

FY 2021-23 Budget

Frequently Asked Questions

How much is the City's budget shortfall and how did it grow so large?

The COVID-19 pandemic has decimated our national and local economies and created a massive \$62 million hole in our City's general purpose fund budget. The General Purpose Fund is the only unrestricted fund in the City's budget and comprises 38% of the City's total budget. The recent surge in cases and hospitalizations resulted in a nearly two-month extended stay-home order and business contraction, making the problem worse.

This is one of the most serious financial challenges the City of Oakland has ever faced. The COVID-19 pandemic is both a public health crisis and an economic crisis. Impacts of this pandemic would have been unimaginable just a year ago. It has devastated our previously thriving economy with unprecedented speed. It wasn't predicted, and its effects are ongoing, exacerbated by the surge in cases and hospitalizations and resulting stay-home orders, with no predictable end in sight.

In Oakland, the economic slowdown associated with shelter-in-place and stay-home orders have reduced our tax revenues in four main categories: sales tax, hotel tax, business license tax, and parking tax.

The \$62 million general purpose fund deficit projection predated the winter spike in COVID infections, intensive care unit bed saturation, and deaths, which led to tightened shelter-in-place orders. These orders further restricted our still-ailing economy and will inevitably render our fiscal situation even worse.

What happens if we don't make spending cuts?

In June 2020, we addressed a \$122 million shortfall in our mid-cycle budget. Still, last fiscal year ended with a \$30 million shortfall, even after we used the entire Rainy Day Reserve Fund, froze positions, cut discretionary spending, and suspended contributions to long-term obligations for retired employees' medical care to reduce costs. Most of these were one-time mechanisms to close the midcycle gap. We have no such mechanisms left.

Absent immediate and significant expenditure reductions, the General Purpose Fund risks insolvency by this summer. That means that the City would not be able to fund current essential services or respond to emergencies like an earthquake or natural disaster.

Why are these cuts being proposed now, when revenue projections for the fiscal year are still preliminary?

We are halfway through the fiscal year. Every day we delay, the gap grows larger and will be more painful to address. For every pay period this growing shortfall is not addressed, the gap widens, which means cuts to bring the budget back into balance will have to be deeper.

A \$62 million shortfall is equivalent to about 400 full-time positions—that's about 40% of the non-sworn positions funded in the General Purpose Fund. If we wait until next fiscal year to address the shortfall,

the cuts would be catastrophically deep, and we will be forced to make cuts that could be avoided by acting now. With no direct federal relief included in the most recent stimulus package, the City must begin to take swift and responsible action to address the massive shortfall.

By taking action now, we can preserve not only our ability to continue to provide core services for the next six months, but we can create a sustainable path forward, as we collectively emerge from this global pandemic and the economic damage it has wrought.

If this is an emergency, has the City considered using its Emergency Reserve , which is intended to be used in emergencies, to make up the shortfall?

The City's Emergency Reserve is a reserve of last resort. The risk of natural disaster or other extraordinary, unexpected expenses does not diminish as a result of the COVID-19 pandemic. Using the Emergency Reserves requires a declaration of a fiscal emergency and is risky, as it would put the City's finances in a precarious position by potentially prohibiting our ability to respond to unforeseen events in the future. The emergency reserve is meant for catastrophic events, not budget gap closing. As it stands, the City's budgeted reserve does not meet current government standards and best practices. The Government Finance Officers Association recommends a reserve of about 16.5%, or no less than two months of operating expenses for the General Fund. Oakland's policy is to maintain a reserve equal to 7.5% of the General Purpose Fund—less than half of the level recommended by the experts.

If not the Emergency Reserve, doesn't the City have money available in other funds?

The City has numerous funds to meet different purposes. Most funds other than the General Purpose Fund have restrictions on their use, and most funds, like the General Purpose Fund, are structurally imbalanced, which means ongoing expenditures exceed ongoing revenues. In fact, numerous funds outside the General Purpose Fund have negative balances, totaling more than \$30 million. While the City has a policy in place to systematically reduce those negative balances, that policy has been suspended this fiscal year due to the current fiscal crisis.

In the big picture, the City has long-term unfunded liabilities in excess of \$2 billion – that's billion with a 'b'—which means the obligations the City has to pay for employee pensions and retiree health benefits exceed the resources to meet those obligations by more than \$2 billion. And while the City also has a policy that requires contributions towards reducing that liability, that policy was likewise suspended in the current fiscal year.

