvement projects through the Five-Year Capital Improvement Program.

4. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the Capital Improvements Reserve Fund to City Council. If in any fiscal year the required Capital Improvements Reserve Fund threshold of $6,000,000 is not met, the City Administrator shall present to Council a strategy to meet the said threshold.

D.~~G.~~ Prior to appropriating monies from the GPF or Capital reserves or the Rainy Day Fund established by this Ordinance, the Budget Office shall prepare an analysis of the proposed expenditure and the City Administrator shall present such analysis to the City Council. Upon review and approval of the proposed expenditure by the City Council, and appropriate fiscal emergency declaration necessary for the use of GPF reserve or the Rainy Day Fund, the City Administrator will have the authority to allocate from the reserves. ~~For the purposos of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by tho majority of the City Council or (2) by Council majority vote.~~

E.~~D.~~ Use of Excess Real Estate Transfer Tax (RETT) Revenues To Build Up the GPF Reserve, Pay Back Negative Internal Service Fund balances, Establish Set-Asides for Other Post-Employment Benefits (OPEB) and Police and Fire Retirement System (PFRS) Liabilities, and Fund Capital Improvements Projects.

To ensure adequate levels of the General Purpose Fund reserves and to provide necessary funding for municipal capital improvement projects, the City shall require that excess Real Estate Transfer Tax revenues be defined and used as follows:

1) The "excess" Real Estate Transfer Tax (RETT) revenue is hereby defined as any annual amount collected in excess of the "normal baseline" collection threshold of $40 million.

2) The excess Real Estate Transfer Tax collections, as described in this section, shall be used in the following manner:

   a. Replenish General Purpose Fund (GPF) reserves until such reserves reach to 10 percent of current year budgeted GPF appropriations.

b. After such reserves have been replenished, the order of use of the remaining excess collection is as follows: 50 percent to repay negative internal services funds balances; 30 percent set aside for the Police and Fire Retirement System (PFRS) liability until this obligation is met; 10 percent to establish a trust for Other Post-Employment Retirement Benefits (OPEB); and 10 percent to replenish the Capital Improvements Reserve Fund until it reaches $10,000,000.

3) Use of the "excess" RETT revenue for purposes other than those established above may only be allowed upon declaration of a fiscal emergency. For the purposes of this Ordinance, "emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of the City Council.

F.~~E.~~ Use of One Time Revenues To Repay Negative Fund Balances in Internal Service and Other Funds; and Provide Criteria for Project Carryforwards and Encumbrances in the GPF.

1) From time to time, the City may receive "one time revenues", defined as financial proceeds that will not likely occur on an ongoing basis, such as sales of property or proceeds from the refinancing of debt, but not including additional Real Estate Transfer Tax revenues discussed in Section "~~D~~E" above.

2) Fiscal prudence and conservancy requires that one time revenues not be used for recurring expenses, that outstanding negative balances in various City funds be paid off, and that municipal capital projects addressing health and safety issues be adequately funded. Therefore, upon receipt of one time revenues, such revenues shall be used in the following manner, unless legally restricted to other purposes: 50 percent to pay off negative fund balances in the Internal Service Fund, and another 50 percent to pay off negatives in all other funds.

3) Use of the "one time revenues" for purposes other than those established above may only be allowed upon declaration of a fiscal emergency. For the purposes of this Ordinance, "emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of the City Council.

G.~~F.~~ Criteria for Project Carryforwards and Encumbrances in the General Purpose Fund.

Previously approved but unspent project appropriations ("carryforwards"), as well as funding reserved to pay for purchases or contracts that are entered into in the current year but are not paid for until the following year ("encumbrances"), draw down funding from reserves. Fiscal prudence requires that such drawdowns be limited in the General Purpose Fund (GPF). Therefore:

1) Funding for non-operating projects and purchases shall be restricted within the General Purpose Fund; capital purchases and projects in particular shall not be funded from the General Purpose Fund.

2) In cases when non-capital, operating projects and purchases must be funded in the General Purpose Fund, these shall be included in an annual budget and supported with new annual revenues.

3) Carryover of unspent project carryforwards and encumbrances in the GPF from one year into the next, with no new funding, will be allowed only on an exception basis.

4) In the beginning of each fiscal year, before project carryforwards and encumbrances are carried over from the prior year, and no later than August 1:

   - The Budget Director shall liquidate all unspent project carryforwards and encumbrances in the GPF and advise affected City departments of said action.
   - The Budget Director shall provide a report of all unpsent project carryforwards and encumbrances to the City Council for review and direction.

5) Departments may request to retain some or all of the liquidated GPF carryforwards and encumbrances, only if and when such balances are deemed essential to the delivery of city projects, programs and services, and only if the liquidation of such balances would be in violation of legislative or legal requirements, could lead to health or safety issues, and/or would greatly impact essential City projects, programs and services.

6) A request to retain some or all of the liquidated carryforwards or encumbrances must be submitted in writing to the Budget Director within five (5) working days of receiving an advisory from the Budget Office about said liquidations, and must detail specific reasons necessitating such a request, including but not limited to those stated in item (3) above.

7) The Budget Director, upon review of a department's request, shall recommend an action to the City Administrator within five (5) working days of receiving the department's request.

8) The City Administrator, in consultation with the Budget Director, shall make a final determination of any and all requests for exceptions by departments, by August 20, and all requesting departments should be so notified by August 30.

