CITY OF OAKLAND

FY 2013-15 PROPOSED POLICY BUDGET

Mayor
Jean Quan

Members of the City Council

Patricia Kernighan (District 2)
Council President

Larry Reid (District 7)
Vice-Mayor

Rebecca Kaplan (At-Large)
Libby Schaaf (District 4)
Daniel Kalb (District 1)
Noel Gallo (District 5)
Lynette Gibson McElhaney (District 3)
Desley Brooks (District 6)

City Administrator
Deanna J. Santana

Prepared by the Budget Office

Donna Hom
Budget Director

Osborn Solitei
Controller

Kirsten LaCasse
Assistant Controller

Analytical Staff
Rina Hernandez    Janelle Montu
Bradley Johnson   Andrew Murray
Michelle Soares

Support Staff
Debbie Comeaux    Lucius Hatcher, Jr.

Additional Analytical Support Provided by
Karen Boyd        Katano Kasaine
Sarah Schlenk     Nila Wong
Alexandra Orologas
Elected Officers

Barbara Parker, City Attorney
Courtney Ruby, City Auditor

Administration

Deanna J. Santana, City Administrator
Fred Blackwell, Assistant City Administrator
Scott P. Johnson, Assistant City Administrator
Arturo Sanchez, Deputy City Administrator

Directors

LaTonda Simmons
City Clerk

Community Services
Audree V. Jones-Taylor – Parks & Recreation
Sara Bedford – Human Services

Teresa Deloach Reed
Fire Department

Gerald Garzon (Interim)
Library

Rachel O’Dwyer Flynn
Planning and Building

Michele Byrd
Housing & Community Development

Howard A. Jordan
Police Department

Vitaly Troyan
Public Works
Mission Statement

The City of Oakland is committed to the delivery of effective, courteous and responsible service. Citizens and employees are treated with fairness, dignity and respect.

Civic and employee pride are accomplished through constant pursuit of excellence and a workforce that values and reflects the diversity of the Oakland community.
The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Oakland for its biannual budget for the fiscal years 2011-12 and 2012-13.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

The award is valid for a period of one budget cycle only. We believe our current budget for fiscal years 2013-14 and 2014-15, continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.
April 17, 2013

HONORABLE CITY COUNCIL & OAKLAND RESIDENTS

On behalf of the City Administration, we are pleased to present the City of Oakland’s Proposed Policy Budgets for Fiscal Years 2013-14 and 2014-15 for the City Council’s consideration.

This budget represents a crossroads for Oakland. Our economy is on the rise, and we see many opportunities ahead to realize our vision of success, safety and stability for our city. We have worked to balance the priorities and needs of everyone in the City, and we believe this is a "fair share" budget for all. We are investing strongly in public safety and economic development to restore our police force and build on the economic opportunities before us. Due to growing expenses beyond our control, we are still forced to propose some cuts and position eliminations, but we have worked hard to minimize them.

Significantly, employee contributions made over two years ago, at the height of the recession, will sunset starting in July 2013. For several years now, our employees have given contributions that were critical to stabilizing the City and creating an environment where we can now make thoughtful, though urgent, decisions about our future. We are grateful to all City employees, whose sacrifices have been essential to stabilizing the City’s finances and resuming our economic growth. Looking ahead, we will have to make smart, tough decisions together about how we move forward to tackle our challenges and seize the great opportunities before us.

While we have weathered fiscal storms and made substantial progress, there are factors beyond our local control that pose big challenges for balancing this two-year budget in the short term and ensuring our financial stability in the long term. It is crucial that we prepare now to address anticipated increases in expenditures. Our recent economic gains have been offset and outpaced by the following factors:

- Unknown federal and state funding cuts;
- Rising health care costs;
- Rapidly growing costs of employee pensions as the CalPERS funding system undergoes necessary reform;
- Sunsetting of local tax measures; and
- Expiring public safety grants worth millions of dollars.
As a result, the Proposed Budget for FY 2013-15 proposes to reduce expenditures by $11.6 million in the first year (FY 2013-14) and $16.1 million in the second year (FY 2014-15). This will result in the proposed elimination of 79.5 full-time equivalent (FTE) employees in FY 2013-14 and 86.5 FTEs in FY 2014-15.