The Police Department has overspent its budget by \$32 million. What is being done to address police spending before cutting other services?

Both the City Council and the City Auditor have acknowledged that the Administration and City Council have consistently under-budgeted police overtime for many years, particularly in light of increased costs and demand for services. In past years, general City revenues have been adequate to cover the inevitable over-expenditure that resulted from under-budgeting. Those excess revenues no longer exist in this economy.

As one of the immediate cost-cutting measures being implemented to address the deficit (see details below), we are suspending most "discretionary" overtime and the specialized units the department has

developed to deal with the many public safety issues our city faces. Remaining resources will be focused on patrol and investigations. This will reduce Police Department spending by \$15 million.

The department recently completed an update of its overtime policy, along with other changes to improve its management of overtime, including adoption of recommendations from the City Auditor. One fundamental recommendation of the City Auditor has not been achieved – adequately budgeting for Police overtime.

Why isn't the City cutting millions in unspent funds that have been carried forward from previous years?

Carryforward dollars are funds that have been authorized by the City Council as part of the budget process, but that didn't get fully expended in the previous fiscal year. The funding is carried forward to allow the program or project to continue. Unfortunately there are few ways to reduce expenditures that don't manifest in a reduction in City services. We are rescinding some carryforward dollars to close the budget deficit, and the programs and projects funded by those dollars will be reduced or eliminated.

Why aren't more vacant positions being frozen to save money?

City Departments use funds from vacant positions to fund temporary staff, to allow staff to work extra hours, or to fund other costs, all in service to the public. We are freezing most civilian General Purpose Fund positions to address the budget shortfall.

How is the City proposing to close the deficit?

The City Administrator has directed \$29 million in immediate, devastating but necessary spending cuts and other cost-savings measures to begin to address the shortfall.

General Personnel and Spending Cuts (\$9 million)

The \$9 million in personnel and spending cuts include requiring all workers unrepresented by a labor union (about 50 of the 4,500 full-time City staffers) to take 10 unpaid days off between now and the end of the fiscal year and defer upcoming wage and other salary increases. The 10 unpaid days alone equate to a roughly eight percent wage decrease over the next six months.

Other measures to curtail a broad range of expenses include:

- An immediate hiring freeze
- Reduction of discretionary spending
- Reduction of temporary staff
- Moratorium on all virtual and in-person professional training and conferences
- Development of 10% and 20% budget reduction plans for every City department to be used if other measures don't close the deficit

Public Safety Reductions

The Police and Fire departments make up the majority of GPF expenditures. It is not reasonably possible for us to close the current General Purpose Fund shortfall without significant reductions in the service levels provided in these two departments.

To cut \$15 million from the Police Department, we are reverting to a back-to-basics approach to policing. We are suspending most of the specialized units the department has developed to deal with the many public safety issues our city is faced with so that we can focus the limited resources we have on patrol and investigations.

We are likewise suspending most “discretionary” overtime. The sworn and civilian staff in these specialized units perform important work aimed at keeping our city safe, and the discretionary overtime is used to deploy police resources to address emergent issues that arise throughout the year. Unfortunately, we are in a situation where we don’t have the revenues to sustain these functions. As a result, we will see significantly reduced overtime expenditure in the Police Department; we will also see significantly fewer Police resources out on our streets.

The Fire Department will be spreading service over fewer firehouses by activating a flexible deployment model. The operational adjustment will temporarily shut down one of the department’s 25 engine companies for a 6-day period on a rotating basis between January and June 2021. While Oakland has survived reduced Fire service levels of this magnitude in the past, it is certainly not desirable, though a necessary immediate step to reduce costs. This change will result in a \$1 million cost reduction in the General Purpose Fund. The temporary flexible deployment model takes into account geography, distance, and resources within the neighboring districts, and seeks to maintain current advanced life support (ALS) levels.

As we navigate the concurrent financial and public health crisis, the Fire Department continues to carefully consider the different realities that exist from neighborhood to neighborhood, and strategic operational adjustments were made to ensure those residents already vulnerable to slower response times due to distance between stations experience minimal impact. Additionally, care was taken to ensure Black, Indigenous, and People of Color (BIPOC), which have faced ongoing health inequities, do not experience a disproportionate level of pressure due to these changes.

Additional Oakland Fire personnel freezes and cost adjustments were proposed totaling over \$1 million, and some projects were delayed such as the development of a new Strategic Plan and a Standards of Coverage assessment.