<u>H.</u>~~G.~~ Requirement That Before The City Council Takes Any Action That Has A Fiscal Impact Or Cost, The Council Must (1) Identify And Approve The Funding Source To Fully Fund The Cost Of The Proposed Council Action, Such As The Approval Of Or Changes To A Policy, Program, Services, Or Positions And (2) Make Any Adjustments To The Budget That Are Necessary To Maintain A Balanced Budget

From time to time, the City Council may present changes to existing City policy, programs and/or services that may have a cost not anticipated in the most recently adopted or amended policy budget. Fiscal prudence requires that prior to City Council approval of such changes in policy, program, and/or services, the following occur:

1) Identification of existing, viable funding source to fully fund the cost of the proposed actions. If new programs and/or initiatives are presented as cost-covering, an analysis of such cost-coverage be conducted prior to approval of the proposed changes to program, policies or services, and that such analysis of cost-coverage be conducted annually through the life of said program, policy or service change. If cost-coverage of said program, policy and/or services changes is deemed not to be cost-covering in any year per audited financials, it must be re-presented for City Council approval in order for its appropriation to continue. Council may suspend such programs until it approves appropriations; and

2) Propose any adjustments to the most recently adopted/amended budget necessary to maintain a balanced budget for City Council approval in concert with approval of the proposed changes to program, policies and/or services.

Exceptions to this policy exist if proposed changes to policy, program and/or services are time-sensitive requiring an immediate change in policy or program, such as ongoing programmatic expense as a result of a legal settlement. Such urgency may be determined by a majority vote of the City Council. Staff must return to the City Council within 60 days to present a report analyzing these fiscal impacts and any required proposal for maintaining a balanced budget as necessary for Council review and approval.

L~~H.~~ Requirement that the City Administrator submit an annual report to identify all grant-funded positions with mandatory retention clauses, showing proposed transfers of said positions and/or related services to the General Purpose Fund in the next fiscal year.

Grant awards received by City agencies/departments may contain retention clauses requiring the City to retain grant-funded staff, services and/or programs for a specified period after the end of the grant term. Such retention clauses may have a fiscal impact on the General Purpose Fund. This fiscal impact must be disclosed. Each year, during the biennial and mid-cycle budget review and prior to approval of the proposed or amended budgets, staff must provide a report to the City Council delineating possible impacts on the General Purpose Fund of such retained positions, programs, and/or services. Staff must indicate the period of time for which the retention clause applies and must present estimated fiscal impacts for each fiscal year affected.

SECTION 4. This ordinance shall be effective immediately, if passed by the affirmative vote of at least six City Council members; if this ordinance is passed by the affirmative vote of five City Council members, it will be effective seven days after final passage.

IN COUNCIL, OAKLAND, CALIFORNIA, ____________________, 2011

PASSED BY THE FOLLOWING VOTE:

AYES--- BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID and PRESIDENT BRUNNER

NOES---

ABSENT---

ABSTENTION---

ATTEST: ____________________________

LATONDA SIMMONS
City Clerk and Clerk of the Council of
the City of Oakland, California

Appendix 2 – San Francisco's Rainy Day Fund

San Francisco Charter, Art. IX, Sec. 9.113.5. – Rainy Day Reserve.

(a) There shall be a Rainy Day Reserve (the Reserve), which may also be known as an economic stabilization reserve.

Allocations to the Reserve

(b) If the Controller projects that total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, the budget shall allocate the anticipated General Fund revenues in excess of that five percent growth (the excess revenues) as follows:

1. 50 percent of the excess revenues to the Reserve;
2. 25 percent of the excess revenues to capital and other one-time expenditures; and,
3. 25 percent of the excess revenues to any lawful governmental purpose.

(c) Total monies in the Reserve may not exceed 10 percent of actual total general fund revenues, as stated in the City's most recent independent annual audit. The budget shall allocate excess revenues that would otherwise be allocated to the Reserve above the 10 percent cap instead to capital and other one-time expenditures.

(d) The Mayor and the Board of Supervisors may, at any time, appropriate monies from the capital and other one-time expenditures allocation for capital projects or for expenditures such as, but not limited to, acquisition of equipment or information systems.

(e) The Mayor and the Board of Supervisors may, at any time, appropriate monies from the general purpose allocation for any lawful governmental purpose.

Withdrawals from the Reserve

(f) If the Controller projects that total General Fund revenues for the upcoming budget year will be less than the current year's total General Fund revenues, or the highest of any other previous year's total General Fund revenues, the budget may appropriate up to 50 percent of the current balance in the Reserve, but no more than the shortfall in total General Fund revenues, for any lawful governmental purpose in the upcoming budget year.

1. If the trigger for withdrawals from the Reserve was not met in the current year, the Controller shall calculate the shortfall for the upcoming budget year by subtracting the total projected General Fund revenues for the upcoming budget year from the total projected General Fund revenues for the current year.

2. If the trigger for withdrawals from the Reserve was met in the current year, the shortfall shall be calculated by subtracting the total projected General Fund revenues for the upcoming budget year from the highest of any previous year's total General Fund revenues, plus two percent for each intervening year.

Adjustments

(g) If the City made appropriations from the Reserve in the current year and in the immediately preceding budget year pursuant to subsection (f), the City is not required to allocate any anticipated excess revenues to the Reserve or to capital and other one-time expenditures for the upcoming budget year.