The purpose of this transmittal letter is to lay out the context in which this budget is proposed: the Administration’s priorities and vision for the City; the collective contributions of our many stakeholders; the work we have done together to stabilize and build Oakland’s fiscal health and retain public services; the outside forces we must reconcile with our fiscal operations; the important long-term factors which require sound planning; and our strategies and values in building this budget.

This budget proposal contains appropriations totaling about $1 billion per year for the next two years across all funding sources, and budget proposals that both increase and decrease City services. It is a balanced budget, as required by City Charter.

In building the vision and direction proposed in this budget, we have weighed and tried to fairly balance the priorities of the Administration, Councilmembers, City employees and, most importantly, the community we serve. The specific proposed budget-balancing measures are presented in detail in the Service Impacts tab of this budget document. In brief, here are some of the most significant, concrete elements of this balanced budget:

- **Net increases in General Fund** appropriations. In the current fiscal year (FY 2012-13), those appropriations total $409 million. For the proposed two-year budget, General Fund appropriations total $430 million in FY13-14, and $457 million in FY14-15.

- Investment in public safety by funding **more police academies**. Under this budget, four academies will graduate over the next two years. The projected sworn staffing level of the department would be an estimated 697 officers by the end of FY 2014-15, depending on graduation and attrition rates.

- Investment in **economic development**, including job training, business assistance, cultural arts and marketing, business attraction and affordable housing.

- **Policy trade-offs** will need to be considered. Among these include funding for additional police academies, housing services, litter and illegal dumping enforcement and clean-up, road repair, graffiti abatement and Head Start services, which likely face federal cuts.

- We have **reduced our reliance on one-time sources of revenue** for ongoing expenses ($10.8 million over the next two years, compared to $14.3 million for the current year).

**Priorities and Vision**

Oakland is a diverse city that is home to a wide array of different communities and individuals. In many cases, that means our residents and businesses sometimes have differing and even conflicting priorities. The job of leadership is to serve all of Oakland, and to resolve those differences in a way that best serves our collective needs and goals. In that spirit, our top priorities for this budget are to:

- Invest in public safety;
- Create jobs and promote economic development;
• Bolster job-training services so that Oaklanders are a competitive and thriving workforce;
• Build and restore our infrastructure and the physical environment of Oakland;
• Achieve long-term fiscal stability for the City; and
• Foster Oakland youth and care for our most vulnerable populations.

All these priorities weave a cohesive whole, and by working together we will move Oakland forward. Our vision for Oakland is to dramatically bring down crime and strongly increase safety for our residents and businesses. This will encourage new businesses and investors, and bolster the businesses we already have, which in turn will produce new jobs, increase prosperity in our neighborhoods and create more revenue to support City services. With greater revenues, we can improve quality of life for everyone in our city, and better fund services for our most vulnerable residents, making stable, steady progress toward prosperity.

Collective Stakeholder Contributions

The City could not have achieved its state of relative health without three crucial factors: employee contributions, service reductions, and growing revenues. The first two factors were the result of incredible dedication, hard work, negotiation and leadership on the part of every City stakeholder, including the employees themselves and the City Council.

Every City employee has faced the difficulty of losing approximately 9% of their compensation, a sacrifice that is never easy to make. Mayor Quan cut in her own salary by 25% upon taking office, and will continue to do so in the coming fiscal year. This was partly an effort to honor the hard work of all public servants and the sacrifices they were asked to make. In the current fiscal year alone, employee contributions equal approximately $37 million. These contributions have saved jobs and allowed the City to sustain vital services for residents.

Weathering the Financial Storm

In addition to employee contributions, we have made great strides over the past several years to stabilize the City’s finances, which has required significant and in many cases unsustainable service reductions and/or eliminations:

• Reduced the workforce by 21% over the past 10 years, resulting in the elimination of about 720 positions;
• Closed $318 million in cumulative budget shortfalls;
• Instituted rolling brown-outs of two fire engine companies;
• Reduced sworn police staffing by 27% (from 837 to 611 officers) and civilian staff by 34% in the last 6 years (from 394 to 261 FTEs), with loss of services in patrol, level of investigations, delayed response to 911 calls for service, and elimination of the horse-mounted unit and traffic unit;
• Significantly reduced paving and street repairs;
• Reduced code enforcement, development, and planning staff;
• Reduced Cultural Arts programs and grants, and Film Office staffing;
• Significantly reduced various neighborhood improvement and beautification programs, such as: façade and tenant improvement grants, the Neighborhood Project Initiative Program, graffiti abatement (private property), blight removal, litter and illegal dumping response, tree trimming, sidewalk maintenance, and open space maintenance;
• Reduced affordable housing programs and funding for homeless programs;
Reduced park, median and grounds and building maintenance and custodial services.

