# FIVE-YEAR FINANCIAL FORECAST

*Fiscal Year 2023-24 – Fiscal Year 2027-28*

CITY OF OAKLAND

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# CITY OF OAKLAND

## Five-Year Financial Forecast
## Fiscal Year 2023-24 to Fiscal Year 2027-28

### MAYOR

**Sheng Thao**

### MEMBERS OF THE CITY COUNCIL

**Nikki Fortunato Bas –** District 2
**Council President**

**Dan Kalb** - District 1

**Carroll Fife -** District 3

**Janani Ramachandran -** District 4

**Noel Gallo -** District 5

**Kevin Jenkins -** District 6

**Treva Reid -** District 7

**Rebecca Kaplan -** At-Large

### ADMINISTRATION

**Steven Falk**
**Interim City Administrator**

**LaTonda Simmons**
**Assistant City Administrator**

**Elizabeth Lake**
**Assistant City Administrator**

**Angela Robinson Piñon**
**Deputy City Administrator**

**Joe DeVries**
**Deputy City Administrator**

### ELECTED OFFICERS

**Barbara Parker**
**City Attorney**

**Courtney Ruby**
**City Auditor**

## FINANCE DEPARTMENT

**Erin Roseman**
Director

**Bradley Johnson**
Budget Administrator

**Sherry Jackson**
Revenue & Tax Administrator

**Stephen Walsh**
Controller

**David Jones**
Treasury Administrator

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## ACKNOWLEDGEMENTS

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We would also like to acknowledge Departmental fiscal staff for their diligent work on behalf of the residents of Oakland and in support of their Department's operations.

# 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.

CITY OF OAKLAND

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# EXECUTIVE SUMMARY

## Purpose

The Five-Year Financial Forecast (Forecast) for the City of Oakland (City) covers Fiscal Years (FY) 2023-24 to FY 2027-28. The report begins from a baseline analysis of the City's projected finances on a "carry-forward" basis over the next five years – assuming continuation of current programs and services as well as economic conditions consistent with mainstream forecasts.

> None of the Mayor's and City Council's goals can be effectively advanced without a stable fiscal foundation.

The purpose of the Forecast is to help make informed budgetary and operational decisions by anticipating future revenues, expenditures, and financial risks. None of the Mayor's and City Council's goals can be effectively advanced without a stable fiscal foundation. The Forecast is best used as a strategic planning tool to help ensure financial sustainability and anticipate the long-term impacts of current decisions. The Forecast is not a budget and does not include any proposed balancing solutions or revised service levels. Instead, the Forecast is a planning tool to identify opportunities and challenges over a longer time frame.

> The Forecast is not a budget and does not include any proposed balancing solutions or revised service levels.

The Forecast serves as a resource for a diverse audience – residents, businesses, elected officials and City employees. The Forecast provides detailed information regarding the City's revenues and expenditures, as well as the assumptions, uncertainties, and external factors that are projected to influence the City's fiscal health over the next five years.

## Key Findings

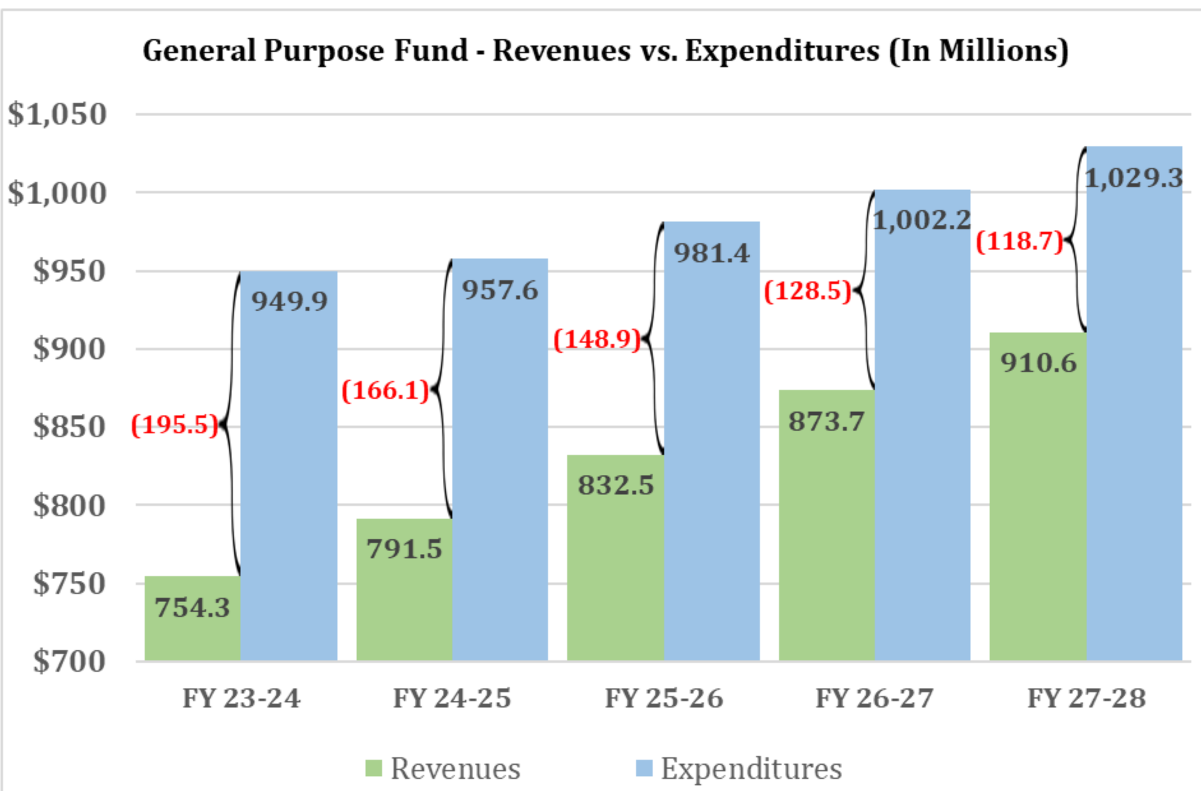
While the worst of the COVID-19 pandemic's health effects appear to have passed, the economic and fiscal effects of the pandemic have lingered. Many workers have yet to return to work in downtown office buildings; those that have returned frequently only come to the office a few days each week. This has resulted in lower Business License Tax collections from downtown offices as well as reduced retail activity in businesses that serve office workers and property owners. Accompanying this trend has been a reduction in business travel, and with it a reduction in the City's hotel tax (known as Transient Occupancy Tax or TOT) revenue.

More recently, high inflation prompted the Federal Reserve to raise interest rates. These higher interest rates, in turn, have acted to slow new construction activity and reduce housing prices, which has acted to slow the growth in property tax revenues. The uncertainty in the economy generally and in the real estate sector in particular has also led to a slowing of real estate transactions, which has resulted in a steep decline in the City's real estate transfer tax revenue in the current (2022-23) fiscal year.

In spite of these economic headwinds, however, the City's revenue base has proven resilient. With the exception of TOT, all of the City's major general purpose revenue sources have now exceeded pre-pandemic levels, in some cases by large amounts. (Real estate transfer tax exceeded the pre-pandemic level by Fiscal Year 2021-22, but it is expected to come in well below the previous high levels in the current fiscal year.) In addition, the City benefitted from a significant amount of one-time federal COVID relief funds. And, in November 2022, City voters approved an increase in the City's Business License Tax (BLT); this increase is expected to raise an additional approximately $20 million in FY 2022-23 compared to the amount that would have been raised absent the voter approved increase.

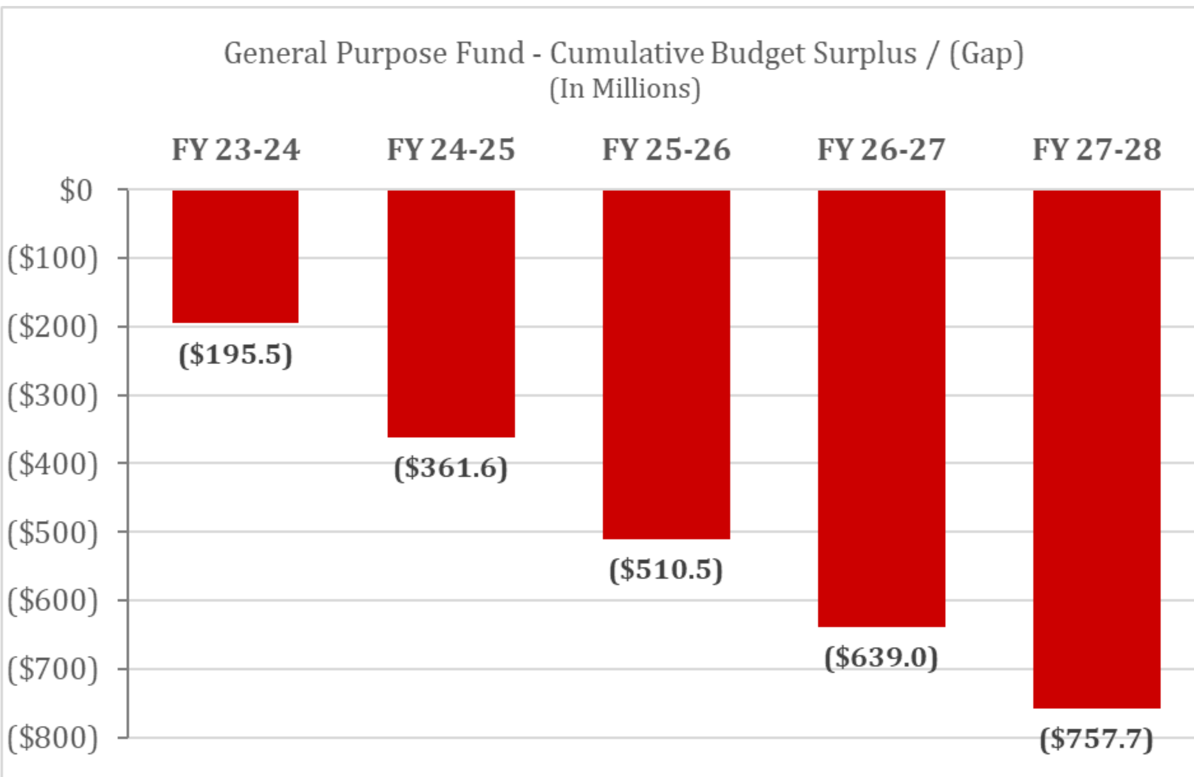
While the City's revenue base has generally proven resilient, most expenditure categories, such as personnel costs for wages and retirement, have grown even faster, particularly in the most recent (FY 22-23) year. As a result, the City faces an anticipated General Purpose Fund (GPF) shortfall in the 2023-24 fiscal year of $195.5 million. This gap is expected to persist through the forecast period, although the gap is anticipated to shrink somewhat as revenue growth exceeds the anticipated increases in expenditures as shown in Figure 1 (GPF Forecast Revenues, Expenditures & Shortfall) and Figure 3 (All Funds Forecast Revenues, Expenditures & Shortfall).

**Figure 1 - GPF Forecast Revenues, Expenditures & Shortfall**



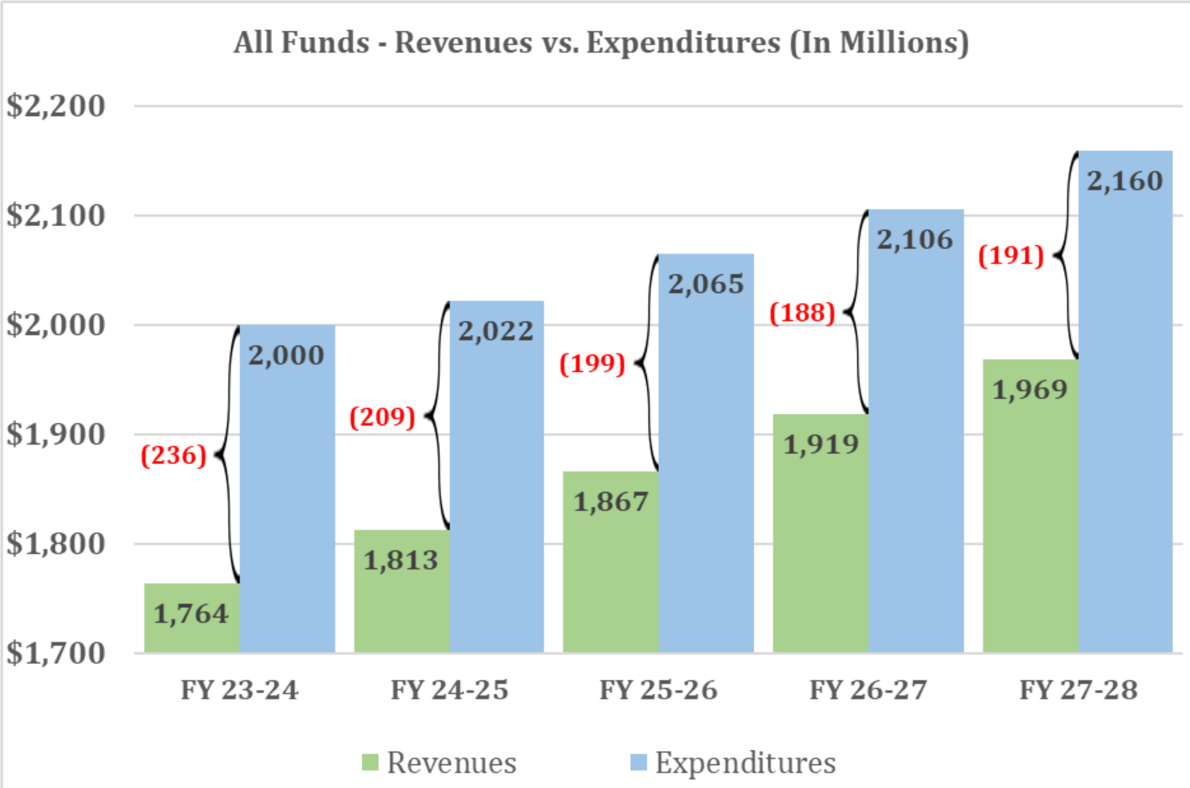
Although General Purpose Fund (GPF) shortfalls are expected to decrease during the forecast period, the cumulative gap in the City's GPF over this period (assuming no corrective actions) is expected to exceed $750 million, as shown in Figure 2. The City's Charter and Consolidated Fiscal Policy require adoption of a balanced budget each fiscal year, and the City will therefore need to develop strategies to address the shortfalls projected in the Forecast. This forecast assumes that the City's economy avoids a recession in the coming fiscal year under a so called "soft landing" in which an outright recession is avoided as the Federal Reserve continues to fight inflation through higher interest rates. If a soft landing does not happen according to the forecast – and there remain many unknowns with regard to the pace and contours of economic growth– projected shortfalls could be larger.  Even modest changes in the assumed revenue growth rates or the onset of a new recession could significantly alter these results.

**Figure 2 - GPF Cumulative Budget Gap**




The forecast for All Funds (see Figure 3) shows a trend similar to the GPF: shortfalls persist throughout the forecast period, although the expected increases in revenues outpace expected expenditure increases, resulting in a declining deficit during the forecast period.

**Figure 3 - All Funds Forecast Revenues, Expenditures & Shortfall**




The City maintains a 7.5% General Purpose Fund Emergency Reserve and in 2014 approved a Rainy Day policy. These responsible fiscal policies also enabled the City to set aside funds for long-term obligations and establish a Vital Services Stabilization Fund, which had approximately $14.9 million as of June 30, 2020. However, as pandemic-induced revenue shortfalls mounted, the City utilized these funds to help balance the FY 2020-21 budget. The beginning balance in FY 2022-23 for the VSSF is $2.58 million, After accounting for the FY 2022-23 GPF budgeted transfer of $7.69 million, the FY2022-23 projected year-end balance is $10.27 million.

Although signs point to the likelihood of a "soft landing" in which a recession is avoided and interest rates and inflation decline and growth accelerates over the forecast period, *substantial uncertainty remains*. Given these uncertainties, the City should focus on long-term sustainability through 1) expansion of the City's economic base; 2) management of expenditure growth through efficient service delivery; and 3) practical reductions to long-term unfunded liabilities. The City must focus on prioritizing funding to meet its current mandates (including long-term obligations, such as legally binding promises made to current and retired City employees) and needs, rather than adding services or programs that would expand the projected gap.

## Revenues

The General Purpose Fund (GPF) is the City's main operating fund and typically accounts for roughly 40% of total City revenues. As shown in Table 1, total General Purpose Fund revenues are anticipated to increase by more than 4% per year throughout the forecast period. These projected increases are driven mainly by increases in property tax, business license tax, and real estate transfer tax revenue.

**Table 1- GPF Revenues by Category (In Millions)***

| General Purpose Fund (1010) Revenue in Millions | FY 2023-24 Forecast | FY 2024-25 Forecast | FY 2025-26 Forecast | FY 2026-27 Forecast | FY 2027-28 Forecast |
|---|---|---|---|---|---|
| Property Tax | $294.17 | $308.93 | $323.98 | $340.23 | $357.76 |
| Sales Tax | $67.69 | $69.65 | $71.72 | $73.89 | $76.29 |
| Business License Tax | $125.25 | $128.14 | $133.08 | $137.53 | $142.33 |
| Utility Consumption Tax | $61.90 | $61.87 | $62.72 | $64.18 | $66.12 |
| Real Estate Transfer Tax | $95.37 | $109.62 | $124.27 | $137.96 | $144.44 |
| Transient Occupancy Tax | $22.48 | $23.38 | $24.27 | $25.22 | $26.24 |
| Parking Tax | $11.26 | $11.56 | $11.86 | $12.18 | $12.54 |
| Licenses & Permits | $1.01 | $1.04 | $1.07 | $1.10 | $1.13 |
| Fines & Penalties | $22.10 | $22.69 | $23.30 | $23.93 | $24.63 |
| Interest Income | $0.48 | $0.48 | $0.48 | $0.48 | $0.48 |
| Service Charges | $48.90 | $50.45 | $52.02 | $53.26 | $54.91 |
| Grants & Subsidies | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| Miscellaneous Revenue | $0.82 | $0.83 | $0.83 | $0.83 | $0.83 |
| Interfund Transfers | $2.90 | $2.90 | $2.90 | $2.90 | $2.90 |
| **Sub-Total GPF** | **$754.33** | **$791.53** | **$832.52** | **$873.69** | **$910.62** |
| **Growth** | **N/A** | **4.93%** | **5.18%** | **4.95%** | **4.23%** |

During the forecast period, All Funds revenues are projected to grow at a somewhat slower rate than the revenues in the GPF. Increases in property tax, sales tax, business license tax, and real estate transfer tax are expected to drive growth. A summary of All Funds revenue during the forecast period is provided in the Table 2 below:

**Table 2 - All Fund Revenues by Category (In Millions)***

| All Funds Revenue in Millions | FY 2023-24 Forecast | FY 2024-25 Forecast | FY 2025-26 Forecast | FY 2026-27 Forecast | FY 2027-28 Forecast |
|---|---|---|---|---|---|
| Property Tax | $310.17 | $326.41 | $342.80 | $360.48 | $379.51 |
| Local Tax | $331.17 | $333.45 | $335.75 | $337.49 | $339.87 |
| Sales Tax | $104.71 | $107.74 | $110.93 | $114.29 | $118.01 |
| Gas Tax | $19.60 | $20.02 | $20.51 | $21.10 | $21.60 |
| Business License Tax | $125.25 | $128.14 | $133.08 | $137.53 | $142.33 |
| Utility Consumption Tax | $61.90 | $61.87 | $62.72 | $64.18 | $66.12 |
| Real Estate Transfer Tax | $95.37 | $109.62 | $124.27 | $137.96 | $144.44 |
| Transient Occupancy Tax | $28.62 | $29.76 | $30.90 | $32.11 | $33.40 |
| Parking Tax | $21.47 | $22.03 | $22.61 | $23.23 | $23.91 |
| Licenses & Permits | $28.07 | $28.92 | $30.06 | $31.27 | $32.56 |
| Fines & Penalties | $24.18 | $24.81 | $25.46 | $26.11 | $26.85 |
| Interest Income | $0.58 | $0.58 | $0.58 | $0.58 | $0.58 |
| Service Charges | $218.72 | $225.78 | $232.95 | $238.38 | $245.82 |
| Internal Service Funds | $114.66 | $115.82 | $115.82 | $115.82 | $115.82 |
| Grants & Subsidies | $88.56 | $88.77 | $88.77 | $88.77 | $88.77 |
| Miscellaneous Revenue | $36.63 | $36.62 | $36.62 | $36.62 | $36.62 |
| Interfund Transfers | $154.21 | $152.70 | $152.70 | $152.70 | $152.70 |
| **Total** | **$1,763.86** | **$1,813.03** | **$1,866.54** | **$1,918.60** | **$1,968.91** |
| **Growth** | **N/A** | **2.79%** | **2.95%** | **2.79%** | **2.62%** |

## Expenditures

Expenditures are projected to increase over the forecast period, but at a slower rate than revenues. The largest category of expenditures relates to employee wages and benefits. Growth in non-personnel expenditures include insurance premiums, claims in the City's Self-Insurance Fund, and other fixed operational expenses such as fuel and utilities. The expenditure forecast is based on current staffing and service levels; in most cases, future expenditures are based on current year (FY 2022-23) estimated expenditures adjusted for inflation, previously negotiated salary increases, and anticipated changes due to economic conditions. Current memoranda of understanding for unions representing miscellaneous (civilian) employees expire at the end of the 2024-25 fiscal year; salary increases for these employees are included in the forecast at the MOU rate and then CPI. To the extent that there are known trends in expenditures, they are captured in this forecast.

