



City of
OAKLAND
California



City of Oakland Budget Outlook

November 15, 2012

Today's Agenda

- I. **Review of Past Budget Conditions**
- II. **Review of Current Budget Conditions**
- III. **Review of Five-Year Financial Plan & Proposed Budget Baseline**
- IV. **Budget process and timeline**
- V. **Q & A**

Information presented is to the best of our knowledge as of Nov. 14, 2012

Past Budget Conditions



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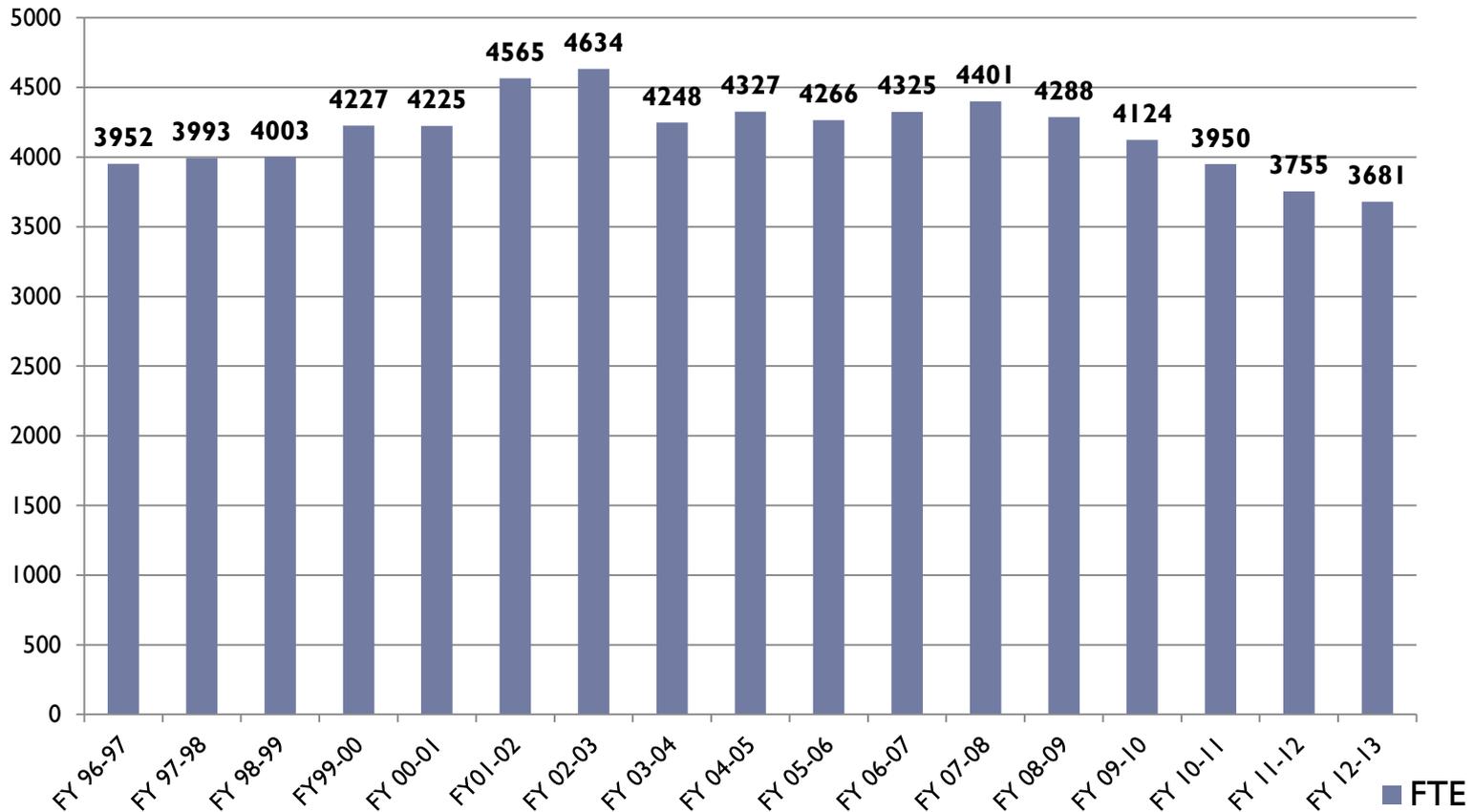