We have pursued various ways to maximize revenue by: (1) pursuing grants from federal and state governments as well as foundations and the private sector, (2) aggressively pursuing dollars owed the City through special revenue collection efforts, (3) developing more public/private partnerships, and (4) increasing fees to fully recover the costs related to providing services. The results of a growing economy and aggressive revenue development efforts have proven fruitful.

Over the past five years, the City has made significant strides in stabilizing its financial condition, and the City Council, residents, and employees have played a major role in getting the City to a stronger fiscal condition. The following fiscal actions that have strengthened our financial standing:

- Instituted strong fiscal controls and strengthened financial policies;
- Proactively collected revenues and implemented targeted efforts to collect past-due funds;
- Paid down negative fund balances, which have gone from $138 million to about $99 million at the close of FY 2012-2013 (this is internal debt that comes from inter-fund borrowing);
- Fully funded the General Fund reserve to meet the level mandated by City Council policy for the first time in five years;
- Reorganized to reduce costs and enhance efficiency; and,
- Planned for anticipated additional fiscal impacts from the dissolution of Redevelopment.

Two years ago this Administration walked in the door to more than $40 million in existing budget shortfalls, a dramatically reduced police force, high debt, reduced revenues, and high unemployment. Together, since Mayor Quan took office, we have:

- Closed the budget shortfalls
- Minimized layoffs and service reductions
- Rehired all the laid-off police officers who wanted to return, and awarded a grant for 25 new officers
- Funded the first police academy in more than four years and proposed more
- Significantly paid down debt
- Maintained AA credit ratings through multiple reviews by raters/investors
- Supported modest, steady revenue increases
- Brought down unemployment from 16.6% to 13.1% in January 2013.

Ready for Growth

The good news is that the economy is showing steady signs of modest recovery, the housing market is red hot, and key economic indicators are trending in a positive direction: unemployment is down and revenues are up in most categories (e.g., property tax, sales tax, business tax, real estate tax).

The financial markets are taking notice of Oakland’s judicious approach to address both short-term and long-term financial challenges: just recently, the credit-rating agencies reaffirmed our AA credit rating and noted our stable fiscal outlook.
Looking forward, we must continue to grow our revenues to restore and enhance services to the community. We have actively supported long-dormant projects which have recently sprung to life, and are working to spur progress on other projects to draw investment to Oakland, creating more jobs and more economic development. Recent progress includes:

- Preparing to begin construction at the Oakland Army Base by December 2013, which includes constructing a new marine terminal and 1 million square feet of trade and logistics space that will generate approximately 2,000 jobs;

- Supporting efforts to break ground in spring 2014 at the Brooklyn Basin Project, which includes 3,100 units of housing, 30 acres of open space, and 200,000 square feet of commercial space, with an approximate job count of 8,000 over the 6 to 8 year build-out of the project;

- Completing the “10K” housing project started a decade ago and strategically positioning Oakland for “10K” 2.0, which would build housing across all of Oakland's transit corridors;

- Continuing to negotiate exciting opportunities for our sports facilities and the world-class potential of the Coliseum City development project; and

- Aggressively pursuing retail projects. Since 2011, more than 1 million square feet of new or improved leasable retail space have been completed or are in the pipeline.

Factors Outside the City’s Control

Despite the good work we’ve done putting our fiscal house in order, outside financial forces are creating new challenges going forward. We face some significant losses, and some expenses are rising even faster than our revenues, but three primary factors affect our fiscal status:

1. **Ongoing Impacts of the Global Recession**

Oakland continues to be challenged by the lingering impacts of the global recession and the harsh service impacts which resulted from reducing $318 million in expenditures and losing 720 FTEs in prior years, while simultaneously planning for additional reductions.

We have begun recovery, but have not yet fully restored our pre-recession revenues. A good example of these ongoing points of recovery is property tax, a central revenue source for California cities. Although Oakland property tax revenues are on the rise, they remain $8.7 million short of pre-recession levels.