The City currently oversees one active retirement system, the California Public Employees Retirement System (CalPERS), and one closed pension system, the Oakland Police and Fire Retirement System (PFRS). The Forecast assumes an average Full-Time Equivalent (FTE) count of 4,953 for FY 2024-25 and beyond and does not propose staffing level increases, although anticipated cost of living adjustments are reflected in the Forecast.

In recognition of the City's $850 million unfunded liability for Other Postemployment Benefits (OPEB), in FY 2018-19 the City reached agreement with its sworn public safety unions – led by the Oakland Police Officers' Association (OPOA) – to cap retiree medical benefits and implement new, lower-cost tiers for employees hired after January 1, 2019. In addition, on February 26, 2019, the City Council approved a new OPEB Funding Policy that committed 2.5% of payroll (approximately $10 million per year) to an irrevocable trust addressing unfunded liabilities. These contributions were suspended for FY 2019-20 and 2020-21 due to COVID-19 and financial emergencies. Nonetheless, between FY 2018-19 and FY 2019-20, the City's net OPEB liability decreased by more than $240 million as a result of these multi-pronged efforts. As provided for in the Adopted Budget for FY 2021-23, the City has resumed these contributions consistent with policy requirements The full contribution of 2.5% of payroll is currently included in the FY 2023-25 Biennial baseline budget.

> This multi-pronged approach to OPEB will allow the City to incrementally address its long-term OPEB funding challenges and help to ensure this benefit is available to its workforce into the future.

The steps the City has taken to address retirement and retiree medical costs have resulted in lower projected costs for these expenditure categories relative to previous forecasts. In large part as a result of these changes, expenditures are expected to grow more slowly than revenues over the forecast period. Nevertheless, the combined risks of a possible economic recession, escalating expenditures, and long-term liability payments will continue to pressure City finances. **Regardless of this forecast or what actually happens in our economy, we remain underfunded with**

**regard to meeting these obligations to our current and past City employees to the tune of more than $1.2 billion.** The City will need to consider additional, more aggressive fiscal policies to increase funding to responsible levels to ensure the City will be able to meet its obligations.

Summary information on GPF and All Funds expenditures are provided in Table 3 and Table 4 below.

**Table 3 - GPF Expenditures by Category (In Millions)**

| Category | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 | Avg annual change |
|---|---|---|---|---|---|---|
| Wages | $430.30 | $443.42 | $458.13 | $469.10 | $484.29 | 3.0% |
| Fringe Benefits | $106.33 | $109.82 | $115.25 | $120.50 | $126.62 | 4.5% |
| Retirement | $145.82 | $150.48 | $145.28 | $143.05 | $139.54 | -1.1% |
| Operations and Maintenance | $172.42 | $169.83 | $176.31 | $181.28 | $188.10 | 2.2% |
| Debt, Transfers and Other | $95.00 | $84.06 | $86.47 | $88.27 | $90.76 | -1.1% |
| **Total** | **$949.87** | **$957.60** | **$981.43** | **$1,002.19** | **$1,029.31** | **2.0%** |

**Table 4 - All Funds Expenditures by Category (In Millions)**

| Category | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 | Avg annual change |
|---|---|---|---|---|---|---|
| Wages | $680.29 | $702.54 | $725.89 | $743.30 | $767.43 | 3.1% |
| Fringe Benefits | $182.90 | $189.36 | $198.71 | $207.77 | $218.31 | 4.5% |
| Retirement | $236.74 | $244.90 | $231.07 | $227.13 | $220.35 | -1.8% |
| Operations and Maintenance | $551.79 | $547.74 | $567.05 | $581.93 | $602.29 | 2.2% |
| Debt, Transfers and Other | $348.43 | $337.57 | $342.57 | $346.30 | $351.46 | 0.2% |
| **Total** | **$2,000.15** | **$2,022.10** | **$2,065.29** | **$2,106.43** | **$2,159.84** | **1.9%** |

## Forecast Results Summary

The following tables provide a summary of forecast results for the next five fiscal years for GPF and All Funds, respectively. As shown in Table 5, the growth in revenues outpaces the growth in expenditures over the period. As a result, the significant operating shortfalls projected in the first year of the forecast are expected to decrease somewhat throughout the forecast period. It is critical to note that these estimates do not incorporate any proposed changes or balancing solutions that will be considered as part of the budget process. Pursuant to the Oakland City Charter and the Consolidated Fiscal Policy, the City must adopt a balanced budget.

**Table 5 - GPF and All Funds Shortfall**

| GPF | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 |
|---|---|---|---|---|---|
| Expenditures | $949.87 | $957.60 | $981.43 | $1,002.19 | $1,029.31 |
| Revenues | $754.33 | $791.53 | $832.52 | $873.69 | $910.62 |
| **Surplus/(Gap)** | **($195.54)** | **($166.08)** | **($148.91)** | **($128.50)** | **($118.69)** |

| All Funds | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 |
|---|---|---|---|---|---|
| Expenditures | $2,000.15 | $2,022.10 | $2,065.29 | $2,106.43 | $2,159.84 |
| Revenues | $1,763.86 | $1,813.03 | $1,866.54 | $1,918.60 | $1,968.91 |
| **Surplus/(Gap)** | **($236.29)** | **($209.08)** | **($198.75)** | **($187.83)** | **($190.93)** |

Although the impacts of the COVID 19 pandemic have receded, the City faces a significant gap between anticipated revenue collections and the expected level of expenditures (if no policy changes are made). It will take long-term solutions and strategies to resolve the forecasted structural imbalance of revenues and expenditures, which will require fiscal and budgetary discipline focused on a set of clear outcomes.

# INTRODUCTION

## Purpose & Development Process

### Purpose

The City Council first approved the Consolidated Fiscal Policy in 2014 (shown in Appendix B), which directs the Administration to create a Five-Year Forecast biennially that projects the City's revenues and expenditures over a five-year period. With a forecast of revenues and expenditures under known and anticipated conditions, the City can plan strategies for providing a consistent, appropriate level of service to its residents and bring its revenues and expenditures into sustainable balance. Such planning provides for greater financial stability, signals a prudent approach to financial management, prioritizes appropriate service levels, and keeps the City in compliance with the current best practices of similar governmental entities.

The Consolidated Fiscal Policy requires that the Five-Year Forecast:

- Estimates the City's revenues and expenditures over a future period of at least five-years;
- Contains the baseline budget for the forthcoming two-year budget period;
- Assumes continuation of expenditures necessary to maintain existing staffing and service levels, plus an estimate of anticipated revenues without balancing intervention;
- Estimates revenues on the most current data available, including projected revenue for the current fiscal year as reflected in the Second Quarter Revenue and Expenditure Report, with explanation of trends into future years;
- Considers known laws and legislation that impact the City’s revenue and expenditure levels; and
- Accounts for national, state and local economic conditions to the extent that it is relevant to Oakland.

## Development Process

City staff, led by the Finance Department, conducted extensive data collection and analysis to produce this Forecast. Staff consulted with independent budget and economic experts and engaged the services of an economic consulting firm, the Blue Sky Consulting Group, to develop the forecasts and confirm the soundness of the assumptions and analysis presented in this report.

# BACKGROUND INFORMATION

## General Information

The City of Oakland is located on the east side of the San Francisco Bay in the County of Alameda. Oakland is bordered by 19 miles of coastline to the west and rolling hills to the east. In between are proud and diverse neighborhoods, a progressive downtown, and superior cultural and recreational amenities. As its largest city, Oakland serves as the administrative hub for Alameda County, a regional seat for the federal government, the district location of primary state offices, and a center of commerce and international trade for the Bay Area.

According to the State Department of Finance, Oakland is the eighth largest city in the State of California, with an estimated population of 421,464 in 2022. Oakland is home to the Port of Oakland and Oakland International Airport. The City continues to improve the environment for its residents and business investors. A variety of incentives are available to companies located in its Enterprise, Foreign Trade, and Recycling Market Development Zones.

Oakland is a mature city that has preserved its abundant natural beauty and resources. The City has 106 parks (totaling over 2,500 acres) within its borders, as well as several recreational areas along its perimeter. Lake Merritt, the largest saltwater lake within a U.S. city, borders the downtown area. Its shoreline is a favorite retreat for joggers, office workers and picnickers. Lake Merritt is the oldest officially declared wildlife sanctuary in the United States, dating back to 1870.

In concert with ongoing economic development efforts, the City strives to maintain a balance between old and new structures. Historic structures continue to be renovated, preserved and revitalized, while new buildings are constructed. Major corporate headquarters include Blue Shield of California, Clorox and Kaiser Permanente.

## Form of Government

The City of Oakland was chartered as a city in 1852. It was a Council-City Manager form of government until 1998. In 1998, the citizens of Oakland passed Measure X changing the government structure to a Mayor-Council form of government through a City Charter amendment. The Mayor-Council form of government remains in place. The Mayor is elected at-large for a four-year term and can be re-elected only once. The Mayor is not a member of the City Council; however, the Mayor has the right to vote only if the Council members are evenly divided for decisions requiring simple majority passage.

The City Council is the legislative body of the City and is comprised of eight Council members. One Council member is elected “at large,” while the other seven Council members represent specific districts. All Council members are elected to serve four-year terms. The Council members elect one member as President of the Council and one member to serve as Vice Mayor every two years.

The City Administrator is appointed by the Mayor and is subject to confirmation by the City Council. The City Administrator is responsible for the day-to-day operations of the City.

For duties and responsibilities of the elected and appointed officials, visit the City's website via the following link: http://www2.oaklandnet.com/Government/CityGovernment101/index.htm.

## The City of Oakland's Role in Service Provision

The City of Oakland is one of many government entities serving the residents of Oakland, California. The City is a key provider of important government services to residents; however, it is not the only provider. Understanding which services are provided by the City, and which are provided by other entities is helpful before engaging in a more in-depth analysis of City services and fiscal position.

### Services Provided to Residents of Oakland by Service Providers

The following tables summarize the services provided by various government entities serving the residents of Oakland, California. In some cases, services are provided collaboratively by multiple government agencies; in those instances, the primary service provider is listed.

**Table 6 - Oakland Service Providers & Services**

| The City of Oakland |
|---|
| Police Protection |
| Fire Suppression |
| Recreation Programs |
| Oakland Public Libraries |
| Violence Prevention Services |
| Planning & Building |
| Economic Development |
| Head Start |
| Senior Centers & Services |
| KTOP (local government cable channel) |
| Housing Development & Referral Services |
| Rent Arbitration |
| Emergency Medical Response |
| Children & Youth Services |
| Parking Management |
| Sewers & Storm Drains |
| Transportation Planning |
| Street & Sidewalk Maintenance (local) |
| Parks, Trees, & Public Spaces |
| Street Lights & Traffic Signals |
| Recycling and Solid Waste |
| Workforce & Job Training |

| The Oakland Unified School District |
|---|
| Public Elementary, Middle, and High Schools |
| Adult Education |
| Charter Schools |

| East Bay Municipal Utilities District (EBMUD) |
|---|
| Provision of Drinking Water |
| Treatment of Wastewater |
| Public Open Spaces near reservoirs |

| The Port of Oakland |
|---|
| Oakland International Airport |
| Oakland Seaport |

| Alameda County |
|---|
| Courts of Law |
| Jails & Juvenile Hall |
| Corner & Medical Examiner |
| Probation |
| Registrar of Voters |
| Property Tax Assessment & Collection |
| Public Defender |
| District Attorney |
| MediCal (Medicaid) |
| CalFresh (Food Stamps) |
| CalWORKs (TANF) |
| Health Programs |
| Public Health Services |
| Child Support & Protection |
| Mental Health Services |
| Emergency Medical Transport (Ambulance) |

| The Peralta Community Colleges |
|---|
| Laney Community College |
| Merritt Community College |

| East Bay Regional Park District |
|---|
| Operations of Regional Parks |

| Bay Area Rapid Transit District (BART) |
|---|
| Commuter Rail |

| Alameda-Contra Costa Transit District (AC Transit) |
|---|
| Bus Transportation |

# Economic and Demographic Profile of the City of Oakland

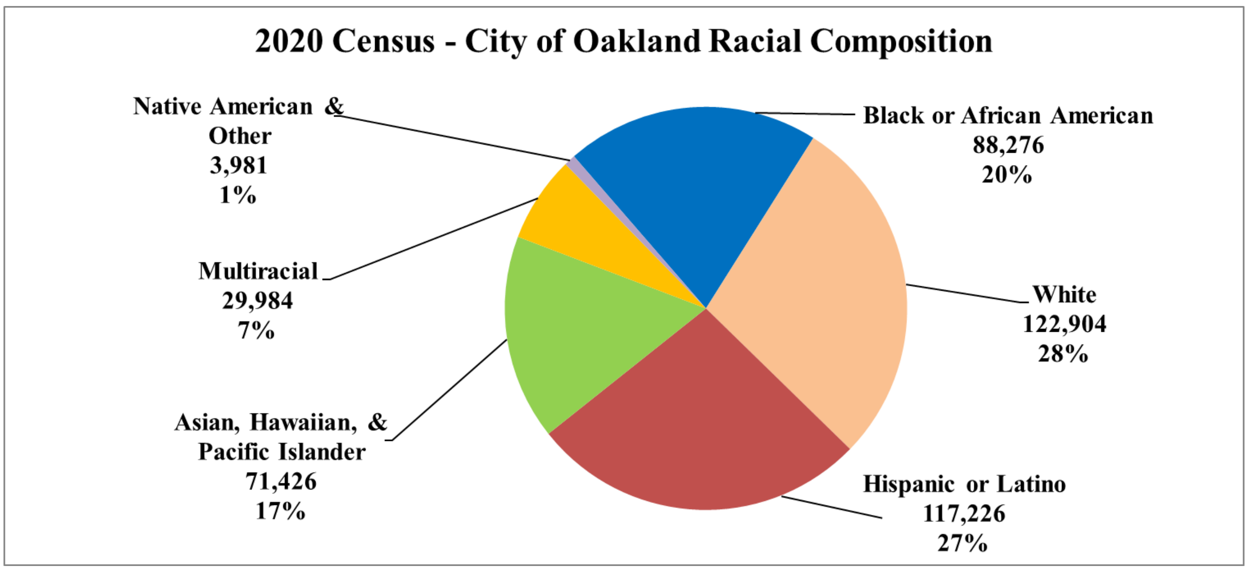
## Economic Profile

Oakland's economy offers a mix of trade, government, financial, medical, information technology, publishing and service-oriented occupations. Oakland offers abundant resources to its businesses and residents: converging transportation services, a vibrant dining and entertainment scene, and utility facilities that keep the City running smoothly. Office and mixed-use buildings, public facilities, hotels and convention facilities, parks, and outdoor art installations have created a cosmopolitan environment in the City. Waterfront restaurants and shops at Jack London Square, as well as the burgeoning Old Oakland and Uptown districts, provide lively nighttime attractions. The City's neighborhood retail areas are served by Oakland's ten Business Improvement Districts and Community Benefit Districts. Manufacturing remains an important segment of the City's economy, and the approval of Proposition 64 has positioned the City as a key hub for the medicinal and recreational cannabis industry.

## Demographic Profile

According to the California Department of Finance, Oakland was ranked the eight largest city in the State of California in 2022, with an estimated population of 424,464 residents within approximately 55 square miles. The racial makeup of Oakland in 2020 was roughly 20% African American, 28% Non-Hispanic White, 27% Hispanic or Latino (of any race), 17% Asian & Pacific Islander, 7% Multiracial and 1% Native American & Other. See Figure 4 below.

**Figure 4 - 2020 Oakland Census Racial/Ethnic Composition**




Per the 2020 United States Census, 20% of the City's population was under the age of 18 and 15% was over the age of 65. In 2010 the United States Census estimated that 21% of the City's population was below the age of 18 and 11% was over the age of 65.

**Table 7 - Oakland Population by Age**

| City of Oakland Population by Age | | | | |
|---|---|---|---|---|
| **Age Range** | **2010 Census** | | **2020 Census** | |
| | **Count** | **%** | **Count** | **%** |
| 0 to 4 Years | 26,099 | 7% | 22,311 | 5% |
| 5 to 17 Years | 57,021 | 14% | 61,602 | 14% |
| 18 to 64 Years | 264,045 | 68% | 286,743 | 66% |
| 65+ Years | 43,559 | 11% | 63,141 | 15% |
| **Total** | **390,724** | **100%** | **433,797** | **100%** |

In 2021, 23.5% of households were families with children, down from 25.6% in 2010. In 2020 roughly 59% of housing units were occupied by renters, essentially unchanged from the 2010 estimate.

## Principles of Government Finance

The following section is intended to familiarize the reader with terms, concepts, and documents important in government finance and budgeting. Knowledge of these items will provide the reader a better understanding of this Forecast and other similar documents produced by the City.

### Budgets & Fiscal Years

Budgets are plans for how organizations intend to use projected resources (revenues) on payments to perform operations or provide services (expenditures), over a defined period. Budgets are prospective planning tools and must be balanced between revenues and expenditures within the defined time period. The City of Oakland has received the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) for its biennial budgets for the past 20 consecutive fiscal years.

The significant timeframe for the City of Oakland's Budget (and other Financial Reports) is the Fiscal Year (FY). The City's Fiscal Year begins on the 1$^{st}$ of July and ends on the 30$^{th}$ of June of the following year. Fiscal Years are generally expressed as follows: The Fiscal Year which begins on July 1, 2021, and ends on June 30, 2022 is FY 2021-2022. This same fiscal year can also be expressed as FY 2021-22, FY21-22, or FY22 (This document uses multiple formats depending on context and space requirements). Fiscal Years can be divided into quarters or monthly periods. For instance, the Second Quarter of FY 2021-22 will end on December 31, 2021; this would commonly be expressed as Q2 FY 2021-22 or Q2-22. The 9$^{th}$ Period or Month of FY 2021-22 will end on March 31, 2022; this would commonly be expressed as Q3 FY 2021-22 or Q3-22.

It is important to note that grants awarded to the City may or may not synchronize with the City's fiscal year, and often are based on the granting agency's fiscal period or other predetermined period as determined by the grant agreement.

The City of Oakland adopts a biennial (two-year) balanced budget by June 30th of the preceding fiscal year. For instance, the City of Oakland will adopt the FY 2023-24 Biennial Budget by June 30, 2023.

### Operating Budget vs. Capital Improvement Program

In general, the City issues two types of budgets. The first and more commonly known is the Operating Budget. This Budget includes projected revenues and expenditures for the provision of most City operations and services. For instance, the operating budget includes revenues from general taxes as well as expenditures on police services, fire & emergency medical services, youth & recreation programs, library services, minor repairs, etc. The second budget is the Capital Improvement Program (CIP), which presents planned expenditures on projects to improve discrete elements of the City's infrastructure, buildings, and environment, as well as major purchases such as land, buildings and equipment. For example, the CIP includes water quality projects around Lake Merritt, complete repaving of streets and roads, construction of sewer infrastructure, and construction or renovation of City buildings.

The Proposed and Adopted CIP is also summarized in the Operating Budget in accordance with best practices. Because All CIP projects are one-time in nature and require new appropriations for each two-year cycle, the Baseline Budget does not include CIP Projects.

There are other special budgets such as the Oakland Redevelopment Successor Agency, which is a separate legal entity of the City responsible for the wind down and completion of the activities of the former Oakland Redevelopment Agency.