Background-- Past Budget Conditions

- ▶ Significant effort to address budget shortfalls totaling \$317.8 million over last 6 years
- ▶ Workforce reduction equivalent to 720 full-time positions (20%)
- ▶ Service reductions appear not equivalent to staff reductions—doing more with less, internal service departments critical to sustaining quality service
- ▶ Employees & Community have been major part of the solution

Full-Time Equivalent (FTE) History

4,634 → 3,681 FTEs (All Time Low)



Source: Adopted budgets

Past Challenges

- ▶ All-Funds budget shortfall and position elimination

	Reduction Amt. (Millions)	FTEs Eliminated
FY 2007-08	-\$ 7.5	
FY 2008-09	-\$ 45.3	-113
FY 2009-10	-\$ 50.9	-164
FY 2010-11	-\$ 52.1	-174
FY 2011-12	-\$ 58.0	-195
FY 2012-13	-\$ 76.0	
FY Jan. 2012 (ORA Dissolution)	-\$ 28.0	-74
Total:	-\$317.8M	-720 FTEs

Source: Council meeting material and adopted budget document

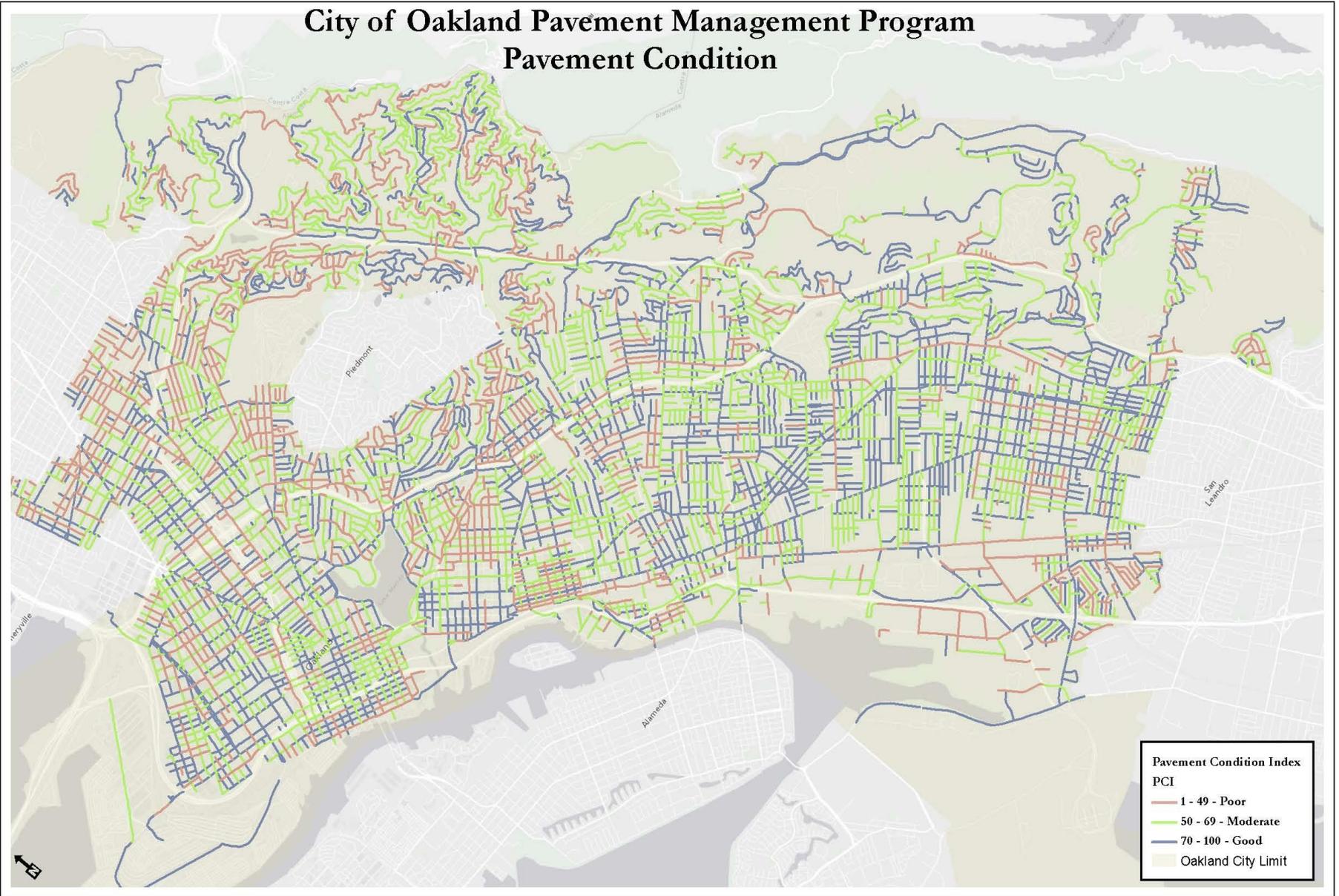


Community Service Reductions

- Sworn OPD workforce reduced from 837 to 630 officers
- increase time to respond to crime related calls
- Closed two fire engine companies—Rolling Brown Outs (closed 2 out of 25 engines; 7 trucks remain open)
- Reduction of Oaklander's Assistance Center
- Reduced branch library hours (from 6 days to 5 days)
- Reduced recreation center hours
- Reduced senior center hours but restore in FY 2012-13
- Loss of redevelopment funding resulted in:
 - Facade improvement
 - Eliminated Graffiti abatement
 - Eliminated Illegal dumping
 - Eliminated Neighborhood Project Initiative programs

Example of Deferred Maintenance

City of Oakland Pavement Management Program Pavement Condition



Past Solutions to Balance the Budget

- ▶ Employee contributions
- ▶ Reduced workforce
- ▶ Service reductions
- ▶ Deferred maintenance
- ▶ Controlled & Reduced expenditures (freeze & selected hiring)
- ▶ Financial assistance (grants)
- ▶ Restricted travel
- ▶ Reduced use of city vehicle
- ▶ Rotating Fire Station brownouts
- ▶ Reduced recreation center, senior center, and library service hours
- ▶ Two-tier Retirement System
- ▶ Increase Employee's share of retirement contribution
- ▶ Property and land sales
- ▶ Increased Fees
- ▶ Funding shifts for expenditures (to mitigate impacts to GPF)
- ▶ Economic development Investment & Strategies
- ▶ Reorganized city structure
- ▶ Issued bond (PFRS)



Current Budget Conditions

