

CITY OF OAKLAND

AGENDA REPORT

2011 JUN 30 PM 6:50

TO: Finance & Management Committee
ATTN: Chair De La Fuente and committee members
FROM: Councilmember Libby Schaaf
DATE: June 30, 2011

RE: A Resolution Submitting On The Council's Own Motion, A Proposed Charter Amendment, Entitled, "Measure Establishing a 'Rainy Day' Fund For Money Collected When There Is an Unusually Large Surplus, Which May Be Used In Years When There Is a Revenue Shortfall", To Be Submitted To The Electors At The Next Special or General Municipal Election; And Directing The City Clerk To Fix The Date For Submission Of Arguments And Provide For Notice And Publication In Accordance With The Next Election Date.

SUMMARY

A resolution has been prepared for submittal to the City Council for a proposed Charter Amendment Entitled, "Measure Establishing a 'Rainy Day' Fund for Money Collected When There Is an Unusually Large Surplus, Which May Be Used in Years When There Is a Revenue Shortfall." Should this resolution be approved by the City Council and subsequently approved by voters, then the City shall establish a Treasury Fund known as a "Rainy Day Fund."

FISCAL IMPACT

Councilmember Schaaf respectfully requests that the Council approve this resolution and assign this ballot to the next regularly scheduled election date, so that this Rainy Day Fund ballot will not cause a new election to occur.

A Rainy Day Treasury Fund is intended to cause the City Budgeting Process to be spared some of the extreme fiscal woes, such as unsustainable service cuts, employee lay-offs, and employee terminations, which are currently occurring at the time of this report's submission. A Rainy Day Treasury Fund will lead to a more fiscally prudent approach to municipal governing.

Item: _____
Finance & Management Committee
July 12, 2011

BACKGROUND

The City of Oakland has historically attempted to handle fiscal uncertainty through use of a General Purpose Fund (GPF) Reserve. In 1994, the City first adopted an ordinance declaring that, in each two-year budget, the equivalent of 5 percent of GPF appropriations be held in reserve totally unencumbered (i.e. remain “uncommitted” and “undesignated”) to pay for any expenditures which might unexpectedly arise.¹ In 2003, the reserve was increased to 7.5 percent.² In 2009, the City Council passed Ordinance No. 12946 to further clarify the Reserve Policy, and to establish criteria for use of the reserve.³ This ordinance was superseded in 2010 by Ordinance No. 13008, which left the Reserve Policy unchanged.⁴

Ordinance 13008 declares that it shall be City policy to maintain a “undesignated, uncommitted fund balance equal to seven and one half percent (7.5%) of the General Purpose Fund (Fund 1010) appropriations for such fiscal year.”⁵ To ensure an adequate reserve, any real estate transfer tax collected over \$40 million must first be allocated to the Reserve until the Reserve reaches 10 percent of budgeted GPF appropriations.⁶ The status of the Reserve must be reported each year after the completion of the City’s audited financial statements.⁷ The Reserve may only be tapped to “fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency.”⁸ For the purposes of the ordinance, fiscal emergency may either be declared by the Mayor with the approval of a majority on the City Council or by the City Council independently.⁹

There are two distinctive features of the Reserve worth highlighting at the outset. First, the 7.5 percent reserve seems to be a goal rather than a requirement. (If the reserve level is not met, the City Administrator must present to Council a strategy to meet the Reserve Policy.¹⁰) Second, the Reserve is not a separate fund but a yearly requirement that a percentage of the General Purpose Fund remain uncommitted; reserved funds do not accumulate year-to-year, but are set aside each year independent of the previous year’s allocation.

PROGRAM DESCRIPTION

Deposit Rules: Whenever the City experiences a year in which the General Purpose Fund (Fund 1010) revenues for the upcoming fiscal year will exceed the current fiscal year’s total General

¹ See Ordinance No. 11684 C.M.S. (1994).

² See Ordinance No. 12502 C.M.S. (2003).