Although revenues are showing modest, upward trends, continuously rising costs and deferred expenditures are projected to outpace revenue growth, mostly due to steep increases in health care and pension costs and critical deferred maintenance to repair City buildings and roads, upgrade technology, and replace fleet and equipment.

2. **Increased Cost of Benefits**

CalPERS’ newly adopted actuarial assumptions will have a significant impact on the City’s budget.
In the coming year, we face a 21% increase in CalPERS costs, or about $18 million. Over the next five years, additional increases of about 50% are expected, and anticipated CalPERS reforms could drive costs even higher.

The City must also prepare to pay increased costs for medical benefits above the estimated $41 million we now pay. These costs have increased by 39% per civilian employee since FY 06-07, and by 50% for sworn employees. While CalPERS has not published projected cost increases for 2014, the past increases are a reasonable indicator of anticipated increases in the coming years.

These rising costs are currently projected to outpace the City’s economic growth and steadily rising revenues.

3. Dissolution of Redevelopment

Redevelopment was a major tool that Oakland—like other urban centers in California—could use to turn vacant and underutilized properties into productive, tax revenue-generating and job-producing use. It served as a catalyst for private investment to breathe life into areas burdened with deteriorated buildings, environmental contamination, and aging infrastructure that would otherwise lay vacant and nonproductive.

The elimination of Redevelopment in January 2012 created a $28 million hole in the City’s budget and eliminated a significant source of ongoing funding for affordable housing and blight abatement, including resource to combat graffiti and illegal dumping. Redevelopment had also been partly used to help fund police services in commercial areas slated for revitalization.

Over the past year, the work to wind down former redevelopment agencies has been an enormously complex process for cities across the state. The California Department of Finance is currently reviewing the transactions and land sales that took place during that process and has disallowed a number of actions in other cities. Oakland is preparing for that possibility, and while we have fiscally prepared for these events, funds set aside to address this fiscal impact are funds that the City could have used for investment in desperately needed, one-time expenses (e.g., critical deferred maintenance to repair City buildings and roads, technology upgrades, and replacement of fleet and equipment).

Strategies and Values

We’ve worked to be transparent and collaborative. This is an open, community-focused process with the books open to anyone who wants to see the data. By letting everyone have unprecedented access to our budget data we know we can: (1) improve trust in the process, (2) create a budget that truly serves everyone, and (3) tap into the best ideas available by empowering everyone in Oakland to contribute their ideas and perspectives.

In recent years, we reorganized to increase efficiency, reduced middle management, and in many cases cut services to the bone. We now face choices moving forward about rebuilding and restoring a few key services. While all City service areas require our attention, we have given particular focus to the areas of public safety and economic development. By building a safer Oakland and growing our economy, we will create a better foundation on which to restore and grow the City as a whole.

We’re in this together. We will build on union partnerships and collaborate with City Councilmembers and the community. A series of town hall meetings will be held throughout Oakland to discuss the City’s fiscal condition and proposed Policy Budget, and the City Council will hold public hearings on the proposed budget.
Balancing priorities. Tough choices lie ahead. Everyone’s priorities are important, and we have made every effort to respect and champion the collective expectations, needs and goals of the people and employees of Oakland.

Oakland at a Crossroads

It is clear that the City is at a critical juncture. The decisions we make now are pivotal to our future and to realizing the full promise of Oakland. The city has won recent international recognition, and with our economy on the rise, we are well positioned for growth. Great opportunities are before us and we are within reach of a prosperous, bright future.

However, to get there, we must deal directly with our remaining challenges. The most urgent, immediate priority is to reduce crime and increase police staffing. This proposed budget will fund the graduation of four police academies over the next two fiscal years and bring police sworn staffing to 697 by the end of FY 2014-2015.

As we tackle police staffing shortages in the near term, we must also keep our eyes sharply focused on the horizon to ensure that our long-term financial issues are addressed without “kicking the can” further down the road.