Budget At A Glance

FY 2012-13 Adopted Budget

	GPF	All Funds
Revenue	\$409 million	\$1,004 million
Expenditure	\$409 million	\$984 million
FTEs		3,680.69



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Current Budget Conditions

- ▶ Maintain Prudent Fiscal Control & Management
- ▶ Carry forward fund balance from prior year (unaudited) at \$82.9M
- ▶ Paying down the negative fund balance (\$138M to \$105M)
- ▶ FY 2012-13 Adopted Budget—Reinvested in Some Essential Services
- ▶ Uncertainties – (1) Potential for RDA “Clawback” (2) Department of Finance’s review on Recognized Obligation Payment Schedule (ROPS), and (3) OPD Receiver/Negotiated Settlement Agreement

Current Budget Conditions

Challenges

- Public Safety – Crime Increase/Sworn Decrease
- Modest Revenue Growth/Expenditures Exceed Pace
- 5 Year Horizon Shows Structural Deficit
- Key Ballot Measures Expire (Measure Y, Wildfire Assessment)

Strategies to Address Workforce and Community Needs

- Created contingency plan for unanticipated expenditures
- Public Safety investments
- Investment in economic development and job growth
- Investment in City's infrastructure and information technology
- Continued to stabilize service levels



General Purpose Fund Balance FY 2011-12 (Unaudited)

Gross ending Fund Balance	\$ 82,900,000
Minus Jun-Dec ROPS Residual Prop Tax Trust (RPTT) already included in 12-13 budget	\$ (3,700,000)
Minus \$8.7m for 12-13 budget (property sales)	\$ (8,782,521)
Minus \$1.8m for Coliseum City EIR already included in 12-13 budget	\$ (1,800,000)*
Minus Project CFs and Encumbrances	\$ (5,100,000)
NET AVAILABLE ENDING FB (proj.)	\$ 63,517,479
Minus return of property transfer proceeds if subject to State action	\$ (35,700,000)
PLUS expected RPTT if state action taken	\$ 7,500,000 **
Minus contingent reserved for NSA, court orders and litigation	\$ (5,100,000)***
NET AVAILABLE ENDING BALANCE (meeting the council mandates 7.5% GPF reserved)	\$ 30,217,479

▶ *City Council directed the City Administrator to send the request to fund the Coliseum City EIR (\$1.8 million) to the Oversight Board and/or identify other sources of remaining funds. The GPF fund balance has been used as a placeholder, pending implementation of Council's direction, which includes the following sources: oversight board funding, ACTC advance, JPA funding, and last resort, General Purpose Fund.