### Financial Reports & Actuals

"Actuals" are recorded revenues and expenditures that have occurred over a defined period. While budgetary values are projected prior to the close of a fiscal period, actuals are recorded after the fact. A financial report is a statement of actuals and accruals. Actuals can be divided into two categories: unaudited and audited. Unaudited actuals include those reported in the City's quarterly Revenue & Expenditure (R&E) Reports. They are distinguished from audited actuals in that they have not been evaluated by an independent financial auditor. The City has an independent financial audit conducted following the close of each fiscal year to provide an independent opinion of whether the City's financial statements are stated in accordance with Generally Accepted Accounting Principles (GAAP). The audited actuals are presented in the Annual Comprehensive Financial Report (ACFR).

### Revenues

Revenues can be generally understood as the sources of income for the City and divided into several categories or Fund Types (See Funds and Transfers Section for details). Tax revenues are largely unrestricted and are attributed to the General Purpose Fund. Grant revenues are restricted by the grant agreement and often require matching contributions from other sources. Special revenues include voter-approved measures and are restricted for a specific purpose. Revenue from fines and penalties are largely unrestricted and result from enforcement activities. Based on best practices and City Council policy, one-time revenues (e.g. land sales) should not be used to support ongoing expenditures. Fee and Service Charge revenues support many City functions. The rate charged for fees and service charges is regulated by state law (specifically Proposition 26). Generally, fees may not exceed the cost of providing a service (with a few exceptions). Fees are listed in the City's Master Fee Schedule, which is approved annually through a City Ordinance, but can be modified at any time with City Council's approval.

Revenues are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories, such as Property Tax, Fines & Penalties, or Service Charges.

## Expenditures

Expenditures can be generally understood as the usage of resources by the City. There are two key categories of expenditures: personnel and operations & maintenance (O&M). Personnel expenditures are used to pay for City employees to perform various functions and provide services to the public. They are expended via the City's payroll and benefits systems and include salaries, overtime, premiums, retirement, and healthcare costs. O&M expenditures are used to pay for anything other than City employees and are expended through the contracting, purchasing, and payables systems. O&M expenditures include contracts for services, supplies and materials, utilities, equipment purchases and debt payments. Expenditures are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories that include salaries, retirement, debt payments, or capital expenditures, among others.

## Assets & Liabilities

Assets are tangible and intangible items that hold value and include City cash, investments, buildings, land and equipment. Assets can be divided into two types: current and long-term/fixed assets. Current assets include cash, receivables, and short-term investments. Long-term and fixed assets include things such as long-term investments, property, plant, and equipment that have value, but cannot be quickly converted into cash.

Liabilities are amounts that the City is obligated to pay based upon prior events or transactions. For example, if the City owes money resulting from borrowing or issuing debt (e.g. bonds), those would be considered liabilities. Liabilities can also be divided into two types: current liabilities and long-term liabilities. Current liabilities are those that the City expects to pay within a year. This includes wages paid to active employees for hours worked, or bills for utilities. Long-term liabilities are obligations that the City would pay out over time, such as pensions, retiree medical obligation, and long-term debt service.

Unfunded Actuarial Accrued Liability (UAAL), or Unfunded Liability, is often mentioned in conjunction with government finances. UAAL is defined by the State Actuarial Standards Board as "the excess of the actuarial accrued liability over the actuarial value of assets". Simply put, it is the amount that an entity is projected to owe that is not covered by projected future payments under a specific payment methodology, or by assets currently held by the entity.

## Funds & Transfers

Funds are groups of revenues and expenditures that must be individually balanced. The City's Budget contains 116 funds, the largest of which is the General Purpose Fund (GPF). Other Funds normally have restrictions on the types of activities they support. These restrictions could be established by local ordinance, the City Charter, State law, or grant agreements. The General Purpose Fund is unrestricted in its use. The Five-Year Forecast will often summarize information by General Purpose Fund and All Funds.

In certain cases, monies may be transferred between City funds. For instance, 3% of the City's annual unrestricted GPF revenues are required to be transferred between the GPF and the Kids First! Fund to meet the requirements of the 2009 Kids First! ballot measure (Measure D). When a transfer occurs between funds the "sending" fund (where the transfer comes from) records an expenditure and the "receiving" fund (where the transfer goes to) records a revenue. This is to ensure that the overall budget remains balanced.

## Department & Organizational Structures

The City of Oakland is organized into various departments as defined in Oakland Municipal Code 2.29. These departments are responsible for delivering the various external and internal services of the City. Departments are generally established by the City Ordinance approved by the City Council. A few Departments were established by the City Charter itself and generally include the name "Office" in the title; these include The Mayor's Office, the City Attorney's Office, and the City Administrator's Office.

In both the budget and financial forecast documents, there are also two quasi-departments within the City, namely the Capital Improvement Program and the Non-Departmental group. These two groups are distinguished from traditional Departments in that they do not have operational staff attributed to them. These groups are used to record various inter-departmental projects and citywide costs, such as debt service, legally required fund transfers, or major infrastructure projects.

## Overhead Rates

Overhead rates are used to recover costs of certain administrative functions like accounting, cash management, and information technology, which can be difficult to allocate to specific funds or projects. Overhead charges are budgeted and recorded as positive expenditures in one fund while overhead recoveries are budgeted and recorded as a negative expenditure in the Fund supporting the relevant administrative function.

For example, the Oakland Public Works (OPW) Department has a centralized fiscal and human resources staff. Rather than splitting each of these staff across many funds, these expenditures are budgeted and recorded to a departmental overhead fund (Fund 7760). Overhead costs are then budgeted and recorded in the funds that receive support from OPW fiscal and human resources based on the payroll of those funds and a calculated overhead rate. Overhead recoveries are then budgeted and recorded in Fund 7760 to offset the costs of OPW fiscal and human resources staff. Thus, when viewed at a fund level, 7760 has net zero expenditures. The expenditures recorded there are offset by overhead recoveries. Other OPW funds have an overhead charge that reflects the use of central OPW services. The City utilizes an outside actuarial consultant to review rates and methodologies for its overhead rates.

### Internal Service Funds

Internal Service Funds (ISF) charge departments for services based upon a formula to allow for centralized support functions. Similar to transfers, ISFs operate by recording an expenditure in the fund for which the operations are performed and recording revenue in the relevant Internal Service Fund. For example, the Oakland Police Department (OPD) requires vehicles to operate; however, the maintenance of OPD vehicles (along with vehicles used by the Oakland Fire Department and other City departments) is provided centrally by OPW. To reflect these costs, an internal service charge expense account is budgeted and charged to OPD in an appropriate fund (in this case, the General Purpose Fund). This expense is then offset by an internal service revenue account in the Equipment Fund (4100). This revenue then pays for the expenses to maintain a vehicle (e.g. mechanics, fuel, parts) within Fund 4100. Each Internal Service Fund apportions costs across departments and funds by a different methodology driven by its nature.

### Budget Balancing, Surplus, Projected Surplus, Deficit & Projected Shortfall

The term ‘balanced’ refers to a budget or forecast document where all projected revenues are equal to all projected expenditures; if they are not equal then there is an imbalance. If projected revenues exceed projected expenditures, then the budget or forecast is said to have a projected surplus. If expenditures exceed revenues, then there is a projected shortfall. By policy, the City must adopt a balanced budget.

A structural imbalance occurs when there is a difference between ongoing revenues and expenditures. A budget that uses one-time revenue to pay for ongoing expenditures may be balanced over the fiscal period but suffers from a structural imbalance, in this case a structural shortfall. By contrast if ongoing revenues exceed ongoing expenditures, a budget may have a structural surplus.

Deficit is an actual status of financial health in which expenditures exceed revenues, whereas budget shortfall means that projected spending is greater than projected revenues. The terms ‘surplus’ and ‘deficit’ refer to the relative balance of actual expenditures and revenues. A deficit occurs when actual expenditures exceed actual revenues over a fiscal period. By contrast a surplus occurs when actual revenues exceed actual expenditures.

## Fund Balances & Reserves

At the end of each fiscal year, each fund's revenue collections are compared against incurred expenditures. If there were revenues in excess of expenditures, a surplus occurs, which is added to that fund's "fund balance." Alternatively, if there were greater expenditures than revenues, then that difference is reduced from the fund balance. A negative fund balance occurs when cumulative fund expenditures exceed cumulative fund revenues. By contrast a positive fund balance exists when cumulative revenues exceed the expenditures.

If a positive fund balance is restricted or earmarked in its usage, it is often termed as 'reserved'. For instance, the General Purpose Fund has a 7.5% emergency reserve for unanticipated and insurmountable events. Therefore, the City Council may direct funds from the positive fund balance to support the emergency reserve. Other funds may have a positive fund balance to support future anticipated expenditure needs such as equipment replacements, or future costs associated with a multi-year project.

# REVENUES

This section provides a detailed analysis of major revenue categories and presents the results of the forecast for each category.

## Methodology and Assumptions

Revenue estimates were developed by (1) developing estimates of likely revenue receipts for the current (22-23) fiscal year and (2) developing and the applying estimated growth rates to the estimated actual receipts to develop projections for the entire five-year forecast period.

Citywide revenues are projected based on the expected levels of economic growth, new development, and anticipated changes in fee structures compared to levels of service, changes in governmental policies at the state or federal levels, and various economic and demographic changes. In addition, the revenue forecast takes into consideration local and regional economic factors and trends, including an expected decline in construction activity and real estate transactions in the coming fiscal year, and pandemic-induced changes in business travel and in-person work behavior, among other factors.

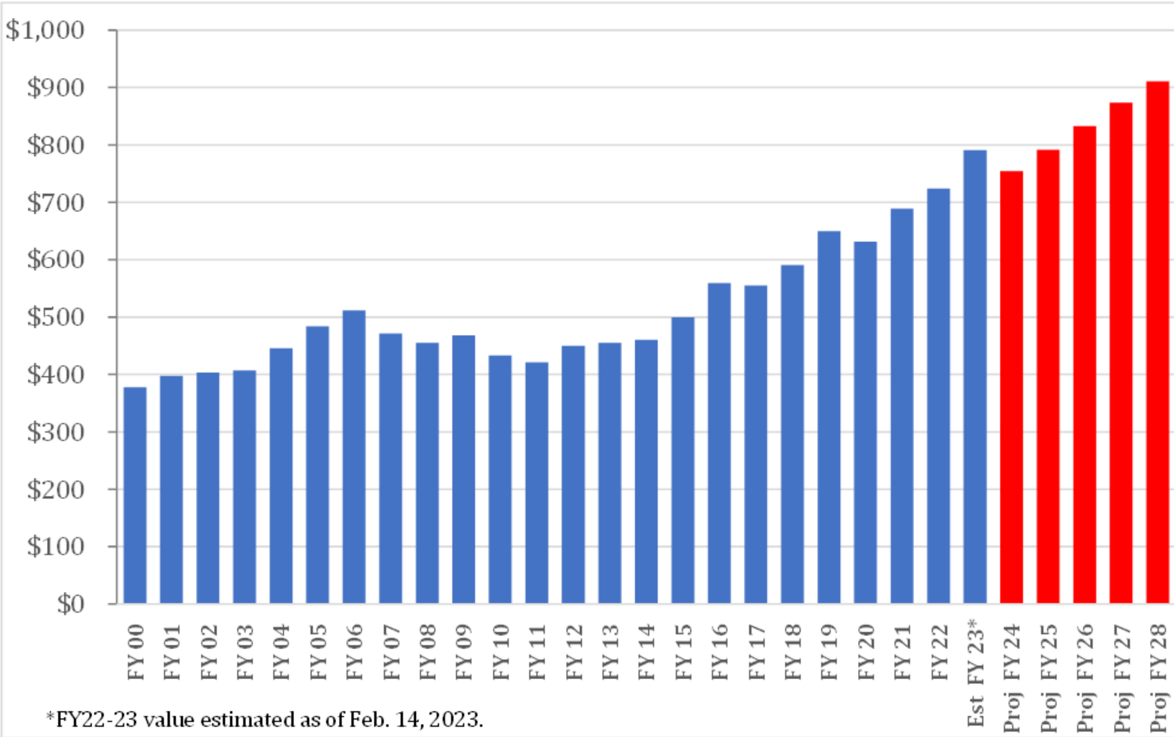
City staff worked closely with an economic consulting firm, the Blue Sky Consulting Group, to develop the economic assumptions and growth rates contained in this forecast report. The baseline economic growth assumptions were developed based on an analysis of statewide economic forecasts produced by the California Legislative Analyst's Office, the Federal Reserve Bank, the California State Department of Finance, and the UCLA Anderson School. Historical correlations between levels of statewide economic activity and those observed in Oakland were developed and applied in order to develop Oakland-specific revenue forecasts.

Major assumptions used in developing the forecast include:

- The economy does not enter a recession and economic conditions continue to improve over the five-year forecast period.
- Personal income is projected to increase at an average annual rate of approximately 4.0% over the forecast period.
- The unemployment rate is expected to remain roughly constant over the five-year period, rising from 3.8% in FY 2022-23 to 4.3% for the latter two years of the forecast period.
- Inflation is expected to decline during 2023, with the Consumer Price Index (CPI) projected to grow at annual rates between 2.0% and 2.5% over the remaining years of the forecast period.

Figure 5 depicts the historical General Purpose Fund (GPF) actual revenues since FY 1999-00 as well as the expected GPF revenues during the forecast period. Historical data shows that over the period from FY 1999-00 through FY 2022-23, GPF revenues have grown on average by 3.3% per year. The large increase in anticipated GPF revenues during FY 2022-23 reflects the receipt of remaining federal COVID relief funds from the American Rescue Plan Act (ARPA) in the amount of $68.0 million

**Figure 5 - Historical GPF Revenues ($Millions)**




## Revenue Forecast by Category

The following section provides detail on the revenue forecasts for each major revenue source.

Table 8 presents General Purpose Fund revenues by category over the past 5 years, including the estimated receipts for the 2022-23 Fiscal Year.

Table 8 -General Purpose Funds by Category FY 2018-19 to FY 2022-23

| General Purpose Fund (1010) Revenue in Millions | FY 2018-19 Actuals | FY 2019-20 Actuals | FY 2020-21 Actuals | FY 2021-22 Actuals | FY 2022-23 Estimate* |
|---|---|---|---|---|---|
| Property Tax | $199.96 | $218.66 | $238.93 | $258.97 | $274.48 |
| Sales Tax | $62.05 | $55.52 | $57.82 | $64.17 | $66.15 |
| Vehicle License Fee | $0.21 | $0.34 | $0.32 | $0.50 | $0.00 |
| Business License Tax | $99.73 | $98.04 | $104.23 | $101.29 | $123.21 |
| Utility Consumption Tax | $49.60 | $49.83 | $51.80 | $57.93 | $62.57 |
| Real Estate Transfer Tax | $104.90 | $91.53 | $113.36 | $138.40 | $88.50 |
| Transient Occupancy Tax | $25.92 | $19.58 | $10.61 | $16.66 | $20.83 |
| Parking Tax | $11.05 | $9.07 | $6.26 | $9.54 | $11.01 |
| Licenses & Permits | $1.78 | $1.61 | $1.24 | $1.41 | $0.98 |
| Fines & Penalties | $21.20 | $19.04 | $17.79 | $20.37 | $21.61 |
| Interest Income | $1.10 | $0.90 | $1.27 | $0.91 | $0.48 |
| Service Charges | $64.57 | $58.17 | $52.72 | $45.71 | $48.20 |
| Grants & Subsidies | $1.98 | $2.22 | $3.51 | $1.85 | $0.00 |
| Miscellaneous Revenue | $2.31 | $3.24 | $11.69 | $3.60 | $2.22 |
| Interfund Transfers | $3.58 | $4.01 | $17.55 | $3.01 | $2.90 |
| **Sub-Total GPF** | **$649.96** | **$631.76** | **$689.11** | **$724.32** | **$723.15** |
| Transfers from Fund Balance | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| **Total** | **$649.96** | **$631.76** | **$689.11** | **$724.32** | **$723.15** |
| *FY22-23 value estimated as of Feb. 14, 2023. | | | | | |

## Property Tax

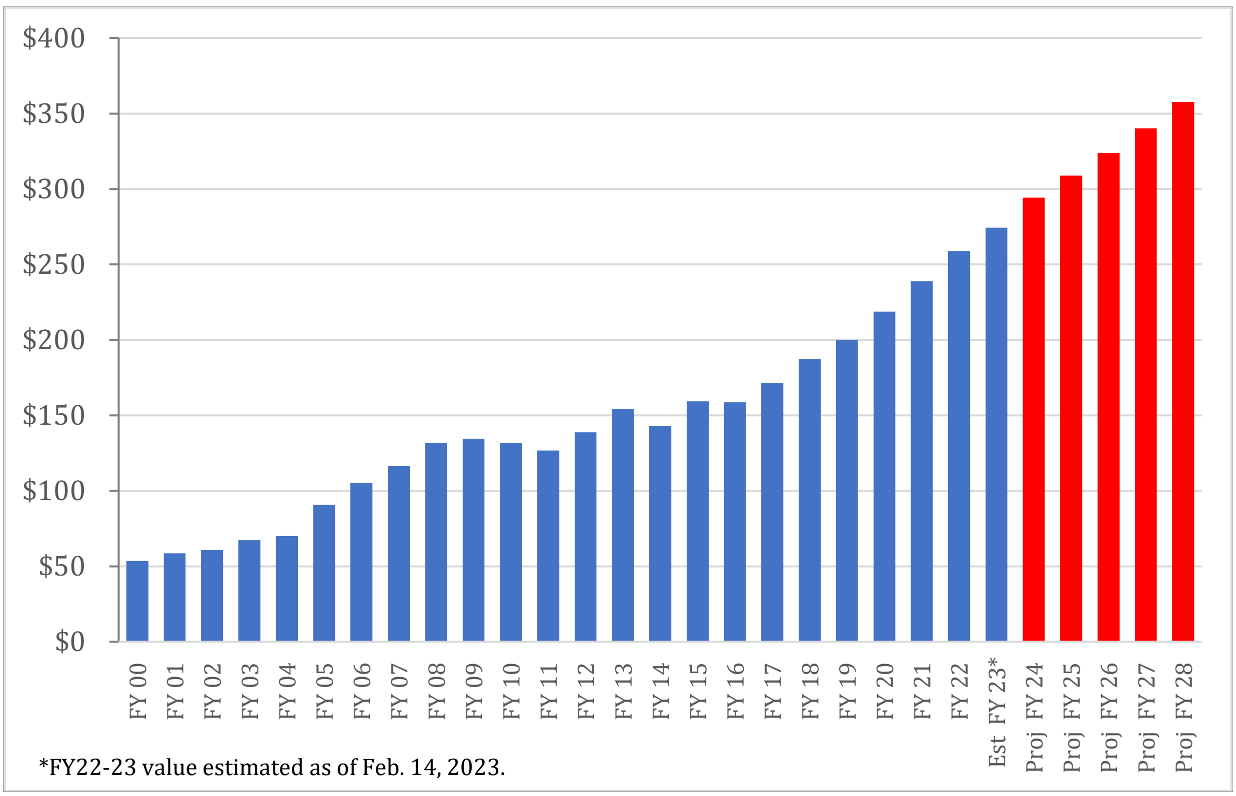
Property tax is the largest single source of revenue for the General Purpose Fund and represents approximately one third of all General Purpose Fund revenues. The property tax is *ad valorem*, which means that the tax paid on a property is proportional to the property's assessed value. Under the terms of Proposition 13 passed in 1978: 1) the annual tax owed is a maximum of 1% of a property's assessed value and 2) the assessed value can only increase a maximum of 2% each year unless ownership changes, in which case the prevailing market value assessment is used as the basis for taxation (see APPENDIX B-Background on California Legal Revenue Limitations for additional detail).

Over the last 20 years, property tax revenue has grown, year-over-year, at an average pace of 8.5%. The growth for that period was accelerated by a rapid run-up of housing demand and accompanying new construction. The rise in property tax revenues was also due to a Vehicle License Fee (VLF) "backfill" payment from the State (the difference between the old VLF of 2.0% and new fee of 0.65%) in the form of property tax revenue. The value of rising property tax, which increased more quickly than VLF revenues, brought Oakland additional revenues. Furthermore, starting in FY 2011-12 with the dissolution of the Redevelopment Agency, unallocated property tax increment is flowing back to the City in the form of additional property tax revenues. This additional revenue is the portion of property tax increment that would have gone to the redevelopment agency if it had not been dissolved, less the funding required to wind-down the obligations of agency, including any debt service payments owed on debt obligations issued prior to the dissolution of the agency.

