
City of Oakland

Finance and Management Committee

Finance Workshop

February 5, 2020



Agenda

1. Finance Department Overview
2. Current Economic Environment
3. Debt and Investment
4. Pension and Other Post-Employment Benefits (OPEB) Obligations
5. Financial and Reserve Policies
6. Revenues

1. Finance Department Overview

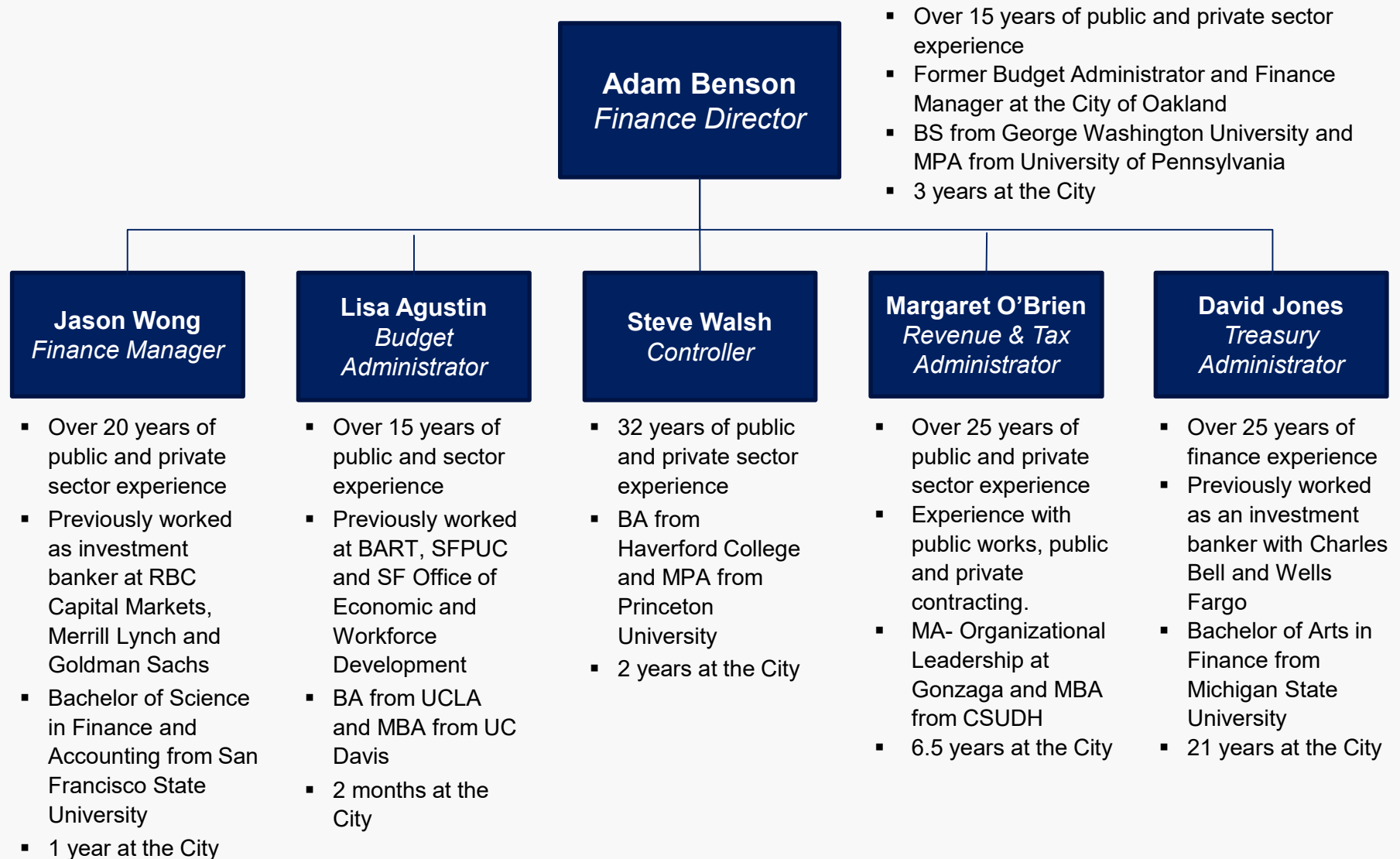


Finance Department

- The primary **mission** of the Finance Department is to:
 - Safeguard the City's assets;
 - Provide comprehensive financial services for the City;
 - Provide timely and accurate financial reports;
 - Maintain integrity of information in the City's financial systems and monitor internal controls;
 - Develop a balanced and fiscally responsible budget;
 - Process payroll and payments;
 - Collects, records and reports City revenues;
 - Procure materials, supplies, and services for City departments;
 - Manage the City's investments;
 - Issue and restructure the City's and Successor Redevelopment Agency's bond issues and debt; and
 - Preserve strong credit ratings and investor relations



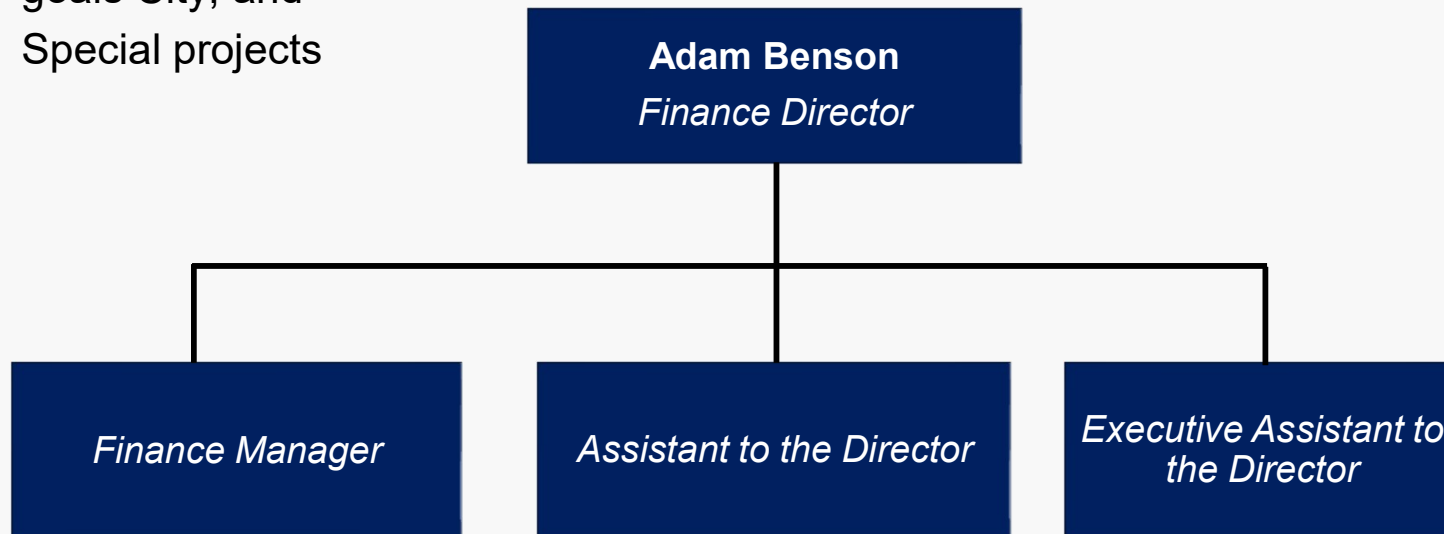
Finance Department – Executive Management





Administration

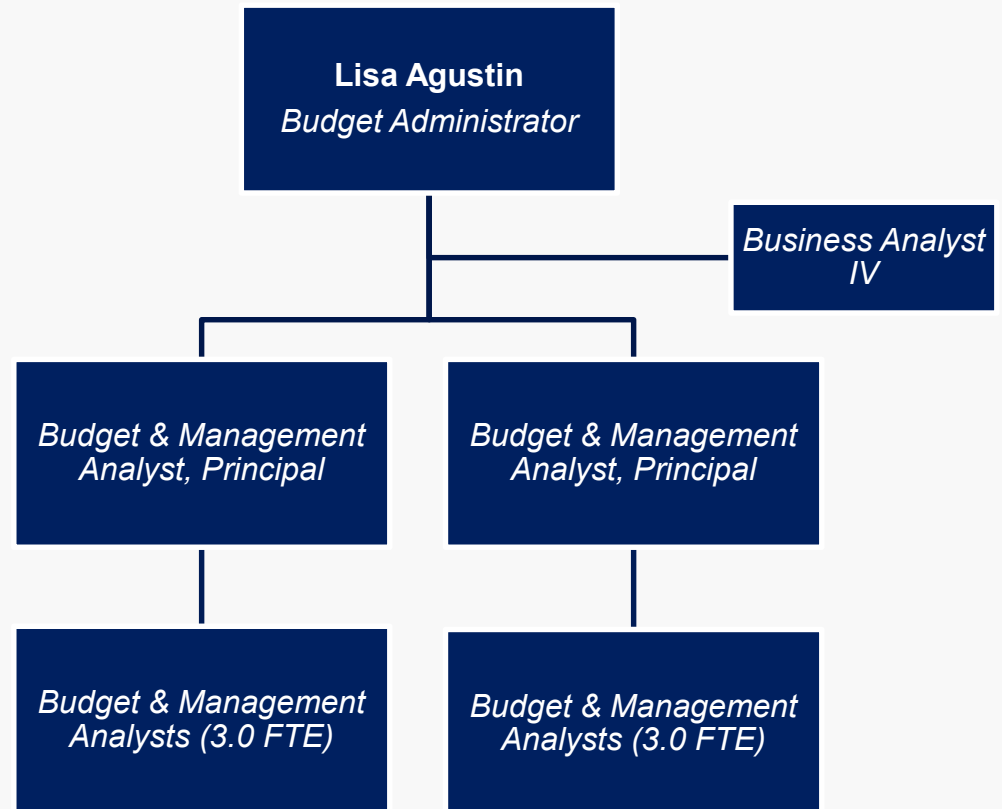
- Administration's primary responsibility is managing the Department's general operations to ensure efficient and effective service delivery
- Also, this bureau supports the Director of Finance with:
 - Budget preparation;
 - Hiring and personnel;
 - Labor negotiations;
 - Reviewing and coordinating all agenda reports for the Finance Department;
 - Development of sound fiscal policies;
 - Development of strategic plans to meet the short-term and long-term financial goals City; and
 - Special projects





Budget Bureau

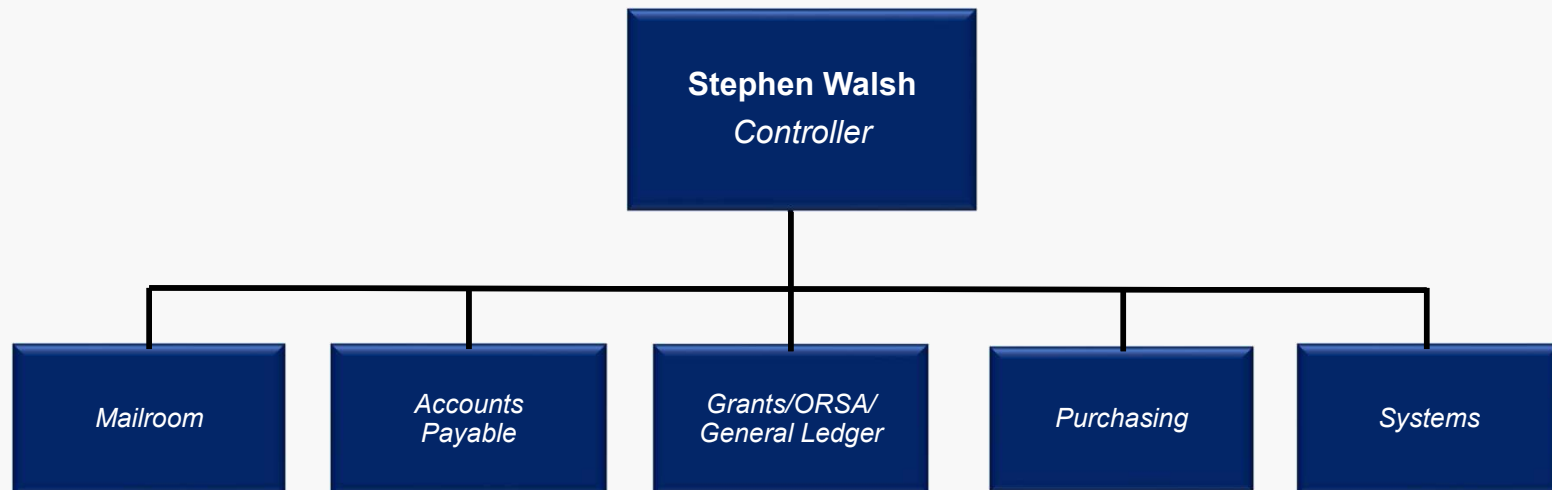
- The Budget Bureau is responsible for:
 - Administering the development and management of a balanced and fiscally responsible budget;
 - Acting as the City’s central fiscal strategic management resource;
 - Performing in-depth analysis of revenues and expenditures; and
 - Providing thorough legislative analysis to the City Administrator and elected officials





Controller Bureau

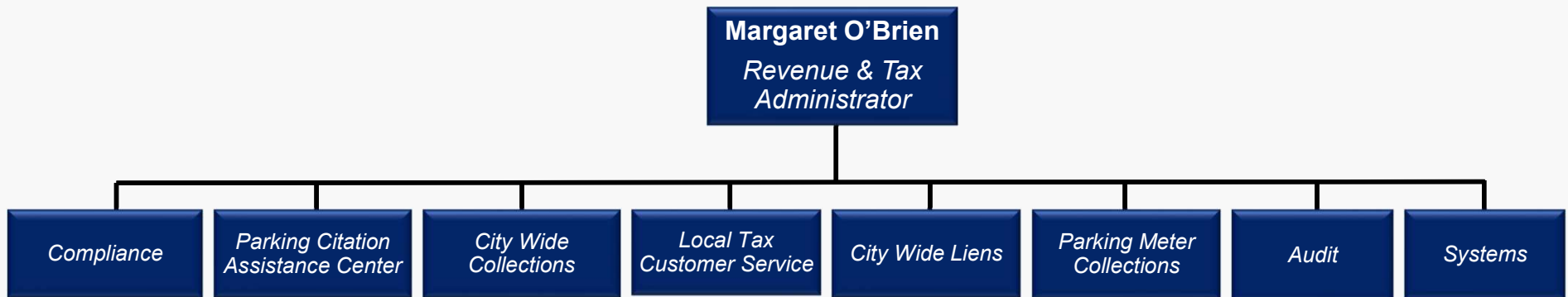
- This bureau is responsible for financial reporting, audits, and safeguarding the assets of the City. This includes:
 - Timely and accurate financial information and reports to the City Administrator, the Mayor and City Council, state and federal agencies and the public;
 - Maintaining the integrity of information in the City's financial management systems; and
 - Designing and monitoring of internal controls.
 - Citywide services for procure-to-pay, accounting, grant monitoring, financial systems, inter-departmental and outgoing United States mail.