▶ **This estimation is contingent upon due diligent review, only approximately 40% of the tax increment portion of land sale proceeds can be transferred to the City.

▶ *** This estimation is low for full compliance of all NSA terms

Negative Other Fund Balance Summary

(FYs 09-10 thru 11-12)

Negative Fund Balance Summary FY 2009-10 Through FY 2011-12

	Negative Fund Category	Fund Balance FY 2009-10	Fund Balance FY 2010-11	Fund Balance FY 2011-12
1	Negative Funds with Repayment Plan	(98,175,474)	(94,379,909)	(79,260,347)
2	Reimbursable Negative Funds	(22,448,746)	(13,525,732)	(12,485,594)
3	Non-Reimbursable Negative Funds without Repayment Plan	(17,542,656)	(13,441,408)	(14,031,629)
Total Negative Funds		\$ (138,166,876)	\$ (121,347,049)	\$ (105,777,570)
FY 2010-11 through FY 2011-12 repayment amount		\$ 32,389,306		

FY 2012-13 Mid-Cycle Adopted Budget

- ▶ In July 2012, first time in 4 years: no layoffs and no additional cuts in FY 2012-13 Amended Adopted Budget, and the City Council adopted the return of 1 day value of furlough to all unions
- ▶ Restored Some Services: senior centers hours, recreation center hours, day laborer program, etc.
- ▶ Funded additional police academy and other law enforcement strategies
- ▶ Investment in economic development and job growth
- ▶ Replace and expand parking meters



Uncertainties

- ▶ Negotiated Settlement Agreement (NSA) status & other pending litigation (unknown amount)
- ▶ State Review on Redevelopment Agency dissolution (unknown amount)
- ▶ Measure Y (up to \$20M) & Wildfire Prevention Assessment District (up to \$1.8M)
- ▶ Labor agreements expire on June 30, 2013 (approx. \$21M impact)
- ▶ State and Federal budget status (unknown)
- ▶ Local economy recovery & impact from development projects
 - ▶ Development of the Oakland Army Base, for example, is projected to create approximately 4,800 jobs & Coliseum City project

Measure Y & Wildfire District Sunset

Measure Y -- Violence Prevention and Public Safety Act of 2004, 10 years (expiries on December 31, 2014)

- ▶ Funded two fire engine companies, or 32 FTEs (minimum service level required-25 Engines 7 trucks)
- ▶ No less than 40% of proceeds spent on social service programs, 11.9 FTEs
- ▶ Funded 63 police officers (minimum staff required)
- ▶ Measure BB of 2010
 - ▶ Removed minimum service level for fire service
 - ▶ Removed minimum staffing level for PD
- ▶ Revenue from parcel tax and parking tax total approximately \$20M

Wildfire Prevention Assessment District, 10 Years (Expires June 30, 2014)

- Goat grazing program
- Chipping program
- Vegetation removal
- Public education
- 1 FTE



City's Credit Rating

- ▶ The City's underlying ratings for its general obligation bonds are as follows:

Rating Agency	Rating Action Date	Rating	Outlook
Moody's	6/19/2012	Aa2	Stable Outlook
S&P	6/13/2012	AA-	Stable Outlook
Fitch	8/20/2012	A+	Stable Outlook

- ▶ These ratings reflect the City's credit strengths which are embodied in:
 - ✓ Strong financial management practices, many of which are enshrined in council-adopted policy
 - ✓ Very deep and diversified economic base that contributes to and participates in the Bay Area regional economy
 - ✓ Positive views of budget actions that have allowed the City to retain a very strong general fund balance
 - ✓ Cash flows and liquidity levels that are closely monitored and managed throughout the fiscal year and management's emphasis on maintaining healthy general fund reserves
 - ✓ Very strong reserves