### *Property Tax Revenue Forecast*

General Purpose Fund property tax revenue is expected to grow from an estimated $274.5 million in FY 2022-23 to $357.8 million in FY 2027-28. This is an average annual increase of more than 5% over the five years of the forecast period. In FY 2023-24, the growth is projected to be 5.02% over the estimated FY 2022-23 amount. Figure 6 shows property tax revenue since 2000 with a five-year projection.

**Figure 6 - GPF Property Tax Revenues Over Time ($Millions)**




Over the past several years, property taxes have been propelled by increasing property values, as many sought new homes with more space to work from home during the COVID 19 pandemic. This trend has reversed in the past several months, as increasing mortgage interest rates have raised the monthly cost of homeownership and put downward pressure on home prices. Nevertheless, the downward price trend appears to be moderating, with property values expected to decline modestly during calendar year 2023 before resuming growth in 2024.

In spite of the decline in property values over the past several months, property tax revenues are expected to continue to grow throughout the forecast period. In part this reflects the underlying resilience of the property tax, in which assessed values are generally lower than market values. As a result, even during times of relatively slow appreciation in property values or even outright declines, property tax revenues tend to increase since most assessed values still increase by at least two percent per year, and property sales still generate substantial increases in assessed value.

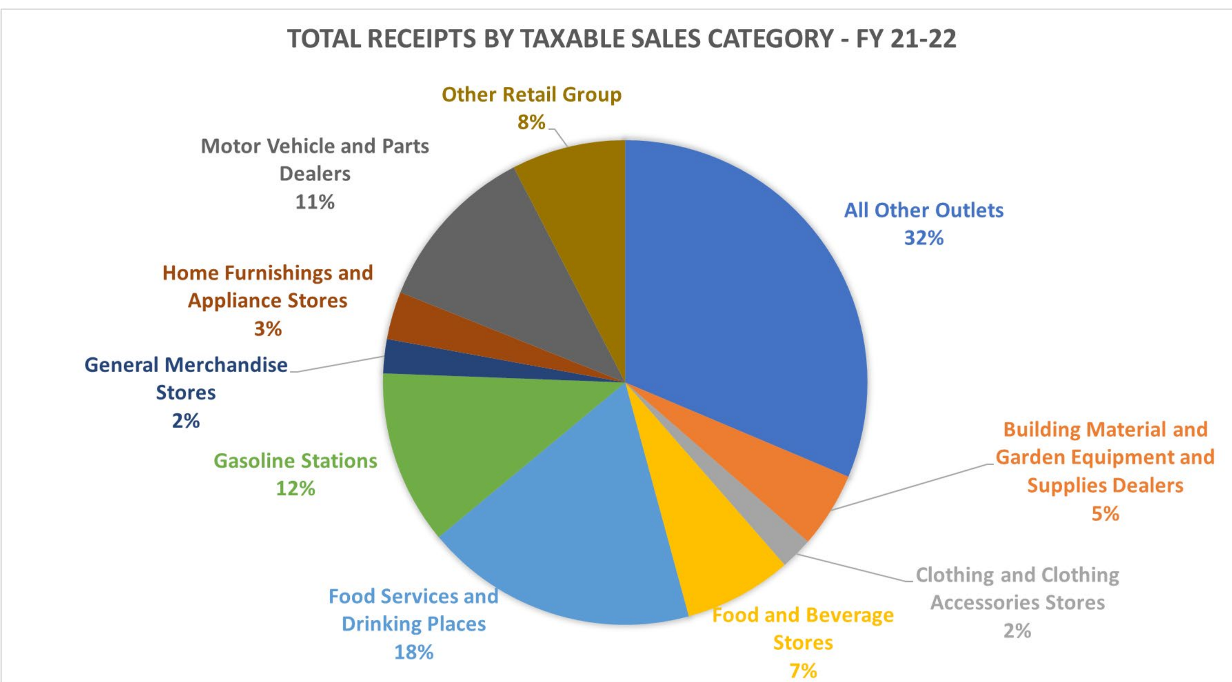
Over the five-year forecast period, pass-through revenues from the former redevelopment agency are expected to increase rapidly as existing obligations are retired. Overall, annual passthrough property tax revenues from the former redevelopment agency are anticipated to increase by more than $33 million during the forecast period.

## Sales & Use Tax

Sales and Use Tax applies to the retail sale or use of "tangible personal property." The total sales tax percentage in the City of Oakland is 10.25%, meaning that a $1 taxable purchase results in sales tax of 10.25 cents. The City receives 1% of the total sale as a distribution to its General Fund, meaning the City receives 1 cent on a $1 purchase.

Oakland's diverse Sales Tax base covers ten business types, including retail, motor vehicle parts and dealers, home furnishings, auto and transportation, fuel and service stations, business and industry, general consumer goods, building and construction, and food and drugs. No single group dominates the City's sales tax revenues, as shown in Figure 7, which presents the sources of sales tax revenue for the City of Oakland during the 2021-22 Fiscal Year.

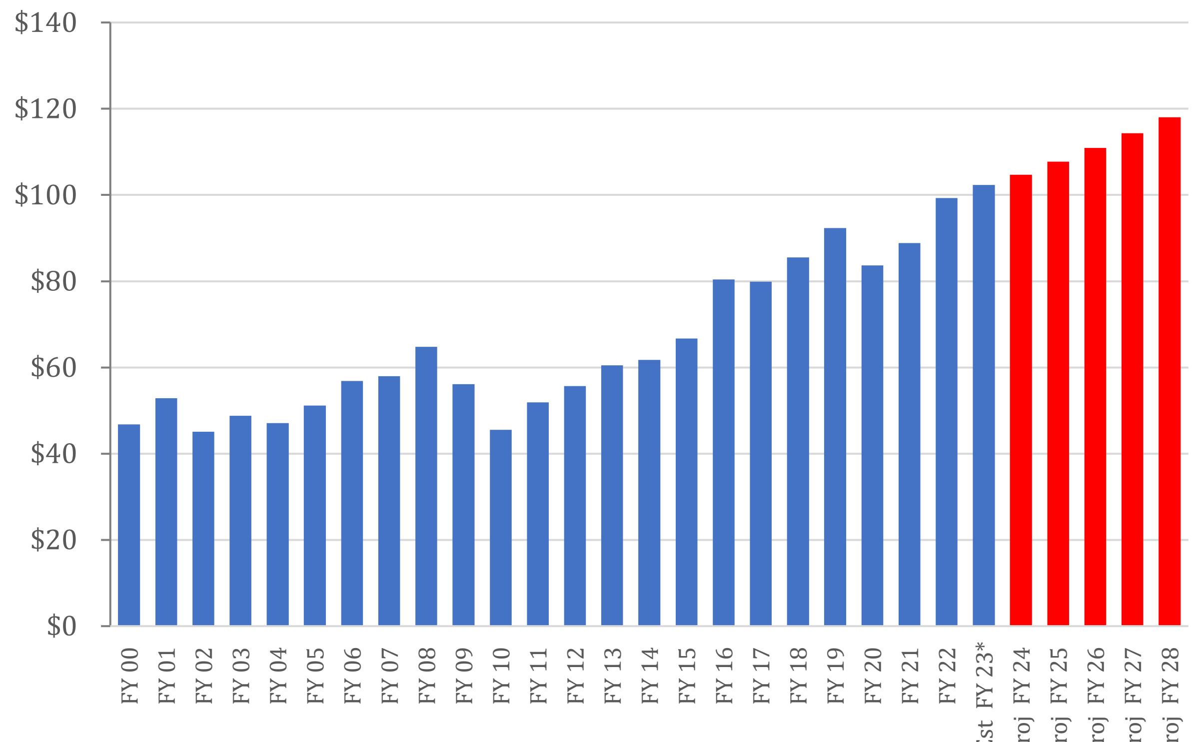
**Figure 7 - Sales Tax by Category**




Sales tax revenue generally coincides with overall strength of the local, regional, and national economies. Though taxable sales fell dramatically during the COVID-19 pandemic, local sales exceeded pre-pandemic levels by FY 2021-22.

Figure 8 shows the historical All Fund actual sales tax revenue since FY 2000 and projects the next five years of sales tax revenue. Historically, sales tax revenue has been correlated with personal income. The growth in projected sales tax revenue included in the forecast reflects the expectation that personal income will grow steadily during the forecast period.

**Figure 8 - All Funds Sales Tax Over Time ($Millions)**




*FY22-23 value estimated as of Feb. 14, 2023.

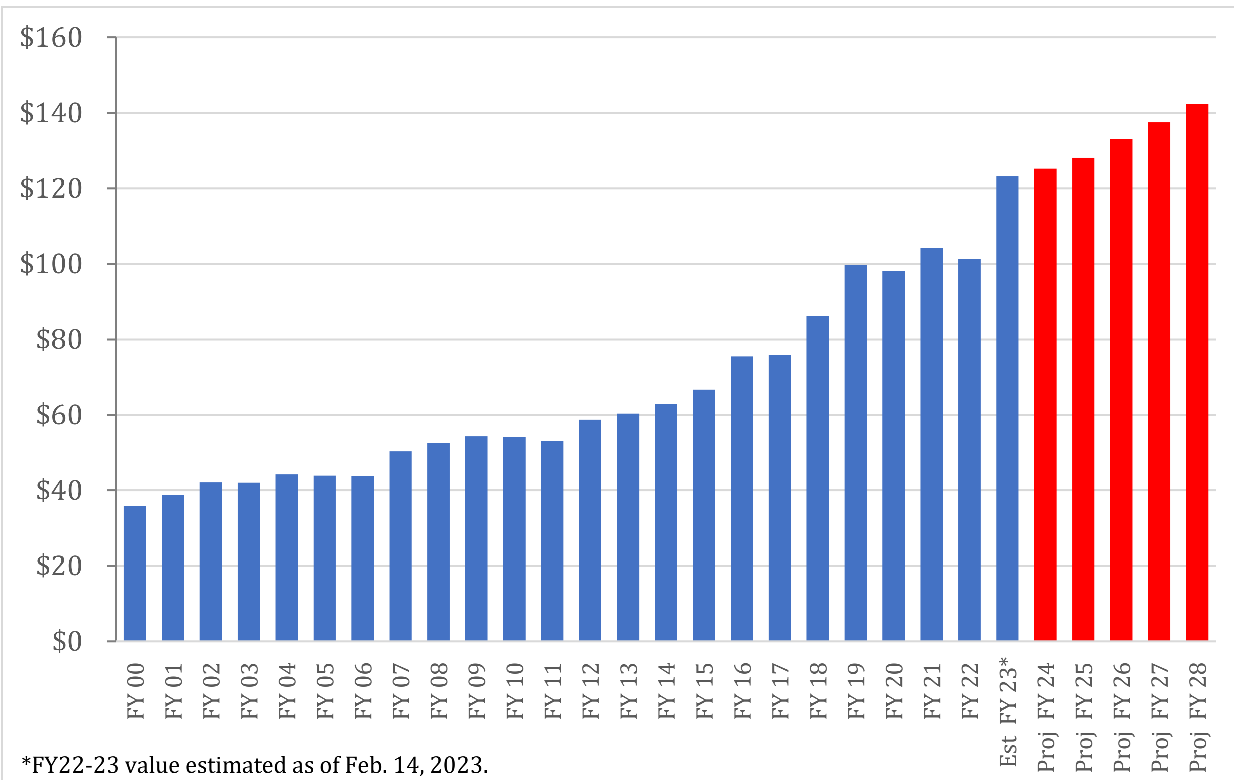
## Business License Tax

The Business License Tax (BLT) is charged annually to Oakland businesses based on either gross receipts or rental income. The rate on gross receipts varies by type of business, ranging from a low of $0.60 per $1,000 of receipts for grocers to $5.50 per $1,000 of receipts for the largest businesses in the miscellaneous category. The rate on rental income is $13.95 per $1,000. The rates for the BLT were increased by voters at the November 2022 election.

BLT has been a relatively steady and reliable revenue source for the City, as shown in Figure 9. However, BLT is impacted by the health of the economy. The COVID-19 pandemic resulted in increased commercial property vacancies and reduced rental rates in both the commercial and multi-family sectors, which has put downward pressure on tax revenues from these sources. For many of these businesses, pandemic related economic effects appear likely to linger as the work-from-home transition continues to affect attendance at downtown offices. Tax revenues from general contractors is also likely to decline as new construction activity slows in response to heightened uncertainty about the prospects for office space in the near term as well as uncertainty with respect to higher interest rates.

These downward pressures, however, are likely to be more than offset by increases in tax revenue resulting from tax rate increases approved by voters in November 2022. In FY 2022-23, the estimated growth over the FY 2021-22 amount is expected to be 21.6%. Thereafter, the forecast anticipates annual increases of about 3% on average. Over the forecast period, commercial vacancies are expected to increase somewhat over the next two years before declining again by the end of the forecast period. Reduced tax rates on cannabis businesses are expected to reduce revenue from this source modestly in the current year, with growth resuming after the FY 22-23 year as the last of the rate decreases previously approved by the City Council take effect.

**Figure 9 - Business License Tax Over Time ($Millions)**




## Real Estate Transfer Tax

Until December 31, 2018, the Real Estate Transfer Tax (RETT) rate on residential and commercial sales was 1.61% of the value of each real estate transaction. Oakland's share was 1.5% with Alameda County receiving the remaining 0.11%. The tax is triggered by the transfer of property ownership, and both the buyer and seller are responsible for ensuring the tax is paid.

On November 6, 2018, Oakland voters approved Measure X, establishing a progressive real estate transfer tax rate for the City. The new rates became effective on January 1, 2019 and are as follows:

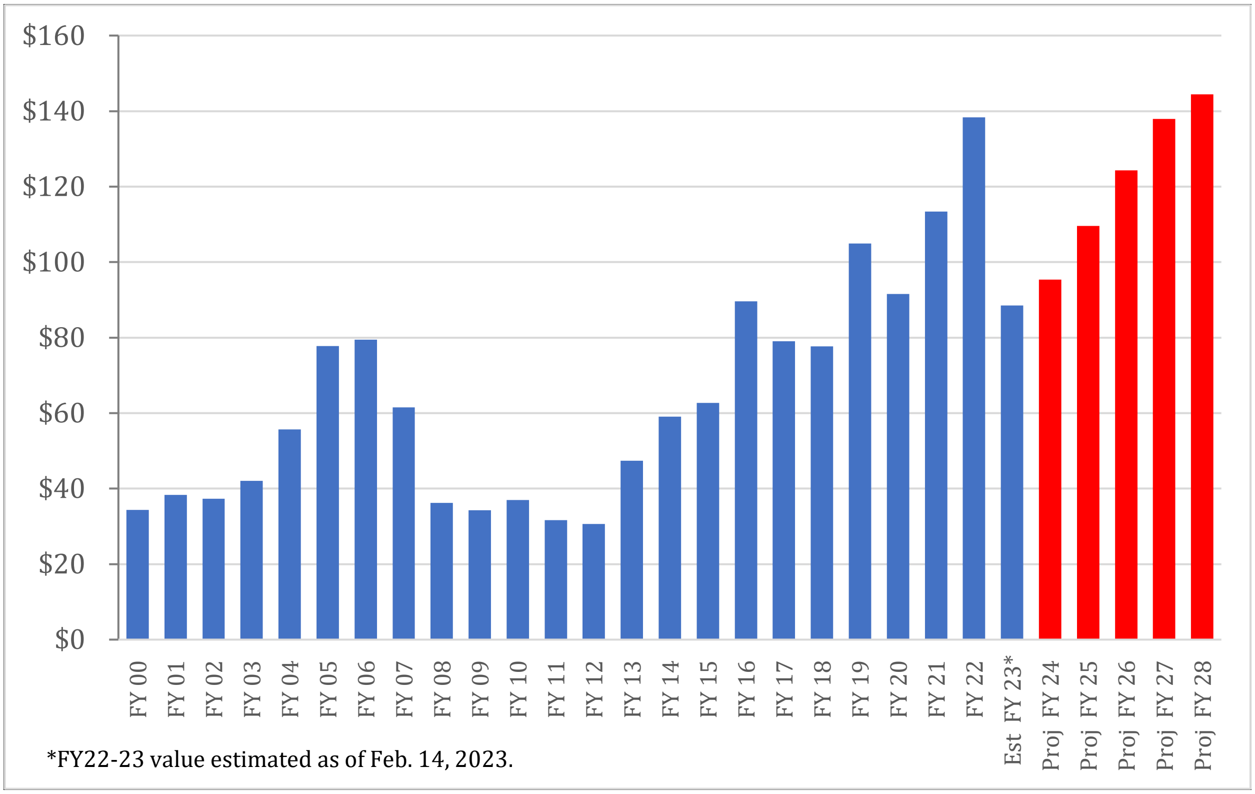
| | |
|---|---|
| Transfers up to $300,000 | 1.00% |
| $300,001 to $2,000,000 | 1.50% |
| $2,000,001 to $5,000,000 | 1.75% |
| $5,000,001 and above | 2.50% |

As shown in Figure 10, RETT revenues can be volatile, subject to fluctuations based on a handful of high value transfers in a given year and changes in the transfer rate overall. For example, in FY 19-20, there were six transfers of properties individually worth over $50 million, which in the aggregate generated $13.3 million of RETT revenue. Over FY 20-21 and FY 21-22, on average, the small number of sales above this threshold generated $18.2 million. Through the first half of FY 2022-23, however, such transactions are only on pace to provide $7.4 million by year-end.

The number and value of these very large transactions cannot be easily predicted year to year. The Consolidated Fiscal Policy (See Appendix B) states that RETT greater than 15% of GPF Tax Revenue is to be considered one-time or “Excess RETT.” One-half of Excess RETT may be spent on one-time expenditures, 25% is to be allocated to the Vital Services Stabilization Fund and 25% is allocated to repayment of long-term obligations.

Real estate transfer activity continued throughout the pandemic but has dropped considerably in the current fiscal year as the number of transactions has slowed considerably. Fiscal Year 2021-22 RETT revenue was the highest ever recorded, at $138.4 million. However, reductions in transfer activity are expected to decrease revenue significantly for the current year, with estimated revenue of just $88.5 million. The forecast envisions increasing real estate transfer activity, with an average annual growth of just over 10% in RETT over the forecast period.

**Figure 10 - Real Estate Transfer Tax Over Time**

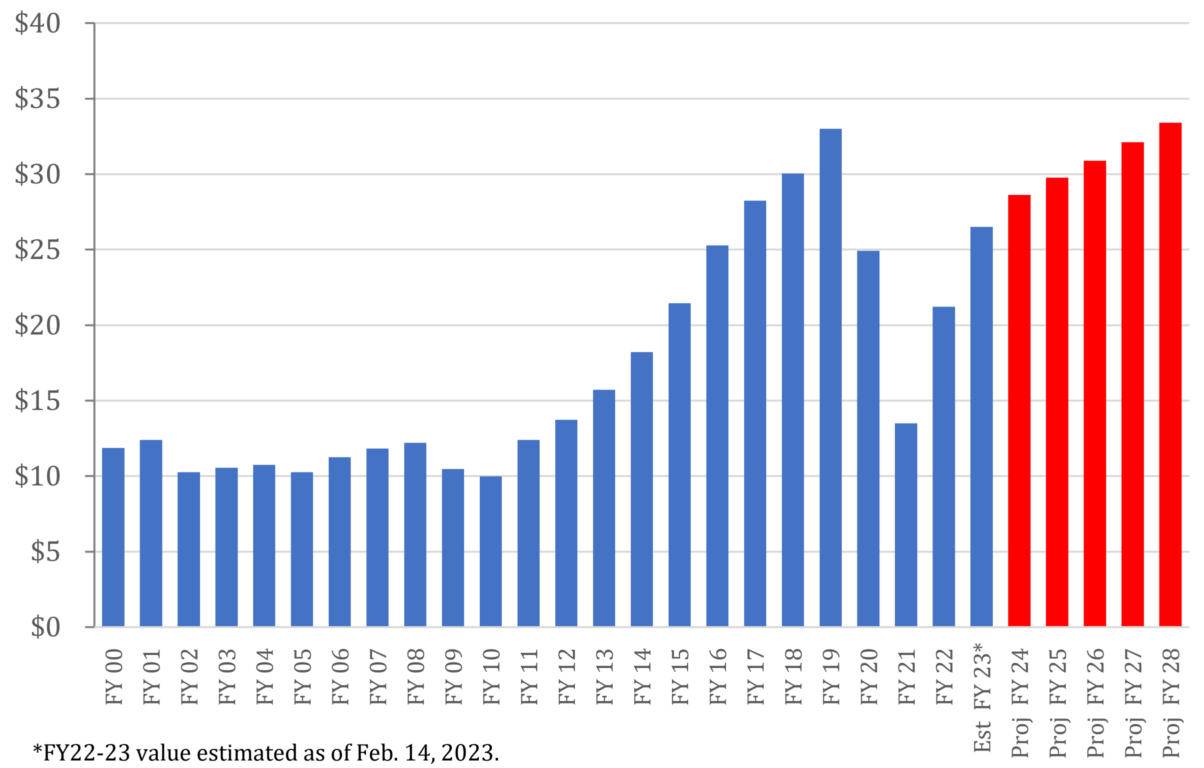



## Transient Occupancy Tax (TOT)

The Transient Occupancy Tax (TOT) rate is 14% of the hotel rate and is paid by individuals who stay thirty days or less in a hotel located within the City of Oakland. This tax is collected and remitted by hotel operators. The rate was increased from 11% to 14% in FY 2008-09 due to the voter-approved Measure C tax surcharge. Measure C allocates 3% of total TOT revenue to support various community-based institutions, such as the Oakland Zoo; Oakland Convention and Visitors Bureau; Chabot Space and Science Center; Oakland Museum; and cultural art and festival activities. The Measure C portion (3%) is booked in a separate fund.

