
City of Oakland

FY 2020-21 Midcycle Budget Amendments

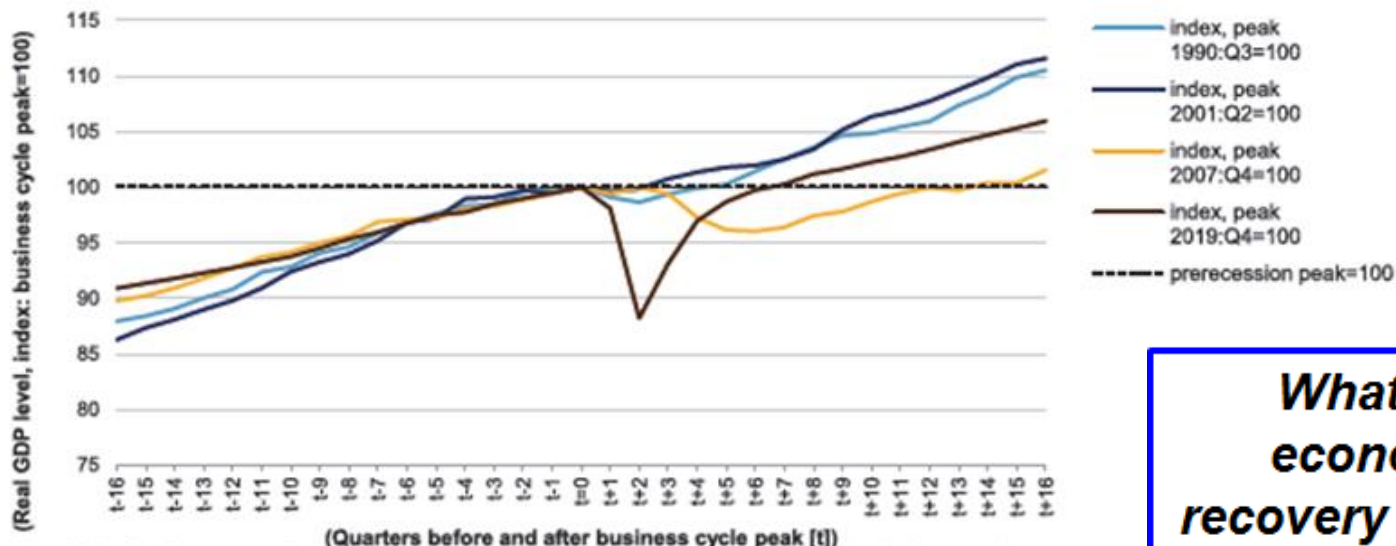
May 26, 2020



Economic Outlook – Forecasting A Recession

- State and local government sector already facing financial pressure because growth in expenditures is outpacing revenues
- GDP simulation from S&P highlights depth and duration of current economic contraction

Path Of GDP Before And After U.S. Recessions In The Past 30 Years



Note: S&P Global assumes that a recession has started in the first quarter of 2020 with the business cycle peak in fourth-quarter 2019. Sources: S&P Global Economics and BEA.