Labor Agreements

Employee Contributions Schedule - Estimated All Funds Savings

Contribution	Union	FY 2012-13	FY 2013-14	FY 2014-15
End of Mandatory Leave Without Pay (MLWOP) and Floating Mandatory Leave Without Pay (FMLWOP)	Civilian	\$15.7M	Sunset	Sunset
Salary step freeze	Civilian	\$2.7M	Sunset	Sunset
Additional retirement contribution	Civilian	\$2.7M	Sunset	Sunset
8.85% temporary salary reduction	IAFF	\$8.4M	\$8.8M	Sunset
Vacation reduction	IAFF	\$0.9M	\$1.0M	Sunset
Brown out of two companies	IAFF	\$4.0M	\$4.0M	Sunset
4% COLA delay	OPOA	\$2.2M	\$4.1M	\$1.0M
Suspend reinstatement of holidays	OPOA	\$0.4M	\$0.4M	\$0.4M
Total Expiring Employee Contributions		\$37.0M	\$18.3M	\$1.4M

Note: OPOA 9% employee pension contribution, lower Step one and trainee pay do not sunset after expiration of the current contract.



Continued Challenges

- ▶ Unfunded liabilities (pension, OPEB, accrued leave)
- ▶ Deferred capital investments
- ▶ Negative Fund Balances
- ▶ Gaps between available resources and service demands



Unfunded Liabilities

Unfunded Amount	Descriptions
\$743K	Oakland Municipal Employees Retirement System (OMERS), closed retirement system, unfunded balance as of June 30, 2011
\$743M	California Public Employees Retirement System (Cal PERS), 75% funded. Unfunded balance as of June 30, 2011
\$216M	Police and Fire Retirement System (PFRS), closed retirement system, unfunded balance as of June 30, 2012 was \$426M; issued a bond in July 2012, the current unfunded balance is \$216M, will start the payment in FY 2017-18, \$24.24M
\$520M	Other Post-Employment Benefits (OPEB) has the unfunded actuarial accrued liability (UAAL) of \$520M as of June 30, 2011
\$29.5M	Accrued leaves are funded at 28.7% level, which leaves approximately \$29.5M unfunded as of June 30, 2012 (unaudited)
\$105M	Of the 173 funds, 54 has negative fund balance as of June 30, 2012 (unaudited). Of which, \$79M is in the repayment schedule, \$26M is not.

GASB Statement 45 requires government employers to measure and report other post-employment benefits (other than pension)

Five Year Financial Plan & Proposed Budget Baseline



Five-Year Financial Plan (FYFP)

(FY 2013-14 to FY 2017-18)

Assumptions

Revenues

- City will experience modest, steady revenue growth as the region's economy stabilizes, then begins in 2015 to experience growth consistent with long-term trends, in the 4% annual nominal growth range
- Local measures Y and wildfire prevention will expire in 2014 and the revenue is not included in the projection
- Uncertainty of Measure B1, revenue was not included in the projection

Expenditures

- Personnel costs are unknown
- City's retirement costs will grow by 1.5% per year for civilian employees, 2.5% for sworn employees
- Fringe benefit expenditures will grow by 6% per year, primarily due to medical



FYFP – Other Assumptions

- 2 police academies/year (increase sworn staff from 633 to 793)
- GPF to absorb the ongoing cost of 25 police officers paid using (COPS) II grant
- Successor Agency staff reductions as projects and funding wind down
- GPF to absorb some admin staff expenses previously paid by Successor Agency
- GPF will absorb the Police and Fire expenditures formerly funded by Measure Y, but will not absorb the violence prevention contracts
- Appropriate \$10M in FY 2015-16 and \$10M in FY 2016-17 to a reserve for unfunded pension and OPEB liabilities
- Invest in critical new information technology
- Defer most investment in capital assets
- Defer paying down unfunded OPEB liabilities