The outbreak of COVID-19 in March 2020 significantly reduced both FY 2019-20 and FY 2020-21 TOT revenues. After steadily increasing throughout the preceding decade, total TOT revenue exceeded $33 million in FY 2018-19. In FY2019-20, revenues declined nearly 25%, to just under $25 million. In FY 2020-21, the City received just $13.5 million in TOT—a significant drop from its FY 2018-19 peak. This decline far exceeds previous TOT revenue downturns resulting from the Great Recession of 2008-2009 (down 18% between FY 2007-08 and FY 2009-10, not including revenues from the Measure C tax surcharge collected in FY 2009-10) or the September 11th terrorist attacks (down 17% between FY 2000-01 and FY 2001-02). Figure 11 shows the TOT revenue historical trend since 2000 and provides a five-year projection.

**Figure 11 - Transient Occupancy Tax Over Time ($Millions)**



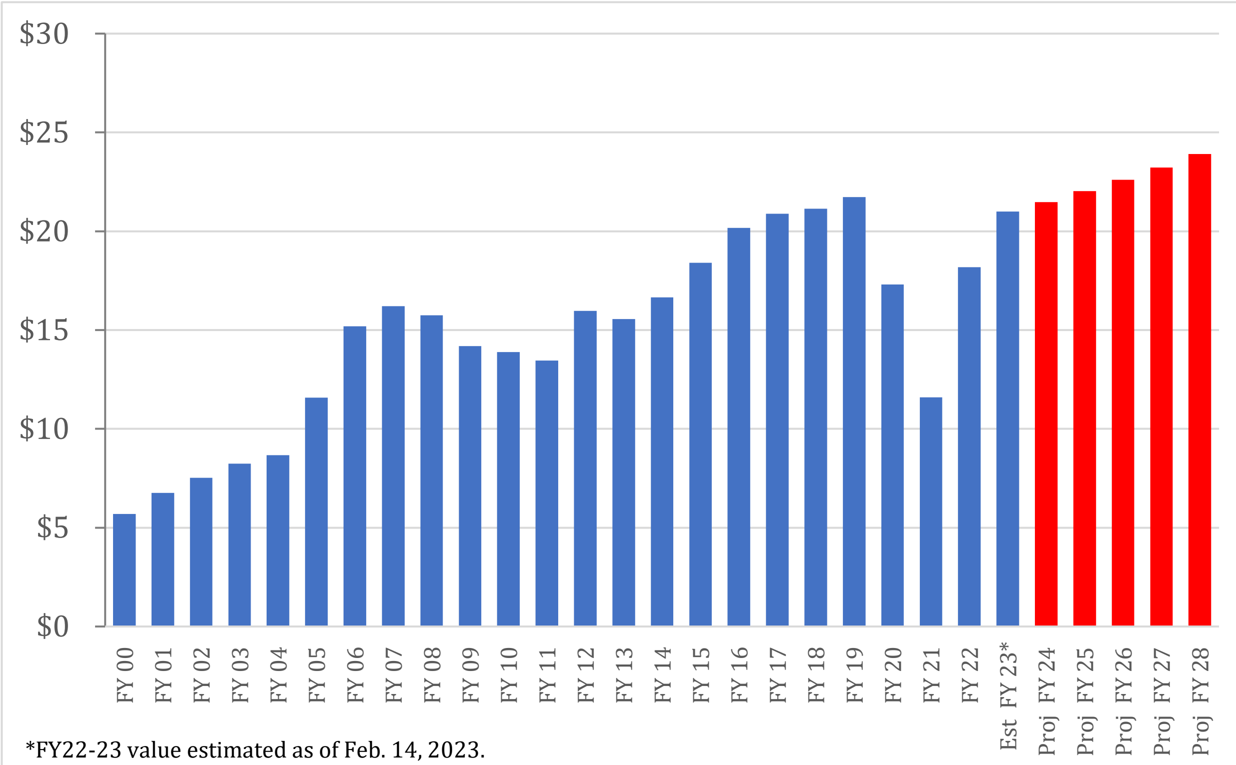

*FY22-23 value estimated as of Feb. 14, 2023.

While TOT revenues have recovered from the low level of FY 20-21, they have yet to exceed their pre-pandemic peak. In FY 22-23, TOT revenues are expected to be 26.8 million, well below the $33 million peak of FY 18-19. This decline is largely due to declining revenues from business travel, including declines at hotels near the Oakland International Airport.

## Parking Tax

The Parking Tax is a tax imposed on the occupant of an off-street parking space. The tax rate is 18.5% (8.5% supports voter-approved Measure Z – Violence Prevention and Public Safety activities and is allocated to a separate fund) and is collected by parking lot and garage operators. Approximately half of the City's Parking Tax revenue is generated from travel-related activities, including parking at or near the Oakland International Airport. As such, the Parking Tax revenues are strongly correlated with passenger volume at the airport and travel activity more generally. Parking revenue reached its peak of roughly $21.7 million in FY 2018-19 following years of steady economic growth, but declined sharply in FY 2020-21 to just $11.6 million, following the onset of the COVID-19 pandemic, which emptied downtown offices and triggered large reductions in both business and personal travel. Parking tax revenues have since largely recovered and are expected to nearly match pre-pandemic levels by FY 2023-24. Figure 12 shows the historical parking tax revenue trend and five-year projection.

Figure 12 - Parking Tax Over Time




## Local (Parcel) Taxes

Local parcel tax revenues consist of revenues approved by the voters. Parcel taxes appear as an assessment on the local property tax bills of real property owners whose property falls within the boundary of the assessment district. Some of these local taxes, such as the pension override tax, increase with assessed property values; some local parcel taxes, such as the landscape and lighting district and the vacant property tax, do not adjust; and some local parcel taxes, such as paramedic emergency services parcel tax (Measure N) adjust with the CPI. These various assessments fund important public services, such as libraries (Measures Q & D) and violence prevention and public safety (Measure Z). Local taxes used to pay debt service obligations are projected to grow in line with debt payment obligations. Parcel taxes with a built-in escalator (e.g. CPI) are projected to grow with inflation, while others are expected to remain at their current levels (e.g. vacant parcel tax).

## Utility Consumption Tax

Utility Consumption Tax (UCT) revenues are projected to increase significantly in the current year to more than $62.5 million largely as a result of increased energy prices. Going forward, the UCT is expected to decline slightly in FY 23-24 as energy prices moderate and then gradually rise in line with anticipated increases in the City's population, reaching $66.1 million by the end of the forecast period.

## Licenses, Permits, and Service Charges Including Parking Meter Collections

Service charges and other similar revenues are projected to grow with inflation, changes in vehicle travel, staffing costs and other factors during the forecast period. Many of these revenues are considered cost recovery and thus are tied to staff costs. Historically, the City Council has approved fee increases based upon growth in the CPI or staff costs. Each department prepares amendments to the Master Fee Schedule and presents these proposed amendments to the City Council in the Spring; if approved, these changes are incorporated into the budget.

Parking meter collections have largely rebounded from pandemic induced lows. During the forecast period, this revenue source is expected to grow modestly, in line with increases in personal income and employment.

## Parking Citations, Fines and Penalties

Revenues from the City's fines and penalties (largely parking citations) declined during both FY 2019-20 and FY 2021-22 from a peak of $24.5 million in FY 2018-19 as a result of reduced driving during the pandemic. Revenues in this category are expected to nearly reach pre-pandemic levels in FY 22-23 but are not expected to exceed the FY 2018-19 level until FY 2024-25.

## Interest Income & Miscellaneous Revenue

Interest Income is volatile, fluctuating along with short-term investment rate movements. Interest income is estimated at $0.5 million each year and assumed to remain constant over the forecast period. Miscellaneous revenue is primarily comprised of property sales, bond sales, equipment financing, and litigation recoveries. Most of these revenues are infrequent and considered one-time. As such, revenues are assumed to be constant over the forecast period.

## Internal Service Revenue

Internal service funds (ISF) are used to report and recoup the cost for a department to provide services to other departments. These revenues are estimated to grow as the component costs associated with the services grow, such as labor costs or fuel costs. On the expenditure side, these additional revenues are offset by costs that are allocated to each fund in proportion to its share of those costs in the second-year forecast. In this way, any increase in revenues associated with internal service revenue activities are offset with corresponding expenditures.

## Grants & Subsidies

In the first two years of the forecast period, re-occurring grants are expected to be renewed at the current levels, such as U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG). It is important to note that grant levels may be impacted by various budget-balancing measures at the State and Federal level. Grants are held constant in years 3-5 of the forecast period.

### Interfund Transfers

Interfund transfers are transfers between funds to recover costs associated with providing services or paying debt service. These revenues are projected to remain constant throughout the forecast period.

### Transfers from Fund Balance

Transfers from fund balance are one-time transfers necessary when expenses outpace revenues in any given year. These transfers are implemented on an as-needed basis and are only an option when unallocated fund balance is available. The forecast anticipates transfers from the fund balance of $2 million for FY23-24 only.

## Revenue Forecast Summary

As shown in the tables below, GPF revenues are projected to grow from $754.33 million (before transfers) to $910.62 million between FY 2023-24 and FY 2027-28, increasing at an average rate of approximately 4.8% annually over the forecast period.

**Table 9 - GPF Revenues by Category (In Millions)**

| General Purpose Fund (1010) Revenue in Millions | FY 2023-24 Forecast | FY 2024-25 Forecast | FY 2025-26 Forecast | FY 2026-27 Forecast | FY 2027-28 Forecast |
|---|---|---|---|---|---|
| Property Tax | $294.17 | $308.93 | $323.98 | $340.23 | $357.76 |
| Sales Tax | $67.69 | $69.65 | $71.72 | $73.89 | $76.29 |
| Business License Tax | $125.25 | $128.14 | $133.08 | $137.53 | $142.33 |
| Utility Consumption Tax | $61.90 | $61.87 | $62.72 | $64.18 | $66.12 |
| Real Estate Transfer Tax | $95.37 | $109.62 | $124.27 | $137.96 | $144.44 |
| Transient Occupancy Tax | $22.48 | $23.38 | $24.27 | $25.22 | $26.24 |
| Parking Tax | $11.26 | $11.56 | $11.86 | $12.18 | $12.54 |
| Licenses & Permits | $1.01 | $1.04 | $1.07 | $1.10 | $1.13 |
| Fines & Penalties | $22.10 | $22.69 | $23.30 | $23.93 | $24.63 |
| Interest Income | $0.48 | $0.48 | $0.48 | $0.48 | $0.48 |
| Service Charges | $48.90 | $50.45 | $52.02 | $53.26 | $54.91 |
| Grants & Subsidies | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| Miscellaneous Revenue | $0.82 | $0.83 | $0.83 | $0.83 | $0.83 |
| Interfund Transfers | $2.90 | $2.90 | $2.90 | $2.90 | $2.90 |
| **Sub-Total GPF** | **$754.33** | **$791.53** | **$832.52** | **$873.69** | **$910.62** |
| **Growth** | **N/A** | **4.93%** | **5.18%** | **4.95%** | **4.23%** |

All Funds (which includes the GPF) are projected to rise from $1.76 billion in the first year of the forecast to $1.97 billion by FY 2027-28, as shown in Table 10.

**Table 10 - All Fund Revenues by Category (In Millions)**

| All Funds Revenue in Millions | FY 2023-24 Forecast | FY 2024-25 Forecast | FY 2025-26 Forecast | FY 2026-27 Forecast | FY 2027-28 Forecast |
|---|---|---|---|---|---|
| Property Tax | $310.17 | $326.41 | $342.80 | $360.48 | $379.51 |
| Local Tax | $331.17 | $333.45 | $335.75 | $337.49 | $339.87 |
| Sales Tax | $104.71 | $107.74 | $110.93 | $114.29 | $118.01 |
| Gas Tax | $19.60 | $20.02 | $20.51 | $21.10 | $21.60 |
| Business License Tax | $125.25 | $128.14 | $133.08 | $137.53 | $142.33 |
| Utility Consumption Tax | $61.90 | $61.87 | $62.72 | $64.18 | $66.12 |
| Real Estate Transfer Tax | $95.37 | $109.62 | $124.27 | $137.96 | $144.44 |
| Transient Occupancy Tax | $28.62 | $29.76 | $30.90 | $32.11 | $33.40 |
| Parking Tax | $21.47 | $22.03 | $22.61 | $23.23 | $23.91 |
| Licenses & Permits | $28.07 | $28.92 | $30.06 | $31.27 | $32.56 |
| Fines & Penalties | $24.18 | $24.81 | $25.46 | $26.11 | $26.85 |
| Interest Income | $0.58 | $0.58 | $0.58 | $0.58 | $0.58 |
| Service Charges | $218.72 | $225.78 | $232.95 | $238.38 | $245.82 |
| Internal Service Funds | $114.66 | $115.82 | $115.82 | $115.82 | $115.82 |
| Grants & Subsidies | $88.56 | $88.77 | $88.77 | $88.77 | $88.77 |
| Miscellaneous Revenue | $36.63 | $36.62 | $36.62 | $36.62 | $36.62 |
| Interfund Transfers | $154.21 | $152.70 | $152.70 | $152.70 | $152.70 |
| **Total** | **$1,763.86** | **$1,813.03** | **$1,866.54** | **$1,918.60** | **$1,968.91** |
| **Growth** | **N/A** | **2.79%** | **2.95%** | **2.79%** | **2.62%** |

## Revenue Growth Rates

On a percentage basis, GPF revenues are forecasted to grow as shown below. The Revenue Forecast Assumptions section beginning on page 26 provides more information on the rates reflected below.

**Table 11 - GPF Revenue Growth Rates by Category**

| General Purpose Fund (1010) Revenue Growth Rates | FY 2024-25 Forecast | FY 2025-26 Forecast | FY 2026-27 Forecast | FY 2027-28 Forecast |
|---|---|---|---|---|
| Property Tax | 5.02% | 4.87% | 5.02% | 5.15% |
| Sales Tax | 2.90% | 2.96% | 3.03% | 3.25% |
| Business License Tax | 2.31% | 3.86% | 3.34% | 3.49% |
| Utility Consumption Tax | -0.05% | 1.39% | 2.32% | 3.03% |
| Real Estate Transfer Tax | 14.94% | 13.37% | 11.01% | 4.70% |
| Transient Occupancy Tax | 3.99% | 3.81% | 3.92% | 4.03% |
| Parking Tax | 2.60% | 2.65% | 2.72% | 2.93% |
| Licenses & Permits | 3.27% | 3.21% | 2.32% | 3.14% |
| Fines & Penalties | 2.67% | 2.71% | 2.68% | 2.95% |
| Interest Income | 0.00% | 0.00% | 0.00% | 0.00% |
| Service Charges | 3.16% | 3.12% | 2.38% | 3.10% |
| Grants & Subsidies | (NA) | (NA) | (NA) | (NA) |
| Miscellaneous Revenue | 1.22% | 0.00% | 0.00% | 0.00% |
| Interfund Transfers | 0.00% | 0.00% | 0.00% | 0.00% |
| **Total** | **4.93%** | **5.18%** | **4.95%** | **4.23%** |

**Table 12 - All Funds Revenue Growth Rates by Category**

| All Funds Revenue Growth Rates | FY 2024-25 Forecast | FY 2025-26 Forecast | FY 2026-27 Forecast | FY 2027-28 Forecast |
|---|---|---|---|---|
| Property Tax | 5.24% | 5.02% | 5.16% | 5.28% |
| Local Tax | 0.69% | 0.69% | 0.52% | 0.71% |
| Sales Tax | 2.90% | 2.96% | 3.03% | 3.25% |
| Gas Tax | 2.14% | 2.44% | 2.85% | 2.38% |
| Business License Tax | 2.31% | 3.86% | 3.34% | 3.49% |
| Utility Consumption Tax | -0.05% | 1.39% | 2.32% | 3.03% |
| Real Estate Transfer Tax | 14.94% | 13.37% | 11.01% | 4.70% |
| Transient Occupancy Tax | 3.99% | 3.81% | 3.92% | 4.03% |
| Parking Tax | 2.60% | 2.65% | 2.72% | 2.93% |
| Licenses & Permits | 3.03% | 3.96% | 4.01% | 4.14% |
| Fines & Penalties | 2.59% | 2.63% | 2.56% | 2.85% |
| Interest Income | 0.00% | 0.00% | 0.00% | 0.00% |
| Service Charges | 3.23% | 3.18% | 2.33% | 3.12% |
| Internal Service Funds | 1.01% | 0.00% | 0.00% | 0.00% |
| Grants & Subsidies | 0.24% | 0.00% | 0.00% | 0.00% |
| Miscellaneous Revenue | -0.04% | 0.00% | 0.00% | 0.00% |
| Interfund Transfers | -0.98% | 0.00% | 0.00% | 0.00% |
| **Total** | **2.79%** | **2.95%** | **2.79%** | **2.62%** |

# EXPENDITURES

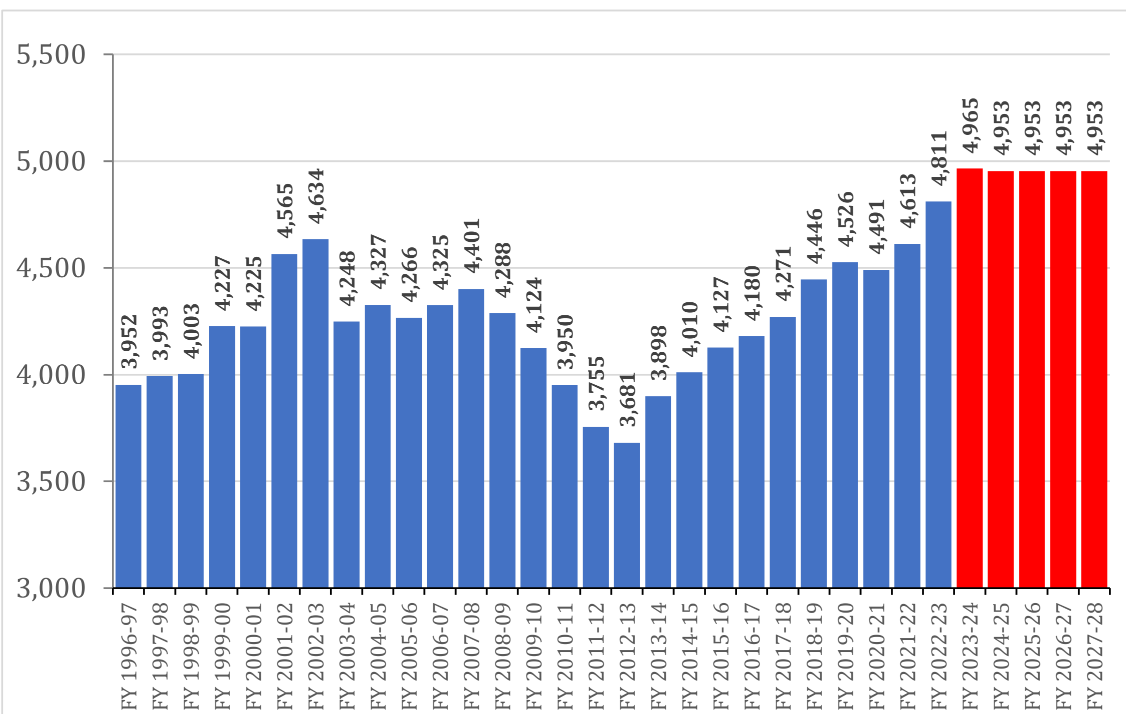
This section presents a summary of the forecast results for each major category of expenditure as well as historical trends, assumptions for projections, and background information. Key expenditure categories include wages, fringe benefits, retirement contributions, operations and maintenance, and the "debt, transfer and other" category.

