



CITY OF OAKLAND

# AGENDA REPORT

**TO:** Jestin D. Johnson  
City Administrator


**FROM:** Erin Roseman  
Finance Director

**SUBJECT:** FY 2024-25 Midcycle Budget  
General Purpose Fund Deficit

**DATE:** February 29, 2024

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City Administrator Approval

  
Jestin Johnson (Mar 14, 2024 23:01 PDT)

Date: Mar 14, 2024

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## RECOMMENDATION

Staff recommends that the City Council accept this informational report that provides an overview of the financial and structural challenges facing the City during and after the Fiscal Year (FY) 2024-25 Midcycle Budget.

## EXECUTIVE SUMMARY

There exists a considerable immediate deficit in the General Purpose Fund (GPF) and many other funds that must be resolved this current budget cycle. There exists a larger structural deficit across many of the City's fund sources, our focus must be on both immediate and near-term solutions. Achieving a balanced budget necessitates a focused and collaborative effort to address the City's structural deficits.

The General Purpose Fund is facing a shortfall in the FY 2024-25 Midcycle Budget of approximately **\$115,000,000**; there are also deficits totaling over **\$45,000,000** across several non GPF Funds. In addition to these immediate near-term deficits, there exists an estimated additional shortfall of approximately \$60 Million across the City's Operating Funds that will need to be resolved in the next Biennial Budget.

During the FY 2024-25 Midcycle Budget development process, we must confront the financial challenges facing the City. In pursuit of this objective, Departments are being asked to carefully review their services and programs given the reality of limited ongoing resources. This strategic approach prioritizes ongoing sustainable solutions for the resolution of structural deficits over the reliance on one-time options that are temporary.

Since we issued budget instructions in mid-February, the GPF shortfall has grown from \$115,000,000 to **\$175,000,000**. The leading cause of the deficit is reduced revenues as

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March 26, 2024

described in the FY23-24 Second Quarter Q2 Revenue & Expenditure (R&E) report. Even if departments are successful in meeting their reduction targets for the Midcycle Budget, additional solutions will need to be identified in order to balance the budget and address the shortfall.

### **BACKGROUND / LEGISLATIVE HISTORY**

On June 26, 2023, the City Council adopted [Resolution No. 89804 C.M.S.](#) which adopted the City's FY 2023-25 Biennial Budget. The FY 2023-25 Biennial Budget highlighted the largest budget deficit in the City's history. The projected shortfall at the time was approximately \$360 million over the two fiscal years as a result of two factors: the loss of federal pandemic funding and a reduction in revenue generated from the real estate transfer tax (RETT) and transient occupancy tax (TOT).

Also, on June 26, 2023, the City Council adopted [Resolution No. 89803 C.M.S.](#) which authorized the execution of maintenance of effort waivers and use of one-time revenues to balance the Biennial Budget. The reductions in revenues and the expiration of Federal aid warranted the declaration of a state of extreme fiscal necessity and constituted a severe and unanticipated financial event. This extreme fiscal necessity required the City to suspend the maintenance of effort funding requirements for several City local measures and various Charter-mandated minimum budget set-asides.

On November 21, 2023, The Finance Department provided an informational report to the City Council on the preliminary revenue and expenditure projections for the First Quarter (Q1) of FY 2023-24. In this report, GPF revenue forecast projected an overall shortfall of \$113.91 million compared to the Adjusted Budget of \$887.48 million projecting to end the year at \$773.57 million. GPF expenditures were forecasted at \$903.07 million, an increase of \$15.58 million from the Adjusted Budget of \$887.48 million. The budget assumes a one-time use of fund balance in the amount of \$30.1 million to balance expenditures and \$52.68 million to support carryforwards. The impact of rising interest rates on property demand and prices, particularly affecting RETT, contributes to anticipated revenue shortfalls compared to the budget.