Revenue Management Bureau

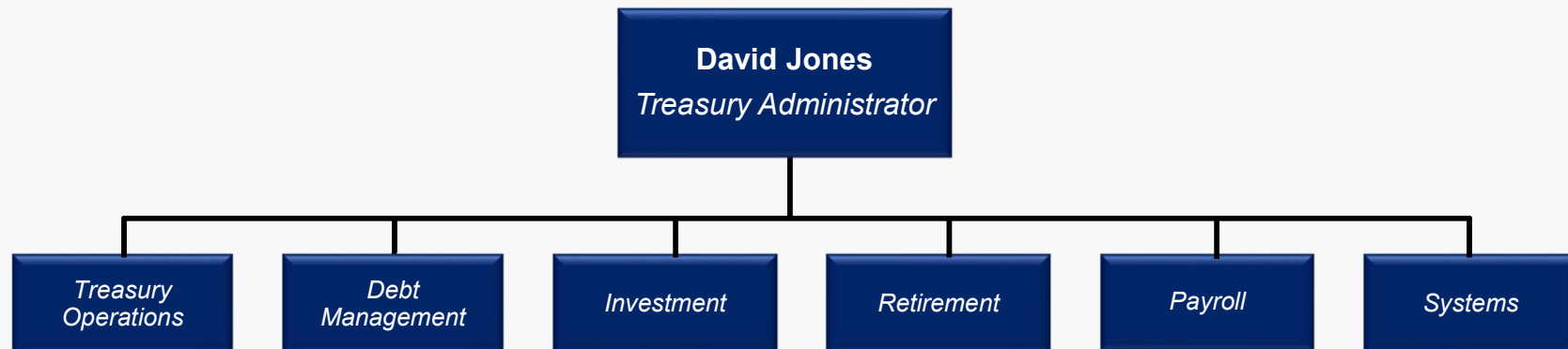
- This Bureau collects, records and reports on City revenues.
 - Deposits City-wide collections;
 - Enforces and monitors compliance with the provisions of City ordinances and complies with the State of California reporting requirements, pertaining to the following taxes:
 - Business License
 - Real Estate Transfer
 - Cannabis
 - Parking
 - Transient Occupancy
 - Mandatory Garbage
 - Utility Consumption
 - Sales and Use
 - Identifies and brings into compliance non-registered and delinquent tax accounts; and
 - Manages and collects all revenues derived from the City's parking meters and citations





Treasury Bureau

- The mission of the Treasury Bureau is to promote the conditions for fiscal prosperity and stability in Oakland and comprised of three different units:
 - **Treasury Unit:** Receive and deposit timely City and Successor Agency funds; manages all banking functions; oversees the day to day investment portfolios for the City and Successor Agency; and manages all of the City and Successor Agency debt issuance and management
 - **Retirement Unit:** Manages all the City's retirement matters, including all aspects of the City's legacy pension fund (PFRS) as well as key functions related to CalPERS
 - **Payroll Unit:** Serves as the central repository for all payroll related information; processes citywide payments for over 4,000 employees; maintains and upgrades HR/payroll systems, while implementing changes in accordance to federal regulations.



2. Current Economic Environment



Next Downturn is Now Closer Than the End of the Last One

- As of February 2020, we are more than ten years into the expansion phase of the current business cycle, starting after the recession bottomed out in June 2009: **128 months and counting**
- Average 1945-2009 (prior 11 cycles): **58.4 months**
- Average 1854-2009 (prior 33 cycles): **38.7 months**
- Range for all prior recessions since 1854: **10 to 120 months**

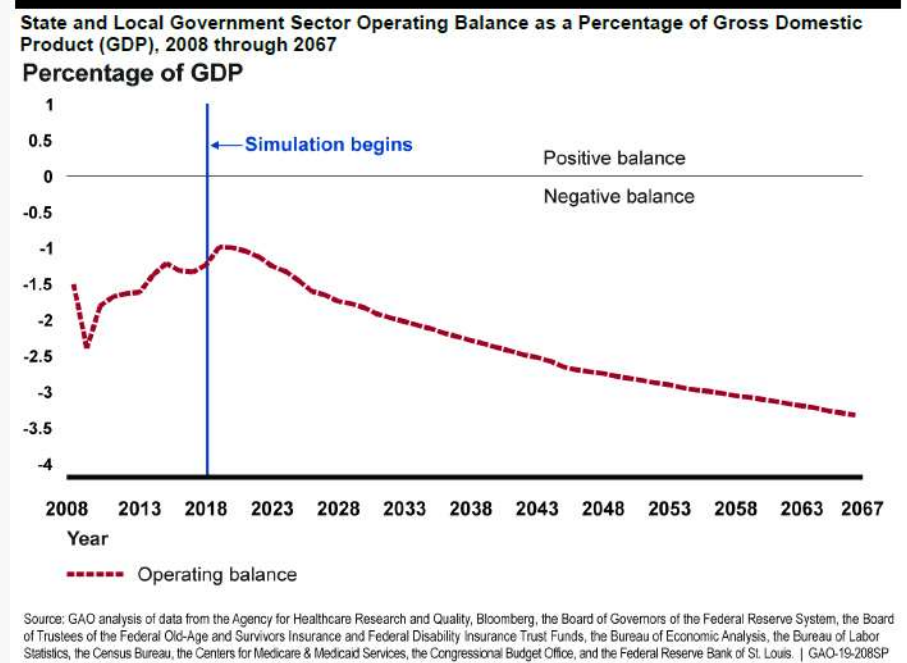
Last Five Expansion Phases (trough to peak)	Duration
November 2001 – December 2007	73 months
March 1991 – March 2001	120 months
November 1982 – July 1990	92 months
July 1980 – July 1981	12 months
March 1975 – January 1980	58 months

Source: National Bureau of Economic Research (NBER)



Structural Fiscal Challenges Persist

- Public sector fiscal challenges are not just cyclical, and few public employers will simply grow their way out of such pressures
- The U.S. Government Accountability Office (GAO) has developed a simulation model for the state and local sector as an entirety, projecting significant fiscal gaps absent corrective action, due largely to:
 - Flat revenues as % of GDP
 - Healthcare and retiree costs rising faster than the overall economy
- GAO calculated that closing the structural fiscal gap would require action equivalent to a 14.7% reduction in state and local government recurring expenditures every year



Source: United States Government Accountability Office, "State and Local Governments' Fiscal Outlook: December 2018 Update"



Pent-up Demands Have Surfaced

- From the workforce, to make up for containment and concessions during the downturn as the labor market has since heated up
- From the public, operating departments, and elected officials to restore and enhance services
- To address deferred and growing infrastructure needs
- To meet changing IT demands (mobility, access) and opportunities

Managing competing expectations and goals from operating departments, labor, Councils/Boards, and the public – while positioning for long-term fiscal stability – is a major challenge and concern for public sector finance officers in this period of recovery and growth



Other Challenges?

■ Homelessness

- 47% increase in Oakland's homeless population between 2017 and 2019. Oakland's per capita homeless rate is higher than San Francisco and Berkeley per 2019 point in time survey

■ Affordable and Safe Housing

■ Streets and Sidewalks Infrastructure

■ Illegal Dumping

■ Public Safety

Source:

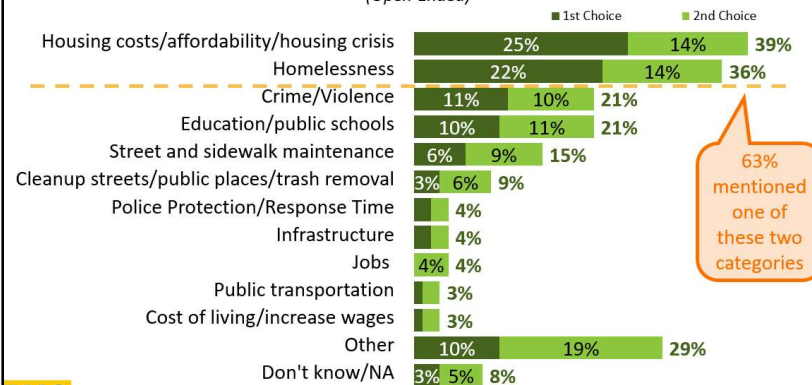
http://everyonehome.org/wp-content/uploads/2019/07/2019_HIRDReport_Alameda_FinalDraft_8.15.19.pdf

FIGURE 9. TOTAL NUMBER OF PERSONS EXPERIENCING HOMELESSNESS BY JURISDICTION AND SHELTER STATUS

Jurisdiction	2017			2019		
	Sheltered	Unsheltered	Total	Sheltered	Unsheltered	Total
Alameda	94	110	204	99	132	231
Albany	0	66	66	0	35	35
Berkeley	308	664	972	295	813	1,108
Dublin	0	21	21	0	8	8
Emeryville	0	29	29	0	178	178
Fremont	197	282	479	123	485	608
Hayward	84	313	397	115	372	487
Livermore	102	141	243	85	179	264
Newark	42	28	70	30	59	89
Oakland	859	1,902	2,761	861	3,210	4,071
Piedmont	0	0	0	0	0	0
Pleasanton	0	18	18	0	70	70
San Leandro	54	55	109	74	344	418
Union City	0	40	40	0	106	106
						349
						8,022

Homelessness and housing are clearly the top issues residents want to see prioritized.

In the upcoming two-year budget, what are the two most important issues facing Oakland residents that you would like to see prioritized in the City government budget?
(Open-Ended)



FM3



Discussion

- *Preparing for an economic downturn*
- *Balancing competing needs with limited resources*
- *Strategies for improving service-levels and delivery*

3. Debt and Investment



Debt Issuance & Management

- The City's Treasury Bureau is responsible for issuing and managing debt for the City and Oakland Redevelopment Successor Agency (ORSA)
- Debt issuance includes:
 - New money bonds or other debt to finance capital improvements and equipment purchases
 - Notes to finance annual cash flow requirements
 - Refinance outstanding debt at lower costs
- Debt management includes:
 - Budgeting, collecting revenue and paying for debt service
 - Ensuring compliance with Federal, State and local legislation
 - Ensuring adherence with financing agreements and industry standards
 - Maintaining relationships with market participants such as investors, lenders and rating agencies



Debt Portfolio

- \$1.1 billion: total outstanding debt as of 1/1/2020
 - City: \$820.3 million; ORSA: \$285.4 million
- **Most of the City’s debt is serviced with dedicated tax/revenue sources**
- General fund support debt includes, tax and revenue anticipation notes and lease revenue bonds
- Remaining voter approved, City GO bond authorization:
 - Measure DD (2002): \$35.8 million; Measure KK (2016): \$482.1 million

Outstanding Debt as of 1/1/2020

Type	Par Outstanding (\$Millions)	Primary Security	Purpose	Current Credit Ratings		
				Moody's	S&P	Fitch
General Obligation Bonds	301.655	Ad Valorem Property Tax	Capital Improvements	Aa2	AA	AA- ⁵
Pension Obligation Bonds	222.556	Property Tax Override	PFRS Obligations	Aa3	AA	A+
Tax & Revenue Anticipation Notes	97.255	General Fund ²	CalPERS Fiscal Year UAL Prefunding		-	
OACCA Lease Revenue Bonds ¹	60.368	General Fund	Coliseum & Arena	Aa3	-	Aa3
Lease Revenue Bonds	49.180	General Fund	Administration Buildings	Aa3	AA-	-
Master Lease Agreements	45.363	Leased Equipment	Vehicles, IT Systems & Other		-	
Sewer Revenue Bonds	28.260	Sewer Revenues	Sewer System	-	AA	AA+
Former Oakland Army Base Loan	12.750	Grant Revenues	ACTC Grant Cash Flow Financing		-	
Special Assessment Bonds	2.940	Assessment District Levies	District Capital Improvements		-	
City Total:	820.327					
ORSA Tax Allocation Bonds	285.420	RPTTF Revenues ^{3,4}	Project Area Redevelopment & Housing	-	AA- ⁶	-
City & ORSA Total:	1,105.747					