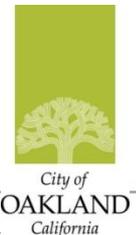
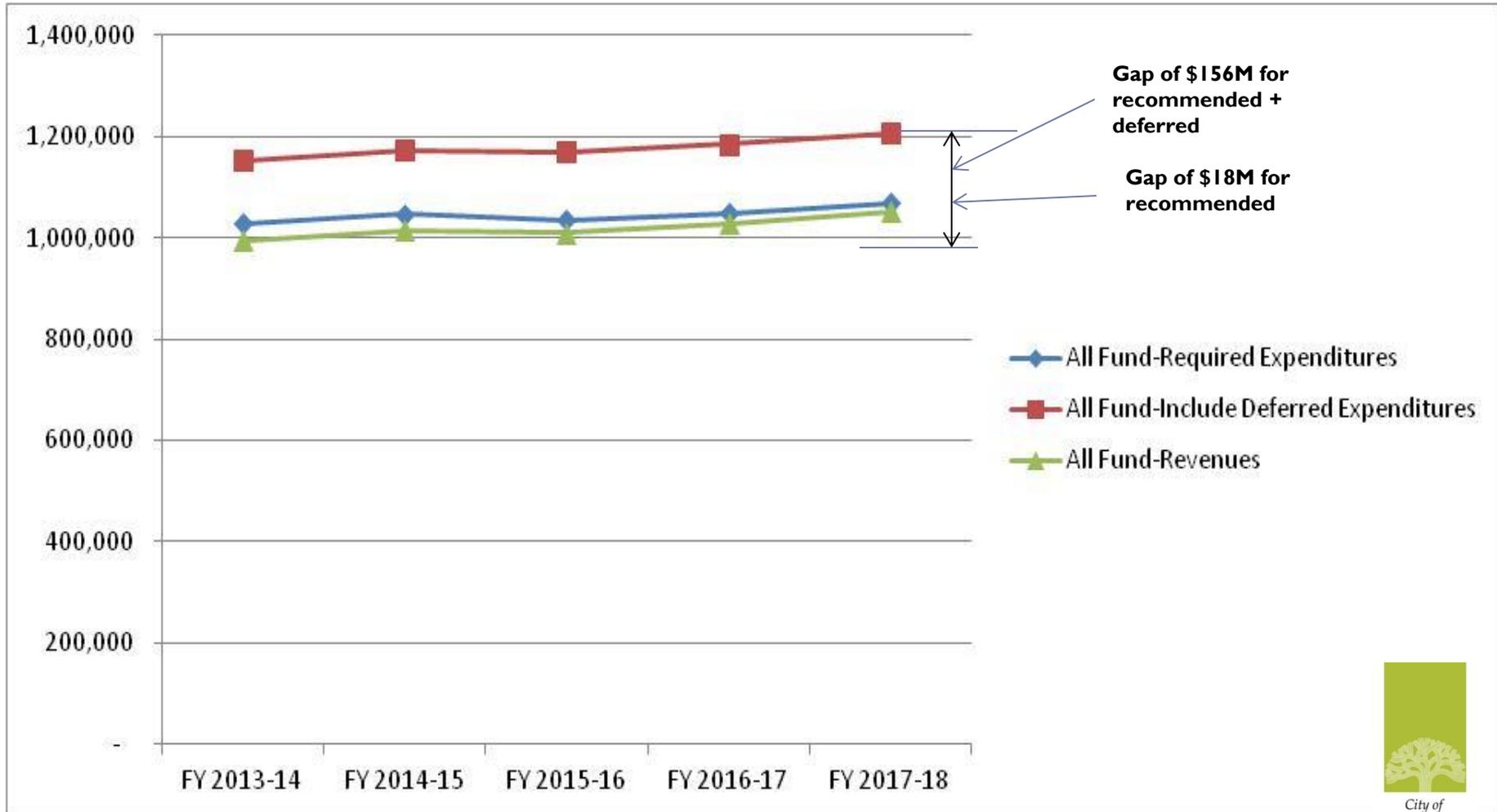


FYFP - Revenue & Expenditure Forecast

General Purpose Fund	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Revenue	\$417,987,000	\$430,066,000	\$439,187,000	\$451,195,000	\$465,489,000
Expenditures - Required	\$432,527,000	\$453,908,000	\$479,658,000	\$489,165,000	\$513,300,000
Surplus/(Shortfall)	(\$14,540,000)	(\$23,842,000)	(\$40,471,000)	(\$37,970,000)	(\$47,811,000)
Expenditures - Deferred	\$95,458,000	\$96,534,000	\$101,584,000	\$102,920,000	\$104,200,000
Surplus/(Shortfall)	(\$109,998,000)	(\$120,376,000)	(\$142,055,000)	(\$140,890,000)	(\$152,011,000)