We recognize that vital public safety employees are already stretched and have been working under the most challenging conditions as First Responders during the pandemic. The Oakland Police Department has long had the lowest officer-per-crime staffing level of any police department in the country.

None of these decisions were taken lightly. Every one of these cuts represents a painful, unavoidable choice, and every dollar cut translates into service that will not be provided to the public. The City would not be making these service reductions if staff were not certain it is absolutely necessary to prevent the critical General Purpose Fund—which is 38% of the City’s total budget—from becoming insolvent. That said, we welcome other ideas or alternatives that achieve the critical goal of closing the looming deficit.

If we make these cuts now, will that solve the problem?

Unfortunately, no. As drastic and painful as these cuts will be, they are still insufficient to resolve the \$62 million and growing estimated deficit projected by the end of the fiscal year. A shortfall of \$33

million remains. Absent new, unplanned, external revenues, the balance of the gap closure will require further reductions in services or concessions from the balance of our employees – the great majority of whom are represented by labor unions and with whom we partner on a day-to-day basis to deliver City services.

Beyond Fire and Police, every City department has developed 10 and 20 percent budget reduction plans, should the cost-cutting measures to date be insufficient to close the deficit.

How are the decisions about how to address this financial crisis being made?

We are guided by these fundamental values in our decision-making: equity, preserve core services and staffing, fiscal responsibility and long-term financial health.

- **Equity.** We seek to avoid reductions that would be felt disproportionately on low-income communities of color.
- **Preserve core services and staffing levels.** Whenever possible, we seek to prevent cuts in current service levels for Oakland residents and preserve staffing levels for City workers who are stretched thin under increasing demands.
- **Fiscal responsibility and long-term financial health.** Our focus is on addressing our current fiscal health while preparing to rebound once the economy recovers. We owe it to our employees and the public to work within our organizational and financial capacity and continue to focus on strategies that will preserve the long-term financial health and sustainability of our city.

Why did the City have a deficit even when the economy was strong?

In addition to the current deficit caused by economic conditions, Oakland has carried a structural deficit for years, meaning that expenses have chronically grown much faster than revenues, even in good economic times. This ongoing imbalance is primarily driven by rising personnel costs like employee medical benefits and pension contributions mandated by the State. CalPERS costs are projected to increase by nearly 25% over the two-year budget, more than three times the rate of inflation each year. Insurance premiums, large insurance claims, and fixed expenses such as fuel and utilities are also going up.

Even before the COVID-related economic crisis, the City's Five-Year Financial Forecast (2019-2024), showed operating deficits in all five years, with an average deficit of \$44 million per year. These issues are not unique to Oakland but they contribute to the City's acute financial situation. In 2018 the U.S. Government Accountability Office (GAO) projected that for state and local governments, healthcare and retiree costs are rising faster than the overall economy. The GAO calculated that closing the structural fiscal gap would require state and local governments to make budget adjustments equivalent to a 14.7% reduction in ongoing expenditures every year.

How is this economic crisis different from the Great Recession in 2008-2012?

Leading up to the Great Recession, the City often used one-time revenue—like a windfall of real estate transfer tax from the sale of a large commercial building, for example—to pay for ongoing expenses. This practice created a mismatch between revenues and expenditures. The City did not have a Rainy Day Fund, nor did it have an Emergency Reserve. As a consequence, when the global economic downturn

hit, the City was forced to lay off hundreds of staff positions. Over a period of time, the City workforce was reduced by 25%.

Since then, the City has put sound fiscal policies and practices into place—like a Rainy Day Fund, an Emergency Reserve, repaying negative fund balances, and paying towards long-term employee medical benefits. National credit rating agencies have taken note and raised the City’s credit rating. Unfortunately, given the current crisis, many of those prudent and responsible practices have been temporarily suspended.

The Consequences of Delaying Action: A Cautionary Tale

Other public agencies provide a cautionary tale of the potential consequences that can follow if the City does not take immediate action to ensure fiscal solvency. During the Great Recession, the cities of Stockton, Vallejo, and San Bernadino, as well as the Oakland Unified School District, all faced severe consequences, including bankruptcy and State takeover. Reasons attributed to their financial crises included failing to cut spending when revenues declined, years of financial mismanagement, unsustainable fiscal practices, severe cash flow problems, lack of reserves, reliance on one-time solutions, and unsustainable labor contracts. In Oakland, difficult decisions must be made now to avoid devastating reductions in services that our residents rely on and negative impacts to our employees who deliver those services.