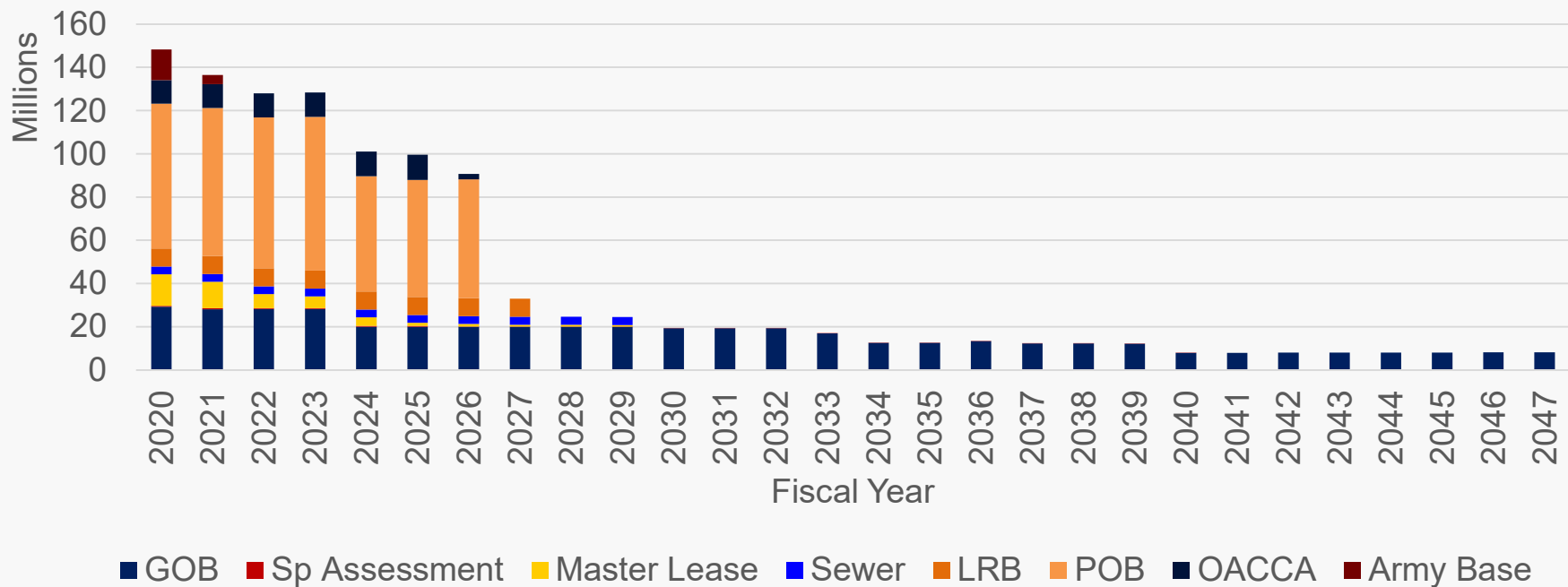
¹ Shows only City's obligation of 50%; ² Paid from fringe rates charged on all positions by Fund and supported by all City revenue; ³ Formerly tax increment revenues; ⁴ RPTTF Revenues from ROPS enforceable obligations (prior to residual RPTTF payment which is divided 75% to GPF and 25% to AHTF); ⁵ Issuer default rating; ⁶ RPTTF Pledge



Aggregate Debt Service

- Nearly 80% of the City's outstanding debt will retire within the next 10 years
- This does not include the City's other long-term liability burdens such as pension and other post-employment benefits (OPEB)

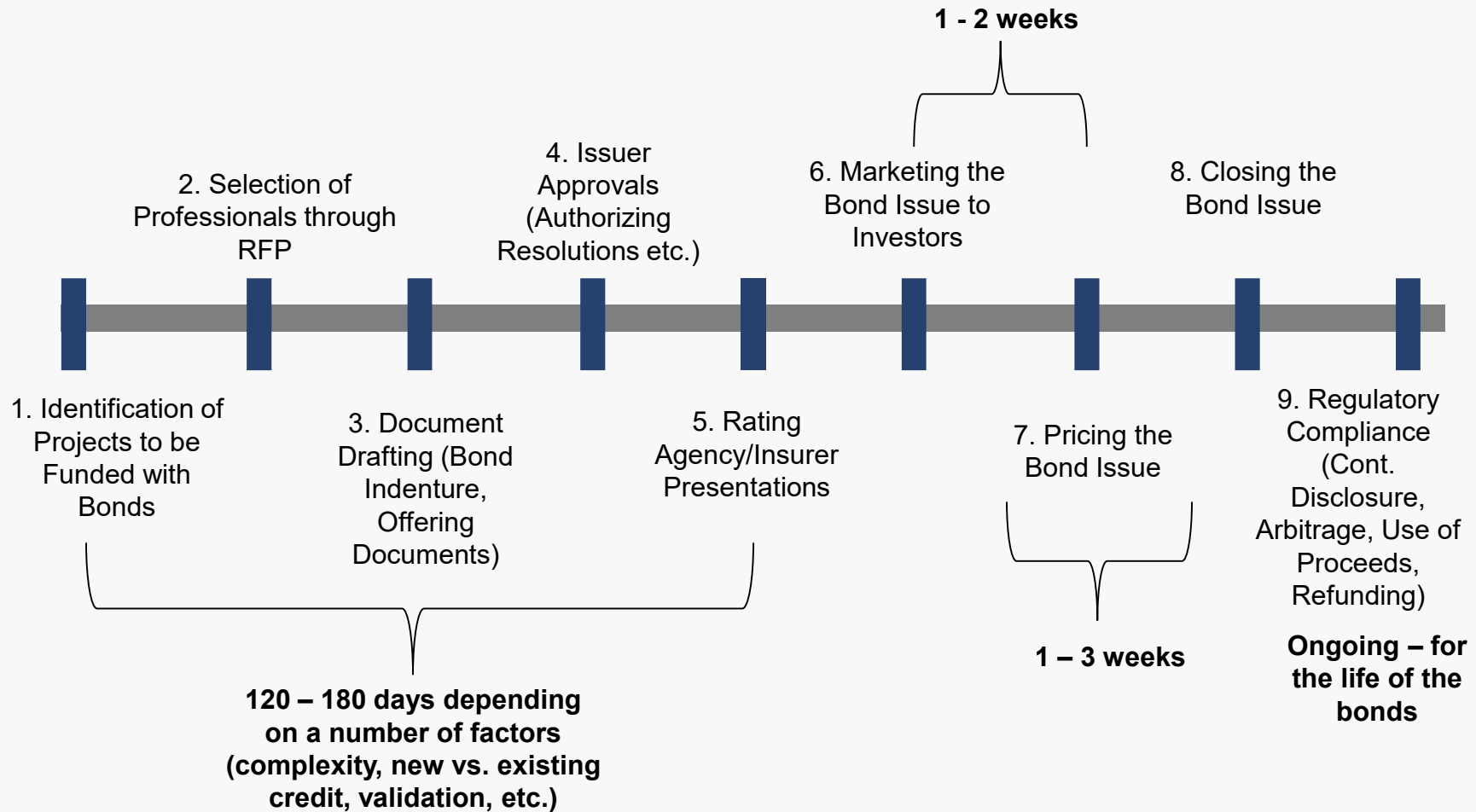
City of Oakland Debt Service - Long-Term Debt





Typical Bond Issuance Timeline

Bond Issuance Cycle (Minimum 5 months Process)





Credit Ratings

- Credit ratings provide an independent assessment of an issuer's credit risk derived from a systemic, uniform guide to creditworthiness, similar to your FICO consumer credit score
- Issuers should expect to pay investors higher interest rates on lower-rated debt
- City's Credit Rating: Aa2/AA/AA-
- The City's ratings are at their highest levels in City history
 - Upgraded from S&P in 2017 and Fitch in 2018

CREDIT RATING SCALES
LONG-TERM RATINGS

	MOODY'S	STANDARD & POOR'S	FITCH	RATINGS MAP
INVESTMENT GRADE	Aaa	AAA	AAA	High Grade
	Aa1	AA+	AA+	
	Aa2	AA	AA	
	Aa3	AA-	AA-	Upper Medium Grade
	A1	A+	A+	
	A2	A	A	
	A3	A-	A-	Lower Medium Grade
	Baa1	BBB+	BBB+	
	Baa2	BBB	BBB	
Baa3	BBB-	BBB-	NON-INVESTMENT GRADE	
Ba1	BB+	BB+		Speculative
Ba2	BB	BB		
Ba3	BB-	BB-		
B1	B+	B+		Highly Speculative
B2	B	B		
B3	B-	B-		
Caa1	CCC+	CCC		Substantial Risks
Caa2	CCC			Extremely Speculative
Caa3	CCC-		Default	
Ca	CC			
	D	DDD DD D		



Rating Agency Reports

Excerpt from Most Recent GO Ratings

Rating Agency	Type	Rating	Action
S&P	GO	AA/Stable	Affirmed
Moody's	GO	Aa2/Stable	New Issue



Credit Challenges

- Long term budgetary challenges including pension and health care costs
- Above average debt, pension, and OPEB obligations



- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2017, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very weak debt and contingent liability profile

Source: City of Oakland, CA Update to Credit Analysis; Moody's Investor Service dated April 19, 2018
Oakland, California; Appropriations; General Obligation; S&P Global Ratings dated April 20, 2018



Fitch Ratings January 2019 Report on: How Prepared Are California Credits For The Next Recession?

City Ratings and Assessments

City / County	Issuer Default Rating	Revenue Framework	Expenditure Framework	Long-Term Liabilities
Alameda County	AAA	a	aaa	aa
Hayward	AA+	a	aa	aa
San Francisco (City/County)	AA+	aa	aa	aa
San Jose	AA+	a	a	aa
Oakland	AA-	a	a	a

Revenue Framework	aaa	aa	a
Growth Prospects for Revenues Without Revenue-Raising Measures	Strong Growth in line with or above the level of U.S. economic performance	Solid Growth below U.S. economic performance but above the level of inflation	Slow Growth in line with the level of inflation
Expenditure Framework	aaa	aa	a
Natural Pace of Spending Growth Relative to Expected Revenue Growth (Based on Current Spending Profile)	Slower to equal	In line with to marginally above	Above
Long-Term Liabilities	aaa	aa	a
Combined Burden of Debt and Unfunded Pension Liabilities in Relation to Resource Base	Low Liabilities less than 10% of personal income	Moderate Liabilities less than 20% of personal income	Elevated but still in the moderate range Liabilities less than 40% of personal income

Source: How Prepared Are California Credits for the Next Recession? Fitch Ratings Report dated January 18, 2019



How Decisions Impact Ratings

	FY 2018-19	FY 2019-20	FY 2020-21
	Year End Actuals	Adopted Budget	Adopted Budget
REVENUES			
Property Tax	\$199,963,825	\$215,020,345	\$228,358,716
Sales Tax	62,259,745	59,950,990	61,637,435
Business License Tax	99,733,123	99,673,792	103,221,291
Utility Consumption Tax	49,598,702	55,161,000	56,815,600
Real Estate Transfer Tax	104,904,997	82,873,970	85,376,169
Transient Occupancy Tax	26,109,595	27,796,271	28,923,900
Parking Tax	11,053,353	11,461,012	11,804,842
Licenses & Permits	1,782,532	2,947,904	2,974,473
Fines & Penalties	21,197,853	19,788,846	19,824,299
Interest Income	1,102,021	1,210,069	1,210,069
Service Charges	64,568,856	67,234,926	69,476,398
Grants & Subsidies	1,983,302	119,435	119,435
Miscellaneous	2,107,821	968,064	968,064
Interfund Transfers	3,578,734	6,806,233	5,100,000
Subtotal Revenues	\$649,944,458	\$651,012,857	\$675,810,691
Transfers from Fund Balance	1,233,659	4,114,375	8,735,428
Total Revenues	<u>\$651,178,117</u>	<u>\$655,127,232</u>	<u>\$684,546,119</u>



Municipal Interest Rates

- The Municipal Market Data (MMD) index is the AAA benchmark for tax-exempt interest rates
- The City's bonds will price at a spread to the MMD index, similar to your home mortgage priced at a spread to the 10-year U.S. Treasury yield





AAA vs. AA Pricing

- The pricing differential between a AAA vs AA rated bond is approximately 0.19% in lower interest rates per year
- On a \$100 million financing over 30 years, the saving would result in:
 - \$115,000 in annual interest cost
 - \$3.4 million total interest cost

Based on AAA MMD Scale as of 1/14/2020		Based on AA MMD Scale as of 1/14/2020		Pricing Differential AAA vs AA	
True Interest Cost (TIC)	1.762%	True Interest Cost (TIC)	1.952%	True Interest Cost (TIC)	(0.190%)
Total Interest	\$29,093,728	Total Interest	\$32,534,241	Total Interest	(\$3,440,514)
Total Debt Service	\$129,093,728	Total Debt Service	\$132,534,241	Total Debt Service	(\$3,440,514)
Avg Annual Debt Service	\$4,303,124	Avg Annual Debt Service	\$4,417,808	Avg Annual Debt Service	(\$114,684)



Disclosure

- Municipal securities issuers and their officials can be liable for violations of the antifraud provisions of the federal securities laws:
 - Section 17(a)(2) and (3) of the Securities Act of 1933 (negligence standard)
 - Section 10(b) of the Securities Exchange Act of 1934 (based on actual intent or recklessness)
- Antifraud provisions make it unlawful, in connection with the offer, purchase, or sale of securities, to:
 - Make any untrue statement of a material fact;
 - Omit to state a material fact; and
 - Engage in any act, practice, or course of business which would operate as a fraud or deceit upon any person
- When do the antifraud provisions apply?
 - Official statements
 - Continuing disclosures (post issuance)
 - Informal disclosures
- Note: Violations of the antifraud provisions may occur even though there is no intent to defraud



Continuing Disclosure (Post Issuance)

- Under the Securities Exchange Act of 1934 Rule 15c2-12, the City agrees to provide to the Municipal Securities Rulemaking Board (MSRB) through its website Electronic Municipal Market Access (EMMA):
 - Certain financial information on an annual basis; and
 - In a timely manner not in excess of ten (10) business days after the occurrence of the certain specific events, such as, but not limited to:
 - Principal and interest payment delinquencies;
 - Non-payment related defaults;
 - Modifications to rights of the owners of the bonds
 - Optional or unscheduled bond calls;
 - Defeasances;
 - Rating changes;
 - Adverse tax opinions or events affecting the tax-exempt status of the bonds;
 - Unscheduled draws on debt services reserves or credit enhancement;
 - Substitution of credit or liquidity providers
- Good adequate disclosure is essential. Communicate with others involved in reviewing or monitoring disclosures