For Oakland to truly flourish, we must begin to confront the imbalance between revenues and expenditures. This will take systematic planning, difficult trade-offs, patience, and will to create sustainable, long-term solutions that provide relief from the shortfalls predicted for the future, absent a permanent solution. Among our upcoming challenges are:

- Two major tax measures will sunset in the coming years: Measure Y, which largely funds police officers and community-based violence prevention service, amongst other services, as well as the Wildfire Prevention Assessment District, which provides for the ongoing safety needs necessary to preventing another firestorm such as the one Oakland endured in 1991. Renewal of these measures will require voter approval. As a result, we need to begin problem-solving over the next fiscal year to stabilize these services and funding should they not be renewed;
- Prepare for the reforms that CalPERS will put in place over the next six years that will have a significant fiscal impact;
- Prepare to implement the Affordable Care Act during the term of this proposed budget, with as-yet unknown fiscal impacts and many unresolved questions;
- Still absorbing the impact of the loss of Redevelopment;
- Five years of structural deficit is forecasted; and
- More than $1 billion of unfunded liabilities and/or deferred capital projects projected.

With labor agreements expiring beginning in July 2013, the proposed Policy Budget does not assume these savings and, instead, provides a prioritized list of services that we recommend be restored, if additional contributions are received.

In general, the proposed budget-balancing measures seek to leverage City services by reducing hours rather than eliminating programs, ensuring that the fees we charge cover the cost of providing the service, generating additional revenue, and expanding the Oakland Police Department. Examples of proposed service eliminations, reductions, and reorganizations are presented in detail in the Service Impacts section of this document.
Going forward, we must recognize the vital contribution employees made and the major impacts those contributions had; while these budgets do not assume the renewal of those contributions, we know that by working with our employees to secure structural reform to the City's budget and finding long-term solutions together, we can prepare ourselves for the period of true growth Oakland needs and deserves.

It will also be critical to bolster our dialogue with the broader Oakland community. The dialogue will have to include the possibility of a modest parcel tax the voters could approve to accelerate the restoration of staffing our police department. While the City has been prudent and smart in setting its financial house in order, we do not have a clear path to reach adequate police staffing without voters playing a part in funding that restoration. We have begun to heal from the devastating effects of the Great Recession, but that growth is modest and arriving at a pace that does not allow the fast action many residents are demanding.

Oakland is like many other California cities and cities across the United States that have grappled with multi-year service reductions and budget shortfalls to a point where there are no longer any discretionary services left to eliminate. It’s no longer about “doing more with less” or hoping for a full recovery. It is about acknowledging that we have weathered a very bad fiscal storm, put strong fiscal measures in place that have shown positive results, and now know what the future holds for our City and what we must plan for in the very near term.

We are not alone in these challenges; however, we must remember that the progress we have made over the past five years has been a direct result of this City’s dogged determination to work together, with resolve and collective passion for the well-being and viability of our community. Through ongoing collaboration and problem-solving, we will find solutions to the challenges before us, and we are confident that these decisions will allow Oakland to emerge stronger than ever.

We look forward to formally presenting this Proposed Budget to the City Council on April 30, 2013.

Respectfully submitted,

Jean Quan
Mayor

Deanna J. Santana
City Administrator

Attachment:
Budget Highlights
I. BUDGET-BALANCING PRINCIPLES

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

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

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

Key Oakland Economic Indicators at a Glance

Recent economic indicators confirm modest economic recoveries for Oakland:

- **Vacancy rates** have decreased across all commercial sectors, with the industrial sector falling to its lowest ever of 4.7%. Commercial and retail vacancy rates are declining.\(^1\)
- From calendar years 2009 to 2012, **retail sales** increased 23.1%. In calendar year 2012, the gain in taxable retail sales from 2011 alone increased by 7.6%.\(^2\)
- In calendar year 2012, the City experienced a net increase of 5.3% (823 net new) **Residential and commercial businesses** in Oakland (non-rental businesses).\(^3\)
- **Property transfers** continue on an upward trend. In 2012, there was an average of 749 transfers per month for all properties, compared with 712 per month in 2011.\(^4\)
- **Employment** in Oakland in January 2012 was 175,100; in January 2013, employment grew to 181,500, for a net gain of 6,400 jobs.\(^5\)

Housing Market Activity

Oakland’s housing market is complex. The rate of foreclosure activities has significantly decreased in Oakland. However, there are still many Oakland residents in or at risk for foreclosure and the number of underwater borrowers is also high. Notices of Default have decreased 64.1% since the prior year, and the rate of short sales has increased 35% from 2011 to 2012.\(^6\) Like state and national trends, the number of short sales in Oakland has impacted the market. Additionally the significant number of foreclosed home purchases by investors has also contributed to higher home prices and a larger rental market.

