



## *MEMORANDUM*

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**TO:** HONORABLE MAYOR &  
CITY COUNCIL

**FROM:** Katano Kasaine  
Director of Finance

**SUBJECT:** Response to Beacon Economics  
April 2017 & April 2019 Forecast

**DATE:** June 6, 2019

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It has come to the Finance Department's attention that IFPTE, Local 21, has commissioned an independent study of the City's revenues by Beacon Economics (Beacon). Staff is concerned with Beacon's aggressive revenue assumptions and have concerns that they do not fully understand the one-time nature of certain revenue streams, such as the Real Estate Transfer Tax. As such, we have prepared this high-level analysis that aims to dispel myths about Oakland's revenue prospects.

### **Frequently Asked Questions**

#### **1. How does the Finance Department forecast revenues?**

The Finance Department – in close consultation with the departments – prepares a revenue forecast each year as part of the budget process. For certain revenue streams (i.e., sales and property tax) the City uses outside consultants to assist with projections.

The forecast is based on revenue collection trend data and prevailing economic conditions at the time of the forecast. The revenue forecasts take into consideration several economic factors including changes in economic growth, assessed valuation, growth in income levels, consumer consumption, and the Consumer Price Index (CPI), among other factors. Anticipated changes in State and local tax policy are also considered to the extent that such actions drive specific revenue streams.

#### **2. Was Beacon Economics (“Beacon”) accurate in their April 2017 forecast of General Purpose Fund revenues for the FY 2017-19 time period?**

No, Beacon was very inaccurate and overly optimistic in their revenue assumptions. Staff assumes this inaccuracy is a result of Beacon attempting to estimate one-time revenues, which can be highly volatile from year-to-year and result in errors in estimation.

**3. What would have been the impact had the Finance Department accepted Beacon’s forecast in April 2017 for the FY 2017-19 General Purpose Fund Budget?**

If the City would have adopted Beacon’s April 2017 revenue assumptions for the FY 2017-19 Adopted Budget, we would be facing a two-year budget **deficit of \$41.25 million**, a deficit \$28.16 million in FY 2017-18 and an estimated deficit of \$13.09 million in FY 2018-19, as shown in the tables below. This would have put the City at extreme risk of overspending.

**Beacon Economics Report, dated April 2017**

	<b>Beacon Forecast FY 2018</b>	<b>FY 2018 Actual</b>	<b>Beacon to Actual</b>	<b>Variance</b>
Business tax	78,530,680	86,107,189	7,576,509	9.65%
Transient Occupancy Tax	26,233,940	23,583,086	(2,650,854)	-10.10%
Real Property Transfer Tax	112,822,800	77,663,378	(35,159,422)	-31.16%
Parking Tax	11,677,690	10,803,104	(874,586)	-7.49%
Utility Tax	49,100,690	52,047,385	2,946,695	6.00%
<b>Total</b>	<b>278,365,800</b>	<b>250,204,142</b>		
		<b>Actuals Over/(Under) Beacon Forecast</b>	<b>(28,161,658)</b>	

**Beacon Economics Report, dated April 2017**

	<b>Beacon Forecast FY 2019</b>	<b>City FY 2019 Q3 Estimate</b>	<b>Beacon to Actual</b>	<b>Variance</b>
Business tax	82,215,290	97,430,399	15,215,109	18.51%
Transient Occupancy Tax	28,431,259	25,469,733	(2,961,526)	-10.42%
Real Property Transfer Tax	126,217,868	99,608,392	(26,609,476)	-21.08%
Parking Tax	12,445,160	11,436,700	(1,008,460)	-8.10%
Utility Tax	50,028,880	52,300,000	2,271,120	4.54%
<b>Total</b>	<b>299,338,457</b>	<b>286,245,224</b>		
		<b>Actuals Over/(Under) Beacon Forecast</b>	<b>(13,093,233)</b>	

It is important to note that Beacon Economics had no way of knowing in April 2017 that Councilmember Kalb would introduce, and that City voters would approve, a graduated Real Estate Transfer Tax effective midway through FY 2018-19. The Revenue Bureau is estimating this change alone accounts for more than \$8.8 million of the Real Estate Transfer Tax revenues projected in FY 2018-19. ***This means that Beacon’s two-year GPF forecast was more than \$50 million over stated.***

**4. How did the Finance Department’s General Purpose Fund estimates compare in the FY 2017-19 Budget?**

In FY 2017-18, General Purpose Fund revenues exceeded the Adjusted Budget by just \$7.0 million. When adjusting for one-time revenues (which are legally obligated pursuant to the CFP), the Finance Department under estimated revenues by just **\$3.2 million**, a margin of less than 0.5 percent.

**HONORABLE MAYOR AND CITY COUNCIL**

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**City- Adjusted FY 2018 Budget**

	<b>Adjusted FY 2018 Budget</b>	<b>FY 2018 Actual</b>	<b>Less 1x Revenues</b>	<b>City Variance to Actual Controlling for 1x Revenues</b>	<b>Variance</b>
Business tax	79,580,950	86,107,189	3,640,000	2,886,239	3.63%
Transient Occupancy Tax	22,653,820	23,583,086	-	929,266	4.10%
Real Property Transfer Tax	75,822,812	77,663,378	3,437,152	(1,596,586)	-2.11%
Parking Tax	11,130,600	10,803,104	-	(327,496)	-2.94%
Utility Tax	50,700,000	52,047,385	-	1,347,385	2.66%
<b>Total</b>	<b>239,888,182</b>	<b>250,204,142</b>	<b>7,077,152</b>		
		<b>Actuals Over/(Under) City Forecast</b>		<b>3,238,808</b>	

In the FY 2018-19, General Purpose Fund revenues are expected to exceed the Adjusted Budget by \$36.1 million, **of which \$30.5 million is considered one-time**. These one-time revenues are in large part due to the change in the graduated RETT tax rate (\$8.8 million), a large one-time commercial transaction (\$500 million +), and a one-time audit of Oakland businesses. When adjusted for these one-time resources (which are legally obligated pursuant to the CFP), the Finance Department under estimated revenues by just **\$5.6 million**.

**City- Adopted Midcycle FY 2019 Budget**

	<b>Adopted Midcycle FY 2019</b>	<b>City FY 2019 Q3 Estimate</b>	<b>Less 1x Revenues</b>	<b>City Variance to Actual Controlling for 1x Revenues</b>	<b>Variance</b>
Business tax	86,622,000	97,430,399	10,463,721	344,678	0.40%
Transient Occupancy Tax	23,673,242	25,469,733	-	1,796,491	7.59%
Real Property Transfer Tax	74,181,417	99,608,392	20,075,188	5,351,787	7.21%
Parking Tax	11,436,700	11,436,700	-	-	0.00%
Utility Tax	54,207,390	52,300,000	-	(1,907,390)	-3.52%
<b>Total</b>	<b>250,120,749</b>	<b>286,245,224</b>	<b>30,538,909</b>		
		<b>Actuals Over/(Under) City Forecast</b>		<b>5,585,566</b>	

**5. Should the City accept Beacon’s revenue estimates as of April 2019 for the FY 2019-21 Budget?**

No. Beacon’s April 2017 forecast consistently showed an over-estimate of GPF revenues.

For questions, please contact Adam Benson, Budget Administrator, at (510) 238-2026.

Respectfully submitted,

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