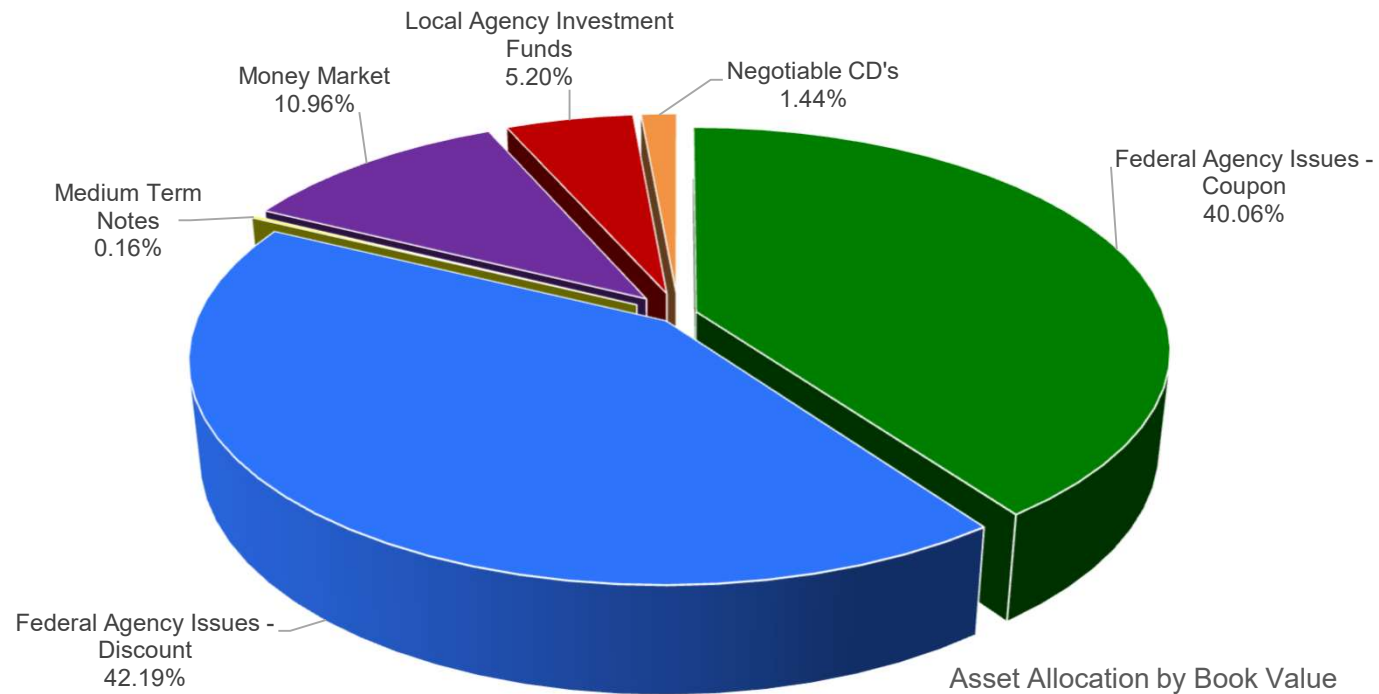
Investment Portfolio

- Manages the day-to-day investment portfolios totaling approximately \$1.25 billion which include the City, Oakland Successor Redevelopment Agency (ORSA) and Port of Oakland's Investment Portfolios. Also, prudently invests bond proceeds/project funds pursuant to bond indenture.
- Daily Cash Funding
 - Achieve adequately balances/needs for all City, ORSA and Port of Oakland Accounts
 - Ensure liquidity and all City's obligations are met daily
- Portfolio Investing
 - Prudent investing of public funds
 - Actively developing short/long term investing strategy
 - Performing market research to efficiently manage the portfolios for safety, liquidity and yield
- Compliance
 - Ensure compliance with current State statutes governing the investment practices of local governments, and City's Investment Policies to avoid regulation actions and penalties



Portfolio Composition & Characteristics

- Portfolio Size – \$1.25 Billion as of December 2019
- Daily Liquidity – 16.10%
- 180 Day Liquidity – 51.96%
- Days to Maturity – 276 Days
- Effective rate of return for December 2019 – 1.85%





Permitted Investments

Permitted Investment Types	Maximum Investment	Maximum Maturity
U.S. Treasury Bills, Notes & Bonds⁽¹⁾	20%	5 years
Federal Agencies	No Maximum	5 years
Bankers Acceptance	40%	180 days
Commercial Paper	25%	270 days
Asset-Backed Commercial Paper	25%	270 days
Local Government Investment Pools	20%	N/A
Medium Term Notes	30%	5 years
Negotiable CDs	30%	5 years
Repurchase Agreements	No Maximum	360 days
Reverse Repurchase Agreements⁽²⁾	20%	92 days
Money Market Mutual Funds	20%	N/A
Certificates of Deposit⁽³⁾	Prudent Person Standard Applies	360 days
Local Agency Investment Fund	\$75 Million	N/A
Local City / Agency Bonds	No Maximum	5 years
State of California Bonds or any other of the United States Registered State Bonds, Treasury Notes or Warrants	No Maximum	5 years
Other Local Agency Bonds	No Maximum	5 years
Secured Obligations and Agreements	20%	2 years
Deposits – Private Placement⁽⁴⁾	30%	N/A
Obligations of Supranational Institutions	30%	5 years

⁽¹⁾Investment in U.S. Treasury securities requires approval of the City Council under the Nuclear-Free Ordinance.

⁽²⁾The sum of reverse repurchase agreements and securities lending agreements should not exceed 20% of the portfolio.

⁽³⁾For deposits over \$250,000, the Certificate of Deposit must be collateralized.

⁽⁴⁾Sunsets on January 1, 2021.



Discussion

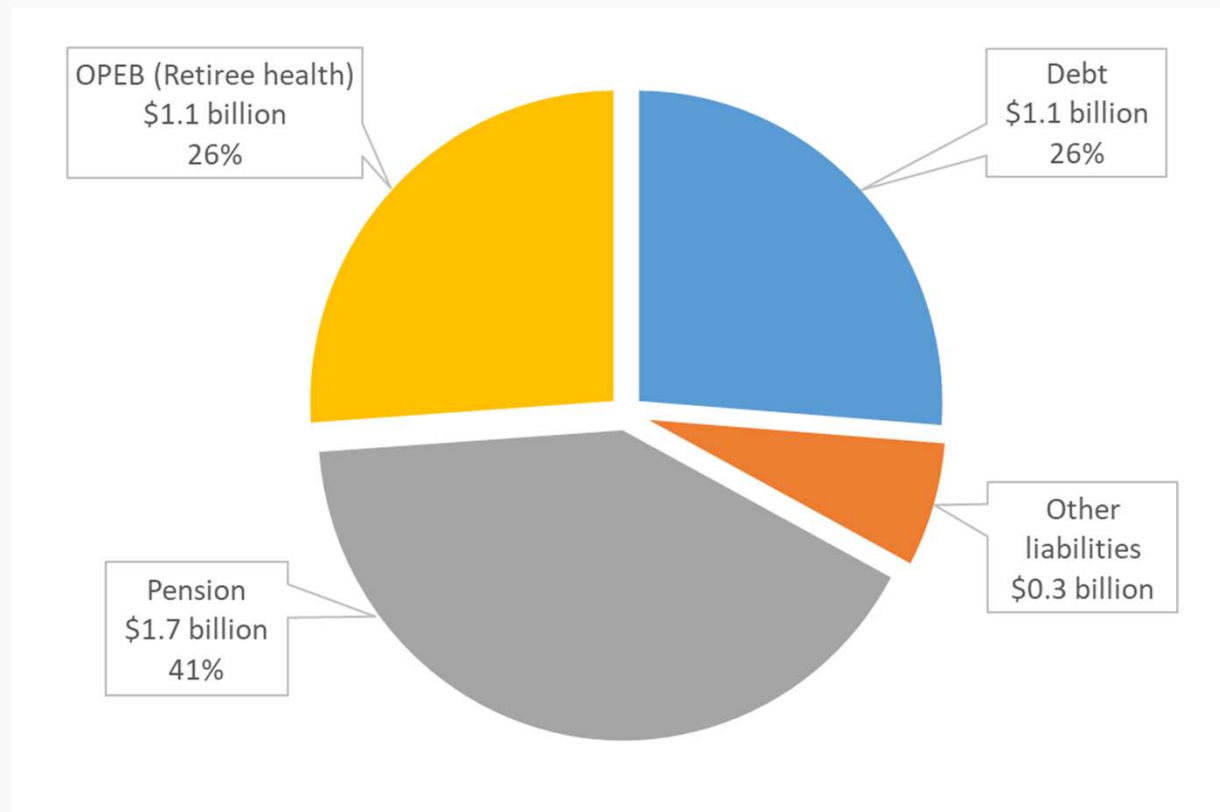
- *Debt financing vs Pay-Go for capital projects*
- *Strategies to maintain strong credit ratings*
- *Investing in U.S. Treasury bonds*

4. Pension and Other Post- Employment Benefits (OPEB) Obligations



City of Oakland Liabilities

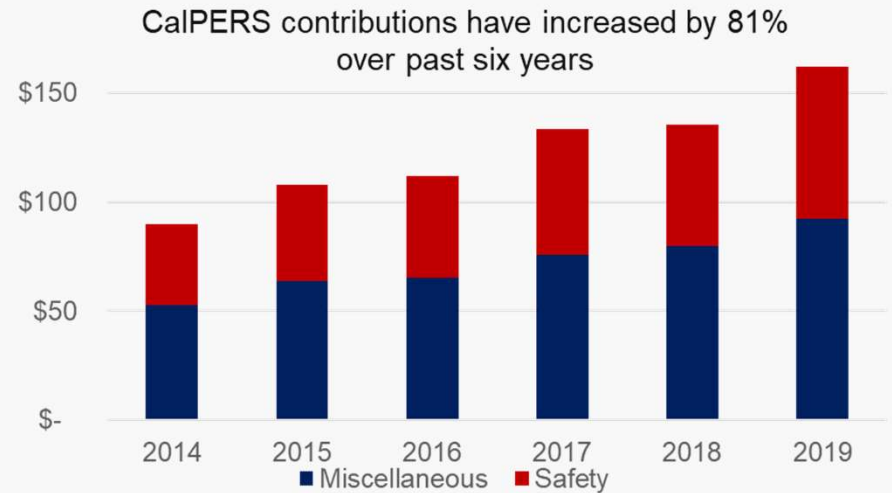
- The City has over \$4.2 billion of liabilities
- Pension and OPEB obligations represent approximately 67% of what we owe, resulting in a negative net position
- These liabilities are driving our finances over the long-term and the City's financial health is directly connected to the actions Council takes with regard to these benefits





Pension Plans

- City has three defined benefit plans:
 - Oakland Police and Fire Retirement System (PFRS)
 - Legacy plan supported by a dedicated revenue source (Tax Override Revenue)
- CalPERS Safety Plan
- CalPERS Miscellaneous Plan



Plan	Actuarial Accrued Liability	Market Value of Assets	Unfunded Actuarial Accrued Liability	Funded Ratio based on Market Value	Valuation Date
PFRS	\$647.30	\$376.00	\$299.80	58.1%	7/1/2018
PERS - Safety	2,176.71	1,370.87	805.83	63.0%	6/30/2018
PERS - Misc	2,824.72	1,885.19	939.53	66.7%	6/30/2018



Oakland Police and Fire Retirement System (PFRS)

- The Oakland Police and Fire Retirement System (PFRS) is a closed defined benefit plan established by the City of Oakland's Charter.
- PFRS is governed by a board of seven trustees. PFRS covers the City's sworn police and fire employees hired prior to July 1, 1976. PFRS was closed to new members on June 30, 1976. As of September 30, 2019, PFRS had 797 retired members and no active members.

PFRS Membership as of September 30, 2019			
Membership	POLICE	FIRE	TOTAL
Retiree	347	199	546
Beneficiary	127	124	251
Total Membership	474	323	797

- The City Council levied the Tax Override at a rate of 0.1575% of property assessed value
- PFRS funded ratio is 58.1% as of July 1, 2018



CalPERS Pension

- Oakland participates in the CalPERS pension system. City employees hired prior to 6/8/2012, are eligible to retire as early as age 50 (Safety) or age 55 (Miscellaneous) without a reduced service benefit.
- The Public Employees' Pension Reform Act (PEPRA) – an act of the state legislature – required all public employees hired after 1/1/2013 to participate in a new tier with a reduced benefit multiplier.
- Oakland does not participate in Social Security.