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

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

\(^1\) Colliers International 2012 4th Quarter Report
\(^2\) Hdl Companies
\(^3\) City of Oakland Business License Office
\(^4\) Hdl Companies
\(^5\) State of California EDD
**Labor Market Activity**

Over the past year, 6,400 jobs were created in Oakland compared to 5,000 jobs created in the previous year. The unemployment rate in the Oakland-Fremont-Hayward MD was 8.0% in February 2013, down from 8.6% in January 2013, and below the year-ago estimate of 9.5%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. The unemployment rate was 8.0% in Alameda County, and 8.1% in Contra Costa County.

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

**Taxable Sales Activity**

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

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

**III. OAKLAND WEATHERING ITS FINANCIAL CHALLENGES: 2008-2013**

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

**Workforce and Community Service Reductions**

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

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8 State of California, EDD  
9 Hdl Sales Tax Report 2012
Past Short-Term and Long-Term Cost-Cutting Measures

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

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

<table>
<thead>
<tr>
<th>Short-Term Measures</th>
<th>Long-Term Measures</th>
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<tbody>
<tr>
<td>• Employees temporarily contributed 10% of compensation</td>
<td>• Eliminated 720 full-time equivalent positions</td>
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<tr>
<td>• Initiated hiring freeze</td>
<td>• Increased employee’s retirement contribution</td>
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<tr>
<td>• Closed City offices 12 days per year and added</td>
<td>• Implemented new two-tier retirement system</td>
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<td>floating furlough days</td>
<td>• Reorganized and combined several City</td>
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<td>• Deferred maintenance of facilities and streets</td>
<td>departments to achieve operational efficiencies</td>
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<tr>
<td>• Eliminated two fire engine companies and</td>
<td>• Eliminated façade improvement grants, graffiti</td>
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<tr>
<td>implemented rolling brown outs</td>
<td>abatement and illegal dumping programs</td>
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<tr>
<td>• Closed branch libraries one day per week</td>
<td>• Transferred eligible expenditures to restricted</td>
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<tr>
<td>• Reduced hours at recreation centers, branch</td>
<td>funds, freeing up General Fund dollars</td>
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<tr>
<td>libraries, and senior centers</td>
<td>• Increased fees</td>
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<tr>
<td>• Eliminated more than 239 vehicles in the fleet</td>
<td>• Invested in economic development strategies</td>
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<tr>
<td>• Significantly reduced tree trimming</td>
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<td>• Restricted travel, training, and discretionary</td>
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<td>spending</td>
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<tr>
<td>• Reduced grants and subsidies to community</td>
<td></td>
</tr>
<tr>
<td>organizations</td>
<td></td>
</tr>
<tr>
<td>• Sold surplus property and land</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Maximizing Revenue

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

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

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

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

**IV. BUDGET OVERVIEW**

**Total City Budget**

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

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

| Table 2: Proposed Budget: Revenues and Expenditures Summary (in Millions) |
|------------------|------------------|------------------|------------------|
|                  | FY 2013-14       | FY 2014-15       |                  |
|                  | Revenues         | Expenditures     | Revenue          | Expenditures     |
| GPF              | $430.16          | $430.16          | $457.40          | $457.40          |
| All-Funds*       | $1,052.69        | $1,039.01        | $1,071.70        | $1,060.58        |

* The revenues in All-Funds exceed the All-Funds expenditures due to Council’s policy to amortize the repayment to negative funds created in prior years.
General Purpose Fund (GPF)

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

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

Summary of Former Baseline Estimates

Shortly after publishing the FY 2013-18 Five Year Forecast in the fall of 2012, staff developed the FY 2013-15 baseline revenue and expenditure estimates. These former estimates from the FY 2013-15 baseline indicated that despite modest revenue growth, continuation of the current FY 2012-13 levels of service plus Council approved augmentations (baseline) would result in a shortfall of $15.64 million in FY 2013-14 and $24.86 million in FY 2014-15, as reflected in the table below:

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

<table>
<thead>
<tr>
<th></th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Former Baseline GPF Revenues</td>
<td>$417.99 million</td>
<td>$430.07 million</td>
</tr>
<tr>
<td>Former Baseline GPF Expenditures</td>
<td>$433.63 million</td>
<td>$457.93 million</td>
</tr>
<tr>
<td><strong>Former Baseline GPF Shortfall</strong></td>
<td><strong>($15.64 million)</strong></td>
<td><strong>($24.86 million)</strong></td>
</tr>
</tbody>
</table>

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

The baseline shortfall is generally caused by increased costs of providing City services which are outpacing moderate revenue increases, prior reliance on the use of one-time funds to fund ongoing expenditures, and the expiration of employee contributions over the past five years (these contributions, for example, saved $37 million in FY 2012-13 across all funds and $23.6 million in the General Purpose Fund). A primary cost driver the city has been experiencing has been the growth in employee health and retirement benefits. For example, the City’s pension costs are projected to grow from $67.3 million in the current year (FY 2012-13) to $85.3 million in FY 2014-15, representing an increase of 26.7% over the two year period; and the employee benefit costs (other than retirement) are projected to grow from $91.3 million in the current year to $107.3 million in FY 2014-15, representing a 17.5% increase over the two year period. Another driver of the baseline expenditure growth is ongoing funding for new police officers from the last three police academies (166, 167 and 168), as approved by the City Council in FY 2011-13 Policy Budget. In addition, when the City’s Redevelopment Agency was dissolved due to the State’s action, some of the positions were maintained to complete approved projects. As those projects are being completed, less funding is available for administrative positions proportionally.
Revised Revenue Estimates Based on Actual Trend Data through the 2nd Quarter of FY 2012-13

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

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

### Table 4: Summary of Revised GPF Revenue Projections

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

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

### Table 5: One-Time New Revenues Summary

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billboard</td>
<td>$500,000</td>
<td>$</td>
</tr>
<tr>
<td>Property Sale</td>
<td>$</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Parking Ticket Backlog</td>
<td>$</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Total One-Time New Revenue</td>
<td>$500,000</td>
<td>$6,000,000</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$430,155,612</td>
<td>$457,401,684</td>
</tr>
<tr>
<td>Percentage of One-Time Revenue</td>
<td>.12%</td>
<td>1.31%</td>
</tr>
</tbody>
</table>
Revenue Adjustments

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

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

Use of One-Time vs. Ongoing Revenue Sources

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

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

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

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

<table>
<thead>
<tr>
<th>FY 2013-14</th>
<th>$430.16 million Total Revenue:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$429.66 million ongoing revenue (99.88% of total)</td>
<td>$424.76 million ongoing exp. (98.74% of total)</td>
</tr>
<tr>
<td>$5.5 million one-time revenue (.12% of total)</td>
<td>$5.4 million one-time exp. reduction (1.26% of total)</td>
</tr>
<tr>
<td>[Net of $1.16 million of fund balance to be programed For balancing 2014-15]</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY 2014-15</th>
<th>$457.40 million Total Revenue:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$439.44 million ongoing revenue (96.07% of total)</td>
<td>$451.50 million ongoing exp. (98.71% of total)</td>
</tr>
<tr>
<td>$6.0 million one-time revenue (1.31% of total)</td>
<td>$5.9 million one-time exp. reduction (1.29% of total)</td>
</tr>
<tr>
<td>$11.97 million fund balance (2.62% of total)</td>
<td></td>
</tr>
</tbody>
</table>
Table 7: One-Time Expenditure Summary

<table>
<thead>
<tr>
<th>Descriptions</th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAFER Grant</td>
<td>$3,900,000</td>
<td>$3,900,000</td>
</tr>
<tr>
<td>IT Equip &amp; Maintenance</td>
<td>$1,500,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Total One-Time Exp. Reductions</td>
<td>$5,400,000</td>
<td>$5,900,000</td>
</tr>
<tr>
<td>Total Exp. Reductions</td>
<td>$430,155,612</td>
<td>$457,401,684</td>
</tr>
<tr>
<td>Percentage of One-Time Exp. Reductions</td>
<td>1.26%</td>
<td>1.29%</td>
</tr>
</tbody>
</table>

V. BALANCING THE FY 2013-15 BUDGET

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

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

Table 8: Summary of Balancing Measures

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

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

Organizational Changes & Service Impacts

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

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

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

General Purpose Fund (Fund Balance as of March 2013)