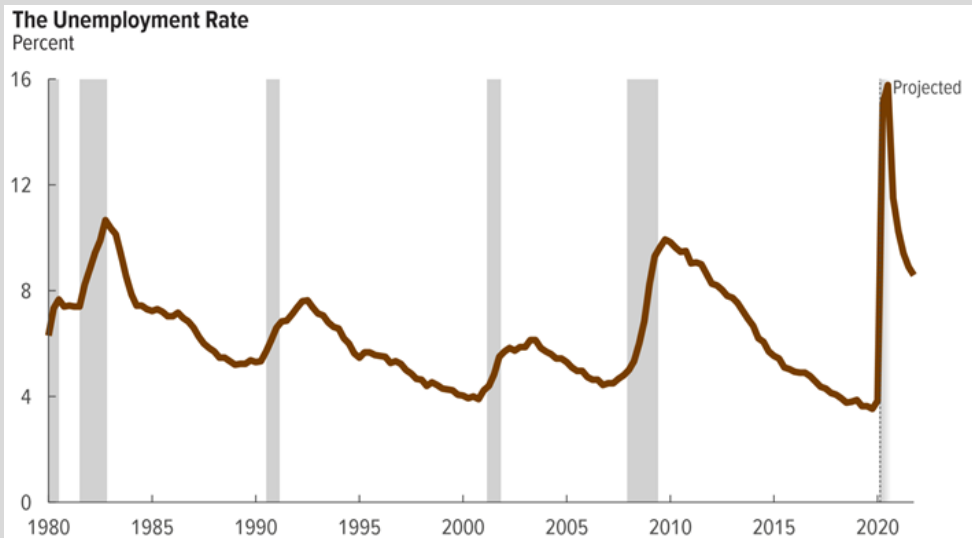
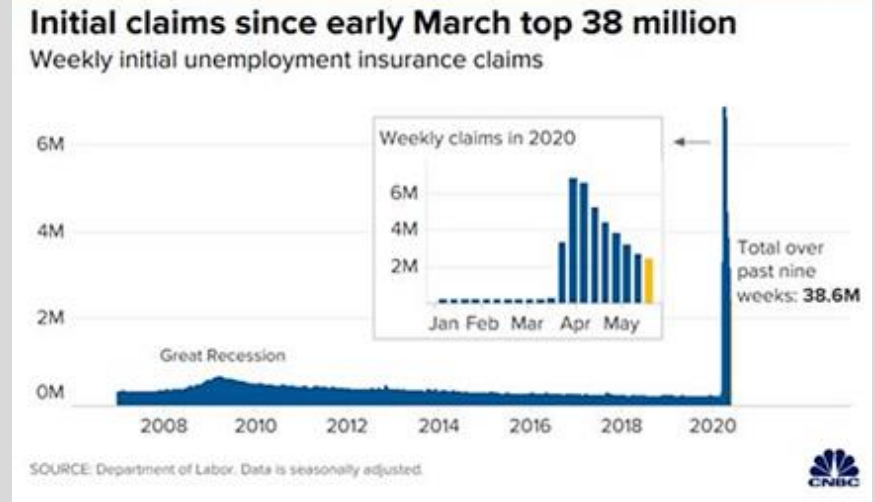
Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

***What will
economic
recovery actually
look like?***



Economic Outlook – Staggering Job Losses

- Massive job losses resulting from COVID-19 pandemic in key industries, with the top three industry categories below losing more than 12 million jobs alone:
 - ✓ Leisure & Hospitality (8 million losses)
 - ✓ Professional and Business Services (2.2 million losses)
 - ✓ Retail Trade (2.1 million losses)

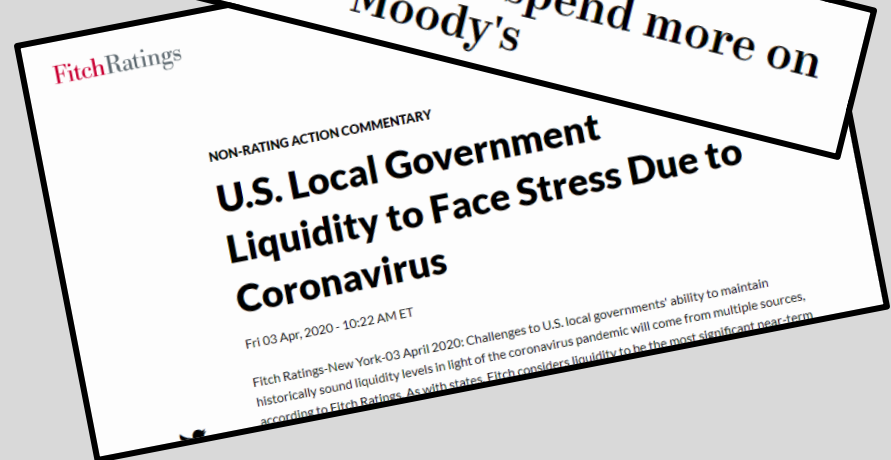
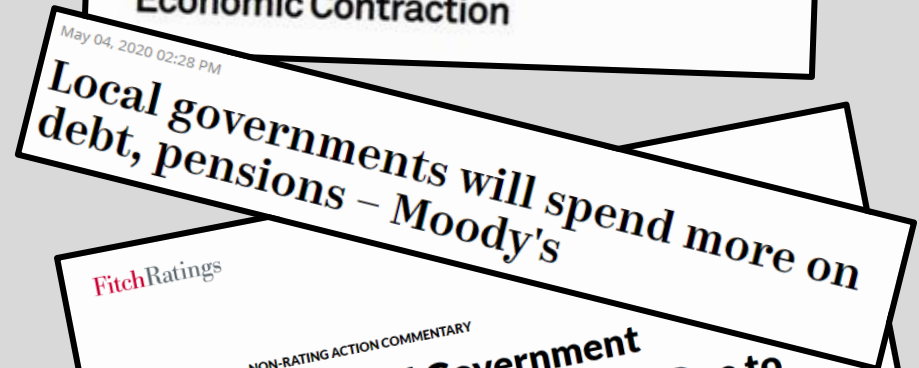