	Effective Date	City of Oakland Safety Plan	City of Oakland Miscellaneous Plan
Tier 1	Pre-6/8/2012 Hires	3.0% at age 50; 12 month of highest salary	2.7% at age 55; 12 months FAS
Tier 2	6/8/2012 – 12/31/2012	3.0% at age 55; 36 months FAS	2.5% at age 55; 36 months FAS
Tier 3 (PEPRA)	Post-1/1/2013 Hires	2.0% at age 57; 36 months FAS	2.0% at age 62; 36 months FAS

FAS = Final Average Salary

Source: Miscellaneous Plan of the City of Oakland, Annual Valuation Report as of June 30, 2018

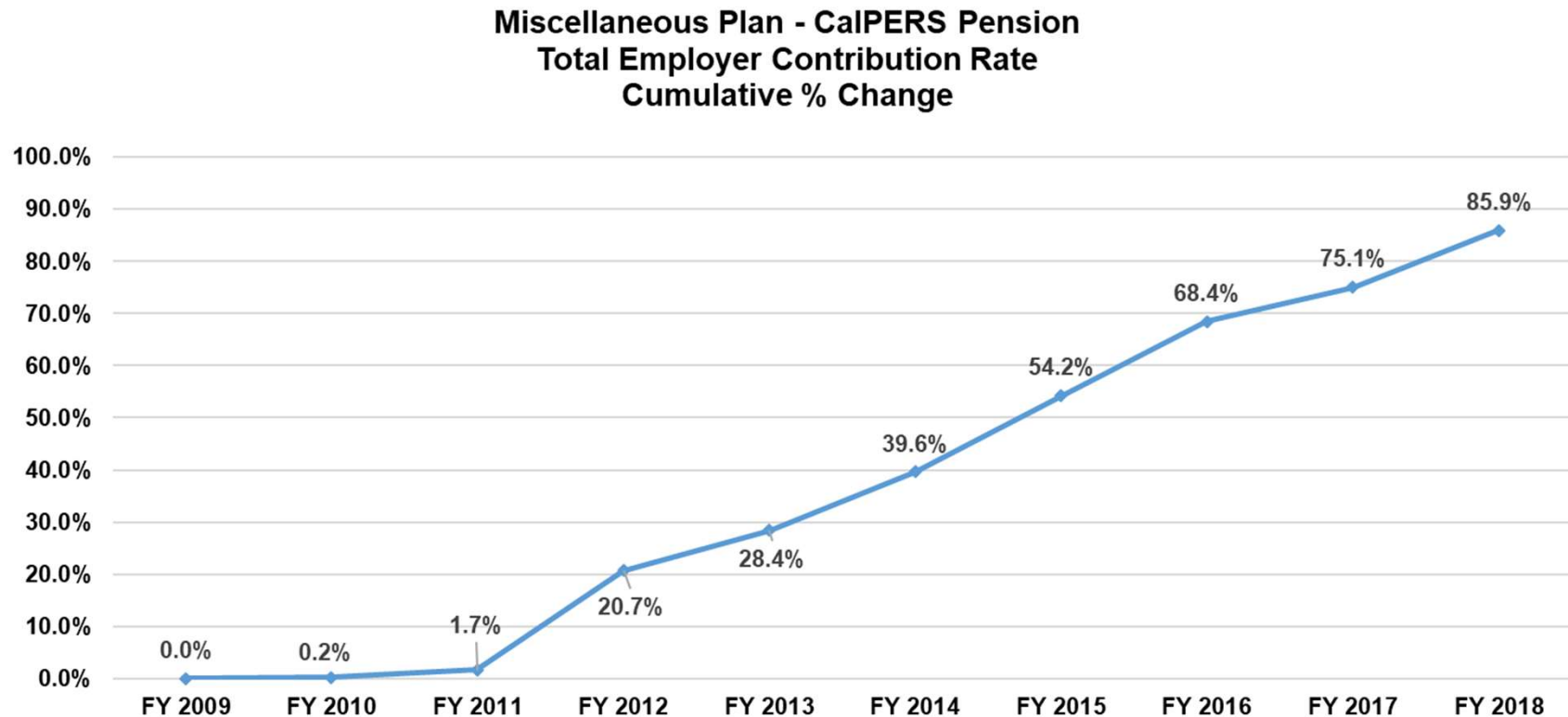


Pension Costs Squeeze Available Resources

Historical Perspective: City Contribution to PERS as a % of Payroll

- Over the 10-year period from FY 2008-09 to FY 2017-18, the City's total pension contribution for Miscellaneous members increased by an average of **7.1% per year**, for a cumulative increase of **85.9%**.

FY 2009 = 19.55%	FY 2018 = 36.35%	FY 2020 = 42.23%
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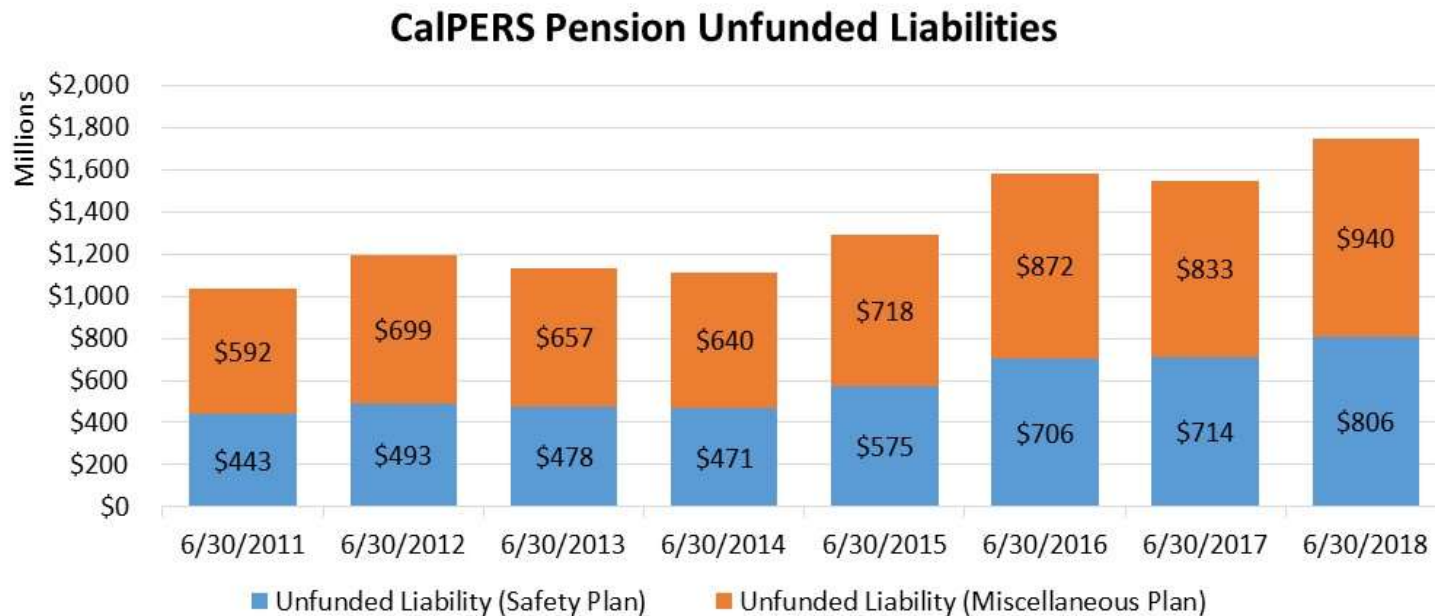
Source: Miscellaneous Plan of the City of Oakland, CalPERS Annual Valuation Reports FY 2009-2018



CalPERS Pension Unfunded Liabilities

Limited Options For Public Employers

- Local governments have few options to deal with pension cost:
 - Contribute more (and reduce or eliminate other services); or
 - Expect higher than assumed investment returns (6.70% for FY 2018-19), **despite CalPERS already forecasting that they will not meet the discount rate (7.00%) over the next 10 years.**
- As shown in the chart below, across its two defined-benefit CalPERS pension plans, the City had more than **\$1.745 billion** in unfunded liabilities.



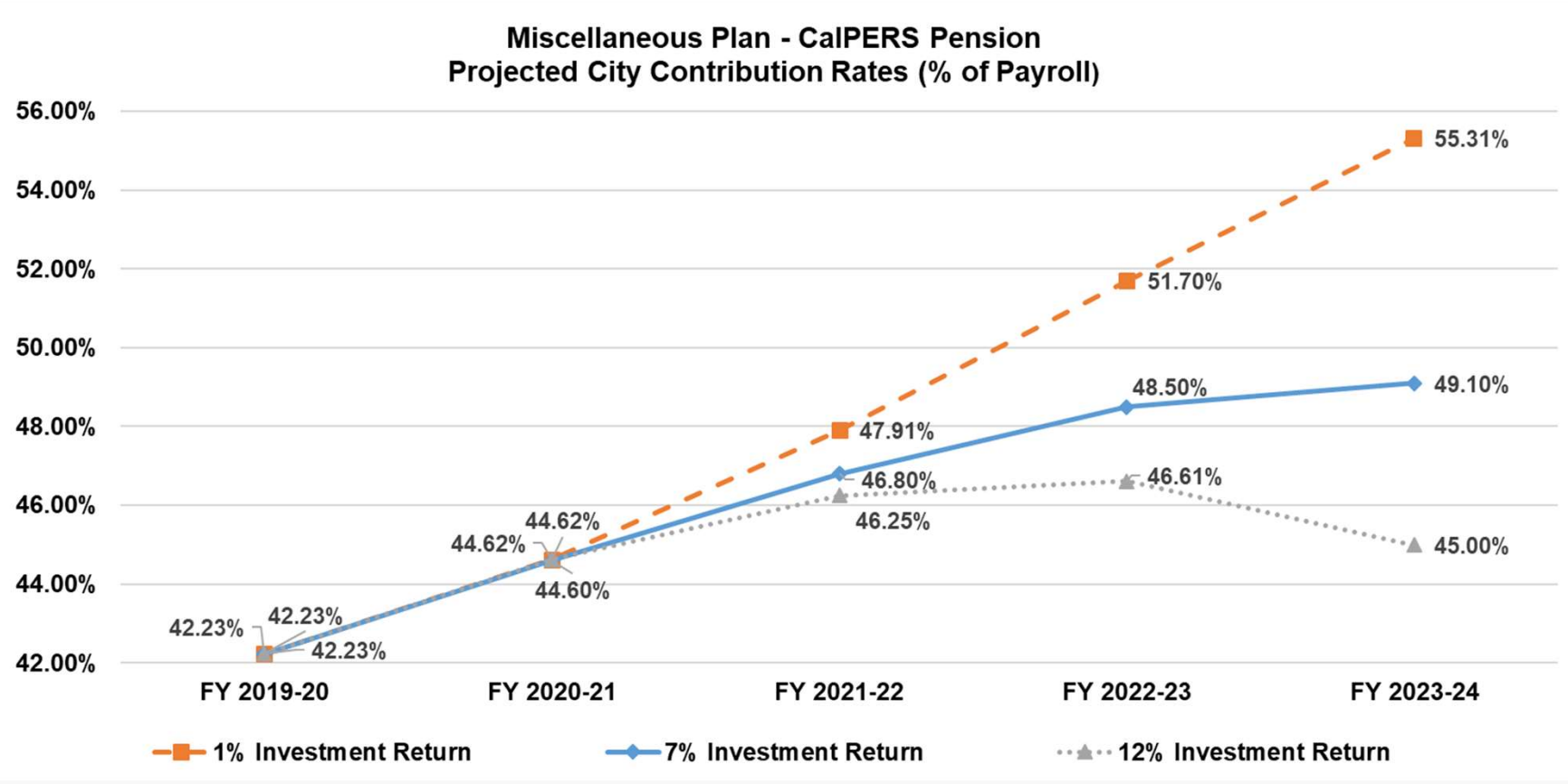
Source: CalPERS Actuarial Reports, Miscellaneous and Safety Plans, June 30, 2018



CalPERS Projections

Employer Contribution Rates on the Rise

- The graph below is the projected employer contributions rate as a percentage of payroll from the City's most recent CalPERS pension actuarial report for Miscellaneous employees (July 2019).
- **Significant downside risk that are outside the City's control.**



Source: Miscellaneous Plan of the City of Oakland, Annual Valuation Report as of June 30, 2018 (pages 5 and 22)



Pension Funding History

- Over the past eight years, the market value of assets have increased 38.6% from \$2.3 billion in FY 2011 to \$3.3 billion in FY 2018
- However, the unfunded liability increased 68.7% due to changes in the actuarial assumptions such as the discount rate. This reduced the funded ratio from 69.4% in FY 2011 to 65.1% in FY 2018

City of Oakland – Safety Plan

Valuation Date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	\$ 1,357,816,142	\$ 915,113,586	\$ 442,702,556	67.4%	\$ 130,530,316
06/30/12	1,398,098,675	905,555,632	492,543,043	64.8%	118,924,175
06/30/13	1,487,554,559	1,009,460,115	478,094,444	67.9%	116,889,443
06/30/14	1,639,891,284	1,169,019,374	470,871,910	71.3%	116,485,068
06/30/15	1,754,078,714	1,179,020,200	575,058,514	67.2%	132,109,808
06/30/16	1,872,472,345	1,166,391,681	706,080,664	62.3%	144,655,510
06/30/17	1,997,661,954	1,283,385,686	714,276,268	64.2%	149,391,376
06/30/18	2,176,705,475	1,370,874,540	805,830,935	63.0%	152,187,205

City of Oakland – Miscellaneous Plan

Valuation Date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	\$ 2,025,140,791	\$ 1,433,446,834	\$ 591,693,957	70.8%	\$ 194,123,412
06/30/12	2,080,205,749	1,380,840,100	699,365,649	66.4%	184,568,347
06/30/13	2,153,399,419	1,496,650,907	656,748,512	69.5%	183,384,391
06/30/14	2,341,202,493	1,701,426,635	639,775,858	72.7%	194,720,748
06/30/15	2,409,031,753	1,691,228,930	717,802,823	70.2%	200,577,831
06/30/16	2,519,676,541	1,647,526,747	872,149,794	65.4%	213,967,422
06/30/17	2,616,012,657	1,783,380,244	832,632,413	68.2%	220,104,450
06/30/18	2,824,719,522	1,885,192,567	939,526,955	66.7%	229,406,591



Other Post-Employment Benefits (OPEB)