(h) If the Controller projects that the Consumer Price Index for the upcoming budget year shall exceed the index for the current year by more than five percent, the trigger for allocations to the Reserve as set forth in Subparagraph (b) above shall instead be the percentage of growth in the index plus two percent. If the Controller projects that the Consumer Price Index for the upcoming budget year shall be less than the index for the current year, the trigger for withdrawals from the Reserve as set forth in Subparagraph (f) above shall instead be the percentage of negative growth in the index. The Controller shall use for these purposes the San Francisco All Items Consumer Price Index for All Urban Consumers (CPI-U), or its successor, as reported by the U.S. Department of Labor's Bureau of Labor Statistics.

(i) If the Board of Supervisors or the voters take an action that changes the amount of total General Fund revenues in any material manner, such as reducing a tax or imposing a new fee, the revenue changes caused by that action will not be counted as part of the triggers for allocations to or withdrawals from the Reserve during the year or years in which the action is first implemented.

(j) In conjunction with the year-end close of the budget, the Controller shall reconcile the revenue projections triggering any budgeted allocations to or withdrawals from the Reserve with actual revenue results, as stated in the City's independent annual audit for the years in question, and rebalance the Reserve, the capital and other one-time expenditures allocation, and the general purpose allocation accordingly.

Withdrawals for the Benefit of the Unified School District

(k) If the Controller projects that inflation-adjusted per-pupil revenues for the San Francisco Unified School District will be reduced in the upcoming budget year and the School District has noticed a significant number of layoffs, the Board of Supervisors and the Mayor may, in their discretion, appropriate funds from the

Reserve to the School District to offset the costs of maintaining education during the upcoming budget year. Such appropriations may not exceed the dollar value of the total decline in inflation-adjusted per-pupil revenues for the year, or 25 percent of the Reserve balance, whichever is lower. If the triggers for withdrawals from the Reserve for the benefit of the School District were met in the current year, the decline in per-pupil revenues shall be calculated by subtracting the inflation-adjusted per-pupil revenues for the upcoming budget year from the highest of any previous year's inflation-adjusted per-pupil revenues, plus two percent for each intervening year.

Two-Year Budget

(l) The Controller shall promulgate procedures modifying the Rainy Day Reserve system, as necessary, to be consistent with the City's adoption of biennial rather than annual budgets.

(Added November 2003; Amended by Proposition A, Approved 11/5/2009)

San Francisco Administrative Code, Ch. 10, Art. X, Sec. 10.60 – Reserve Policies.

(a) Rainy Day Reserve. To enable the public to find all City reserve policies in one place, this ordinance includes a summary of the Charter-mandated Rainy Day Reserve. This summary is intended only for convenience and does not modify or supersede the Charter provisions.

The City maintains a "Rainy Day" or economic stabilization reserve under Charter Section 9.113.5. In any year when the Controller projects that total General Fund revenues for the upcoming budget year are going to be more than 5 percent higher than the General Fund revenues for the current year, the City automatically deposits one-half of the "excess revenues," meaning the revenues above and beyond the current year plus 5 percent growth, in the Rainy Day Reserve. The total amount of money in the Rainy Day Reserve may not exceed 10 percent of the City's actual total General Fund revenues.

The City may spend money from the Rainy Day Reserve for any lawful governmental purpose, but only in years when the Controller projects that total General Fund revenues for the upcoming year will be less than the current year's total General Fund revenues, i.e., years when the City expects to take in less money than it had taken in for the current year. In those years, the City may spend up to half the money in the Rainy Day Reserve, but no more than is necessary to bring the City's total available General Fund revenues up to the level of the current year. The City may also spend up to 25 percent of the balance of the Rainy Day Reserve to help the School District in years when certain conditions are met.

(b) General Reserve. In addition to the Rainy Day Reserve, the City budget shall include a General Reserve. The General Reserve is intended to address revenue weaknesses, expenditure overages, or other programmatic goals not anticipated during the annual budget process. The Mayor and the Board of Supervisors may, at any time following adoption of the annual budget, appropriate monies from the General Reserve for any lawful governmental purpose through passage of a supplemental appropriation ordinance by a simple majority vote.

For purposes of this Section, "regular General Fund revenues" shall mean total General Fund sources less budgeted fund balances, budgeted uses of reserves, and net transfers, as determined by the Controller. The City shall fund the General Reserve at no less than two percent of budgeted regular General Fund revenues no later than fiscal year 2016-2017 according to the following schedule:

1. The General Reserve shall be no less than $25 million in the budget for fiscal year 2010-11;

2. The General Reserve shall be no less than $25 million in the budget for fiscal year 2011-12;

3. The General Reserve shall be no less than 1.0 percent of budgeted regular General Fund revenues in fiscal year 2012-13;

4. The General Reserve shall be no less than 1.25 percent of budgeted regular General Fund revenues in the budget for fiscal year 2013-14;

5. The General Reserve shall be no less than 1.5 percent of budgeted regular General Fund revenues in the budget for fiscal year 2014-15;

6. The General Reserve shall be no less than 1.75 percent of budgeted regular General Fund revenues in the budget for fiscal year 2015-16; and,

7. The General Reserve shall be no less than 2.0 percent of budgeted regular General Fund revenues in the budget for fiscal year 2016-17 and in the budget for each fiscal year thereafter.

Year-end balances in the General Reserve shall be carried forward to subsequent years. When necessary, the City shall appropriate sufficient funds to the General Reserve in the Annual Appropriation Ordinance to restore the fund balance to the level this ordinance requires.