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

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

Table 9: General Purpose Fund Reserve/Undesignated Fund Balance

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

Note: Does not account for anticipated expenditures in FYs 2012-2013 or 2013-2015 (see next section).
Other Anticipated Costs in Excess of Reserve Balance

There are number of anticipated costs, currently estimated at least more than $40.3 million, which would eliminate the surplus fund balance of $32.5 million. These costs are primarily related to the State Department of Finance and Controller’s Office’s ongoing review of actions related to Redevelopment dissolution, litigation, and police overtime for FY 2012-13. Below is some detail related to these anticipated expenditures:

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

Total $40.3+ million

Budget Concerns in Other Funds

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

Table 10: Status of Negative Fund Balance Repayments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Negative Funds with Repayment Plan</td>
<td>(98,175,474)</td>
<td>(94,379,909)</td>
<td>(78,766,947)</td>
<td>(69,755,454)</td>
</tr>
<tr>
<td>2 Reimbursable Negative Funds</td>
<td>(22,448,746)</td>
<td>(13,525,732)</td>
<td>(18,692,300)</td>
<td>(14,629,751)</td>
</tr>
<tr>
<td>3 Non-Reimbursable Negative Funds without Repayment Plan</td>
<td>(17,542,656)</td>
<td>(13,441,408)</td>
<td>(14,031,629)</td>
<td>(14,531,629)</td>
</tr>
<tr>
<td>Total Negative Funds</td>
<td>$ (138,166,876)</td>
<td>$ (121,347,049)</td>
<td>$ (111,490,876)</td>
<td>$ (98,916,834)</td>
</tr>
<tr>
<td>FY 2010-10 to FY 2012-13 repayment amount</td>
<td>$ (39,250,042)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
VI. CAPITAL IMPROVEMENT PROJECTS

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

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

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

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

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

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

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

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

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

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

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

Information Technology

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

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

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

Budget Constraints

During the budget development process, consideration was given to the restrictions placed on the use of the City’s General Purpose Fund. Outside of public safety and mandated services, only a small portion of the expenditures are discretionary. Nearly three-quarters of the GPF goes to pay for police, fire, voter-approved ballot measure earmarks, and debt service. Much of the remainder is dedicated to several ballot measures such as Measure Q (libraries) and Measure K/00/D (Kids First!). These measures require baseline spending levels, so the funds cannot be cut without jeopardizing either the revenue they generate or other charter requirements. About 5% of the GPF pays for revenue-generating staff and charter-mandated positions, such as elected officials.
VII. FIVE-YEAR PLAN TO FISCAL SUSTAINABILITY

The City has demonstrated its resolve in addressing economic challenges; now is the time to strategically plan for the future in order to preserve essential City services over the long term and increase investment in top community priorities, while maintaining long-term fiscal stability.

Under current conditions, our expenditures and long-term financial liabilities are expected to outpace our modest revenue growth. Last fall, the City presented a five-year forecast to establish a clear roadmap of the financial obligations and challenges ahead. Based on historic trends and conservative assumptions, the forecast includes estimates on future revenues and long-term obligations, including retiree medical costs, pension costs, and about $100 million annually in critical deferred maintenance for City building and road repairs, technology upgrades and critical fleet and equipment replacement. Table 1 below illustrates the unfunded and long-term liabilities the City faces over time.

Table 11: Unfunded and Long-Term Liabilities

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

Deferred Capital Expenses

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

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

Legislative Activities

In Sacramento, a number of legislative proposals are being developed that pertain to economic development and local government. These bills seek to fill the void left by the elimination of redevelopment agencies and provide tools used by local governments to remedy blight, provide affordable housing, and spur local economic development. Several bills are also being proposed that would change the State Constitution to lower the vote threshold for ballot measures from 2/3 to 55%. Additionally, the State Department of Housing and Community Development has proposed major changes to the Enterprise Zone program which would have a negative impact on Oakland.

The legislative process has just begun. Bills would have to go through the legislative process and reach the Governor’s desk to be vetoed or signed into law by October 13.
VIII. BUDGET DEVELOPMENT SCHEDULE, ENGAGEMENT

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

Table 12: Budget Development Schedule and Planned Milestones

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

*Note: Subject to Rules Committee approval.

Engagement Opportunities for Residents and Employees

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

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