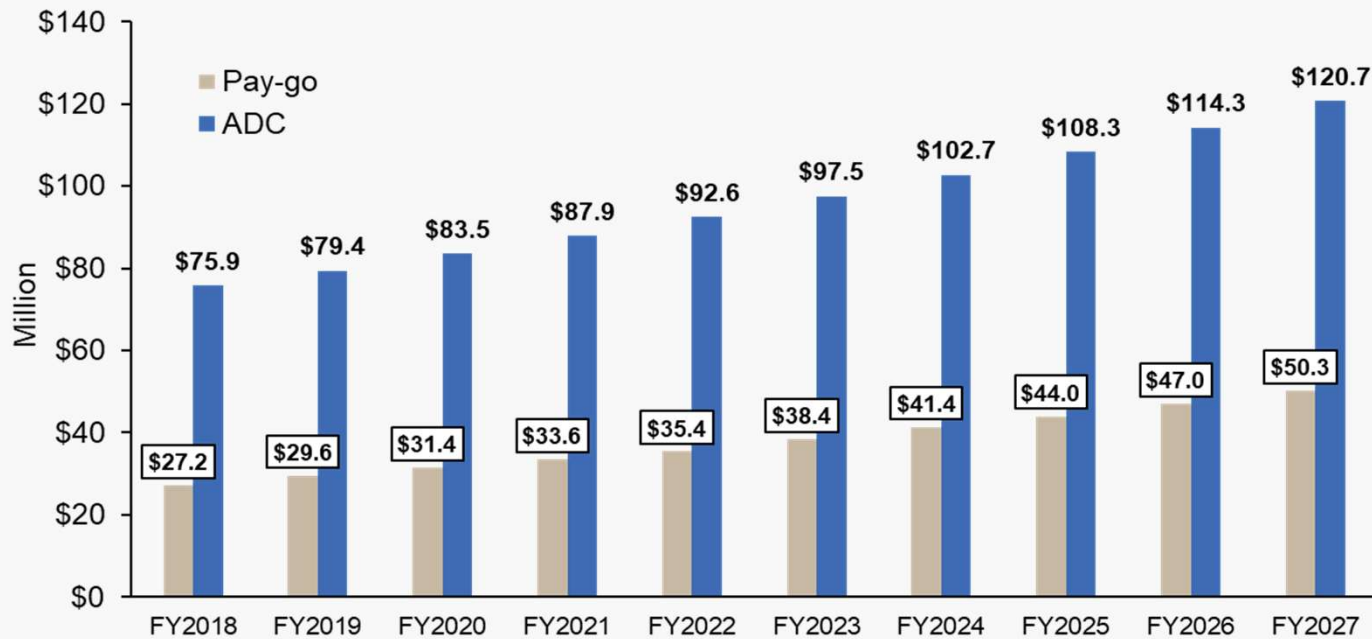
- City retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service
- In 2014, the City began to partially pre-fund the annual required contribution to the California Employer's Retiree Benefit Trust (CERBT)
- The City's single-employer defined benefit retiree health plan allows eligible retirees and their dependents to receive employer-paid medical insurance benefits through CalPERS.
- The medical insurance reimbursement is not to exceed the Kaiser-HMO family plan rate.
- The Postretirement Health Plan also includes dental and vision benefits and reimbursement of Medicare Part B monthly insurance premium



Other Post-Employment Benefits (OPEB)

- The City has one plan for all employees and retirees
- The Actuarially Determined Contribution (ADC) represents the amount needed to fund benefits over time. If the contributions are not fully paid, interest accrues on the unpaid portion at the plan's expected long-term rate of return
- Rapid and continued growth in costs is anticipated for pay-go costs alone. Liabilities and future costs will also grow to degree that pay-go funding falls short of full actuarial funding

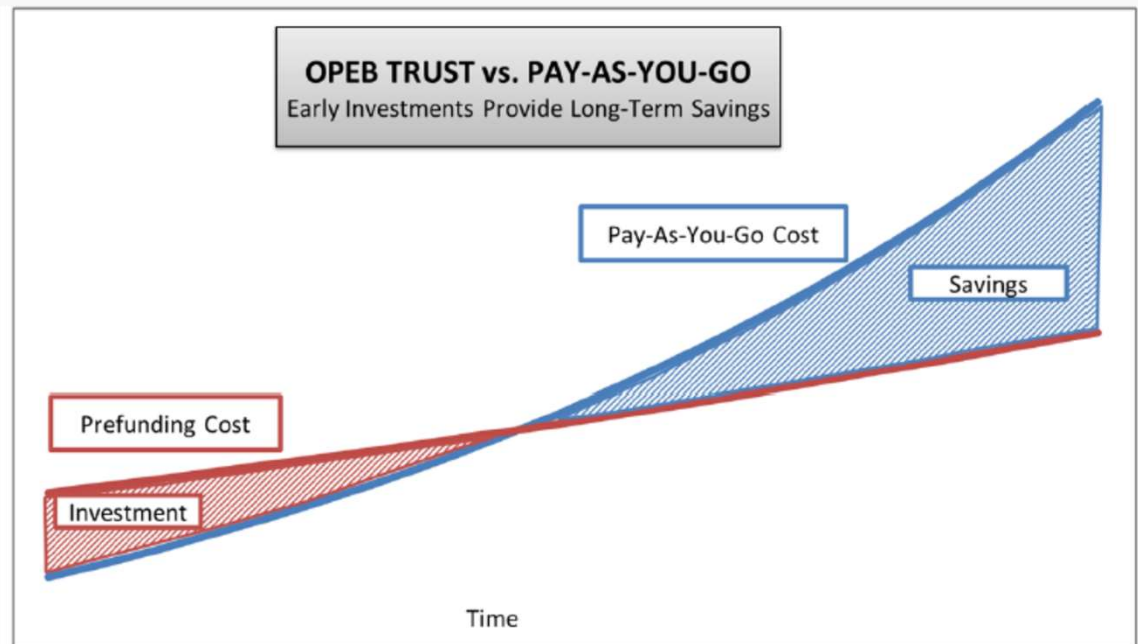
Pay-Go v. ADC Projections, FY2019-20 to FY2026-27
(Does not include impact of new funding policy)





Other Post-Employment Benefits Funding Policy

- On February 26, 2019, the City Council adopted Resolution No. 87551 C.M.S. establishing the Other Post-Employment Benefits Funding Policy providing for on-going pre-funding contributions of 2.5% of payroll (~\$10 million annually). These amounts are in addition to the City's pay-as-you-go requirements and are intended to support the sustainability of the City's retiree medical program
- The OPEB Funding Policy created the California Employer's Retiree Benefit Trust (CERBT). The CERBT currently has a balance of \$29.2 million
- Over the long-term, funding the Actuarially Determined Contribution allows the City to harness investment returns for prefunded amounts to pay a portion of future OPEB benefits – generating long-term savings and moderating future budget pressures.
- The policy is expected to increase the City's funded ratio for the explicit subsidy component of OPEB liability to approximately 75% funded within 20 years and to obtain full funding in less than 25 years





Pension vs. OPEBs (part 1)

Attribute	Pensions	OPEBs
Eligibility and benefit levels	Established by State law	Established by City policy and MOUs
Contribution amounts	Rates set by CalPERS based on actuarial studies	OPEB policy provides guidance but City has broad discretion to determine funding amounts
Contribution sources	For post-2013 hires, employees pay half of “normal cost,” City pays other half plus payments towards liabilities not adequately funded in prior years	City pays all costs—no employee contributions



Pension vs. OPEBs (part 2)

Attribute	Pensions	OPEBs
Funding model	City and employee contributions are intended to pre-fund future pension payments	City has traditionally funded costs of benefits from current resources (“pay-go”) and has begun prefunding only in past few years
Funding levels	69% for Miscellaneous, 65% for Safety	2%
Chief cost drivers	Investment returns, changes in actuarial assumptions, mortality	Health care inflation, changes in actuarial assumptions, mortality
Comparisons to peers	Post-2013 hires have similar benefits and contribution requirements statewide.	Eligibility requirements, benefit levels, and 100% employer funding are more favorable to employees than most peer jurisdictions. Liability levels are correspondingly higher as well.



Discussion

- *Strategies to address the growing pension and OPEB obligations*
- *Plan funding goals and objectives*
- *Evaluate the long-term financial impact of near-term decisions*
- *Impact of market conditions on pension/OPEB funding ratios and actuarial required contribution*

5. Financial Policies and Reserves



Financial Policies Overview

Financial policies are central to a strategic, long-term approach to financial management. Some of the most powerful arguments in favor of adopting formal, written financial policies include their ability to help governments:...

- Institutionalize good financial management practices
- Define a shared understanding of how the organization will develop its financial practices and manage its resources
- Promote long-term and strategic thinking
- Manage risks to financial condition

- Government Finance Officers Association (GFOA) Best Practice Advisory

Oakland's Current Financial Policies

- Consolidated Fiscal Policy (CFP)
 - Budget Practices
 - Reserve Funds
 - Budget Process
- Investment Policy
- Debt Policy
- Other Post-Employment Benefits (OPEB) Funding Policy



CFP – Budget Practices

Rationale: A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means... a government [should] maintain a balance between operating expenditures and operating revenues over the long term, [which] is referred to as structural balance.

- *GFOA: Recommended Budget Practices*

- **Balanced Budgets**
 - Propose and adopt a balanced budget that limits appropriations to estimated revenues and available fund balance
 - Balanced at the individual fund Level
 - Amendments to the Budget shall maintain a balanced budget
- **Administrative Discretion Budget Modifications**
 - Carryforwards of Appropriations from one Fiscal Year to the Next
 - Material Alterations to the Budget
 - Transfers between Accounts



CFP – Budget Practices (cont.)

Practice: A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.

Rationale: By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to non-recurrence of these sources.

- *GFOA: Recommended Budget Practices*

- One-Time and Volatile Revenues
 - May be waived by Resolution
 - Excess Real Estate Transfer Tax (RETT):
 - Limited to 15% of GPF Tax Revenues
 - ✓ Amounts in Excess are One-Time
 - ✓ 25% → Unfunded liabilities
 - ✓ 25% → Vital Services Stabilization (Rainy Day) Fund
 - Other One-Time Revenues
 - Restricted for Use on One-Time Expenditures



CFP – Reserves

- Emergency Reserve
 - Equal to 7.5% of GPF Adopted Expenditures (\$48.83 million)
 - May be appropriated for fiscal emergencies
 - Reserve Held as Fund Balance
- Vital Services Stabilization (Rainy Day) Fund
 - Funded by Excess RETT
 - Can be used when GPF revenues fall, or to prevent significant service reductions
 - Target value of 15% of GPF Revenues (current value \$19.81 million or 2.9% of GPF Revenues)
- CIP Reserve
 - Funded from One-Time Revenues when not otherwise used
 - May be appropriated for unexpected emergencies, major capital maintenance, and repair costs
 - Currently unfunded



Reserves: Best Practices & Comparisons

Local Comparison: Reserve Goals

Oakland – Emergency Reserve: 7.5%; Vital Services Fund: 15% of GPF Revs

City of Berkeley

- 9.2% Stability
- 7.5% Catastrophic

City & County of San Francisco

- 10% Combined Stabilization and Rainy Day

City of Emeryville

- 25% Stabilization
- 25% Rainy Day

Appropriate Fund Balance Level: Typically no less than 60 days or two months (about 16.5%-16.7%) of operating expenditures for the general fund

- Municipal Research and Services Center



Fund Balance vs. Reserves

- Most of the City's fund balances are restricted
- As of June 30, 2019, the City had \$118.2 million of unassigned General Fund balance:
 - \$48.8 million set aside to meet the CFP mandated 7.5% required reserve
 - Includes other non-GPF funds that are restricted in use such as KCOB, AHTF, SSBT, Self-Sustaining Fund, etc.
 - Many of these fund balances are appropriated against in FY 2019-20

Fund balances for all the major and nonmajor governmental funds as of June 30, 2019, were distributed as follows (in thousands):

	General	Federal/State Grant Fund	LMIMHF ¹	Municipal Capital Improvement	Other Special Revenue	Other Governmental Funds	Total
Restricted for:							
Capital projects	\$ —	\$ 9,071	\$ 1,557	\$ 129,410	\$ —	\$ 15,476	\$ 155,514
Pension obligations annuity	57,436	—	—	—	—	—	57,436
Pension obligations PFRS	182,811	—	—	—	—	—	182,811
Debt service	—	—	—	—	—	17,065	17,065
Property held for sale	—	—	30,677	131,980	—	—	162,657
Housing projects	—	—	30,212	—	—	—	30,212
Total restricted	240,247	9,071	62,446	261,390	—	32,541	605,695
Committed for:							
Vital services	14,648	—	—	—	—	—	14,648
Library, Kids First and museum trust	—	—	—	—	25,279	1,669	26,948
Total committed	14,648	—	—	—	25,279	1,669	41,596
Assigned for:							
Capital projects	44,362	—	—	—	158,413	2,557	205,332
Encumbrances	9,596	—	—	—	—	—	9,596
Total assigned	53,958	—	—	—	158,413	2,557	214,928
Unassigned	118,242	—	—	—	—	—	118,242
Total	\$ 427,095	\$ 9,071	\$ 62,446	\$ 261,390	\$ 183,692	\$ 36,767	\$ 980,461

¹ Low and Moderate Income Housing Asset Fund



CFP – Budget Process

Practice: A government should publish a comprehensive budget calendar that specifies when budget tasks are to be completed and that identifies timelines for those tasks

Rationale: Stakeholders need to be aware of when key budget tasks, events, and decisions will occur so they have an opportunity to plan and to participate in the process.