(c) Budget Stabilization Reserve. The City shall establish a Budget Stabilization Reserve to augment the Rainy Day Reserve that the City maintains under Charter Section 9.113.5, and to further mitigate the negative effects of significant economic downturns. The Controller shall deposit funds to the Budget Stabilization Reserve as required under this Section.

The City may withdraw funds from the Budget Stabilization Reserve when the Controller projects that budgeted regular General Fund revenues for the upcoming budget year will be less than the current year's regular General Fund revenues, or less than the highest of any of the prior four fiscal years' regular General Fund revenues plus two percent, for each intervening year. If the Controller determines that either condition is met, the City may withdraw funds from the Budget Stabilization Reserve according to the following guidelines:

1. The City may not withdraw funds from the Budget Stabilization Reserve in any given year until it has withdrawn the maximum amount that the Controller determines is allowable from the Rainy Day Reserve.

2. The City may not withdraw funds from the Budget Stabilization Reserve in any given year in an amount exceeding the remaining shortfall in General Fund regular revenues, as defined above, after any withdrawals from the Rainy Day Reserve for the benefit of the City.

3. If the Controller determines that a withdrawal trigger for the Budget Stabilization Reserve was not met in the current fiscal year, but projects that it will be met for the upcoming fiscal year, the City may withdraw from the Budget Stabilization Reserve up to 30 percent of the combined value of the Budget Stabilization Reserve and Rainy Day Reserve less monies withdrawn from the Rainy Day Reserve for any lawful governmental purpose in the upcoming budget year.

4. If the Controller determines that a withdrawal trigger for the Budget Stabilization Reserve was met in the current fiscal year and projects that it will also be met for the upcoming fiscal year, the City may withdraw from the Budget Stabilization Reserve up to 50 percent of the combined value of the Budget Stabilization Reserve and Rainy Day Reserve less monies withdrawn from the Rainy Day Reserve for any lawful governmental purpose in the upcoming budget year.

5. If the Controller determines that the withdrawal trigger for the Budget Stabilization Reserve was met in the current and prior fiscal year as well as the upcoming fiscal year, the Board may withdraw up to the full balance of the Budget Stabilization Reserve for any lav/ful governmental purpose in the upcoming budget year.

In order to fund the Budget Stabilization Reserve, the Controller shall deposit 75 percent of the following revenue sources to the Budget Stabilization Reserve:

1. Real Property Transfer Tax proceeds in excess of the average annual actual receipts level for the prior five fiscal years, adjusted for any transfer tax rate increases adopted by the voters during the prior five year period;

2. Revenues from the sale of land or other fixed assets to the extent the transfer to the Budget Stabilization Reserve does not violate the Charter, state or

federal law, and the Controller determines it does not conflict with any previously-adopted City policies affecting such sales; and,

3. Ending unassigned General Fund balances in a given fiscal year as reported in the City's most recent independent annual audit beyond those appropriated as a source in the subsequent year's budget.

At the conclusion of the fiscal year, the Controller shall revise, if necessary, the balance in the Budget Stabilization Reserve to reflect year-end actual revenue receipts, as stated in the City's most recent independent annual audit.

There shall be no minimum fund balance for the Budget Stabilization Reserve. Notwithstanding the above, the Controller shall not make deposit to the Budget Stabilization Reserve, including deposits from the revenue sources identified above, if the combined fund balances of the Budget Stabilization Reserve and the Rainy Day Reserve equal or exceed 10 percent of actual regular General Fund revenues, as stated in the City's most recent independent annual audit.

The Controller shall not make deposits to the Budget Stabilization Reserve in years in which the Controller determines that the City is eligible to make withdrawals from the Budget Stabilization Reserve.

In the event that monies are deposited into the Rainy Day Reserve for any given year, any amount which would otherwise be deposited into the Budget Stabilization Reserve shall be reduced by the amount of the deposit to the Rainy Day Reserve.

The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote, may temporarily suspend the provisions of this subsection (c) for the current or upcoming budget year. The Board of Supervisors may suspend these provisions following a natural disaster that has caused the Mayor or the Governor to declare an emergency, or for any other purpose.

(d) Annual Reporting on Reserves. The Controller shall submit to the Mayor and the Board of Supervisors an annual report on the status of the General Reserve, the Rainy Day Reserve, and the Budget Stabilization Reserve.

(Added by Ord. 91-10, File No. 100248, App. 4/30/2010)

