City of
OAKLAND
California

Five-Year Financial Plan (FYFP)
(FY 2013-14 to FY 2017-18)

Finance and Management Committee
November 27, 2012

Background

- **Purpose**
  - Help the City make informed financial and operational decisions by better anticipating future revenues and expenditures
- **Policy**
  - City Council Long-Term Financial Planning Policy (July 2003)
    - Biennial report
    - Five year forecast period
    - General Purpose Fund and other major funds

Methodology

- Led by City Administrator's Office, collaborative effort with all departments
- Staff researched past forecasts, peer jurisdiction efforts, and public administration best practices
- Adopted Amended Midcycle FY 2012-13 Budget as expenditure baseline
- FY 2011-12 year-end actual revenue as baseline
- Consulted with budget and economic experts to validate methodology
- Includes a number of key assumptions

Major Findings

- Revenues are expected to grow at a steady rate
- Expenditures are projected to grow more than revenues
- City left with a structural imbalance, particularly when deferred capital and long-term liabilities are included

Economic and Demographic Trends

- Oakland emerging from Great Recession
- Forecast that City will experience modest, steady revenue growth as the region's economy stabilizes
  - Will begin in 2015 to experience growth consistent with long-term trends, in the 4% annual nominal growth range

- Oakland population size and composition will remain constant throughout forecast period

Key Assumptions - Revenue

- City will experience modest, steady revenue growth as the region's economy stabilizes
  - Will begin 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 and their future revenue is not included in the projection
- Measure B1 revenue was not assumed in the projection

Key Assumptions – Revenue (cont'd)

Summary of revenue growth assumptions

Issue	Revenue Assumptions
Rate of inflation	2.2% each year
Property tax	2% in FY 2013-14 and FY 2014-15, 3% thereafter
Sales tax	2% in FY 2013-14, 3% in FY 2014-15 and FY 2015-16, 4% thereafter
Business tax	2% in FY 2013-14 and FY 2014-15, 3% in FY 2015-16, 4% thereafter
Utility consumption tax	0% in FY 2013-14, 1% in FY 2014-15, rate of inflation (2.2%) thereafter
Real estate transfer tax (RETT)	3% in FY 2013-14 and FY 2014-15, 4% thereafter
Transient occupancy tax (TOT)	Rate of inflation (2.2%) each year
Parking tax	Rate of inflation (2.2%) each year
Permits, Licenses, and Service Charges excluding Meter Collections	Rate of inflation (2.2%) each year
Parking Meters (included within Service Charges)	0% each year
Parking Citations, Fines, Penalties	0% each year

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Key Assumptions - Expenditures

- "Recommended" and "Deferred" service levels/expenditures
- Forecasted service and staffing levels generally remain at FY 2012-13 levels
- Personnel costs are uncertain, but forecast assumes that employee contributions will expire when current labor contracts do
- No new cost of living adjustments (COLAs)
- 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
- 2 police academies each year (increase sworn staff from 633 to 793)
- GPF to absorb the ongoing cost of 25 police officers paid using COPS II grant

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Key Assumptions - Expenditures (cont'd)

- Successor Agency staff reductions as projects wind down
- GPF to absorb some admin staff expenses previously paid by Successor Agency
- GPF to absorb the Police and Fire expenditures formerly funded by Measure Y, but not the violence prevention contracts
- Operations and Maintenance expenditures held constant
- 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 and paying down unfunded OPEB liabilities

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Labor Agreements

Employee Contributions Schedule - Estimated All Funds Savings (Expiring Contributions)

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.

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Assumed Police Staffing

FYFP includes two police academies per year in “recommended” expenditures, netting 32 new officers each year

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Total Personnel - sworn - police academies and new officers	$6,935,000	$13,512,000	$17,198,000	$20,883,000	$24,569,000	$28,255,000
Total sworn staffing (average budgeted)	633	665	697	729	761	793

Assumed FTE

Fiscal Year (FY)	Baseline (FY 2012-13)	Total Net Less Successor Agency Project Staff	Total FTE	Net Second Police Academy	Total FTE (Incl. Second Police Academy)
FY 2008-09					4,288
FY 2009-10					4,124
FY 2010-11					3,950
FY 2011-12					3,755
FY 2012-13					3,681
FY 2013-14	3,681		**3,681**	32	**3,713**
FY 2014-15	3,681	-8	**3,673**	64	**3,737**
FY 2015-16	3,681	-15	**3,666**	96	**3,762**
FY 2016-17	3,681	-23	**3,658**	128	**3,786**
FY 2017-18	3,681	-30	**3,651**	160	**3,811**

Assumed OPEB Contributions

FYFP assumes pay as you go amount in “recommended” expenditures, net new for ARC in “deferred” expenditures

All Funds

OPEB Contributions	FY 2012-13 Forecast	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Total						
Pay as you go	$18,483,512	$19,777,358	$20,963,999	$22,221,839	$23,555,150	$24,968,459
ARC	$51,200,000	$53,600,000	$55,900,000	$58,500,000	$61,200,000	$63,900,000
Net new to achieve ARC	$32,716,488	$33,822,642	$34,936,001	$36,278,161	$37,644,850	$38,931,541

Assumed Deferred Expenditures

"Deferred" expenditures include capital, OPEB, or additional negative fund repayment