- GFOA: Recommended Budget Practices



**Budget
Priorities
Poll Results**



**Council
Priorities
Workshop**



**Five-Year
Forecast
Released**



**Mayor's
Proposed
Budget**



**Community
Budget
Forums**



**Council
President's
Budget**



**Deadline for
Budget
Adoption**

January

February

March

May 1st

May & June

June 17th

June 30th



Financial Planning – a.k.a. Budgeting

- Budget Principles & Overview
 - Key financial planning tool
 - Approved revenue and spending plan that authorizes a municipality to use public dollars to provide services
 - Budgets are by definition an estimate
 - Informed by the City’s priorities, goals, and values
- Institutionalized and adheres to numerous best practices in our budget process
- Public engagement is a strength
 - Scientific poll of residents
 - Community forums
 - Presentations at public meetings
 - Budget ambassadors program



Budgets: Existing Best Practice Elements

Assess Community Needs, Priorities, Challenges, and Opportunities

Budget Priorities Poll,
Community Forums,
Outreach Efforts

Adopt Financial Policies

Consolidated Fiscal Policy (CFP)

Develop a Process for Preparing and Adopting a Budget

Budget Calendar –
CFP Timelines

Develop and Disseminate Broad Goals

Mayor & Council Goals
& Values

Make Choices Necessary to Adopt a Budget

Timely Adoption of
Balanced Budgets

Monitor, Measure, and Evaluate Financial Condition

R&E Reports



Budgets & Policy: Practice Improvements

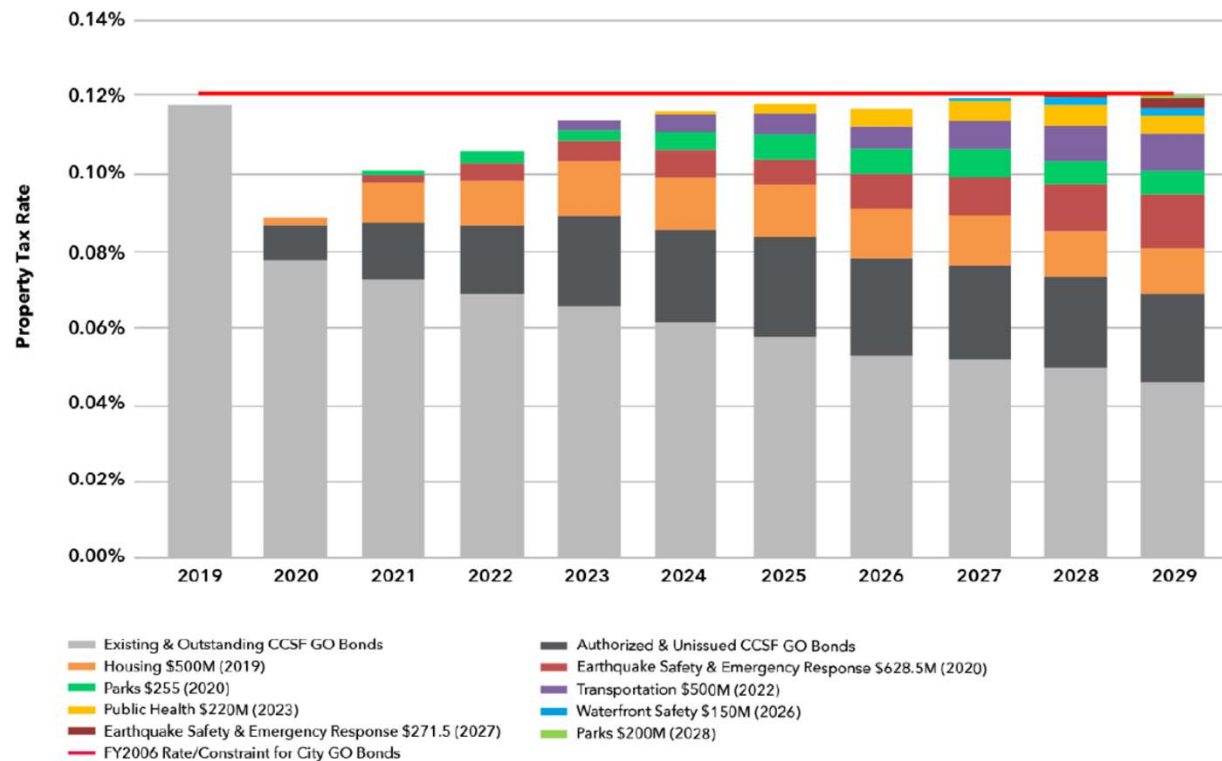
- Prioritization of Expenditures and New Initiatives
- Multi-Year Planning & Policy Development in advance of the two-year budget
 - Utilize Off-Year (Midcycle) of the Biennial Budget Cycle to develop and vet new service and program
- Improve Long-Range Financial Planning and align financial capacity with long-term service objectives
- Utilize Capital Improvement Program Prioritization Process to align with City's current policies and values to reflect citywide priorities of:
 - Equity
 - Economy
 - Improvement
 - Health and Safety
 - Environment
 - Collaboration
 - Existing Conditions
 - Required Work
 - Shovel Ready
- Simplification of Budgeting Practices and Formulas
- Flexibility – Avoid Restricting Revenues and Other Sources Funds
 - Budgetary formulas
 - Earmarked special funds
 - Minimum spending requirements



City and County of San Francisco Capital Planning Program

- The City and County of San Francisco has a Capital Plan G.O. Bond Program that constraints G.O. Bonds property tax rates to 2006 levels
- The Capital Planning Program coordinates resources to restore, improve and build San Francisco's public infrastructure by replacing existing and aging assets with new and more efficient projects over time as old debt is retired and/or the property tax base expands

**Capital Plan G.O. Bond Program (Certified AV 8-1-18)
FY2020-29**





Discussion

- *Adequacy of financial policies*
 - *Reserves*
 - *Use of Excess RETT*
 - *Use of One-Time Revenues*
 - *OPEB Funding Policy*

6. Revenues



General Purpose Fund, Property & Local Taxes

- Oakland is a Charter City. This affords the City broader assessment powers than a General Law City, as well as taxation power, so long as we maintain compliance with Proposition 218, California Constitution Article XIII C, § 2 and the City of Oakland Charter.

- As such the City assess a variety of local taxes:
 - Business Tax - OMC Chapter 5, Section 5.04
 - Parking Tax - OMC Chapter 4, Section 4.16
 - Real Estate Transfer Tax - OMC Chapter 4, Section 4.20
 - Transient Occupancy Tax - OMC Chapter 4, Section 4.24
 - Utility Transfer Tax - OMC Chapter 4, Section 4.28

- City's General Purpose Fund receives revenue from
 - Property Taxes
 - Sales Tax



Revenue Management Best Practices

- Develop Policy on the use of one-time revenues
- Long-Range Planning
- Agreed upon Forecasting Policy



Develop Policy on The Use of One-Time Revenues

- “A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.

Rationale: By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to non-recurrence of these sources.

- *GFOA: Recommended Budget Practices*

- A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

Rationale: Unpredictable revenue sources cannot be relied on as to the level of revenue they will generate. Particularly with major revenue sources, it is important to consider how significant variation in revenue receipts will affect the government’s financial outlook and ability to operate programs in the current and future budget periods.”

- *GFOA: Recommended Budget Practices*



Long-Range Planning

The purpose of the financial forecast is to evaluate current and future fiscal conditions to guide policy and programmatic decisions. A financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions.

- *GFOA: Recommended Budget Practices*

- A government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs, and assumptions and that develops appropriate strategies to achieve its goals.
- The forecasting of sharp turns in national, state, or local economies is problematic. As a result, actual outcomes may be different from projections, particularly for revenue streams *dependent upon consumption and income*.
- Analyze Tax & Fee Exemptions: A government should periodically estimate the impacts and potential foregone revenue as a result of policies that exempt from payment, provide discounts and credits, or otherwise favor particular categories of taxpayers or service users.

Business Tax



Business Tax

- The City has approximately 22 different categories* of business that are taxed at a variety of different rates.
- Businesses are required to pay taxes annually by no later than March 1.
- The basis typically used for calculating the tax is the previous year's gross receipts or payroll.
- Business taxes are not typically considered a volatile revenue category; however, these taxes are subject to flattening or decreasing during times of economic contraction.
- Business taxes are one area where the City will experience increased revenue as it increases collection efficiencies.
- The Revenue Management Bureau deployed new, more efficient local tax software in late November 2016. The software provided:
 - Ability to renew and pay taxes online.
 - Ability to pay using e-check
 - Ability to open or close a business online.

* Most Bay Area cities have similar Business Tax categories/classifications.



Business Tax Rates

Oakland and Nearby Cities Tax Rates *

Jurisdiction	Primary Tax Structure	Tax Rate	
		Minimum	Maximum
Oakland	Gross Receipts	\$0.60 / \$1,000	\$13.95 / \$1,000
Berkeley	Gross Receipts	\$1.20 / \$1,000	\$28.80 / \$1,000
Emeryville	Gross Receipts	\$0.10 / \$1,000	\$0.10 / \$1,000
Hayward	Fixed / Gross Receipts	\$16.00	\$373.35 + \$0.11 / \$1,000
San Francisco	Tiered Gross Receipts	\$0.75 / \$1,000	\$6.50 / \$1,000
San Leandro	Flat Tax Rate & Per Employee	\$141.50 and \$42.50 per Employee	\$709.20 and \$106.50 per Employee

* Excluding cannabis

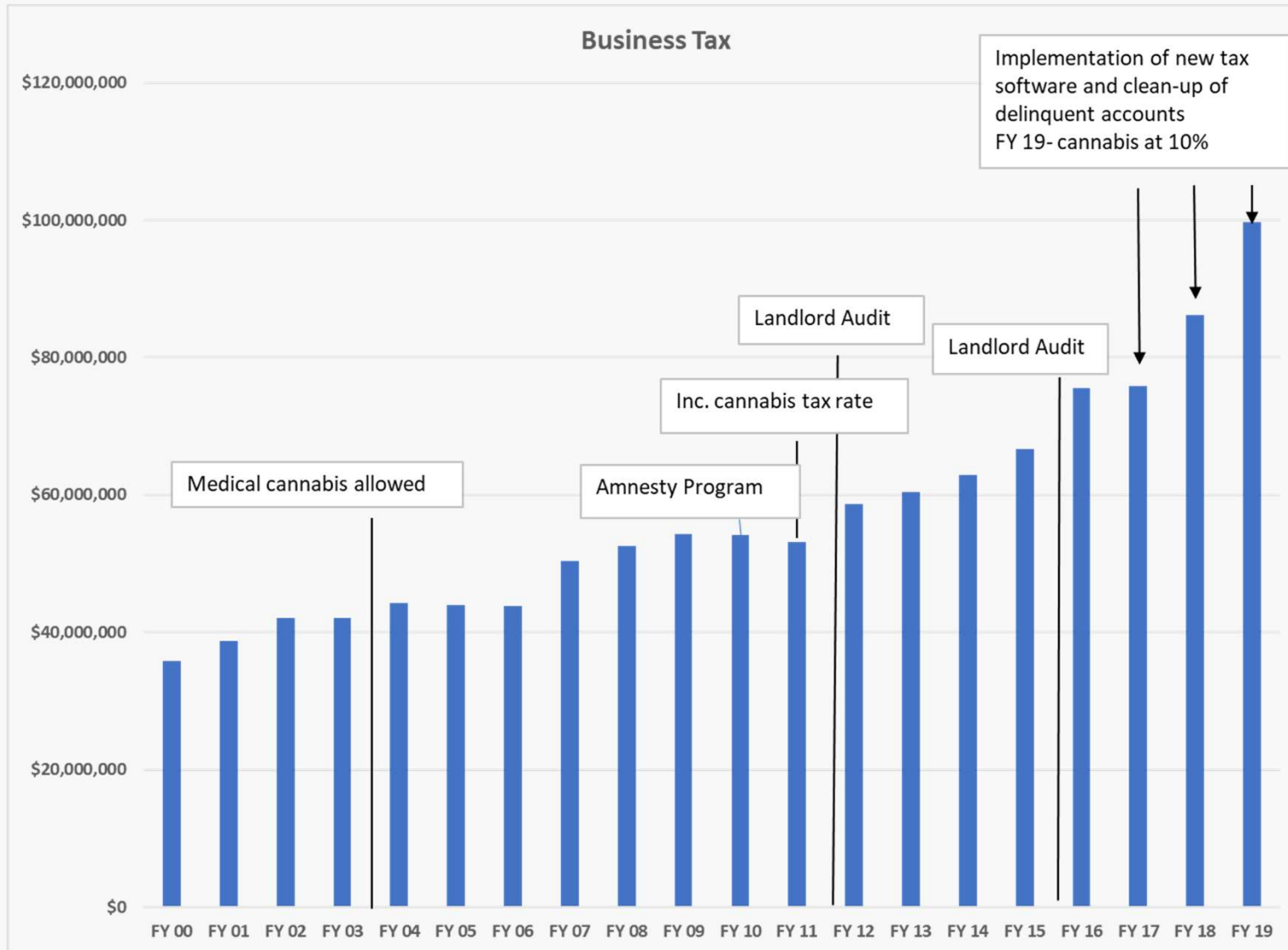


City of Oakland 2019 Business Tax Facts

- 52,090 active accounts
- 4,730 accounts generated 80% of 2019 tax revenues
 - Top Categories*:
 - Professional Services
 - Commercial Rental Property
 - Residential Rental Property
- 2,194 accounts closed for a loss of \$4.36 million ongoing revenue
- 3,469 accounts opened for expected FY 2020 revenue aggregate of \$4.94 million (one-time and ongoing)
- OMC § 5.04.430, Five-Year Commercial/Industrial Exemption:
 - All new buildings and those buildings on which major renovations are completed after July 1, 1981 will be eligible for a five-year exemption
 - The reduced tax of \$1.80 per \$1,000 of gross receipts applies during the five-year exemption. The tax rate of \$13.95 per \$1,000 gross receipts applies following the expiration of the five-year period