Appendix 3 – Other Possible RDF Allocations: Tables

RDF Tables using Budget Office Data, Full GPF Revenues

Scenario	Fiscal Year ?		95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11*
	Actual Revenue?		261.7	269.5	288.6	300.0	319.4	351.2	355.6	375.6	402.2	445.0	473.7	471.5	455.2	468.2	432.0	417.7
A (BAC Recs.)	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% *Withdrawal Limit: 60%* RDF Interest Rate: 4%	Adj. Rev.	261.7	269.5	283.1	295.8	312.0	336.3	351.0	368.5	390.9	423.8	455.1	470.1	470.1	470.1	470.1	458.5
		RDF:	*0.0*	*0.0*	5.5	*10.0*	*17.7*	33.3	*39.3*	*47.9*	*61.1*	*84.7*	106.7	*112.3*	*101.3*	103.4	67.9	28.3
B (BAC Recs.)	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 7%	Adj. Rev.	261.7	269.5	283.1	295.8	312.0	336.3	351.0	368.5	390.9	423.8	455.1	470.1	470.1	470.1	470.1	470.1
		RDF:	0.0	0.0	5.6	*10.1*	18.2	*34.4*	*41.4*	51.3	66.2	*92.1*	*117.1*	126.6	119.5	126.9	93.9	*44.4*
C	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 100% Interest Rate: 4%	Adj. Rev.	261.7	269.5	283.1	295.8	312.0	336.3	351.0	368.5	390.9	423.8	455.1	470.1	470.1	470.1	470.1	470.1
		RDF:	0.0	0.0	5.5	*10.0*	*17.7*	33.3	39.3	*47.9*	*61.1*	84.7	*106.7*	*112.3*	*101.3*	*103.4*	67.9	*16.1*
D	Inflation Exclusion: 3% RDF Allocation: 60% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4%	Adj. Rev.	261.7	269.5	282.0	294.2	309.6	331.8	347.3	364.9	386.4	416.8	447.0	464.9	464.9	468.2	468.2	468.2
		RDF:	0.0	0.0	6.7	*12.6*	22.9	*43.2*	53.3	*66.1*	*84.6*	*116.2*	*147.5*	*160.0*	156.4	*162.6*	*131.5*	*84.3*
E	Inflation Exclusion: 5% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4%	Adj. Rev.	261.7	269.5	285.8	300.0	317.2	342.1	355.6	374.5	397.7	431.3	463.3	471.5	471.5	471.5	452.1	426.1
		RDF:	*0.0*	*0.0*	*2.9*	3.0	5.3	*14.6*	*16.2*	16.8	*22.0*	36.6	48.4	50.4	35.5	33.5	*13.9*	5.8
F	Inflation Exclusion: 5% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 80% Interest Rate: 7%	Adj. Rev.	261.7	269.5	285.8	300.0	317.2	342.1	356.6	374.6	397.7	431.3	463.3	471.5	471.5	471.5	457.3	428.6
		RDF:	*0.0*	*0.0*	*2.9*	*3.1*	5.5	*14.9*	*16.0*	*18.2*	23.9	*39.3*	*52.4*	*56.1*	*42.7*	*42.1*	*18.0*	*7.7*
G	Inflation Exclusion: 5% RDF Allocation: 60% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4%	Adj. Rev.	261.7	269.5	285.2	299.7	316.5	339.9	355.6	374.3	396.7	427.9	459.0	471.5	471.5	471.5	461.4	429.9
		RDF:	0.0	0.0	3.4	3.9	6.8	*18.4*	*19.1*	*21.2*	27.6	45.8	62.2	64.7	50.4	49.0	20.4	8.5

RDF Tables using Budget Office Data, Limited GPF Revenues

(excluding: interfund transfers, grants and subsidies, and "miscellaneous" revenues)

Scenario	Fiscal Year ?		95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11*
O	Actual Revenue ?		247.3	255.3	249.1	273.5	293.9	321.7	323.1	352.9	374.2	428.5	453.1	425.3	420.8	413.9	400.4	395.8
A (BAC Recs.)	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% RDF Interest Rate: 4%	Adj. Rev.	244.7	253.7	252.3	268.7	284.3	307.3	319.8	341.2	362.8	401.1	433.1	433.1	433.1	433.1	433.1	432.7
		RDF:	2.5	4.2	1.8	8.6	18.6	33.8	38.4	51.7	65.2	95.2	119.0	115.6	107.4	91.8	61.4	25.5
B (BAC Recs.)	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 7%	Adj. Rev.	244.7	253.7	252.4	266.7	284.3	307.3	319.8	341.2	362.8	401.1	433.1	433.1	433.1	433.1	433.1	433.1
		RDF:	2.6	4.3	1.8	8.8	19.0	34.7	40.6	55.1	70.3	102.6	129.8	130.6	126.6	114.8	87.8	64.0
C	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 100% Interest Rate: 4%	Adj. Rev.	244.7	253.7	253.7	267.4	284.7	307.5	319.9	341.2	362.8	401.1	433.1	433.1	433.1	433.1	433.1	433.1
		RDF:	2.5	4.2	0.4	6.5	16.0	30.9	35.4	48.5	61.8	91.7	115.3	111.7	103.4	87.6	57.1	20.5
D	Inflation Exclusion: 3% RDF Allocation: 60% RDF Ceiling: 45% Withdrawal Limit: 60% Interest Rate: 4%	Adj. Rev.	244.2	253.0	253.0	265.8	281.8	302.9	316.4	336.7	357.8	392.5	423.8	425.3	425.3	425.3	425.3	425.3
		RDF:	3.1	5.4	2.2	10.1	22.6	42.4	50.8	69.0	88.2	127.7	162.1	168.6	170.7	165.8	146.5	121.8
E	Inflation Exclusion: 5% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4%	Adj. Rev.	247.1	255.3	249.9	268.0	287.6	311.9	323.1	346.1	368.8	407.9	440.7	440.7	440.7	440.0	411.3	400.3
		RDF:	0.2	0.2	0.1	5.6	12.1	22.5	23.4	31.2	37.8	59.9	74.7	61.7	43.5	18.1	7.5	3.1
F	Inflation Exclusion: 5% RDF Allocation: 60% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 7%	Adj. Rev.	247.1	255.3	249.9	268.0	287.6	311.9	323.1	346.1	368.8	407.9	440.7	440.7	440.7	440.7	418.0	403.4
		RDF:	0.2	0.2	0.1	5.7	12.3	23.0	24.7	33.2	40.9	64.4	81.3	70.5	54.2	29.3	12.6	5.4
G	Inflation Exclusion: 5% RDF Allocation: 60% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4%	Adj. Rev.	247.1	255.3	249.9	266.9	285.7	308.7	323.1	344.7	366.9	402.5	434.8	434.8	434.8	434.8	434.8	413.1
		RDF:	0.2	0.2	0.1	6.8	15.2	28.9	30.1	39.5	48.4	76.3	97.6	91.5	80.6	62.1	28.8	12.0