General Purpose Fund

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Subtotal Recommended	**$408,940,000**	**$432,527,000**	**$453,908,000**	**$479,658,000**	**$489,165,000**	**$513,300,000**
Capital acquisitions - deferred	$0	$65,590,000	$65,590,000	$69,340,000	$69,340,000	$69,340,000
Pay down/deposit on long term liabilities - deferred	$0	$29,868,000	$30,944,000	$32,244,000	$33,580,000	$34,860,000
Subtotal Deferred	**$0**	**$95,458,000**	**$96,534,000**	**$101,584,000**	**$102,920,000**	**$104,200,000**
Grand Total	**$408,939,000**	**$527,985,000**	**$550,442,000**	**$581,242,000**	**$592,086,000**	**$617,500,000**

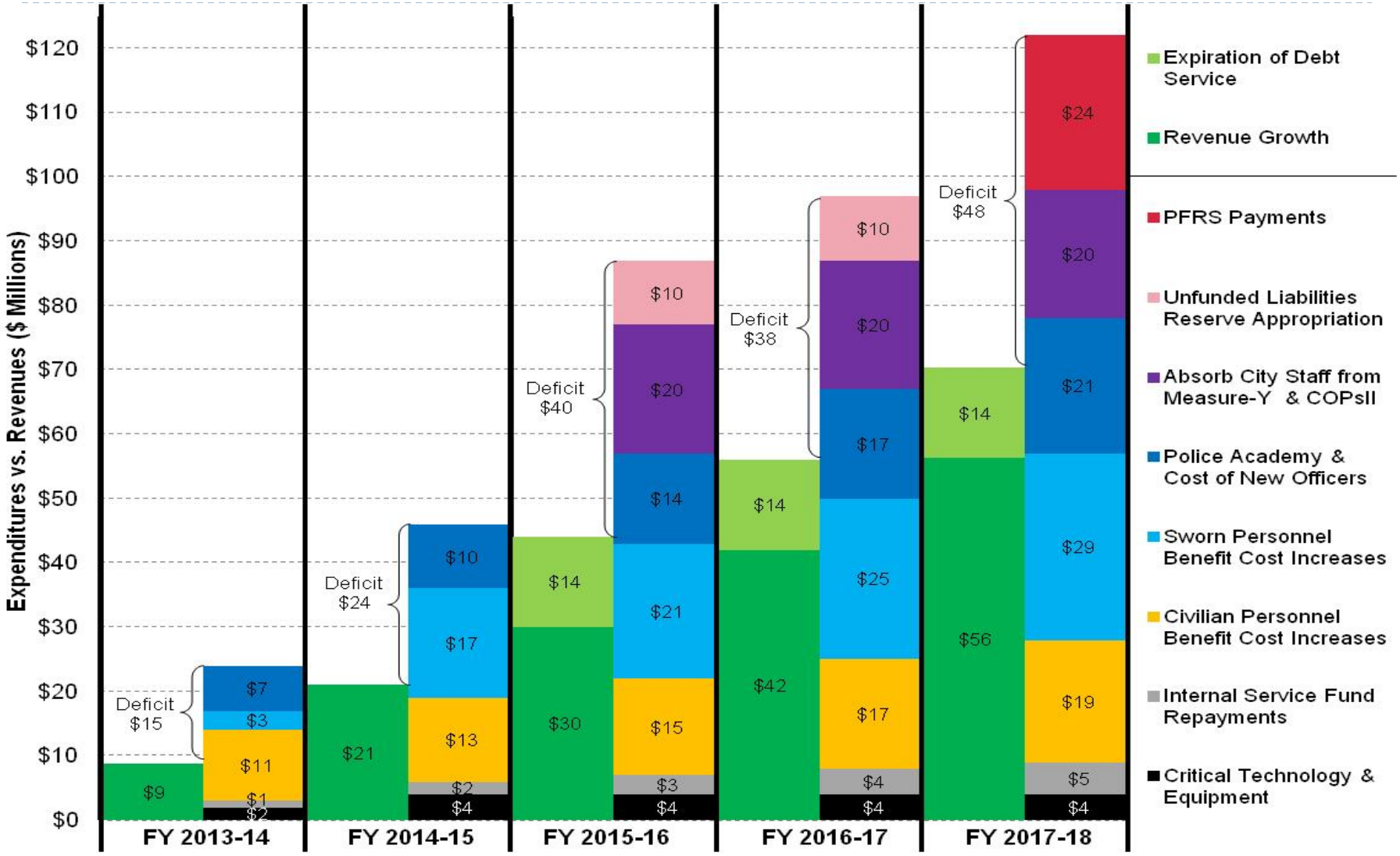
Forecasted Budget Imbalance

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 Shortfall Explanation – All Years

GPF Recommended (in Millions)



Continued Challenges

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

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Risks and Uncertainties

- State and federal budgets (impact of “fiscal cliff”)
- Strength of economic recovery
- Impact of major economic development projects
- Potential underfunded liabilities
  - Workers’ Compensation
  - Earned paid leave

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FYFP Next Steps

- Departments submit needs assessment summaries and service level proposals - 11/30/12
- Controller's Office issues FY 2013-15 baseline budget – 11/30/12
- Confirm five-year priorities of Mayor and Council – January 2013
- Solicit input from City employees, issue advocacy organizations, and financial/economic/budget experts – January and February 2013
- Issue FYFP – Service Levels and Budget Strategies report – Spring 2013
- Feed into proposed FY 2013-15 budget
- Other – CIP plan, revised financial policies, OPEB trust proposal

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