## Background Information and Assumptions

The expenditure forecast follows the guidance of the Government Finance Officers Association (GFOA), which recommends that expenditures be grouped into meaningful units of analysis, such as departments and standard budget categories of expenditures.

The expenditure forecast is based on the expectation that staffing levels will increase from the current level of 4,811 Full Time Equivalent (FTE) personnel counts to 4,965 in FY 2023-24 and then remain constant at 4,953 in subsequent years. Estimated expenditures are adjusted for inflation, previously negotiated salary increases, and anticipated changes due to economic conditions. To the extent that the cost of providing the current service level exceeds the budgetary allocation, the forecast is adjusted to reflect actual anticipated expenditures. Changes in personnel and O&M expenditures beyond FY 2024-25 reflect increases in the costs that drive those expenditures rather than additional positions or services. Figure 13 shows historical budgeted FTE personnel counts across all City Funds and the forecast FTE for the forecast period.

**Figure 13 - All Funds Historical FTE Summary**



For purposes of estimating future expenditures, the second year (FY 2024-25) of the Budget Baseline was used as the starting point for the additional three years of the forecast. In most cases growth rates were applied based upon the account codes designated for different types of expenditure items. Growth rates were developed for items such as health care cost increases, inflation, and fuel and utility costs. Estimates of retirement costs were developed based on projections developed by CalPERS actuaries. The forecast further assumes that no new debt is issued without dedicated revenue and that CalPERS achieves its expected rate of return in each year of the forecast, and pension rates do not increase from estimates provided in July 2022.

Table 13 presents the historical General Purpose Fund expenditures by category for the period from FY 2018-19 through FY 2022-23. As shown in the table, expenditures for the GPF decreased significantly in FY 2020-21, particularly for wages, which had a decrease of almost $50 million from $324 million to $285 million. This was attributable to a $49.09 million expenditure accounting adjustment from eligible costs that were transferred out of the GPF and paid for out of the Coronavirus Aid, Relief, and Economic Security Act (CARES) and American Rescue Plan Act (ARPA) Federal Aid Funds. In FY 2022-23 GPF expenditures increased by $173 million from the prior fiscal year. This consisted of significant increases across most of the expense categories, including approximately $61 million for wages, $26 million for Fringe Benefits, $27 million for Retirement, and $58 million for Operations and Maintenance.

**Table 13 – General Purpose Fund Expenditures FY 2018-19 to 2022-23**

| Category | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 |
|---|---|---|---|---|---|
| Wages | $305.34 | $323.77 | $284.54 | $275.54 | $336.84 |
| Fringe Benefits | $80.57 | $91.70 | $91.44 | $62.81 | $88.52 |
| Retirement | $100.01 | $117.73 | $126.33 | $100.13 | $127.46 |
| Operations and Maintenance | $100.40 | $107.99 | $100.85 | $122.38 | $180.27 |
| Debt, Transfers and Other | $51.93 | $48.30 | $40.93 | $111.14 | $112.56 |
| **Total** | **$638.25** | **$689.49** | **$644.09** | **$672.00** | **$845.65** |

## Summary of Assumptions

The following tables summarize the assumptions used in the forecast by category of expenditure. In the subsequent sections, each forecast category is discussed in detail. The forecast assumes a constant level of staffing and services starting with the third year of the Forecast; as such, the FTE count for the City remains constant in years three through five of the Forecast.

**Table 14 - Expenditure Assumption Summary**

| Salary and Payroll Expenditure Assumptions % Growth | | | | | |
|---|---|---|---|---|---|
| **Employee Group** | **FY 2023-24** | **FY 2024-25** | **FY 2025-26** | **FY 2026-27** | **FY 2027-28** |
| Civilian | CPI | CPI | CPI | CPI | CPI |
| Police | 2.00% | 3.00% | CPI | CPI | CPI |
| Fire | 3.00% | 3.00% | CPI | CPI | CPI |
| Note: Based on recently approved MOUs with the IBEW, Local 1245 and CMEA, IAFF, and OPOA. Assumes 2-3% CPI growth for other bargaining groups. Fire wages are effective November 1 of each year. | | | | | |

| Assumed PERS Retirement Rates - Employer Contribution | | | | | |
|---|---|---|---|---|---|
| **Employee Group** | **FY 2023-24** | **FY 2024-25** | **FY 2025-26** | **FY 2026-27** | **FY 2027-28** |
| Civilian | 44.66% | 36.80% | 32.50% | 31.00% | 29.00% |
| Police and Fire | 57.30% | 56.10% | 54.00% | 51.90% | 49.40% |
| ,Note: Total is % of payroll from CalPERS and it may vary from the City's Analysis of AI 1303 Fringe Benefits Rates due to differences in the salary rate. | | | | | |

| Other Expenditures Assumed % Growth | | | | | |
|---|---|---|---|---|---|
| **Category** | **FY 2023-24** | **FY 2024-25** | **FY 2025-26** | **FY 2026-27** | **FY 2027-28** |
| Fuel | 0.00% | 0.00% | 2.42% | 3.59% | 3.66% |
| Natural Gas | -15.74% | 0.00% | 0.69% | 2.72% | 4.23% |
| Electricity | -1.97% | 0.00% | 1.98% | 2.45% | 2.82% |
| Water | -5.74% | 0.00% | 7.75% | 7.75% | 7.75% |
| Utility Services | 0.00% | 0.00% | 1.78% | 2.49% | 3.04% |
| Debt Payments | -26.86% | -0.06% | 0.00% | 0.00% | 0.00% |

## Salaries & Payroll Expenditures

The base values of salaries and premiums used in the Forecast reflect actual values from the City's baseline budget as of February 2023. This payroll snapshot captures salaries and premiums paid and is used as the base for FY 2022-23 and onward. The snapshot is then adjusted to incorporate any known changes in benefit rates. The City's established baseline methodology captures negotiated wage increases approved in labor contracts that cover the relevant forecast period. For the OPOA, this includes all the economic provisions covering the duration of the approved agreement covering July 1, 2021 through June 30, 2026. These terms included a 3.5% wage increase in FY 2022-23,a 3.5% wage increase in FY 2023-24, a 3% wage increase in FY 2024-25 and a 3% wage increase in FY 2025-26. For the IAFF, the Forecast reflects the terms of the labor agreement expiring June 30, 2026 and includes a 3.5% wage increase in FY 2022-23,a 3.5% wage increase in FY 2023-24, a 3% wage increase in FY 2024-25 and a 3% wage increase in FY 2025-26. For the City's Miscellaneous bargaining units, the forecast assumes a 5% wage increase in FY 2023-24 and a 4% wage increase in FY 2024-25. Each year thereafter, for which no agreements exist, the City's forecast assumes wage growth commensurate with mainstream inflation expectations, ranging from 2% to 3.5%.

## Active Retirement & Pension Plans (CalPERS)

Projected future pension rates for active employees are based on estimates provided by the California Public Employees Retirement System (CalPERS). Table 15 below shows the retirement rates by employee group over the five-year forecast window. The projected rates are provided by CalPERS and assume that the expected rate of return is achieved in each year of the forecast. Modest variations in actual returns (including market losses) could result in substantially higher (or lower) pension rates than what is shown in the table.

The rates are expressed as a percentage of payroll to facilitate comparison. However, beginning in FY 2017-18, CalPERS began requiring participating local employers to pay the unfunded actuarial liability (UAL) as a flat dollar amount to "decouple" wage growth (or lack thereof) from proper amortization of the UAL. The flat dollar UAL amounts are also shown in the table for comparison purposes. As shown in Table 15, retirement costs as a percent of payroll are expected to decrease for the civilian workforce each year throughout the forecast period. This is due largely to the increasing number of newly hired workers entering a lower cost pension benefit tier and the decline in workers in the more expensive previous benefit tier as current employees retire or employee turnover occurs (see Table 17 - Pension Tiers on page 45).

**Table 15 - Assumed CalPERS Retirement Rates & UAL Contribution**

| Assumed PERS Retirement Rates - Employer Contribution | | | | | |
|---|---|---|---|---|---|
| **Employee Group** | **FY 2023-24** | **FY 2024-25** | **FY 2025-26** | **FY 2026-27** | **FY 2027-28** |
| Civilian | 44.66% | 36.80% | 32.50% | 31.00% | 29.00% |
| Police and Fire | 57.30% | 56.10% | 54.00% | 51.90% | 49.40% |
| | | | | | |
| Combined UAL ($) | $157.9 million | $139.5 million | $128.7 million | $125.5 million | $119.6 million |
| UAL Increase (%) | -4.15% | -11.65% | -7.75% | -2.50% | -4.66% |

The funded ratios of the safety and miscellaneous (civilian) plan with CalPERS are below 100%. Based on the most recent Annual Comprehensive Financial Report dated July 2022, the Miscellaneous (Civilian) plan is funded at 77.9% with a $691 million unfunded liability, and the Safety (Police & Fire) plan is funded at 71.3% with a $734 million unfunded liability. The City will continue to improve these funded ratios through increases in CalPERS' required contributions.

**Table 16 - City Pension Funded Ratios and Unfunded Amounts**

| Funded Ratios and Unfunded Amounts for City Pension Plans | | |
|---|---|---|
| **Plan** | **Unfunded Amount** | **Funded Ratio** |
| CalPERS – Miscellaneous | $691 million | 77.89% |
| CalPERS – Public Safety | $734 million | 71.33% |

The implementation of a multi-tier pension benefit structure has helped to ease the financial condition in the long term. Some of the features are within the State Pension Reform regulation (AB340). Recent pension reform in Oakland is summarized in the table below:

**Table 17 - Pension Tiers**

| Pension Descriptions | Public Safety Employees | Civilian Employees | Effective Dates |
|---|---|---|---|
| 1st tier1 | 3% @ 50 | 2.7% @ 55 | Prior to Feb. 2012 |
| 2nd tier2 | 3% @ 55 | 2.5% @ 55 | Feb. 2012 for public safety employees and June 2012 for civilian employees |
| 3rd tier3 | 2.7% @ 57 | 2.0% @ 62 | 1-Jan-13 |

- Tier 1: 3% of highest 12 consecutive month salary for each year of service at age 50 for public safety employees and 2.7% of highest 12 consecutive month salary for civilian employees
- Tier 2: 3% of the 3 year average salary at age 55 for public safety employees and 2.5% highest three consecutive year average at age 55 for civilian employees
- Tier 3: 2.7% of final 3 year average salary and subject to established cap at age 57 for public safety employees; 2.0% of final 3 year average salary and subject to established cap at age 62 for civilian employees. The third tier was added in accordance with the Public Employees' Pension Reform Act of 2013 (PEPRA)

## Fringe Benefits

Fringe benefits are paid by using an accrual methodology based upon payroll. Each year a rate is established, and that rate is used to capture income from the City's various funds to pay the fringe benefits that the City owes for its active and retired employees. Fringe benefit rates for the first two years of the Five-Year Forecast are identical to the estimates used in the baseline budget; for years three through five of the Forecast, the value of payroll expenses and fringe benefit expenses are grown separately, with payroll expenses grown by the negotiated rate or the CPI as discussed above, and the fringe benefits grown based on health care costs as described below.

Civilian fringe benefits are accrued at 38.43% of payroll in each of the first two years, sworn police fringe benefits are accrued at 35.79% of payroll in each of the first two years and , and sworn fire fringe benefits are accrued at 40.03% of payroll in each of the first two years.

Civilian and sworn fringe benefit expenditures are comprised of many components, including health insurance, retiree medical benefits, workers' compensation, dental and vision insurance, disability insurance, unemployment insurance, and others. However, health expenses are by far the largest category composing roughly two-thirds of fringe benefit costs.

The City's current labor contracts have a provision that the City will pay the full amount required for an employee's medical coverage up to the amount required to provide a Kaiser Foundation Health Plan.

As medical benefits are by far the largest share of active employee fringe benefits, the growth rate of fringe benefits is assumed to grow at the rate of medical inflation. The forecast relies on the Centers for Medicare & Medicaid Services' (CMS) projected health care cost inflation rates for the years of the forecast period.

**Table 18 – Projected Health Care Inflation, Centers for Medicare & Medicaid Services**

| Fiscal Year | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---|---|---|---|---|---|
| Increase in Per-Capita Health Exp. | 4.18% | 4.49% | 4.73% | 4.37% | 4.88% |

## Other Post-Employment Benefits

Fringe benefit accounts are also used to accrue payments for retiree medical, also known as Other Post-Employment Benefits (OPEB). The City pays a portion of health insurance premiums for retirees meeting certain requirements related to age and years of service. The OPEB are extended to retirees pursuant to approved labor agreements.

The City implemented Governmental Accounting Standard Board Statement No. 75 ("GASB 75") in FY 2017-18 for the first time, which addresses how local governments are required to account for and report OPEB costs and liabilities in their financial statements. GASB 75 – which replaced GASB 45 – generally requires that employers recognize the full OPEB liability in their Statement of Net Position. For FY 2019-20 (most recent audited year), the City will report a net OPEB liability (including deferred inflows) of nearly $893 million in the Statement of Net Position.

In recognition of the City's significant unfunded liability for OPEB, in FY 2018-19 the City reached agreement with its sworn public safety (Fire and Police) unions – led by the Oakland Police Officers' Association (OPOA) – to cap retiree medical benefits for existing employees and implement new, lower-cost tiers for employees hired after January 1, 2019. These reforms provide significant – and much needed – long-term relief to the City's retiree medical program. As a result of these retiree medical reforms, in the first full fiscal year following enactment, the City's actuarial accrued liability is projected to decrease by more than $175 million, and that savings is forecast to increase substantially over the next 15 years relative to the status quo.

But benefit reforms alone are not enough to address the City's OPEB funding challenge. On February 26, 2019, the City Council approved the City's OPEB Funding Policy that authorized the set aside of 2.5% of payroll (approximately $10 million per year) into the City's OPEB Trust in addition to regularly paying the pay-as-you-go premiums. This multi-pronged approach to OPEB will allow the City to incrementally address its long-term OPEB funding challenges and help to ensure this benefit is available to its workforce into the future. These revised OPEB costs have been included in the City's Forecast.

### Operations & Maintenance

Operations & Maintenance expenditures in the two-year baseline are expected to decrease significantly from the levels in the FY 2020-21 Midcycle Adopted Budget. Any expenditures designated as one-time are removed from the baseline budget. No increases in O&M are assumed for the two-year baseline budget unless there are legal requirements. O&M for the three years beyond the two-year baseline are adjusted for assumed annual rate of inflation (CPI) for most expenditure categories such as supplies and contract services. Expenditures for energy, including motor fuel, natural gas, and electricity are based on forecasts from the U.S. Energy Information Administration. Utility services expenditures are forecast to grow at the blended rate for electricity and natural gas expenditures, while expenditures for water are expected to continue to grow at 7.75% per year, which is the historical average for FY 2017-18 through FY 2020-21. In addition, internal service funds are estimated to grow beyond the two-year baseline based on the associated expense category, such as salaries and wages or fuel costs associated with each activity (e.g., City Vehicle Rentals), and this expenditure growth is allocated proportionately to each fund based on its expected utilization in the second year of the two-year baseline.

### Debt, Transfers & Other

Debt service expenditures are based on approved payment schedules included in the baseline. Many of the City's debt obligations are tied to specific dedicated revenue sources and thus do not impose a burden to the City's General Purpose Fund. However, most of the City's master leases are mainly supported by the General Purpose Fund (e.g., Parking Meters, Oracle, IBM, Vehicle & Equipment, etc.).

Transfers between funds, capital investments, and other expenditures are assumed to continue at baseline budget values unless there are other legal requirements or prescribed schedules. Examples include transfers related to approved debt obligations, the Kid's First! transfer, and transfers to the Self Insurance Liability Fund based upon its negative fund balance repayment schedule.

### Capital Projects

In addition to the operating expenditures noted above, the City has significant capital expenditures. The City appropriates funding for capital projects alongside the biennial budget. Through the Capital Improvement process, the City identifies and prioritizes capital projects from eligible funding sources. Most funding sources provide capital for infrastructure projects such as sewers, streets, and sidewalks.

The forecast assumes capital projects over the next five years will be impacted by the exhaustion of available funding from Measure KK, which is anticipated to be fully programmed by the end of FY 2023-24. On the other hand, Measure U (Affordable Housing Infrastructure Bond) was recently approved by voters and is expected to begin generating new revenues for CIP projects as soon as FY2023-24. The full impact of Measure U over the next 5 years is still being analyzed, and it depends on external variables per the measure such as change in property values.

Historically, the City has lacked significant dedicated funding streams for capital improvement of buildings, facilities, parks and open space and as such most funding for these projects is derived from the General Purpose Fund or special one-time grant funds. With the passage of the Infrastructure Bond (Measure KK) in November 2016 an infusion of infrastructure funds became available totaling $600 million - $350 million for streets and sidewalks, $150 million for public facilities, and $100 million for affordable housing projects. On August 1, 2017 the City issued the first tranche, or portion, of general obligation bonds for Measure KK in the amount of $117,855,000. On February 13, 2020 the City issued the second tranche of general obligation bonds for Measure KK in the amount of $184,890,000. In February 2022 the City issued the third tranche of general obligation bonds for Measure KK in the amount of $220,000,000. As of the end of FY 2021-22, a total of $288,645,000 of bond proceeds has been spent. and $234,100,000 has been committed to the projects and programs for Measure KK. As of January 1, 2023 $77,255,000 of Measure KK general obligation bonds remains authorized but unissued. While the Measure U Infrastructure Bond will substantially help reduce the City's backlog of unfunded high priority capital projects as it becomes available, the City's capital needs will likely still exceed available funding in certain categories such as storm drains and information technology infrastructure.

## Expenditure Forecast Summary

Table 19 and Table 20 below provide Expenditures by Category for the GPF and All Funds, respectively.

### Table 19 - GPF Expenditures by Category (In Millions)

| Category | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 | Avg annual change |
|---|---|---|---|---|---|---|
| Wages | $430.30 | $443.42 | $458.13 | $469.10 | $484.29 | 3.0% |
| Fringe Benefits | $106.33 | $109.82 | $115.25 | $120.50 | $126.62 | 4.5% |
| Retirement | $145.82 | $150.48 | $145.28 | $143.05 | $139.54 | -1.1% |
| Operations and Maintenance | $172.42 | $169.83 | $176.31 | $181.28 | $188.10 | 2.2% |
| Debt, Transfers and Other | $95.00 | $84.06 | $86.47 | $88.27 | $90.76 | -1.1% |
| **Total** | **$949.87** | **$957.60** | **$981.43** | **$1,002.19** | **$1,029.31** | **2.0%** |

### Table 20 - All Funds Expenditures by Category (In Millions)

| Category | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 | Avg annual change |
|---|---|---|---|---|---|---|
| Wages | $680.29 | $702.54 | $725.89 | $743.30 | $767.43 | 3.1% |
| Fringe Benefits | $182.90 | $189.36 | $198.71 | $207.77 | $218.31 | 4.5% |
| Retirement | $236.74 | $244.90 | $231.07 | $227.13 | $220.35 | -1.8% |
| Operations and Maintenance | $551.79 | $547.74 | $567.05 | $581.93 | $602.29 | 2.2% |
| Debt, Transfers and Other | $348.43 | $337.57 | $342.57 | $346.30 | $351.46 | 0.2% |
| **Total** | **$2,000.15** | **$2,022.10** | **$2,065.29** | **$2,106.43** | **$2,159.84** | **1.9%** |

# Historic Cost Containment & Fiscal Planning

## Prior Legislative Action

City leadership has continuously recognized and addressed unfunded needs and planned for future circumstances. The City Council has adopted several policies to improve the City's financial conditions. The table below lists major relevant legislation.