³ Ordinance No. 12946 C.M.S. (2009).

⁴ Ordinance No. 13008 C.M.S. (2010).

⁵ *Id.* § 3(A)(1).

⁶ *Id.* § 3(D)(2).

⁷ *Id.* § 3(A)(2).

⁸ *Id.* § 3(A)(3).

⁹ *Ibid.*

¹⁰ *Id.* § 3(A)(2).

Purpose Fund revenues by more than three percent (3%), the adopted budget for the upcoming fiscal year shall appropriate fifty percent (50%) of the anticipated General Purpose Fund revenues in excess of that 3% growth to the Rainy Day Fund. However, if the Budget Office projects that the Consumer Price Index (CPI) for the upcoming budget year shall exceed the CPI for the current year by more than three percent (3%), the trigger for allocations to the Rainy Day Fund shall instead be the percentage of growth in the index. When the amount held in the Rainy Day Fund exceeds fifteen percent (15%) of projected General Purpose Fund revenues for the upcoming fiscal year, no further appropriations to the Rainy Day Fund are required. The City of Oakland shall base this projection on the Consumer Price Index produced by the United States Bureau of Labor Statistics for the San Francisco-Oakland-San Jose metropolitan region, or any smaller geographic area that includes the City of Oakland.

Notwithstanding the above, if the projected total General Purpose Fund revenues for the upcoming fiscal year are less than \$470,000,000 or the City is carrying any negative fund balances in its budget greater than the Rainy Day Fund appropriation for that year so long as that amount is applied towards the negative fund balances; then there shall be no requirement that the adopted budget appropriate any money to the Rainy Day Fund.

If the Budget Office projects that total General Purpose Fund revenues for the upcoming fiscal year will be less than the current fiscal year's total General Purpose Fund revenues, the adopted budget may appropriate Rainy Day Fund monies up to that revenue shortfall for any lawful governmental purpose; however, the adopted budget shall not appropriate more than sixty percent (60%) of the current Rainy Day Fund balance absent a declaration of fiscal necessity by the City Council.

Withdrawal Rules: If the Budget Office projects that total General Purpose Fund revenues for the upcoming fiscal year will be less than the current fiscal year's total General Purpose Fund revenues, the adopted budget may appropriate Rainy Day Fund monies up to that revenue shortfall for any lawful governmental purpose; however, the adopted budget shall not appropriate more than sixty percent (60%) of the current Rainy Day Fund balance absent a declaration of fiscal necessity by the City Council.

Other than in cases of year-to-year revenue decline described above, no money shall be appropriated from the Rainy Day Fund, and no mandatory deposit into the Rainy Day Fund shall be suspended, without a declaration of fiscal necessity.

A "fiscal necessity" shall be defined as follows: 1) The City Council may declare a "fiscal necessity" if at least seven (7) out of eight (8) City Council members vote in favor of such declaration; or 2) The Mayor may declare a "fiscal necessity" if the City is confronted with a sudden, severe, and extraordinary hardship that threatens human life or real property and where there is no time to seek a declaration of fiscal necessity from the City Council. Within twenty-four (24) hours of declaring a fiscal necessity, the City Council or Mayor shall notify the largest-circulation daily and the largest-circulation weekly print local news organizations of such a declaration, as well as the reason for the declaration.

Reporting: Each year, upon completion of the City's financial audited statements, the City Administrator shall separately report the status of the Rainy Day Fund to the City Council. This report shall identify the Rainy Day Fund balance at the start and end of the fiscal year, how much interest accumulated in the Rainy Day Fund during the fiscal year, and how much money was withdrawn from the Rainy Day Fund. The Budget Office shall also report to the City Council, as part of the budget process, the balance of the Rainy Day Fund.

Other: For the calculations which will be required to assess the marginal changes to the upcoming fiscal year from the previous fiscal year, the previous fiscal years' General Purpose Fund revenues shall not include any money deposited into the Rainy Day Fund and shall include any money withdrawn from the Rainy Day Fund.