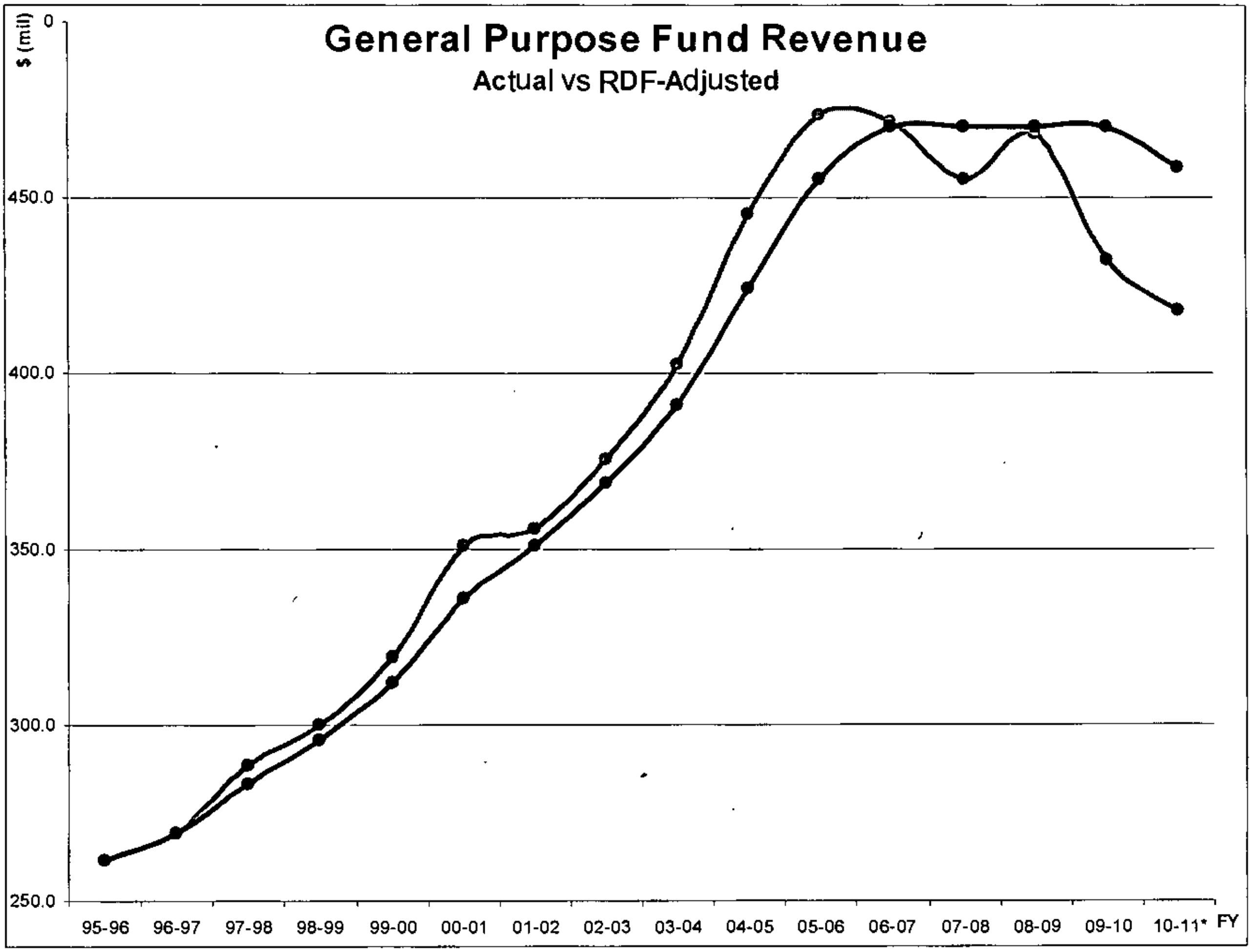
RDF Tables using Centreller Cata, Full CPF Revenues

(assumes $20 million in RDF beginning in FY 00-01)