- Between February and April of this year, employment fell by more than **25 million jobs** and the labor force declined by **8 million**
- CBO forecast unemployment of **15.8%** in Third Quarter 2020 (July – September), with stabilization and gradual improvement following



Rating Agency Perspective – S&P Outlook

- S&P affirmed the City's AA rating in February 2020, but assigned a **positive** outlook
- In April 2020, S&P revised the City's outlook from positive to stable due to the deep economic contraction and its impact on local government finances





Fiscal Impact on California Cities

COVID-19 Fiscal Impact on California Cities



California cities face severe revenue shortfalls due to the impact of the COVID-19 pandemic on their economies and increased emergency costs. As a result, cities will be forced to make significant reductions or cuts to a broad range of core public services and staff, regardless of population size. Given current and projected revenue shortfalls, cities need fiscal assistance to stabilize local government operations to offset the devastating impacts the crisis is having on California's communities. These findings are part of a new data analysis* by the League of California Cities.

Public Services Will Be Impacted By Drastic Revenue Loss





Fiscal Impact on California Cities

COVID-19 Fiscal Impact on California Cities



City Leaders Report Immediate Impact to Core Revenue Sources

- 100%** Sales Taxes
- 89%** Hotel/Bed Taxes
- 72%** Property Transfer Taxes
- 42%** Utility Taxes
- 15%** Investments, Forfeitures, and Fines
- 4%** Parking and Admissions

COVID-19 Has Staggering Impact on City Workforce



Over **90%** of cities are considering **LAYOFFS OR EMPLOYEE FURLOUGHS, or CUTTING PUBLIC SERVICES.**
72% are considering doing **BOTH.**



FY 2020-21 Deficit

- GPF deficit of **\$54 million** under baseline scenario
- Under pessimistic scenario, deficit increases to **\$79 million in the GPF**

General Purpose Fund	FY 2020-21 Adopted Budget (\$ millions)	Forecast (\$ millions)	Variance (\$ millions)
"Baseline" Revenues	\$684.55	\$630.77	(\$53.78)
"Pessimistic" Revenues	\$684.55	\$605.53	(\$79.02)

The possibility of a more pessimistic revenue scenario for the upcoming fiscal year, the need to preserve funds for extraordinary events, and the likelihood of continued economic challenges in the next fiscal cycle all **underscore the need to preserve the City's limited Emergency Reserve.**



High-Level Balancing Actions

1. Fully Exhaust use of Rainy Day / VSSF reserve in 20/21
2. Temporarily suspend "Excess" RETT policy
3. Temporarily suspend OPEB funding policy
4. Restructuring of the Negative Fund Repayment Plan
5. One-time transfer of Library costs from GPF to Measure D fund balance
6. Freeze 47.20 FTE in GPF
7. Transferred \$12.86 million in personnel and O&M from GPF to other funds
8. **Deficit of \$10.5 million remains in GPF after all of these actions to be balanced with labor concessions**



Managing Financial Risk

The Administration's Proposed FY 2020-21 Midcycle Budget reflects the somber reality that state and local governments are facing throughout the nation – a drastic reduction in tax revenues coupled with growing demand for services. Sound financial policies and careful management have positioned the City well to deal with the current economic contraction, but much uncertainty remains.

The possibility of a prolonged economic downturn is a threat to the City's long-term financial health and ability to deliver services to residents. The City Council must be prepared for further service reductions if current revenue and expense projections prove too optimistic. While the proposed Midcycle positions the City for a rapid recovery, policy makers and residents must be prepared to make difficult decisions if the current economic contraction persists or public health conditions worsen.



Other Financial Risks

1. Prolonged economic contraction: Moving into FY 2021-23 budget cycle, having used all of the rainy day fund and other one-time resources; structural imbalance
2. Revenues fall short from estimates for FY 20/21: Property Taxes, RPTTF, Sales Tax, TOT, and Real Estate Transfer Tax
3. FY 19/20 Year-End Results: Q3 projected deficit of \$9.7 million after use of reserves
4. Vacant Property Tax: First year tax collection, no trend to analyze or establish analogs
5. CalPERS, PFRS, and OPEB costs: Costs are anticipated to go up substantially in the near-term



General Purpose Fund (GPF)

Revenues are forecasted to revert to FY 2017-18 levels.