In conjunction with the year-end close of the budget, the City shall reconcile the revenue projections triggering any budgeted allocations to or withdrawals from the Rainy Day Fund with actual revenue results and rebalance the Rainy Day Fund and the General Purpose Fund allocation accordingly.

KEY ISSUES AND IMPACTS

The Budget Advisory Committee (BAC) has suggested the City Council consider changes which would make the GPF Reserve more robust, and also recommends amendments to the GPF Reserve policy to clarify how it should be implemented and how it is reported. Its detailed report is attached. In this report the BAC advocates that the City adopt a Rainy Day Fund (RDF), which – unlike the GPF Reserve – would require revenues to be deposited into a separate fund during good times so that they may be drawn down during bad times. Many other cities and states use RDFs to help smooth out their General Fund revenues over the cyclic up- and downswings of the economy.

RDFs promote fiscal stability in two ways: first, by restricting how much money can be spent in periods of high revenue growth, the City is less likely to add services at the top of the economic cycle that cannot be sustained. Second, by building a reserve over multiple years, the City is better able to maintain existing services over the occasional periods of revenue decline. As proposed, Oakland's RDF policy would require the City to deposit money into a fund when revenue is 3 percent higher than the previous fiscal year. In years where there are shortfalls, the City could draw down the difference from the RDF by majority vote of the Council; any amount beyond that would require a supermajority vote. Had Oakland adopted such a policy beginning in FY 95-96, based on Budget Office numbers, the City would have been able to backfill the past three years of revenue shortfall and still have tens of millions left in its RDF going into FY 2011-2012.

SUSTAINABLE OPPORTUNITIES

Economic: The proposed resolution will likely lead to a more fiscally prudent approach to municipal governing, which will cause less dramatic changes in employee hiring and terminations.

Environmental: The proposed ordinance is unlikely to lead to any environmental impact.

Social Equity: The proposed resolution will help support a better approach to municipal management, which will result in a more consistent funding process for all government services, including libraries, parks, and a variety of social service programs that benefit the public. The general public will benefit from a more consistent form of program funding.

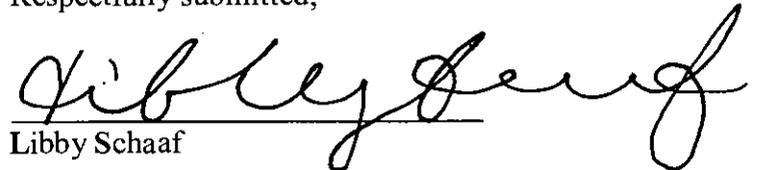
DISABILITY AND SENIOR CITIZEN ACCESS

There is no direct impact or benefit to seniors or people with disabilities.

ACTION REQUESTED OF THE CITY COUNCIL

Councilmember Schaaf recommends that the City Council receives the report and approves the ordinance.

Respectfully submitted,



Libby Schaaf

Oakland City Councilmember, District 4

Prepared by:

Bruce Stoffmacher, Policy Analyst

Office of Oakland Councilmember Libby Schaaf

Item: _____

Finance & Management Committee

July 12, 2011

OFFICE OF THE CITY CLERK
CITY OF OAKLAND
2017 JUN 06 PM 6:50

DRAFT

Approved as to Form and Legality

Office of the City Attorney

OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S.

INTRODUCED BY COUNCILMEMBERS

A Resolution Submitting On The Council's Own Motion, A Proposed Charter Amendment, Entitled, "Measure Establishing a 'Rainy Day' Fund For Money Collected When There Is an Unusually Large Surplus, Which May Be Used In Years When There Is a Revenue Shortfall", To Be Submitted To The Electors At The Next Special or General Municipal Election; And Directing The City Clerk To Fix The Date For Submission Of Arguments And Provide For Notice And Publication In Accordance With The Next Election Date

WHEREAS, the last ten years have demonstrated that good financial times are followed by downturns, which inevitably affects government revenues; and