**Table 21 - Past Legislative Actions Regarding Fiscal Policies**

| Policy | Date of Adoption | Resolution/Ordinance # |
|---|---|---|
| Policy on Balance Budget | July 15, 2003 | Resolution #77922 C.M.S. |
| Policy on Charges for Services | July 15, 2003 | Resolution #77924 C.M.S. |
| Reserve Policy – General Fund and Capital Improvement Fund | October 2, 2012 | Ordinance #13134 C.M.S. |
| Debt Management Policy and Swap Policy for FY 2012-13 | October 16, 2012 | Resolution #84063 C.M.S. |
| Long-Term Financial Planning | April 2, 2013 | Resolution #84264 C.M.S. |
| Consolidated Fiscal Policy | December 9, 2014<br><br>May 15, 2018 (amended) | Ordinance #13279 C.M.S.<br><br>Ordinance #13487 C.M.S. |
| Investment Policy for FY 2022-23 | June 2, 2022 | Resolution #89272 C.M.S. |
| OPEB Funding Policy | February 26, 2019 | Resolution #87551 C.M.S. |

## Long-Term Structural Measures

The City has taken several key actions to structurally manage the City's long-term financial practices, including:

1. OPEB Funding Policy authorizing the City to pre-fund retiree medical benefits at a rate of 2.5% of payroll in addition to pay-as-you-go funding (Resolution #87551 C.M.S.);
2. Authorizing Staff to pay down historical negative fund balances over a 10-year period (Resolution # 87245 C.M.S.);

3. Maintaining 7.5% General Purpose Fund Emergency Reserve (Ordinance #13487 C.M.S.);
4. Use of one-time revenue for one-time expenditure (Ordinance #13487 C.M.S.);
5. Creating a Vital Services Stabilization Fund to limit reductions in services in the case of a recession. Balance of over $14 million as of December 31, 2018;
6. Approval of Measure KK, the Capital Improvement Bond that will provide additional funding for capital improvements and help stabilize or reduce the cost of maintaining City infrastructure;
7. Negotiated with Oakland Police Officer's Association to increase contribution toward their pension to 12% beginning January 2017; Local 55, International Association of Firefighters members contribute 13% and Civilian employees contribute 8%;
8. Negotiated with all labor unions establishing the third tier of the pension benefit level, which further modified for public safety employees from 3% @ 50 formula to 2.7% @ 57 and for civilian employees from 2.5% @ 55 to 2.00% @ 62 effective January 2013;
9. Repayment of negative fund balances and pay down long-term debt and liabilities (Ordinance #13487 C.M.S.);
10. Pay down the negative fund balance with a repayment plan and one-time revenues (Ordinance #13134 C.M.S. and FY 2013-15 Budget, Resolution #86644 C.M.S.);

### Administrative Actions

The City has also undertaken a series of actions to ensure rigorous expenditure controls and proactive revenue collection. Examples include:

1. Implementation of the City Council's direction on financial policies and adopted budget items;
2. Closely monitor departmental expenditures and schedule regular meetings with departments to strengthen internal controls and communication;
3. Closely monitor hiring processes and ensure vacancies are only filled when positions are authorized and funded;
4. Closely review fund balance to avoid potential increase of negative fund balance;
5. Actively pursue revenue audits and collection;
6. Monitor revenue realization and use of one-time vs. on-going revenue;
7. Review and modify service fee charges to cover costs, where feasible; and
8. Review and modify internal service rate calculation.

The City will continue to address its fiscal challenges by growing its sustainable revenue base, reduce costs, improve its operational efficiency, and find innovative ways to operate.

# SUMMARY & CONCLUSIONS

The City's economy has largely recovered from recession brought about by the COVID-19 pandemic, although some effects have lingered. Many workers have yet to return to downtown offices, which continue to have historically high vacancies. Business travel has also not yet reached pre-pandemic levels, and the City's population has declined by nearly 10,000 residents since the start of the pandemic. These pandemic-related impacts have acted to put downward pressure on TOT and parking taxes as well as business license taxes related to commercial real estate. In addition, the high inflation which followed the pandemic has lead the Federal Reserve to raise interest rates, which in turn has brought about increases in mortgage rates, sharp declines in real estate transactions, and reductions in property values. As a result, real estate transfer taxes are down sharply in the current year and proper tax revenues have grown somewhat less than would have been expected absent a reduction in property values, although this impact has been relatively minor.

In spite of these fiscal headwinds, most of the City's major revenue sources have remained resilient, reaching or exceeding pre-pandemic lows. The forecast results presented in this report reflect the most likely outcome based on currently available information. As shown in Table 24 below, the City faces significant budget shortfalls throughout the five year forecast period if no corrective action is taken. These shortfalls are expected to decrease over time, as growth in revenues outpaces anticipated increases in expenditures.

**Table 22 - GPF and All Funds Shortfall (In Millions)**

| GPF | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 |
|---|---|---|---|---|---|
| Expenditures | $949.87 | $957.60 | $981.43 | $1,002.19 | $1,029.31 |
| Revenues | $754.33 | $791.53 | $832.52 | $873.69 | $910.62 |
| **Surplus/(Gap)** | **($195.54)** | **($166.08)** | **($148.91)** | **($128.50)** | **($118.69)** |

| All Funds | FY 2023-24 | FY 2024-25 | FY 2025-26 | FY 2026-27 | FY 2027-28 |
|---|---|---|---|---|---|
| Expenditures | $2,000.15 | $2,022.10 | $2,065.29 | $2,106.43 | $2,159.84 |
| Revenues | $1,763.86 | $1,813.03 | $1,866.54 | $1,918.60 | $1,968.91 |
| **Surplus/(Gap)** | **($236.29)** | **($209.08)** | **($198.75)** | **($187.83)** | **($190.93)** |

## Risks, Opportunities & Uncertainties

The Forecast presents the most likely result (absent any changes to City spending or revenues), however, the Forecast results are nevertheless subject to uncertainty. This section highlights some of the key areas of uncertainty and identifies several opportunities and areas for consideration by the City Council.

### Economic Uncertainty

The forecast presented in this report anticipates a slowing of economic activity in the current year, with growth accelerating beginning in the first year of the forecast (FY 2023-24). This is the so called "soft landing" scenario in which actions of the Federal Reserve to fight inflation slow economic growth enough to reduce inflation without pushing the economy into recession. While this outcome appears to be the most likely, there is still a significant possibility that the economy enters recession. To the extent a recession occurs, the revenue estimates presented in the forecast would likely be too high and the deficit projections too low.

### Slow Return to Office

Beyond the near-term potential for a recession, the forecast anticipates that office vacancies will increase during calendar year 2023 before starting to decline during the remaining periods of the Forecast. To the extent office vacancies remain elevated longer than anticipated, business tax revenue would be lower than anticipated in the forecast as revenue to property owners would decline due to higher vacancies and/or lower rents.

### High Responsiveness to Business Tax Changes

An important, related concern, is the potential that some Oakland-based business may react to the recent changes to the City's Business License Tax by choosing to relocate outside of the City or by electing to expand or develop new facilities elsewhere. The Forecast anticipates this effect; however, to the extent businesses are more responsive to the incentive posed by higher Business License Taxes, particularly in light of continuing high levels of work-from-home which reduces the need for Oakland-based office space for some workers, this effect could be more pronounced than anticipated.

### Real Estate & Economic Development

Historically, real estate developments, both residential and commercial, have been major drivers of state and local economic development. Current high interest rates and high construction costs have acted to significantly slow new construction activity. Over the medium term, development activity is expected to resume, although, the pace and extent of such development remains unknown.

To the extent economic activity in the City returns to pre-pandemic levels, the economic pressures that preceded the pandemic are likely to return as well. As the population increases, this will increase the demand for community service programs, parks and recreation, after school programs, animal services, homelessness/housing needs, family assistance, and public safety. The Bay Area regional housing crisis will also place additional pressure on the City to prevent displacement of current residents and provide shelter & housing assistance to the most vulnerable communities.

### Sworn Police & Fire Services (Overtime)

Police & Fire costs remain one of the largest expenditures of the City of Oakland. Public safety is a top priority and to increase safety requires significant funding and puts strain on the General

Purpose Fund. Over the past several years, the Police and Fire Departments have exceeded their budgeted overtime allocations to meet public safety needs.

### Baby Boomer Retirements

Government employees are eligible to retire as early as age 55. As the population of employees increasingly reaches or surpasses this age, many individuals will retire and start collecting retirement benefits. Currently, the largest demographic age group able to retire is the "Baby Boomers," those born during 1946-1964. The Baby Boomers represent the largest one period population increase of the country. As such, this impacts the ability of CalPERS to finance this age group's retirement, since there is such a large volume in the retirement pool. To balance this financing requirement, CalPERS has increased contribution rates from both the City of Oakland and employees. As the City pays the largest share, this requires large portions of the General Purpose Fund as retirement rates increase over time.

### Pre-Funding Unfunded Liabilities

As detailed earlier in this report, unfunded liabilities, specifically pension obligations, represent a significant financial liability. New CalPERS regulations require that cities contribute larger amounts towards pension obligations to account for increased medical costs and longer life expectancy rates. In general, allocating additional funds for paying down pension obligations will reduce the City's long-term liabilities.

### Unfunded Capital Needs and Liabilities

Like many older cities, Oakland has aging infrastructure and a significant backlog of deferred maintenance. Key facilities such as police and fire stations, recreation facilities, libraries and parks need to be rehabilitated or replaced. With each budget cycle, more projects are requested than the City has resources available. Staff proposed the use of nine factors for capital prioritization: 1) Equity, 2) Health and Safety, 3) Economy, 4) Environment, 5) Improvement, 6) Existing Conditions, 7) Shovel Ready, 8) Collaboration and 9) Required Work. The process is guided through community outreach and in cooperation with the Department of Race and Equity.

According to the Measure U (2022 Affordable Housing Infrastructure Bond) fact sheet, approximately a total of $1.87 billion is needed to improve Oakland facilities, build modern fire stations, renovate and expand libraries, recreation centers and parks, and electrify buildings. For example:

- Current facility projects like rebuilding the Mosswood Community Center, devastated by fire in 2016, and the Lincoln Recreation Center require $76 milllion. These projects will be shovel-ready in 2023 and are awaiting construction funding.
- Current facility projects that are partially funded and are in the initial stages of community outreach and/or the design phase need $246 million.
- Of the remaining $1.55 billion funding need, $1.23 billion is needed for other City-owned facilities, including recreation centers, libraries, fire stations, and civic and cultural sites

like the Chabot Space & Science Center, Fox Oakland Theater, Paramount Theater and Oakland Asian Cultural Center that are not active projects with funding identified; and $314 million is needed for park project improvements at more than 100 City parks.

The passage of Measure U will help fulfil some of these unfunded projects by creating affordable housing, repaving streets to remove potholes, improving traffic/pedestrian safety, and updating fire stations and other public facilities, by issuing $850,000,000 in general obligation bonds, raising approximately $85,000,000 annually.Negative Fund Balances

Many non-GPF City funds have negative fund balances. These negative fund balances are the result of historical overspending and/or under-recovery, as well as operational deficits (cost increases outpacing revenue growth). Several of these funds have formal or informal repayments plans designed to reduce the negative balance. Increasing repayments to the Self Insurance Liability Fund will place additional pressure on contributing funds. The negative fund balances of funds that lack sources or reimbursement and a repayment plan total roughly $14 million and will require new revenue sources or diversion of existing resources to resolve the negative balances.

### Medical Cost Inflation

The cost of providing health care to employees remains a large portion of General Purpose Fund expenditures. If medical costs increase at a faster rate than revenues, health care costs will require an increased share to the General Purpose Fund. Furthermore, non-general funds that cannot bear the cost increase may put pressure on the General Purpose Fund for a subsidy such as the Head Start program. To promote employees' health and reduce costs, the City is emphasizing preventative measures such as offering health assessments, onsite flu shots, and an employee wellness program.

### Reserves

Reserves help cities weather multi-year economic downturns, provide essential funding during natural disasters, provide for the support of essential City services, and reduces the financing costs through better credit ratings. As evidenced by the State, the City should continue to invest in reserves since economic downturns are inevitable.

### New Revenue Sources

With limited financial resources, the City could seek out additional revenue sources. The passage of Measure Z (Violence Prevention & Public Safety) in 2014 and Measure KK (Infrastructure & Housing Bond) in 2016, by wide margins, indicate that residents have been willing to pay additional taxes for services. In 2018, residents approved a parcel tax measure for the Library, a vacant property parcel tax for homelessness and illegal dumping, and a revenue increasing change to the City's Real Estate Transfer Tax. In 2022, residents further extended their generosity by passing the Progressive Business Tax Measure as well as Measure U (2022 Affordable Housing Infrastructure Bond).Whether and to what extent the pandemic has decreased the appetite among city residents for further revenue increases remains unknown.

## Fee Recovery

Fee recovery is a funding source for which the City has substantial control. Many fees were reviewed and revised to be at or close to 100% cost recovery in the FY 2022-23 cycle. However, many City fees still do not and should not meet the full cost recovery threshold because increased fees often have disproportionate impacts among communities and can present a barrier to accessing services. The lack of full cost recovery for certain fees results in the need for additional funding resources from the General Purpose Fund to fill the gap. When no additional funds are available this results in a lack of service provided to the community at large.

## Investing in Employee Skills & Wellness

The Harvard Business Review reported in 2014 that 39% of employers had difficulty finding employees that have the necessary skills to fill vacancies. To be able to provide services that meet new demands, the City should seek out training opportunities for employees to learn new skills or update existing skills. This is especially true for the highly competitive technology fields that can attract qualified candidates with high salaries and perks, areas where cities generally cannot compete. One alternative could be for the City to focus on training internal candidates for these positions. Additionally, studies find the latest generation of workers are looking for jobs that offer better work-life balance.

Beginning in FY 2014-15 the City has been rebuilding its training program with approved funding for a training coordinator. This position has been able to organize training opportunities to improve employees' skills and personal/health development, which could potentially decrease healthcare costs and other liabilities.

## Investing in Technology

The upgrade of the City's technology infrastructure and investment in new systems can increase productivity and ensure that decision makers have sufficient data to make informed decisions. The City has a large amount of informative data but lacks tools to be able to sort and analyze these large data sets. In many areas of the City's operations, manual processes are present or there are inefficient and/or inadequate IT systems that create additional burdens on City staff.

## New Practices & Service Delivery Models

The continued review of our internal processes will help the City identify potential cost savings and the implementation of efficiencies. Critical City resources should be allocated to initiatives that prove to be effective, and the disinvestment should be encouraged in initiatives that are failing and/or underperforming. Pilot projects are an effective tool to test and gauge the level of effectiveness and assess results before citywide implementation. The implementations of large projects contain several variables that sometimes cannot be defined until they are implemented. Pilot projects allow one or multiple ideas to be tested and the effectiveness can be closely monitored to ensure effectiveness. Since these are often small-scale projects, they require less financial and staff resources to implement.

## APPENDIX A-
## Consolidated Fiscal Policy

# CITY OF OAKLAND

# CONSOLIDATED FISCAL POLICY

## Section 1. Budgeting Practices

**Part A. General Provisions**

The City's Fiscal Year shall begin on July 1st of each year and end on June 30th of the subsequent year. The City shall adopt a two-year biennial policy budget by June 30th of odd-numbered calendar years. The City shall amend its biennial policy budget (midcycle) by June 30th of even-numbered years. The budget and midcycle amendments shall be adopted by resolution of the City Council as required by the City Charter.

**Part B. Policy on Balanced Budgets**

The City shall adopt a balanced budget that limits appropriations to the total of estimated revenues and unallocated fund balances projected to be available at the close of the current fiscal year. The City Administrator shall be responsible for ensuring that the budget proposed to the City Council by the Mayor, adheres to the balanced budget policy.

This policy entails the following additional definitions and qualifications:

1. The budget must be balanced at an individual fund level.

2. City policies on reserve requirements for individual funds must be taken into account. The appropriated expenditures included in the balanced budget equation must include the appropriations necessary to achieve or maintain reserve targets.

3. Appropriated revenues can include transfers from unallocated fund balance where such fund balance is reasonably expected to exist by the end of the fiscal year preceding the year of the adopted budget. Transfers from fund balance are not to be counted as revenue if the fund balance is not reasonably expected to exist by the end of the fiscal year preceding the year of the adopted budget. (Note: The precise definition of 'fund balance' will vary from fund to fund, depending on the fund's characteristics and accounting treatment.)

4. Appropriated expenditures can include transfers to fund balance or to reserves.

From time to time the City Council may present changes in policy and consider additional appropriations that were not anticipated in the most recently adopted budget. Amendments by the City Council shall maintain a balanced budget.

Each fiscal year the City Administrator shall report to the City Council on actual revenues and expenditures in the General Purpose Fund and other funds as deemed necessary.

**Part C. Use of Excess Real Estate Transfer Tax (RETT) Revenues**

To ensure adequate levels of the General Purpose Fund reserves and to provide necessary funding for municipal capital improvement projects and one-time expenses, the City shall require that excess Real Estate Transfer Tax revenues be defined and used as follows:

1. The excess Real Estate Transfer Tax (RETT) revenue is hereby defined as any amount of projected RETT revenues that exceed 15% of General Purpose Fund Tax Revenues (inclusive of RETT).

2. The excess Real Estate Transfer Tax, as described in this section, shall be used in the following manner and appropriated through the budget process:

   a. At least 25% shall be allocated to the Vital Services Stabilization Fund, until the value in such fund is projected to equal to 15% of total General Purpose Fund revenues over the coming fiscal year; and

   b. At least 25% shall be used to fund debt retirement and unfunded long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post-Employment Benefits (OPEB) unfunded liabilities; and

   c. The remainder shall be used to fund one-time expenses or to augment reserves.

3. Use of the excess RETT revenues for purposes other than those established in this section must be authorized by City Council resolution. The resolution shall explain the need for using excess RETT revenues for purposes other than those established in this section. The resolution shall also include steps the City will take to return to using excess RETT revenues pursuant to this section.

4. Following the completion of the annual audit, excess RETT revenues will be analyzed to determine whether the transfers to the Vital Services Stabilization Fund or expenditures to fund debt retirement and unfunded long-term obligations were sufficient. If insufficient funds were transferred, a true-up payment shall be made in the next fiscal year. If the transfers exceed the actual requirement, the amounts in excess may be credited against allocations in the next fiscal year.

**Part D. Use of One-Time Revenues**

1. One-time revenues are defined as resources that the City cannot reasonably expect to receive on an ongoing basis, such as proceeds from asset sales and debt refinancing. This part shall not apply to the use of excess RETT revenues pursuant to Section 1. Part C.

2. Fiscal prudence requires that any unrestricted one-time revenues be used for one-time expenses. Therefore, one-time revenues shall be used in the following manner, unless they are legally restricted to other purposes: to fund one-time expenditures, to fund debt retirement and unfunded long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post-Employment Benefits (OPEB)

unfunded liabilities; or shall remain as fund balance.

3. Use of one-time revenues for purposes other than those established in in this section must be authorized by City Council resolution. The resolution shall explain the need for using one-time revenues for purposes other than those established in this section. The resolution shall also include steps the City will take to return to using one-time revenues pursuant to this section.

**Part E. Use of Unassigned General Purpose Fund Balance**

Any unassigned General Purpose Fund balance, as projected in the 3rd Quarter Revenue and Expenditure Report, and not budgeted for other purposes, shall be used in accordance with Section 1, Part D.

**Part F. Analysis of Funding for Debt or Unfunded Long-Term Obligations From Certain Revenues**

When excess RETT or other one-time revenues are used to fund accelerated debt retirement or unfunded long-term obligations, the City Administrator shall present his or her analysis and recommendations to the Council based on the best long-term financial interest of the City.

**Part G. Criteria for Project Carryforwards and Encumbrances**

Previously approved but unspent project appropriations ("carryforwards") and contingent liability reserves for current purchases or contracts that are paid in the following fiscal year ("encumbrances") are financial obligations against reserves. Fiscal prudence requires that such obligations be limited.

Each fiscal year, the Finance Department will submit a list of eligible carryforwards and encumbrances to all departments for evaluation for all funds, including the General Purpose Fund. Departments may request to retain some or all carryforwards and encumbrances when such balances are:

1. Deemed essential to the delivery of active city projects, programs and services; or

2. If the liquidation of such balances would be in violation of legislative or legal requirements.

A departmental request to retain project carryforwards and/or encumbrances must be submitted to the Finance Department. Departments shall provide specific reasons for requested project carryforwards and encumbrance carryforwards, including, but not limited to, those reasons outlined above. Carryforward of project appropriations in funds with negative balances will only be allowed on an exception basis.

The Finance Department will recommend to the City Administrator an action on the departmental requests. The City Administrator shall make a final determination on project carryforward and encumbrances, and will direct the Finance Department to make carryforwards available to the appropriate department.

**Part H. Grant Retention Clauses**

Prior to the appropriation of revenues from any grant outside of the budget process, the City Council shall be informed of any retention clauses that require the City to retain grant-funded staff, services, programs, or operations beyond the term of the grant. The fiscal impacts of such retention clauses shall be disclosed. During the biennial budget process staff shall report to the Council the ongoing projected fiscal impacts of such retention clauses.

**Part I. Alterations to the Budget**

Substantial or material alterations to the adopted budget including shifting the allocation of funds between departments and substantial or material changes to funded service levels, shall be made by resolution of the City Council.