FY 2020-21 GPF Revenues (\$ in Millions)				
	FY 2019-20 Adopted Budget	FY 2020-21 Adopted Budget	FY 2020-21 Midcycle Proposed	Variance over FY 2020-21 Adopted Budget
GPF	\$655.13	\$684.55	\$646.23	(\$38.32)



FY 2020-21 Proposed Midcycle Budget GPF Revenues (\$ mils)

Revenue Category	Adopted Budget	Midcycle Proposed	Variance
PROPERTY TAX	\$228.36	\$237.86	\$9.51
SALES TAX	\$61.64	\$53.55	(\$8.09)
BUSINESS LICENSE TAX	\$103.22	\$88.00	(\$15.22)
UTILITY CONSUMPTION TAX	\$56.82	\$52.00	(\$4.82)
REAL ESTATE TRANSFER TAX	\$85.38	\$89.06	\$3.69
TRANSIENT OCCUPANCY TAX	\$28.92	\$15.91	(\$13.02)
PARKING TAX	\$11.80	\$8.85	(\$2.95)
LICENSES & PERMITS	\$2.97	\$1.68	(\$1.29)
FINES & PENALTIES	\$19.82	\$18.34	(\$1.49)
INTEREST INCOME	\$1.21	\$0.48	(\$0.73)
SERVICE CHARGES	\$69.48	\$61.47	(\$8.01)
MISCELLANEOUS	\$1.09	\$0.92	(\$0.17)
SUB-TOTAL	\$670.71	\$628.13	(\$42.58)
*INTERFUND TRANSFERS	\$5.10	\$17.55	\$12.45
TRANSFERS FROM FUND BAL.	\$8.74	\$0.54	(\$8.20)
TOTAL REVENUES	\$684.55	\$646.23	(\$38.32)