WHEREAS, The last ten years have demonstrated that good financial times are followed by downturns, which inevitably affects government revenues; and

WHEREAS, In the present recession, the City of Oakland has struggled to balance its budget after losing tens of millions of dollars in **General Purpose Fund** revenues; and

WHEREAS, This sudden reduction in revenues has forced the City to make painful cuts in City services and to furlough and lay-off employees, including police officers; and

WHEREAS, The City of Oakland's needs a stronger fiscal policy to guard against recessionary periods; and

WHEREAS, A Rainy Day Fund would require the City to set aside money in good times so that it is available to cover revenue shortfalls in bad economic times; and

WHEREAS, Rainy Day Funds have been successfully used at the local and state levels of government to weather unexpected fiscal downturns and to smooth out revenues year-to-year; and

WHEREAS, Such smoothing enables governments to maintain critical services during economic downturns. Now, therefore be it

WHEREAS, for the foregoing reasons, the City Council desires to submit to the qualified electors of the City of Oakland at it next municipal election, a proposed Charter amendment.

Now, therefore be it

DRAFT

RESOLVED: That the City Council hereby authorizes and directs the City Clerk, at least 88 days prior to the next special or general municipal election date, to file with the Alameda County Board of Supervisors and the County Clerk certified copies of this resolution; and be it

FURTHER RESOLVED: That the City Charter hereby is amended, to add, delete, or modify sections as set forth below (sections number and titles are indicated in bold type; additions are indicated by underscoring and deletions are indicated by strike-through type; portion of the provisions not cited or not shown in underscoring or strike-through type are not changed); and be it

FURTHER RESOLVED: That the proposed Charter Amendment text shall be as follows:

SECTION 813 - RAINY DAY FUND

Creation:

1. There is hereby established a fund in the Treasury of the City of Oakland to be known as the "Rainy Day Fund".

Purpose:

2. The purpose of the Rainy Day Fund is to ensure that the City of Oakland sets aside money in years when revenues are increasing so that it is available to offset shortfalls in years when revenues are decreasing. It is not the intention of this section to supplant any reserve or other fiscal policies adopted by the Oakland City Council to the extent they do not conflict with section.

Deposit Rules:

3. If the Budget Office prejects that total General Purpose Fund (Fund 1010) revenues for the upcoming fiscal year will exceed total General Purpose Fund revenues for the current fiscal year by more than three percent (3%), the adopted budget shall appropriate fifty percent (50%) of the anticipated General Purpose Fund revenues in excess of that three percent (3%) growth to the Rainy Day Fund.

4. If the Budget Office projects that the Consumer Price Index for the upcoming fiscal year shall exceed the index for the current fiscal year by more than three percent (3%), the triogaer for allocations to the Rainy Day Fund as set forth in subsection 3 above shall instead be the projected percentage of growth in the Consumer Price index. The City of Oakland shall base this projection on the Consumer Price Index produced by the United States Bureau of Labor Statistics for the San Francisco-Oakland-San Jose metropolitan region, or any smaller geographic area that includes the City of Oakland.

5. If the amount held in the Rainy Day Fund exceeds fifteen (15%) of projected total General Purpose Fund revenues for the upcoming fiscal year, no further appropriations to the Rainy Day Fund are required.

6. Notwithstanding subsections (3) and (4) above, if (1) the projected total General Purpose Fund revenues for the upcoming fiscal year are less than \$470,000,000 or (2) the City is carrying any negative fund balances in its budget greater than the Rainy Day Fund appropriation for that year so long as that amount is applied towards the negative fund balances; then there shall be no requirement that the adopted budget appropriate any money to the Rainy Day Fund.

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Withdrawal Rules:

7. If the Budget Office projects that total General Purpose Fund revenues for the upcoming fiscal year will be less than the current fiscal year's total General Purpose Fund revenues, the adopted budget may appropriate Rainy Day Fund monies up to that revenue shortfall for any lawful governmental purpose; however, the adopted budget shall not appropriate more than sixty percent (60%) of the current Rainy Day Fund balance absent a declaration of fiscal necessity by the City Council.