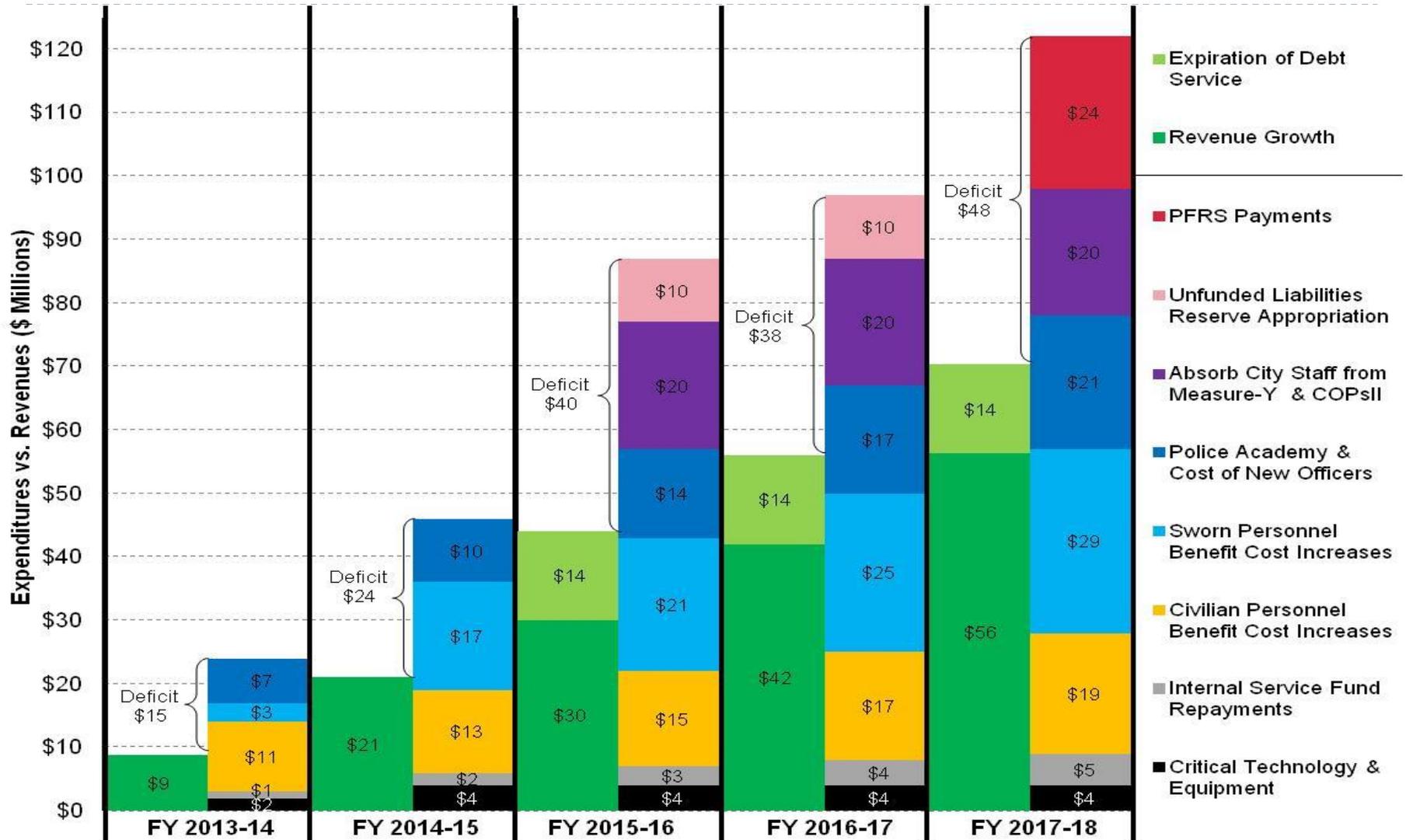
All Funds	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Revenue	\$993,052,000	\$1,013,343,000	\$1,009,189,000	\$1,028,241,000	\$1,051,072,000
Expenditures - Required	\$1,028,019,000	\$1,046,383,000	\$1,033,936,000	\$1,047,507,000	\$1,069,196,000
Surplus/(Shortfall)	(\$34,967,000)	(\$33,040,000)	(\$24,747,000)	(\$19,266,000)	(\$18,124,000)
Expenditures - Deferred	\$125,023,000	\$126,136,000	\$134,978,000	\$136,345,000	\$137,632,000
Surplus/(Shortfall)	(\$159,990,000)	(\$159,176,000)	(\$159,725,000)	(\$155,611,000)	(\$155,756,000)

FYFP - All Funds Forecast (in Thousands)