Scenario	Fiscal Year ?		99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10
	Actual Revenue ?		377.7	397.5	403.5	407.0	445.5	483.9	511.4	471.4	455.2	468.2	433.0
A (BAC Recs.)	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% RDF Interest Rate: 4% RDF Staning $: 20 mil	Adj. Rev.	377.7	393.3	403.5	407.0	432.4	464.6	495.0	495.0	491.2	483.2	439.2
		RDF	20.0	25.0	26.0	27.1	41.3	62.3	81.2	59.9	24.9	10.4	4.3
B (BAC Recs.)	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 7% RDF Starting $: 20 mil	Adj. Rev.	377.7	393.3	403.5	407.0	432.4	464.6	495.0	495.0	495.0	487.0	441.1
		RDF	20.0	25.6	27.4	29.3	44.6	57.0	88.1	69.0	31.3	13.4	5.7
C	Inflation Exclusion: 3% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 100% Interest Rate: 4% RDF Starting $: 20 mil	Adj. Rev.	377.7	393.3	403.5	407.0	432.4	464.6	495.0	495.0	495.0	489.2	433.0
		RDF	20.0	25.0	26.0	27.1	41.3	62.3	81.2	59.9	21.0	0.0	0.0
D	Inflation Exclusion: 3% RDF Allocation: 60% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4% RDF Starting $: 20 mil	Adj. Rev.	377.7	392.4	403.5	407.0	429.7	459.1	488.3	488.3	488.3	488.3	453.4
		RDF	20.0	25.9	26.9	28.0	44.9	71.5	97.4	83.8	52.7	34.0	14.1
E	Inflation Exclusion: 5% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4% RDF Staning $: 20 mil	Adj. Rev.	377.7	397.0	403.5	407.0	436.4	471.1	503.0	503.0	471.3	471.3	438.1
		RDF	20.0	21.2	22.1	23.0	33.0	47.2	57.4	26.9	11.2	8.4	3.5
F	Inflation Exclusion: 5% RDF Allocation: 50% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 7% RDF Starlino $: 20 mil	Adj. Rev.	377.7	397.0	403.5	407.0	436.4	471.1	503.0	503.0	475.5	475.5	437.7
		RDF	20.0	21.8	23.4	25.0	35.9	51.2	63.2	33.8	14.5	7.7	3.3
G	Inflation Exclusion: 5% RDF Allocation: 60% RDF Ceiling: 35% Withdrawal Limit: 60% Interest Rate: 4% RDF Starlino $: 20 mil	Adj. Rev.	377.7	397.0	403.5	407.0	434.6	467.4	499.0	499.0	480.1	478.6	437.3
		RDR	20.0	21.3	22.2	23.1	34.9	52.9	67.4	41.4	17.2	7.2	3.0