* Includes the use of VSSF Reserves of \$14.6 million in FY 2020-21

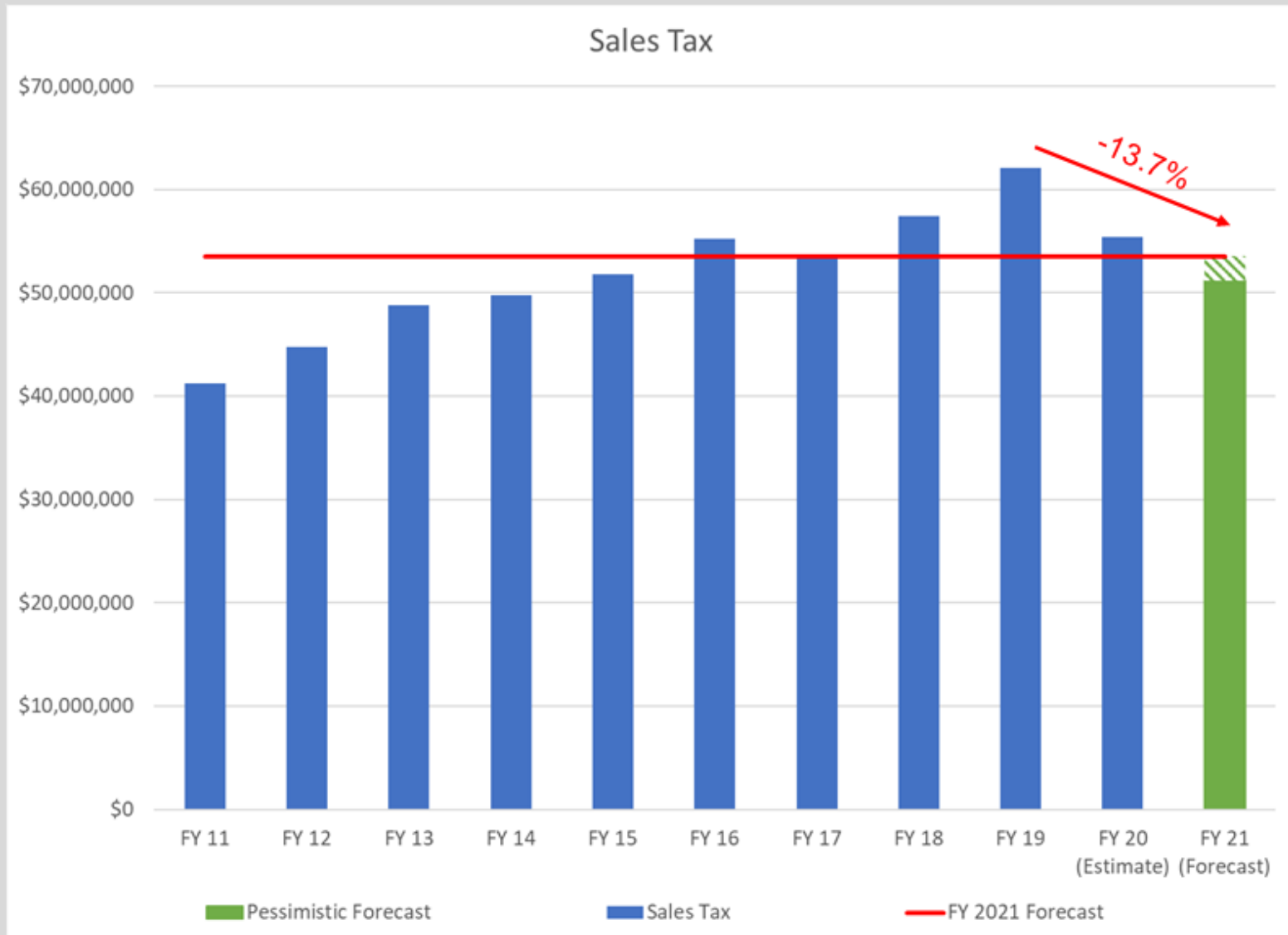


Property Taxes Continue to Increase



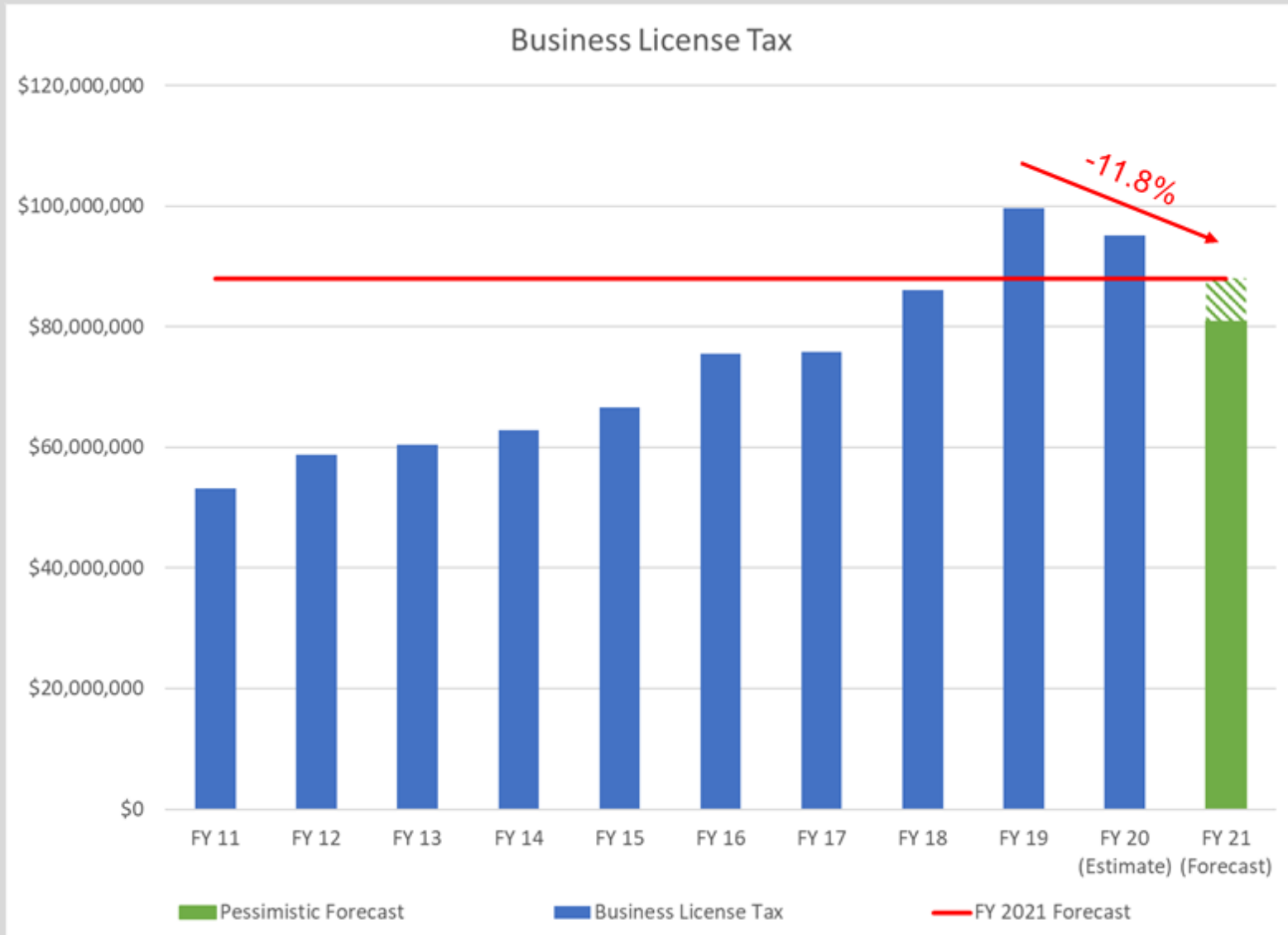


Sales Taxes Are Forecasted to Revert to FY 2016-17 Levels



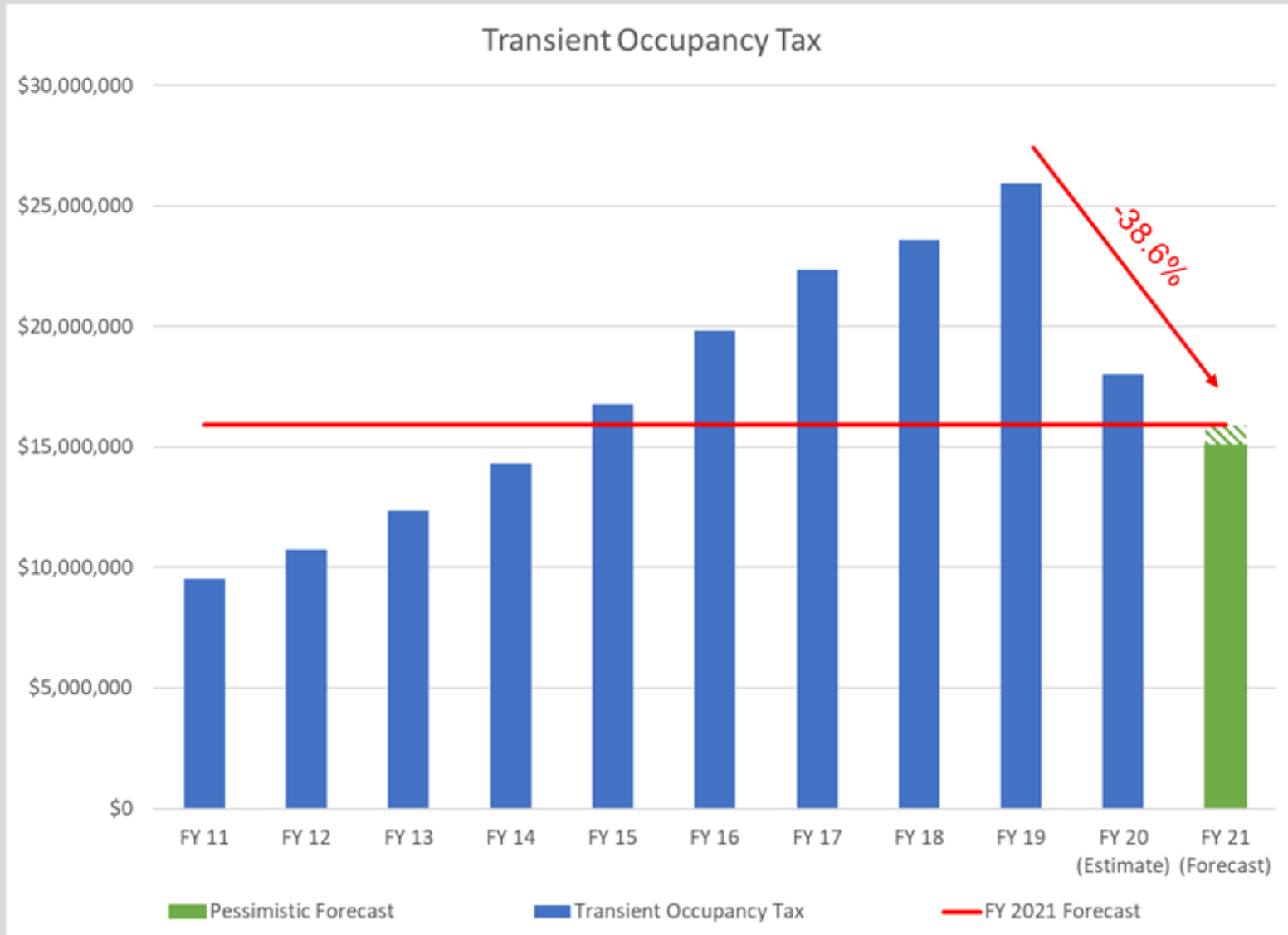


Business Taxes Are Forecasted to Revert to FY 2017-18 Levels



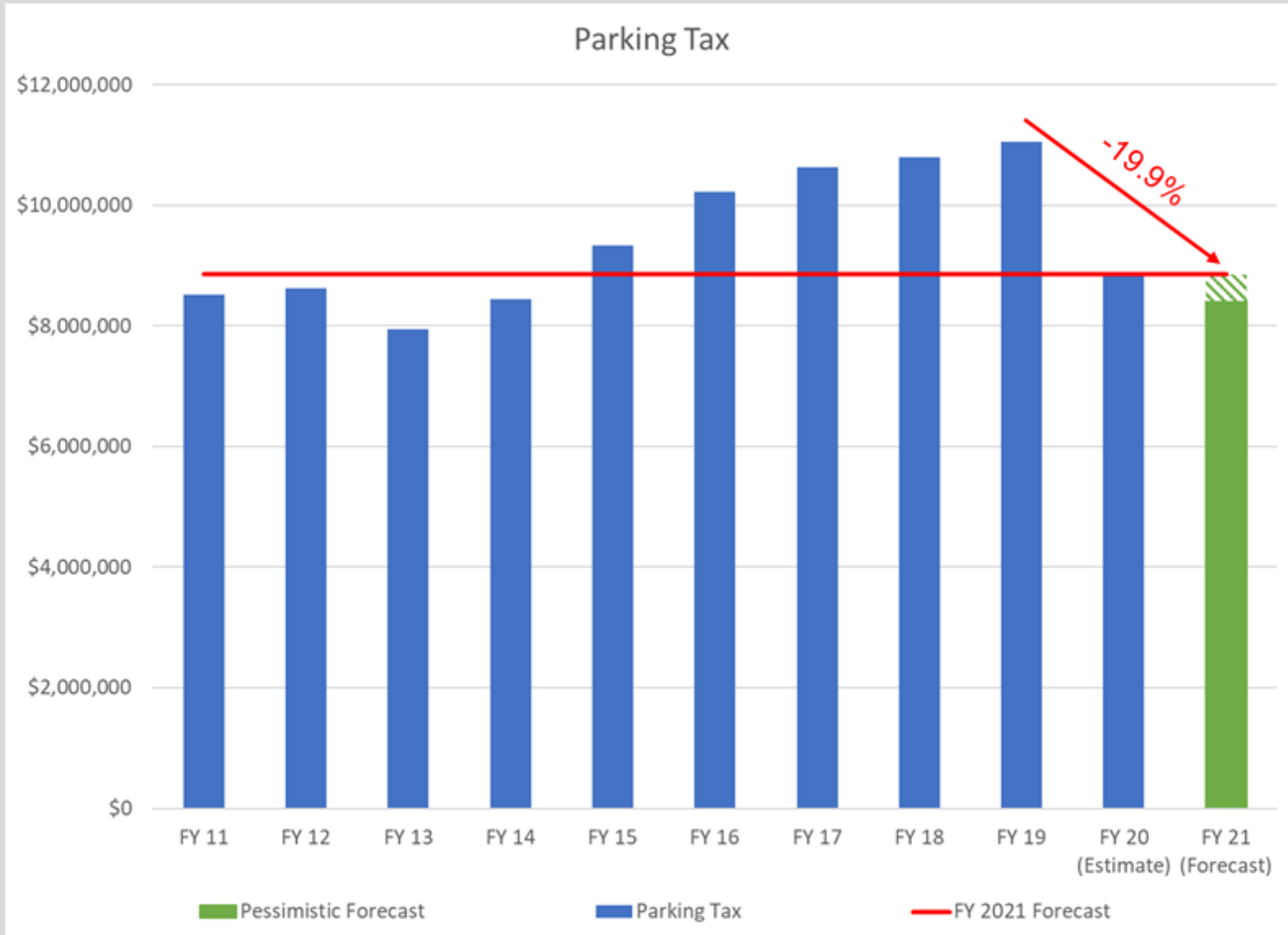


Transient Occupancy Taxes Are Forecasted to Revert to FY 2014-15 Levels





Parking Taxes Are Forecasted to Revert to FY 2013-14 Levels





Other Funds

- Reduction in sales tax will also impact revenues received from Measure B & BB
- With fewer vehicles on the road, the City will receive less revenue from the per gallon Gas Taxes (Highway User Tax and Road Maintenance & Rehabilitation)
- Reduction in Transient Occupancy Taxes will negatively impact Measure C revenues
- Reduction in Parking Taxes, especially at the Coliseum site, will negatively impact Measure Z revenues



Balancing Summary

- Summary of Balancing Actions
 - Use of all of the Vital Services Stabilization Fund (VSSF) - **\$14.65 million GPF**
 - Suspension of contributions to long term liabilities (including Other Post-Employment Benefits) - **\$10 million savings across all funds**
 - Restructuring the negative fund repayments plan - **\$1.96 million GPF**
 - Transfers of eligible costs to other funds with available resources; and,
 - Temporary freeze of **89.70 FTE** (vacant positions only) and reduction of **\$6.52 million in O&M**



Service Impacts

- Homelessness Services

- Substantial increases to services due to the implementation Parks Measure Q and Measure W (Vacant Property Tax)
- Funding available in FY 2020-21 will be approximately \$47 million
- \$1.60 million in emergency waste collection at homeless encampments