8. Other than in cases of year-to-year revenue decline described in subsection (7), no money shall be appropriated from the Rainy Day Fund, and no mandatory deposit into the Rainy Day Fund under subsections (3) and (4) shall be suspended, without a declaration of fiscal necessity.

9. For the purposes of this section (Section 813), a fiscal necessity can only be declared if at least seven (7) out of eight (8) City Council members vote in favor of such declaration. Within twenty-four (24) hours of declaring a fiscal necessity, the City Administrator shall notify the largest-circulation daily and the largest-circulation weekly print local news organizations of such a declaration, the reason for it, as well as how much money is being withdrawn from the Rainy Day Fund.

Reporting:

10. Each year, upon completion of the City's financial audited statements, the City Administrator shall separately report the status of the Rainy Day Fund to the City Council. This report shall at least identify the Rainy Day Fund balance at the start and end of the fiscal year, how much interest accumulated in the Rainy Day Fund during the fiscal year, and how much money was withdrawn from the Rainy Day Fund. The Budget Office shall also report to the City Council, as part of the budget process, the balance of the Rainy Day Fund.

Other:

11. For the purposes of this section (Section 813), total General Purpose Fund revenues means all revenues allocated to the General Purpose Fund other than loans from other funds.

12. For the calculations required under subsections 3, 4, and 7, the previous fiscal year's total General Purpose Fund revenues shall not include any money deposited into the Rainy Day Fund and shall include any money withdrawn from the Rainy Day Fund.

13. In conjunction with the year-end close of the budget, the City shall reconcile the revenue projections triggering any budgeted allocations to or withdrawals from the Rainy Day Fund with actual revenue results and rebalance the Rainy Day Fund and the General Purpose Fund allocation accordingly.

14. If the City Council or the voters take an action that changes General Purpose Fund revenue sources in any material manner, such as reducing or increasing a tax rate or imposing or eliminating a fee, the revenue changes caused by that action will not be counted as part of the triggers for allocations to or withdrawals from the Reserve during the first year in which the action is implemented.

15. The City Council may, by ordinance, clarify any ambiguities in this section (Section 813). All clarifications and modifications must be consistent with and in furtherance of the purpose of the Rainy Day Fund.

DRAFT

and be it

FURTHER RESOLVED: That in accordance with the Elections Code and Chapter 11 of the Oakland Municipal Code, the City Clerk shall fix and determine a date for submission of arguments for or against said proposed Charter amendment, and said date shall be posted in the Office of the City Clerk; and be it

FURTHER RESOLVED: That in accordance with the Elections Code and Chapter 11 of the Oakland Municipal Code, the City Clerk shall provide for notice and publication as to said proposed Charter amendment in the manner provided for by law; and be it

FURTHER RESOLVED: That each ballot used at said municipal election shall have printed therein, in addition to any other matter required by law the following:

PROPOSED CHARTER AMENDMENT

MEASURE _____

Measure Establishing a "Rainy Day" Fund For Money Collected When There is an Unusually Large Surplus, Which May Be Used In Years When There Is a Revenue Shortfall

Measure _____. Shall the City create a "Rainy Day" fund for money collected when there is an unusually large surplus, which may be used in years when there is a revenue shortfall?	Yes	
	No	

FURTHER RESOLVED: That the City Clerk and City Administrator hereby are authorized and directed to take any and all actions necessary under law to prepare for and conduct the next municipal election and appropriate all monies necessary for the City Administrator and City Clerk to prepare for and conduct the next municipal election, consistent with law.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2011

PASSED BY THE FOLLOWING VOTE:

BROOKS, BRUNNER, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, SCHAAF and PRESIDENT REIDAYES-NOES-
ABSENT-
ABSTENTION-

ATTEST: _____
LATONDA SIMMONS
City Clerk and Clerk of the Council
of the City of Oakland, California