Appendix 4 – Other Possible RDF Allocations: Graphs

RDF Graph using Budget Office Data, Full GPF Revenues

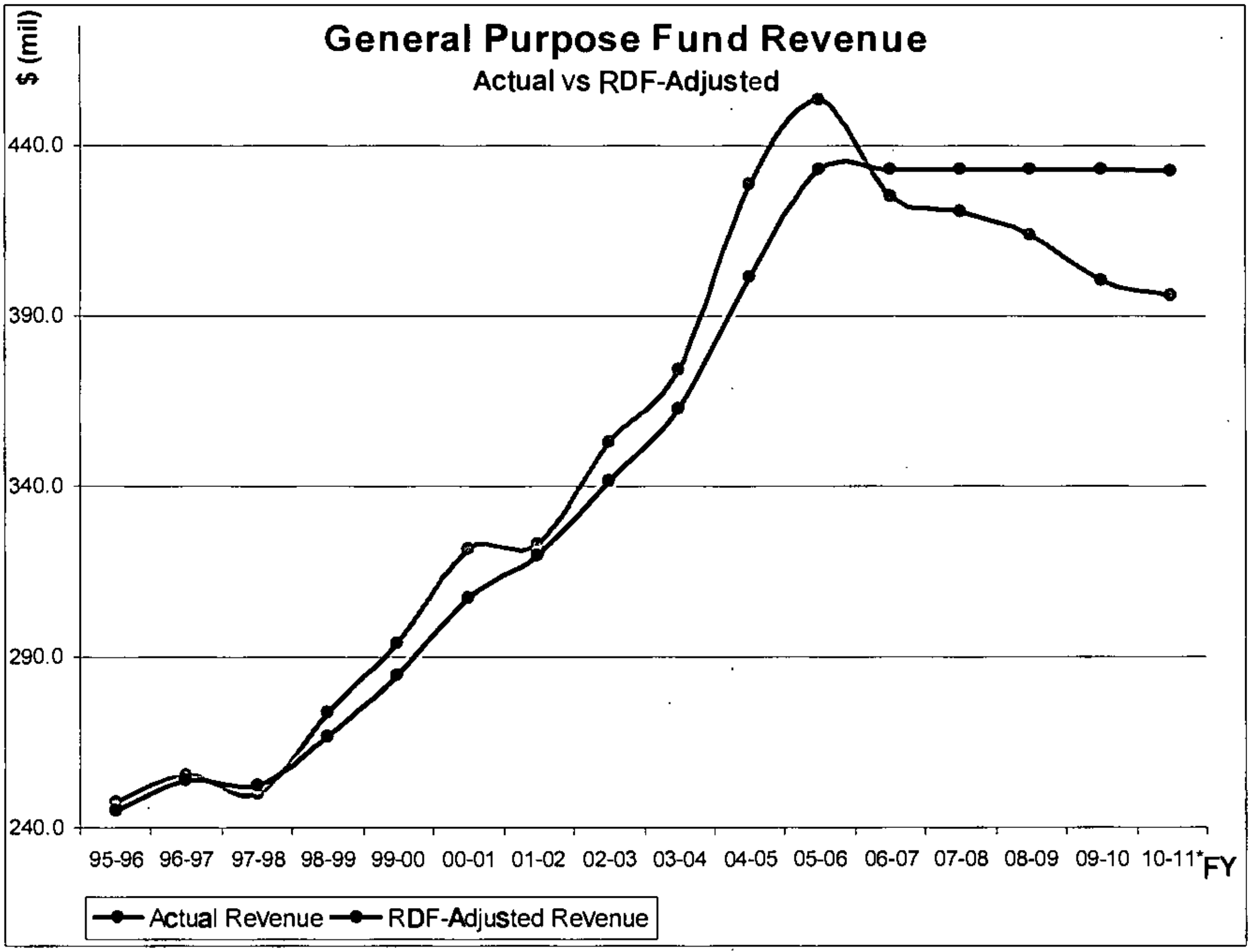


Rules: 50% of revenue growth over a 3% inflation exclusion is set aside in the RDF. Up to 60% of the RDF can be withdrawn in periods of revenue decline.

Assumption: 4% interest rate

RDF Graph using Budget Office Data, Limited GPF Revenues

(excluding: interfund transfers, grants and subsidies, and "miscellaneous" revenues)

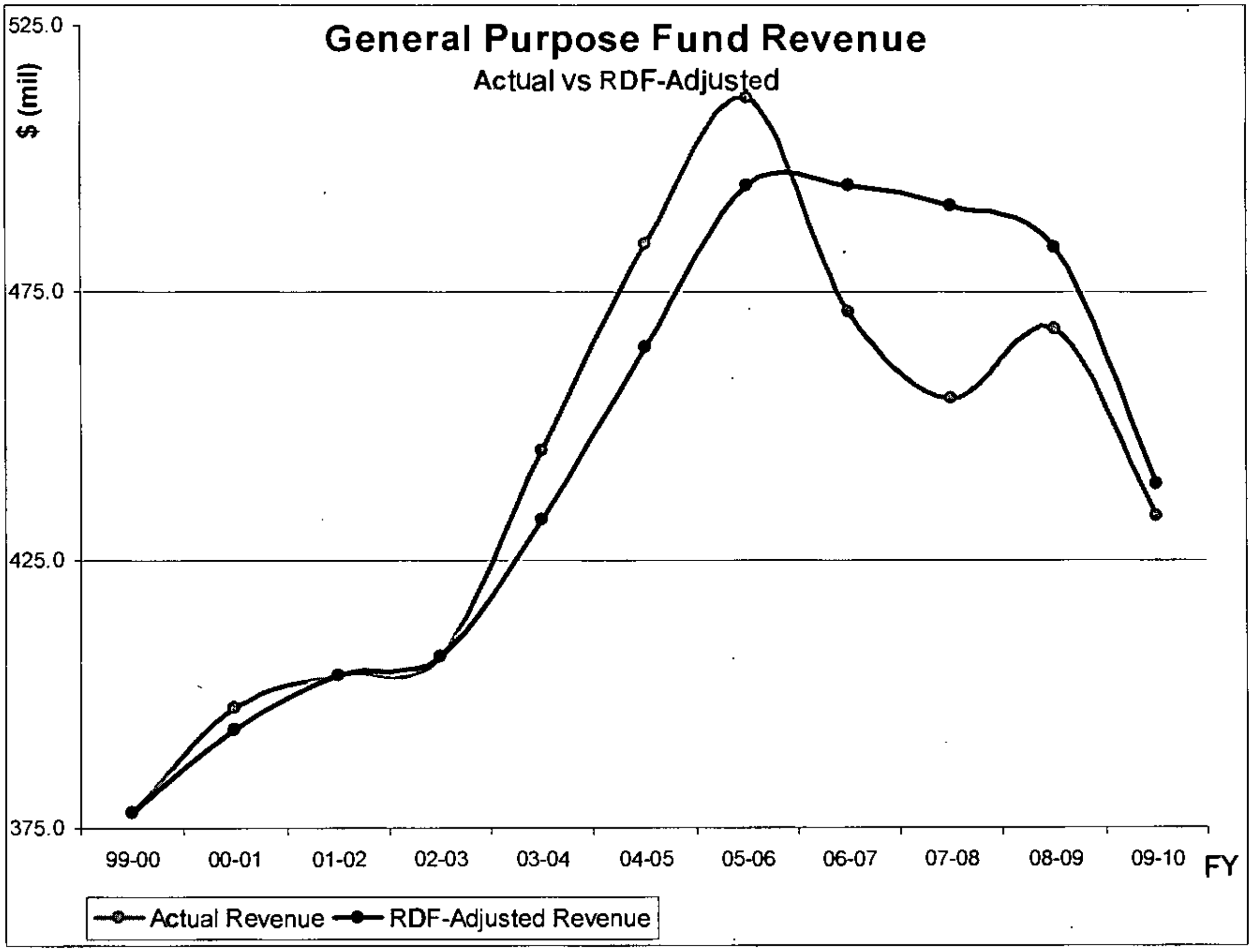


Rules: 50% of revenue growth over a 3% inflation exclusion is set aside in the RDF. Up to 60% of the RDF can be withdrawn in periods of revenue decline.

Assumption: 4% interest rate

RDF Graph using Controller Data, Full GPF Revenues

(assumes $20 million in RDF beginning in FY 00-01)



Rules: 50% of revenue growth over a 3% inflation exclusion is set aside in the RDF. Up to 60% of the RDF can be withdrawn in periods of revenue decline.

Assumption: 4% interest rate; $20 million beginning in RDF at FY 2000-2001