- Affordable Housing

- Additional \$12.30 million for Notices of Funding Availability (“NOFA”) derived from estimated impact fees and boomerang funding
- Appropriate the final \$15.00 million in Measure KK Bond proceeds for affordable housing



Service Impacts

- **Parks & Landscape Maintenance**
 - Significantly expands the City's Parks, Tree, and Landscape Maintenance services due to Parks Measure Q
 - Add 44.50 FTE for Landscape Maintenance, and 6.0 FTE for facilities
 - Add \$2.5 million for heavy equipment and vehicles

- **Illegal Dumping and Keep Oakland Clean & Beautiful**
 - Maintains the addition of an Illegal Dumping Crew and equipment utilizing the Vacant Property Tax
 - Reduces services for Graffiti Abatement & Rapid Response by freezing 2.0 FTE



Service Impacts

- Stormwater

- \$0.75 million to the unfunded Storm Drain Master Plan
- \$0.14 million for equipment
- 1.00 FTE to support the expanded stormwater effort and implementation

- Transportation

- Reduces a net 6.70 FTEs in the Department of Transportation for a net reduction of \$1.41 million
- Does not reduce or slow the implementation of the 3-Year paving plan



Service Impacts

- Oakland Parks Recreation and Youth Development
 - Modest reductions to OPRYD recreation services through freezing of 4.75 FTE
 - Transfer of positions into and subsidies from the GPF

- The Arts
 - 45% decline in revenues from Measure C Hotel Tax Surcharge
 - \$1.8 million decrease to Visit Oakland
 - \$0.44 million reduction each to: 1) the Chabot Space & Science Center, 2) the Oakland Museum, 3) the Oakland Zoo, and 4) the Cultural Art, Fairs, and Festivals Program
 - Preserve Cultural Arts programs while reducing funding for Fairs and Festivals including the Art & Soul Festival



Service Impacts

- **Economic & Workforce Development, Planning & Building**
 - Freezes 10.00 FTEs in the Planning & Building Department
 - Reduces 3.50 FTEs in the Economic & Workforce Development
 - Reduces unallocated and unprogrammed funding for workforce and vocational training

- **Public Safety**
 - Maintains funding for sworn public safety staff
 - Freezes 15.00 FTEs in vacant civilian positions Oakland Police Department
 - Reduces contracts for violence prevention services by 5% and freezes 1.00 vacant FTE
 - Adds 1.0 FTE to the Dept. of Violence Prevention
 - Freezes 7.60 FTEs in the Oakland Fire Department



Service Impacts

- **Administrative Services**
 - Freezes 9.7 FTEs and \$0.30 million in O&M in Finance
 - Freezes 2.00 FTEs in Human Resources
 - Freezes 2.0 FTEs in Information Technology

- **General Government**
 - Mayor's Office: Reduced capacity for constituent affairs and policy development
 - City Administrator's Office: Freeze 7.00 FTEs
 - City Clerk: Preserved 2.00 FTEs in KTOP, Freeze 1.00 FTE
 - No changes in service levels for The City Council, City Attorney, City Auditor, Public Ethics Office, and Race & Equity



Governor's Budget – May Revise

- Proposes \$450 million of CARES Act funding for cities with emphasis on homelessness

- CARES Act Requirements:
 1. Are necessary expenditures incurred due to COVID-19
 2. Are not accounted for in the budget most recently approved
 3. Are incurred between March 1, 2020 and ends on December 31, 2020.

“Funds may not be used to fill shortfalls in government revenue”

- Allocations pending approval on June 15, 2020



Future Amendments

- June 2nd, June 16th, and Other Dates as Needed
 - Gas Tax (HUTA/RMRA) estimates as of May 2020 (not incorporated into budget amendment) show revenue reduction of \$875,000, which will require additional balancing actions
 - Property Tax / RPTTF – Final payment for 19/20 will be received in June and will inform 20/21 forecast. May need to revise both Q3 estimate and 20/21 GPF (1010) and Affordable Housing Trust Fund (1870) for boomerang revenue estimates



Next Steps

Date	Task
May 26, 2020	<ul style="list-style-type: none">▪ Local Measures CPI
June 2, 2020	<ul style="list-style-type: none">▪ Midcycle Budget Amendments Resolution (Errata #1)▪ Budget Options Resolutions▪ Master Fee Ordinance▪ Landscaping and Lighting Assessment District Resolution
June 16, 2020	<ul style="list-style-type: none">▪ Appropriations Limit Resolution▪ Midcycle Budget Amendments Resolution (Errata #2)