### **ANALYSIS AND POLICY ALTERNATIVES**

As of February 2024, the General Purpose Fund faced a shortfall in the Fiscal Year (FY) 2024-25 Midcycle Budget of approximately **\$115,000,000**; there are also deficits totaling over **\$45,000,000** across several non GPF Funds. The prime causes of the estimated GPF deficit are reduced GPF ongoing revenue (most of which is real estate transfer tax), a lack of fund balance, increased internal service costs such as utilities, security, etc., and increased insurance costs.

On February 14, 2024, the Departments were provided with a balancing measure template with targets (dollar amount) by fund. These balancing targets are unique by department. All departments have been asked to propose their lowest priority services for reduction or elimination. Budget proposals should mitigate the impacts to service levels as much as possible, particularly if such a service reduction would impact communities experiencing historical racial disparities or have high-need and/or vulnerable populations.

Departments were instructed to adhere to the following Budget principles in developing the budget proposals to embrace the opportunity and necessity for process improvements. In addition, these principles are anchored in the imperative to address and resolve the City’s structural budget deficits:

- Centering Equity – Centering equity is an intentional effort to prevent exacerbating racial disparities and to reduce racial disparities wherever possible.
- Valuing the City Workforce – Prioritizing the wellbeing and professional development of our dedicated & talented workforce, especially during this difficult time and into the future. No layoffs.
- Strategic Thinking – Encouraging creative and innovative strategies to become a more efficient and effective City. Soliciting ideas for improvement Citywide regarding service delivery, organizational structures, communication, deployment of human resources, City processes, and utilization of technology, to become more efficient, effective, and equitable given limited resources.

The timeline below includes key dates in the FY 2024-25 Midcycle Budget development process.

<b>Date(s)</b>	<b>Task(s)</b>
December 2023	Training on PBCS (“Hyperion”)
February 13, 2024	Budget Instructions and Forms released to Departments
February 14, 2024	Midcycle Budget Kickoff Meeting & Add/Delete Moratorium Begins
March 19, 2024	FINAL Budget Proposals & MFS Changes Due to the Finance Department
Between April 1 and April 17, 2024	Departmental Budget Meetings with the Mayor (As Needed)
May 2 to 9, 2024	Administration’s FY 2024-25 Midcycle Budget Proposal Released
Early/Mid-June 2024	Budget, MFS, and Local Measures Adoption by City Council

The Q2 R&E reports that the GPF revenue forecast projected an overall shortfall of \$177.50 million which is a \$63.59 million difference compared to the Q1 projection of \$113.91 million. Because of the continually decreasing revenues, the GPF shortfall for the FY24-25 Midcycle Budget has increased from \$115,000,000 to **\$175,000,000**, mostly due to falling RETT. Additional solutions will need to be identified in order to balance the budget since the shortfall has increased from the time budget instructions were released.

	<b>PRIME CAUSES</b>
(57,000,000)	Reduced GPF Ongoing Revenue of Which \$51M is RETT
(37,000,000)	Fund Balance Not Available
(30,000,000)	OPD Over-Expenditure
(15,000,000)	Increased Internal Service Costs (Utilities, Security, etc.)
(6,000,000)	Increased Insurance Costs

### **FISCAL IMPACT**

This item is for informational purposes only and does not have a direct fiscal impact or cost.

### **PUBLIC OUTREACH / INTEREST**

No outreach was deemed necessary for this informational report beyond the standard City Council agenda noticing procedures.

### **COORDINATION**

This report was prepared in coordination with the Finance Department and the City Administrator's Office.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** No direct economic opportunities have been identified.

***Environmental:*** No direct environmental impacts have been identified.

***Race & Equity:*** No direct Race & Equity opportunities have been identified in this informational report.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the City Council accept this informational report that provides an overview of the financial and structural challenges facing the City during and after the Fiscal Year (FY) 2024-25 Midcycle Budget.

For questions regarding this report, please contact Brad Johnson, Budget Administrator, at (510) 207-5730.

Respectfully submitted,



Erin Roseman (Mar 13, 2024 12:23 CDT)

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Finance Department

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