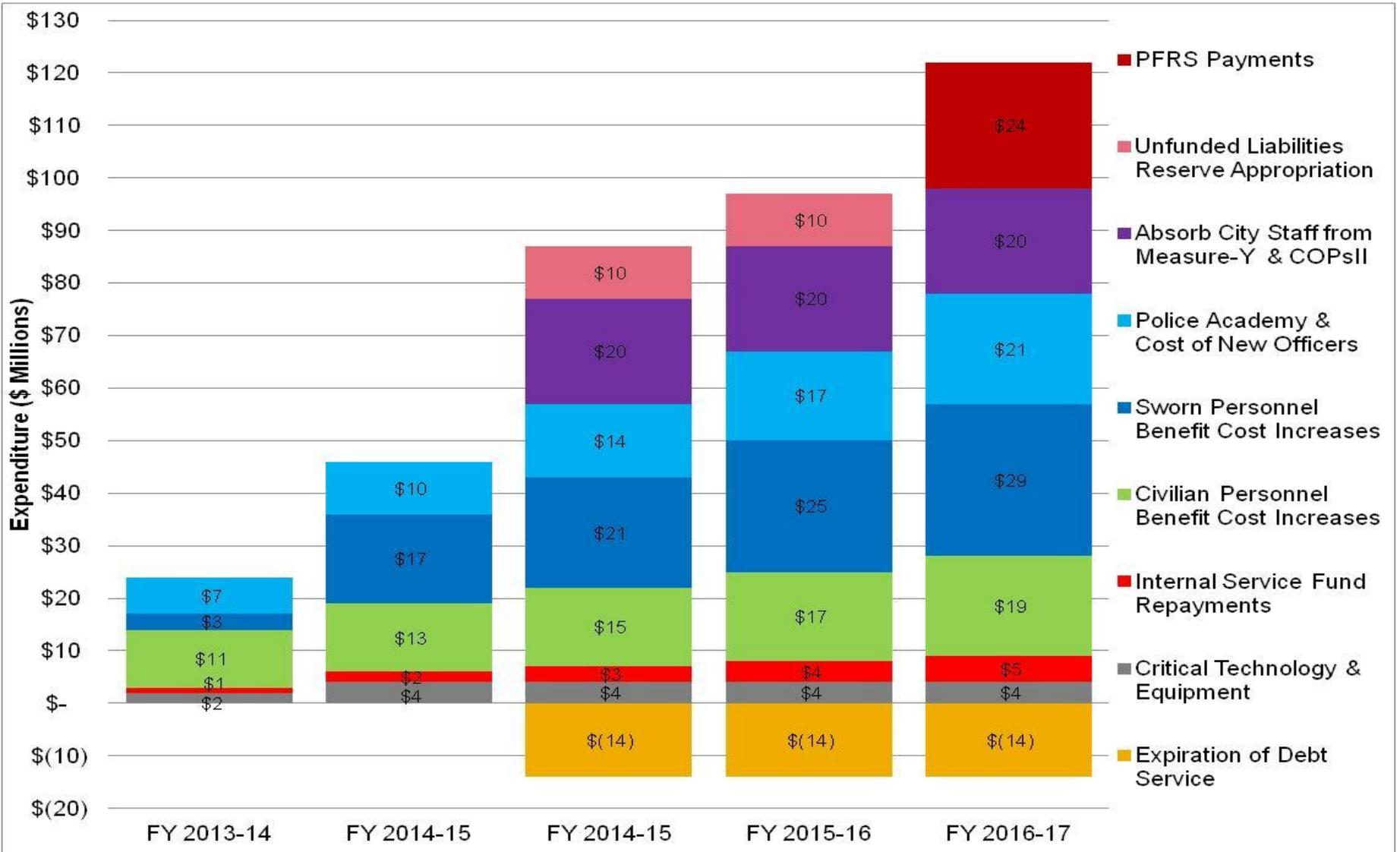
FYFP Shortfall Explanation – All Years

GPF Recommended (in Millions)



FYFP Expenditure Growth – All Years

GPF Recommended (in Millions)



Budget Process & Timeline



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FY 2013-15 Budget Process & Timeline

- Capital Improvement Program proposals due 10/26/12
- Budget instructions issued 11/15/12
- Baseline budget released to departments 11/15/12
- Department service level assessments due 11/30/12
- Department budget proposals due 12/19/12 to CAO
- Budget Office review of proposals January 2013
- Internal hearings with CAO and departments February 2013
- Citywide proposed budget issued April 2013
- Budget adoption June 2013

Q & A

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Thank you



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