The Finance Department will include departmental expenditure projections for the General Purpose Fund in the Second Quarter Revenue & Expenditure Report. In the event that a department is projected to overspend in the General Purpose Fund by more than one percent (1%), the City Administrator shall bring an informational report to the City Council within 60 days following acceptance of the Revenue & Expenditure report by the City Council. The report shall list the actions the Administration is taking to bring the expenditures into alignment with the budget.

**Part J. Transfers of Funds between accounts.**

The City Administrator shall have the authority to transfer funds between personnel accounts, and between non-personnel accounts within a department. The City Administrator shall have the authority to transfer funds allocated to personnel accounts to non-personnel accounts within a department provided that cumulative transfers within one fiscal year do not exceed 5% of the original personnel account allocation of that department. The City Administrator shall have the authority to transfer funds from non-personnel accounts to personnel accounts within a department. The City Administrator shall have the authority to transfer funds allocated to personnel accounts to non-personnel accounts if the transfer is required to meet the conditions of or maximize the funding derived from a grant that has been approved by the City Council. For the purposes of this section accounts for the provision of temporary personnel services shall be considered personnel accounts.

**Part K. Pay-Go Account Expenditures, Priority Project Fund Expenditures, and Grants**

The City Council hereby finds and determines that it is in the public interest to spend Pay-go account fund to facilitate and support programs & services of the City of Oakland, capital improvement projects of the City of Oakland, and programs & capital improvement projects of the public schools and other public entities within the City of Oakland. The Council authorizes Pay-Go account funds to be used for the following purposes:

Capital Improvements:

1. To pay for or augment funding for a City of Oakland capital improvement project including planning and pre-construction services for projects such as, but not limited to, feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and decorative elements of the project; and

2. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or other public entity for use on capital improvement project within the City of Oakland, including planning and pre-construction services for projects such as, but not limited to, feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and decorative elements of the project; and

Furniture & Equipment:

3. To pay for or augment funding for purchase of furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the City of Oakland; and

4. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or another public entity to be used for furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the public school or public entity.

Pay-go purposes stated above shall operate as restrictions on Pay-go expenditures or Pay-go grants, regardless of the Pay-go account funding source.

Pay-go purposes stated above shall apply to any and all Pay-go expenditures or grants made by the Mayor and each City Councilmember. All Pay-go expenditures and grants shall be administered by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

In accord with the City Council's motion approving the initial allocation of Councilmember Priority Project funds on June 8, 2006, the City Councilmembers must obtain City Council approval for all Priority Project expenditures.

All Priority Project fund grants approved by the City Council and shall be administered and executed by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

## Section 2. Reserve Funds

**Part A. General Purpose Fund Emergency Reserve Policy**

1. Council hereby declares that it shall be the policy of the City of Oakland maintain in each fiscal year a reserve equal to seven and one-half (7.5%) of the General Purpose Fund (Fund 1010) appropriations as adopted in the biennial or midcycle budget, and not including prior year carryforwards, encumbrances, or appropriations to Fund Balance for, such fiscal year (the "General Purpose Fund Emergency Reserve Policy"),

2. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the General Purpose Funds Emergency Reserve to the City Council and on the adequacy of the of the 7.5% reserve level. If in any fiscal year the General Purpose Fund Reserve Policy is not met, the City Administrator shall present to Council a strategy to meet the General Purpose Funds Emergency Reserve Policy. Each year, the City Administrator shall determine whether the 7.5% reserve level requires adjustment and recommend any changes to the City Council.

3. The amounts identified as the General Purpose Funds Emergency Reserve may be appropriated by Council only to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council, or (2) by a majority vote of the City Council.

4. Prior to appropriating monies from the General Purpose Funds Emergency Reserve, the City Administrator shall prepare and present such analysis to the City Council. Upon review and approval of the proposed expenditure by the City Council, and appropriate fiscal emergency declaration necessary for the use of GPF reserve, the City Administrator will have the authority to allocate from the reserves.

**Part B. Vital Services Stabilization Fund Reserve Policy**

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Vital Services Stabilization Fund (VSSF) with a target funding level of 15% of General Purpose Fund Revenues. The funding of the Vital Services Stabilization Fund shall be made pursuant to Section 1, Part C concerning excess Real Estate Transfer Tax.

2. In years when the City forecasts that total General Purpose Fund revenues will be less than the current year's revenues, or anytime significant service reductions, such as layoffs or furloughs, are contemplated due to adverse financial conditions, use of this fund must be considered to maintain existing services.

3. Use of the VSSF must be authorized by City Council resolution. The resolution shall explain the need for using the VSSF. The resolution shall also include steps the City will take in order to replenish the VSSF in future years.

**Part C. Capital Improvements Reserve Fund**

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Capital Improvements Reserve Fund.

2. Revenue received from one time activities, including the sale of Real Property, shall be deposited into the Capital Improvements Reserve Fund, unless otherwise directed by a majority vote of the City Council. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein.

3. Monies on deposit in the Capital Improvements Reserve Fund may be appropriated by Council to fund unexpected emergencies, major capital maintenance, repair costs to City-owned facilities and to fund capital improvement projects through the Five-Year Capital Improvement Program.

# Section 3. Budget Process, Fiscal Planning, Transparency, and Public Participation

Unless otherwise noted all timelines apply only to budget development years, normally odd numbered years and not to mid-cycle revisions to an adopted two-year budget.

**1.Assessment of Stakeholder Needs, Concerns and Priorities**

**Timeline:** Budget Advisory Committee review prior to survey release. Survey completion by December 5th of even-numbered years. Results publicly available within three weeks of survey's close.

**Requirements:** The City Administrator should develop or secure a statistically valid survey for assessing the public's concerns, needs and priorities prior to the development of the biennial budget. Whenever feasible, the City should conduct a professional poll administered to a statistically relevant and valid sample of residents that is representative of Oakland's population in terms of race, income, neighborhood, age, profession, family size, homeownership/renter-ship, etc. If that's not possible, then demographic information should be collected and reported out with the survey results.

Prior to release, the survey questions shall be submitted to the Budget Advisory Committee by September 1st of even numbered years for review of bias, relevance, consistency in administration, inclusion of benchmark questions, and ability to assess concerns, needs and priorities. The survey instrument, method of dissemination, and any instructions for administration shall be publicly available. The survey should be conducted following the November election and before December 5th.

If the City cannot afford a professional survey, an informal survey shall be made available for broad dissemination by the Mayor and Councilmembers through community list serves and other communication channels. Furthermore, the City Administrator shall take steps to promote participation, such as issuing a Flyer promoting participation in the survey and methods of participation (survey internet link, email, phone number) and posting such Fliers near publicly available computers in all City libraries, Recreation Centers, and Senior Centers. A list of those dissemination channels should be publicly available along with survey results.

Survey results should be publicly available within three weeks of the completion and analysis of the survey. Survey results should be made widely available, shared on social media, and published on the City's Budget website. In the event that City's statistically valid survey has been completed, the Mayor and City Administrator shall include in their proposed budget a summary of the survey data and a statement regarding how the data was or was not incorporated into the final proposed budget. Informal surveys and their results shall be made public but not included in their proposed budget document.

The City Administrator shall development a standardized and diverse means of collecting resident input via other means prior to budget development.

**2. Council Initial Budget Briefing and Priorities Discussion**

**Timeline:** February

**Requirements:** The Mayor and City Council will hold a bi-annual budget workshop soon after the commencement of the Council term. The workshop will include briefings on estimated baseline expenditures, revenue projections and an overview of the City's budgeting process. The workshop will provide the Mayor and Council with the opportunity to begin discussing priorities for the next budget year based on the Assessment of Stakeholder Needs, Concerns and Priorities.

**3.Five-Year Forecast**

**Timeline:** Produced and heard by the Council's Finance & Management Committee or the full City Council in February or March. Forecast Fact Sheets should be distributed to City community centers and Forecast data should be available on Open Data Portal within two weeks of the Council hearing.

**Requirements:** Each Budget Cycle, the City Administrator must prepare a Five-Year Forecast.

The Five-Year Financial Forecast ("Forecast") is a planning tool that estimates the City's likely revenues and expenditures over five-years, based on appropriate financial, economic, and demographic data. The purpose of the Forecast is to surface all major financial issues and estimate future financial conditions to support informed long-term decision making. Such planning provides for greater financial stability, signals a prudent approach to financial management, and is consistent with best practices.

The Forecast shall contain the two-year baseline budget for the forthcoming budget period, clearly reflecting projected expenditures to maintain existing service levels and obligations, plus an additional three-year forecast of revenues and expenditures. The Baseline Budget shall consist of projected expenditures necessary to maintain existing staffing and service levels, plus an estimate of anticipated revenues for the two-year period.

The Forecast shall also contain information on the variance between prior forecasts and actual amounts, including the factors that influenced these variances. Revenue estimates shall be based on the most current data available; minimally revenue projections shall take into account projected revenue for the current fiscal year, as reflected in the 2nd quarter Revenue and Expenditure Report, with appropriate trending into future years and an explanation as to how such revenue projections were derived.

The report shall include a Five-Year Forecast "Fact Sheet" document, which summarizes the Forecast's key findings with simplified text and graphics to make this important budgetary information more accessible to the general public. Within two weeks after the Forecast is heard by the City Council, the City Administrator shall print and distribute the Forecast Fact Sheet to all City libraries, recreation centers and senior centers, including in languages required by Oakland's Equal Access Ordinance. The full Forecast shall also be posted on the City of Oakland's website. Forecast data shall be available in open data format on Oakland's data portal.

**4.Statement of Councilmember Priorities**

**Timeline:** Written submission due by March 15th.

**Requirements:** City Council Members will have the opportunity to advise the Mayor and City Administrator publicly of their priorities. Each Councilmember shall be invited to submit up to seven expenditure priorities in ranked and/or weighted order for changes to the baseline budget as presented in the Five-Year Forecast. Councilmember priority statements must be submitted as part of a report to be heard by the City Council and/or in a publicly available writing to the Mayor and City Administrator by March 15. In addition to the priorities, Councilmembers may also submit other suggestions, including revenue suggestions.

**5.Administrator's Budget Outlook Message & Calendar Report**

**Timeline:** Heard by City Council before April 15th.

**Requirements:** The City Administrator shall bring as a report to the City Council a Budget Outlook Message & Calendar no later than April 15th that provides an overview of the budget development process and lists all key dates and estimated dates of key budget events, including, but not limited to the release of the Mayor and Administrator's Proposed Budget, Community Budget Forums, Council meetings, and formal budget passage dates. This publication shall be posted on the City's website and by other means determined by the City Administrator.

**6.Release of Mayor & Administrator's Proposed Budget & Fact Sheet**

**Timeline:** Published and publicly available by May 1st. Heard by City Council and Fact Sheet distributed by May 15th.

**Requirements:** The Proposed Budget must be released by May 1st and shall clearly indicate any substantive changes from the current baseline budget, including all changes to service levels from the current budget. The Proposed Budget shall indicate staffing by listing the number of positions in each classification for each Department, including a listing of each position proposed for addition or deletion. The Council shall hold a public meeting to present the Proposed Budget no later than May 15th in budget adoption years. The full proposed budget document shall be made available online from the City's website, and printed copies shall be available in all City libraries. Additionally, the proposed budget data shall be available in open data format on the City's open data portal by May 1st. Every effort should be made to thoroughly respond to any public request for departmental budget details, such as line item budgets. The requested information shall also be made available on the City's website and open data portal within a reasonable time following the request.

The Proposed Budget must include a Budget Fact Sheet with easy-to-understand graphics and text explaining the City's overall finances, the Proposed Budget and that year's Budget Calendar. The Fact Sheet shall be published in languages required by Oakland's Equal Access Ordinance. The Fact Sheet shall be printed and made available in all City Recreation Centers and Senior Centers as well as all City libraries by May 15th or the presentation to the Council, whichever is sooner.

**7.Community Budget Forums**

**Timeline:** During the months of May and June of odd-numbered years

**Requirements:** The Administration and Council shall hold at least one (1) Community Budget Forum in each council district. These forums, organized by the City Administrator's Office in partnership with Councilmembers, shall be scheduled to maximize residents' access. The forums should include sufficient time for a question and answer period in a format that maximizes community participation, as well as a presentation of budget facts by City staff. One or more of the forums must be scheduled in the evening. Another must be scheduled on the weekend. These meetings shall also be scheduled so that Councilmembers have sufficient opportunity to attend a meeting close to their council district. Every member of the City Council shall make their best effort to attend the Community Budget Forum in their council district. Sufficient Fact Sheets in all available languages shall be available at all Forums.

These forums should be publicized in social media and via other means in a manner that is linguistically and culturally appropriate. City Council staff shall work with community-based, faith-based, identity based, and district specific organizations to ensure that a representative and broad group of residents is aware and encouraged to attend each forum.

**8.Ongoing Public Education**

**Timeline:** During the months of May and June of even-numbered years

**Requirements:** Beginning with the first even-numbered year following adoption of this ordinance, the Administration and City Council shall hold at least three (3) Community Budget Education Presentations in different neighborhoods throughout the City and outside of City Hall. These presentations shall seek to increase Oakland residents understanding and awareness of the City Budget and Budget process.

**9.Budget Advisory Commission's Report**

**Timeline:** June 1st

**Requirements:** The Budget Advisory Committee (BAC) shall be requested to submit published, written report to the full City Council regarding the proposed budget with any suggested amendments no later than June 1 in budget adoption years. If submitted, the statement shall be published as part of the next budget report to the City Council. The BAC is encouraged to provide similar statements during the mid-cycle budget revise and any other significant budget actions.

**10.Council President's Proposed Budget**

**Timeline:** June 17th

**Requirements:** The City Council President, on behalf of the City Council, shall prepare a proposed budget for Council consideration to be heard at a Special City Council Budget Hearing occurring on or before June 17th. The Council President may delegate the duty to prepare a budget proposal to another member of the Council. The Finance Department will provide a costing analysis for proposed amendments. The City Council may schedule additional Special City Council Budget Hearings or Workshops as needed.

**11.Council Budget Amendments**

**Timeline:** No later than up to three (3) days prior to final budget adoption for public noticing

**Requirements:** In addition to the Council President's proposed budget, any Councilmember or group of Councilmembers may submit proposed budget amendments at any time during the budget process. However, the adopted budget shall not contain substantive amendments made on the floor by Councilmembers at the final meeting when the budget is adopted. All substantive amendments must have been published in the City Council agenda packet for at least three days prior to the budget's final adoption and posted on the City's budget website. This shall not preclude Council members from combining elements from various proposals, provided each element considered has been published in the City Council agenda packet as a component of one proposal. This three-day noticing requirement may be waived by a vote of Council upon a finding that (1) new information impacting the budget by at least $1 million dollars came to the attention of the body after the publication deadline making it not reasonably possible to meet the additional notice requirement and (2) the need to take immediate action on the item is required to avoid a substantial adverse impact that would occur if the action were deferred to a subsequent special or regular meeting, such as employee layoffs.

Councilmembers will present their proposed amendments in an easy to understand, standardized format provided by the City Administrator. The format should allow the proposals to be easily compared to the Mayor's Proposed Budget and to one another. Additions and reductions shall be clearly noted in separate sections.

In order to provide sufficient time to evaluate the cost of proposals, Councilmembers should request costing analyses for proposed budget amendments or line-items within a budget amendment to the City Administrator at least six (6) working days prior to the City Council meeting where that amendment will be considered.

**12.Process Feedback & Continual Improvement**

**Timeline:** September 30th following budget adoption

**Requirements:** The Budget Advisory Commission (BAC) shall be requested to submit an Informational Report to the Council's Finance and Management Committee and City Council containing their analysis of the budget adoption process including, but not limited to: 1) the informational quality of the Proposed Budget; 2) the City Administration's and City Council's attention to engaging the public and its impacts on the budget process and product; 3) the level of transparency and open dialogue in all public meetings dedicated to the budget; and 4) opportunities for improving the process in future years. In assessing opportunities for continually improving public participation in the budget process, the Administration, City Council and BAC shall be requested to consider the following guiding principles:

• Inclusive Design: The design of a public participation process includes input from appropriate local officials as well as from members of intended participant communities. Public participation is an early and integral part of issue and opportunity identification, concept development, design, and implementation of city policies, programs, and projects.
• Authentic Intent: A primary purpose of the public participation process is to generate public views and ideas to help shape local government action or policy.
• Transparency: Public participation processes are open, honest, and understandable. There is clarity and transparency about public participation process sponsorship, purpose, design, and how decision makers will use the process results.
• Inclusiveness and Equity: Public participation processes identify, reach out to, and encourage participation of the community in its full diversity. Processes respect a range of values and interests and the knowledge of those involved. Historically excluded individuals and groups are included authentically in processes, activities, and decision and policymaking. Impacts, including costs and benefits, are identified and distributed fairly.
• Informed Participation: Participants in the process have information and/or access to expertise consistent with the work that sponsors and conveners ask them to do. Members of the public receive the information they need, and with enough lead time, to participate effectively.
• Accessible Participation: Public participation processes are broadly accessible in terms of location, time, and language, and support the engagement of community members with disabilities.
• Appropriate Process: The public participation process uses one or more engagement formats that are responsive to the needs of identified participant groups; and encourage full, authentic, effective and equitable participation consistent with process purposes. Participation processes and techniques are well- designed to appropriately fit the scope, character, and impact of a policy or project. Processes adapt to changing needs and issues as they move forward.
• Use of Information: The ideas, preferences, and/or recommendations contributed by community members are documented and given consideration by decision-makers. Local officials communicate decisions back to process participants and the broader public, with a description of how the public input was considered and used.
• Building Relationships and Community Capacity: Public participation processes invest in and develop long-term, collaborative working relationships and learning opportunities with community partners and stakeholders. This may include relationships with other temporary or ongoing community participation venues.
• Evaluation: Sponsors and participants evaluate each public participation process with the collected feedback and learning shared broadly and applied to future public participation efforts.

# APPENDIX B-Background on California Legal Revenue Limitations

Public funds are highly regulated and as such, some of the major regulations that impact local revenue generation will be discussed in this section. This information serves as the background to gain understanding of how tax revenue is generated and restricted.

## Propositions 13

Proposition 13, approved by voters in 1978, amended the state constitution and imposed restrictions on the collection of revenue by California's local governments. Proposition 13 declared that the maximum amount of any ad valorem tax on real property shall not exceed 1% of the full cash value of such property. That 1% tax is collected by the counties and apportioned to the cities special districts, and schools within each county.

The only exception to the 1% limitation for cities is for bonded indebtedness for the acquisition or improvement of real property, which must be approved by a two-thirds vote of the electorate. This exception is most commonly used when voters approve a General Obligation Bond to pay for capital improvements to infrastructure such as streets, parks, and buildings. The 2016 Oakland Measure KK Infrastructure Bond was an example of the use of this exception.

Proposition 13 also requires a two-thirds vote of the qualified electors for a City to impose special taxes. Special taxes are restricted for a specific purpose rather than a general purpose, such as a tax designated for public safety or libraries. Parcel taxes are also considered special taxes regardless of the use.

## Proposition 8

Proposition 8, approved by voters in 1978, strengthened Proposition 13 and established that when property values decline due to the real estate market, property tax assessors are obliged to conduct "decline in value reviews" so that the tax assessed is set at a lower rate if the value of the property has declined. A lower assigned value resulting from such a review is known as a "Proposition 8 reduction."

## Proposition 218

Proposition 218, approved by voters in 1996, further restricted local government's abilities to raise revenue. It requires a majority vote of the public to raise general purpose taxes in Charter cities such as Oakland.

The law requires that any new or increased property assessments may only be levied on properties that receive a special benefit from the project rather than a general benefit to the public, and that an engineer's report is required to ascertain the value of the special benefit. A weighted majority of property owners must approve such assessment.

Proposition 218 restricts the use of property related fees such that they cannot be used to pay for a general governmental service, or a service not immediately available to the property owner.

## Proposition 26

Proposition 26, approved by voters in 2010, defined and restricted governments' abilities to raise revenues through fees and charges for service by defining revenues as taxes unless they met one of the criteria listed below.

- A charge imposed for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- A charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.
- A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.
- A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law.
- A charge imposed as a condition of property development.
- Assessments and property-related fees imposed in accordance with the provisions of Article XIII D of the California Constitution (see Proposition 218).

Under Proposition 26, the local government bears the burden of showing that the amount charged is no more than necessary to cover the reasonable costs of the activity, and allocation of the costs to the payer bears a reasonable relationship to the payer's burdens on, or benefits received from, the activity.

## Website

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