Business Tax





Business Revenue Statistics

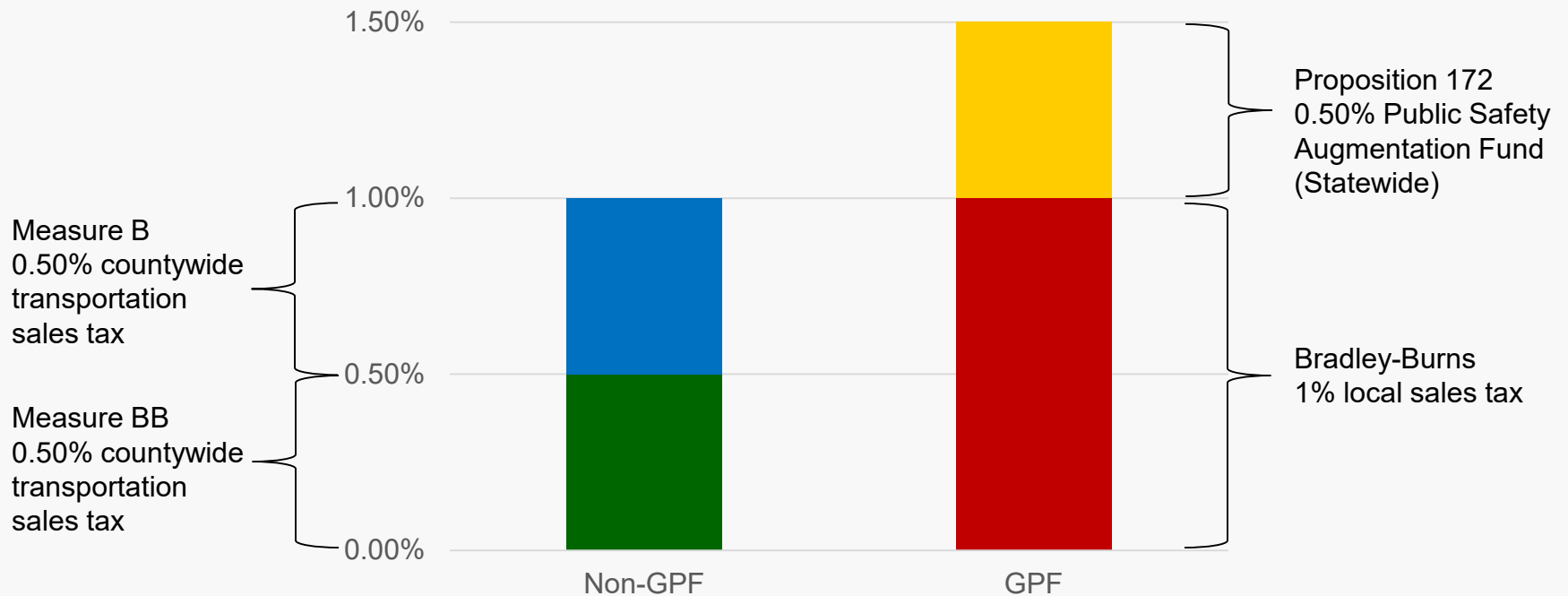
Business Category	Tax Revenues	% of Total Revenue	Number of Businesses
M - RESIDENTIAL RENTAL PROPERTY	\$20,249,898	24.10%	24,640
F - PROFESSIONAL/SEMI-PROFESSIONAL	\$19,660,723	23.40%	8,327
N - COMMERCIAL RENTAL PROPERTY	\$13,702,529	16.31%	3,469
H - CONTRACTORS	\$7,536,183	8.97%	5,483
E- BUSINESS/PERSONAL SVCS	\$5,825,357	6.93%	7,698
A - RETAIL SALES	\$4,770,442	5.68%	5,229
G - RECREATION/ENTERTAINMENT	\$3,849,177	4.58%	506
D - WHOLESALE SALES	\$2,875,159	3.42%	764
I - MANUFACTURING	\$1,029,701	1.23%	848
U - UTILITY COMPANIES	\$890,383	1.06%	174
K - ADMIN HEADQUARTERS	\$886,352	1.06%	109
C - AUTOMOBILE SALES	\$869,159	1.03%	115
B - GROCERS	\$590,577	0.70%	327
T - MEDIA FIRMS	\$579,073	0.69%	67
Other	\$655,248	0.78%	2,214
Grand Total(Excluding Cannabis)	\$84,013,361	100.00%	59,970

Sales Tax



Sales Tax

- Oakland's sales tax is 9.25%*
- The City receives sales taxes from four different main categories:

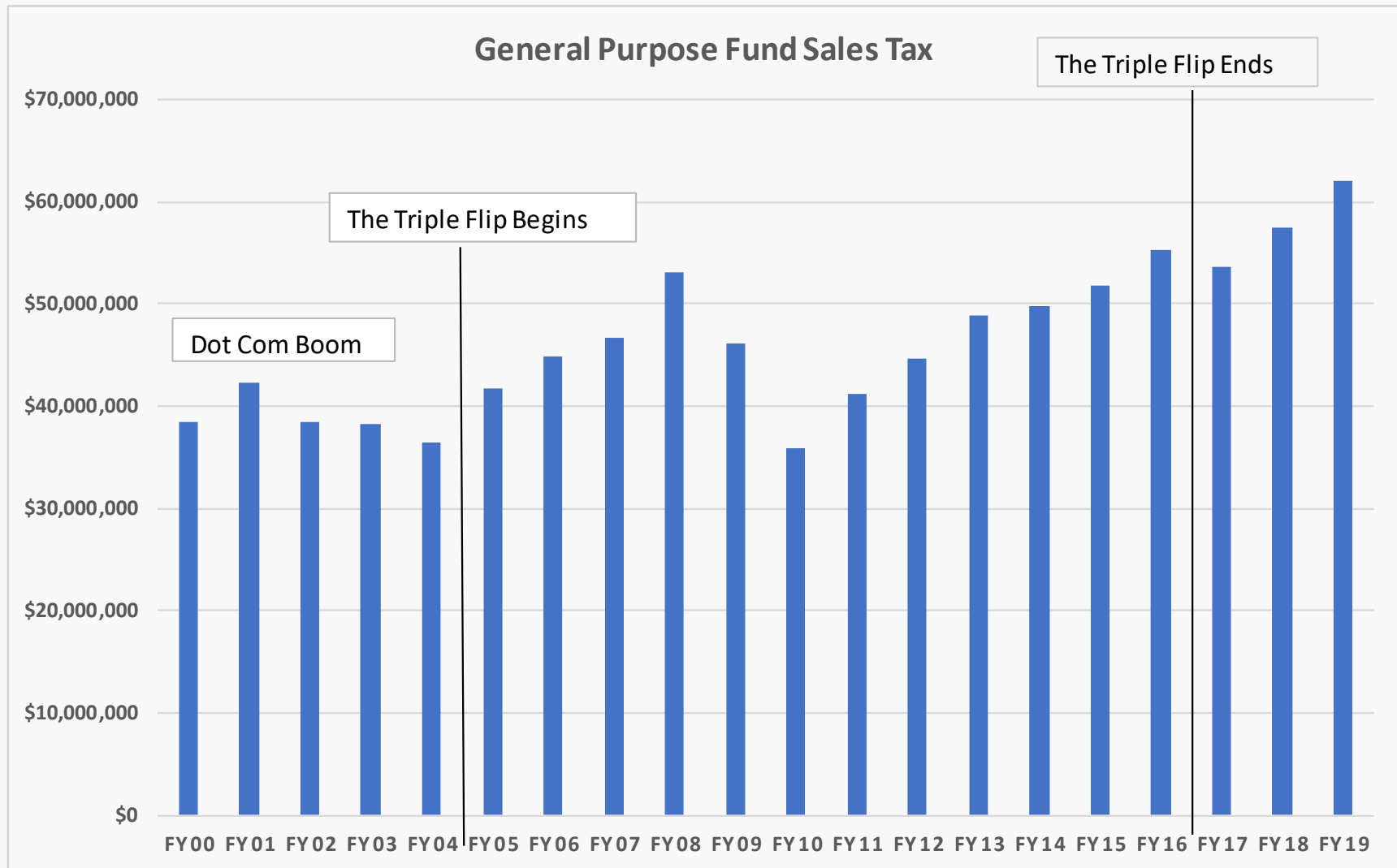


- Transaction and Use Tax (TUT) rate - Combined local TUT rate can only be 2%. To exceed 2%, waiver must be obtained at the State level.

* Sales tax rate for Bay Area cities: Albany (9.75%); Berkeley (9.25%), Emeryville (9.25%), San Francisco (8.50%) and San Leandro (9.75%)



Sales Tax





Sales Tax

Sales Tax	2014-15	2015-16	Growth Rate	2016-17	Growth Rate	2017-18	Growth Rate	2018-19	Growth Rate
Auto & Transportation	\$8.95	\$9.34	4.36%	\$9.03	-3.30%	\$8.61	-4.70%	\$9.48	10.10%
Business & Industry	\$5.58	\$5.78	3.58%	\$6.17	6.70%	\$6.28	1.80%	\$7.77	23.70%
General Customer Goods	\$6.60	\$5.87	-11.06%	\$5.55	-5.50%	\$5.35	-3.60%	\$5.99	12.00%
Restaurants & Hotels	\$8.56	\$9.94	16.12%	\$10.01	0.70%	\$10.50	4.90%	\$11.20	6.70%
Building & Construction	\$4.57	\$4.75	3.94%	\$5.14	8.20%	\$5.45	6.00%	\$6.14	12.70%
Food & Drugs	\$4.40	\$4.90	11.36%	\$5.11	4.30%	\$4.96	-2.90%	\$5.64	13.70%
Fuel & Service Stations	\$6.32	\$5.03	-20.41%	\$5.68	12.90%	\$5.82	2.50%	\$7.68	32.00%

Property Tax

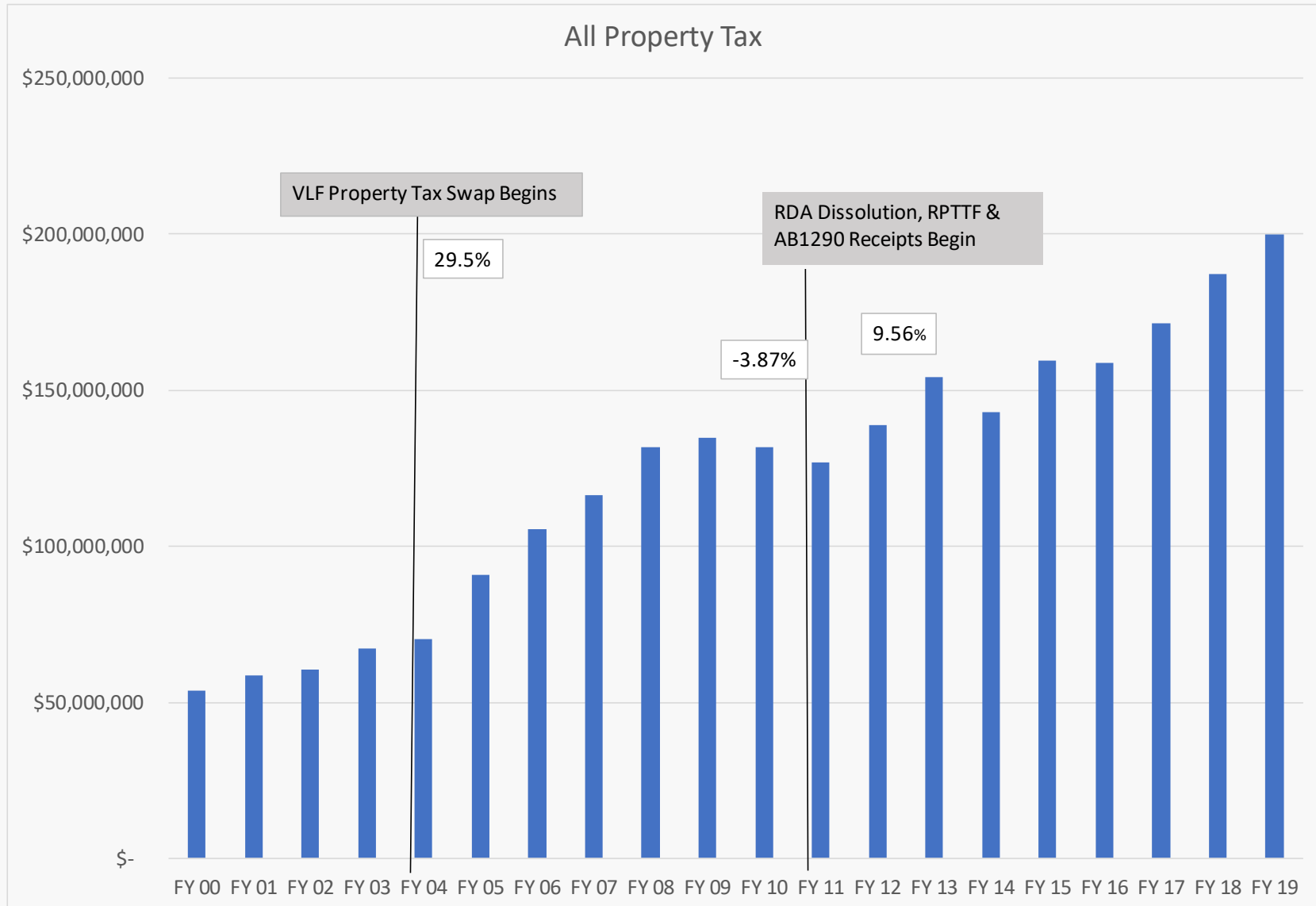


Major Different Property Tax Categories

- Current Secured
- Current Unsecured
- Current Unitary
- Prior Secured
- Prior Unsecured
- Secured Supplemental Assessment
- Aircraft In-Lieu
- Vehicle License Fee (VLF) - Property Tax Swap
- Redevelopment RPTTF
- AB 1290 St



Property Tax

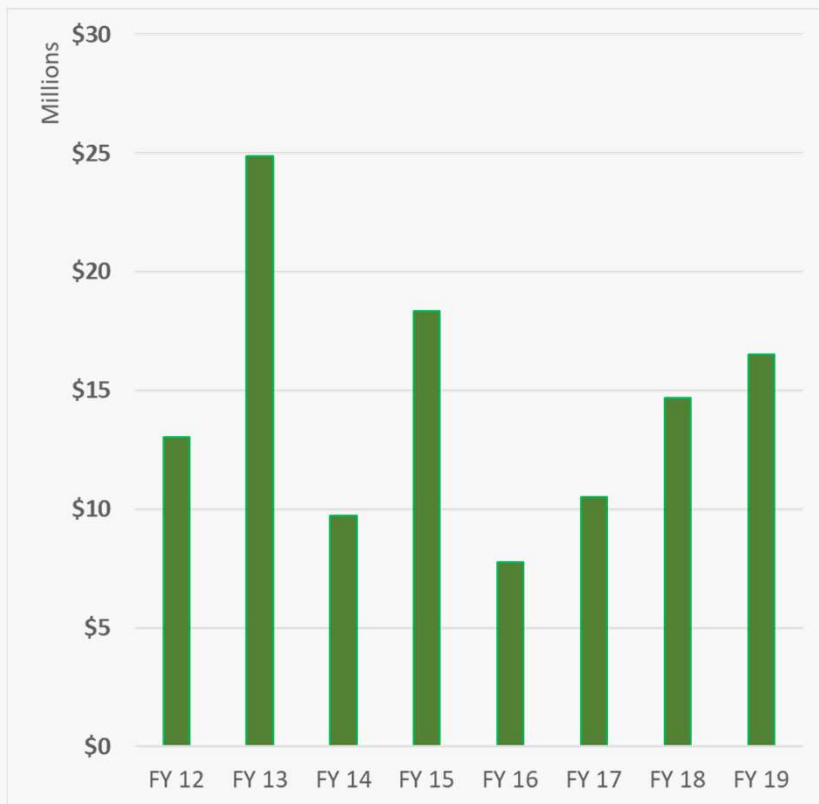




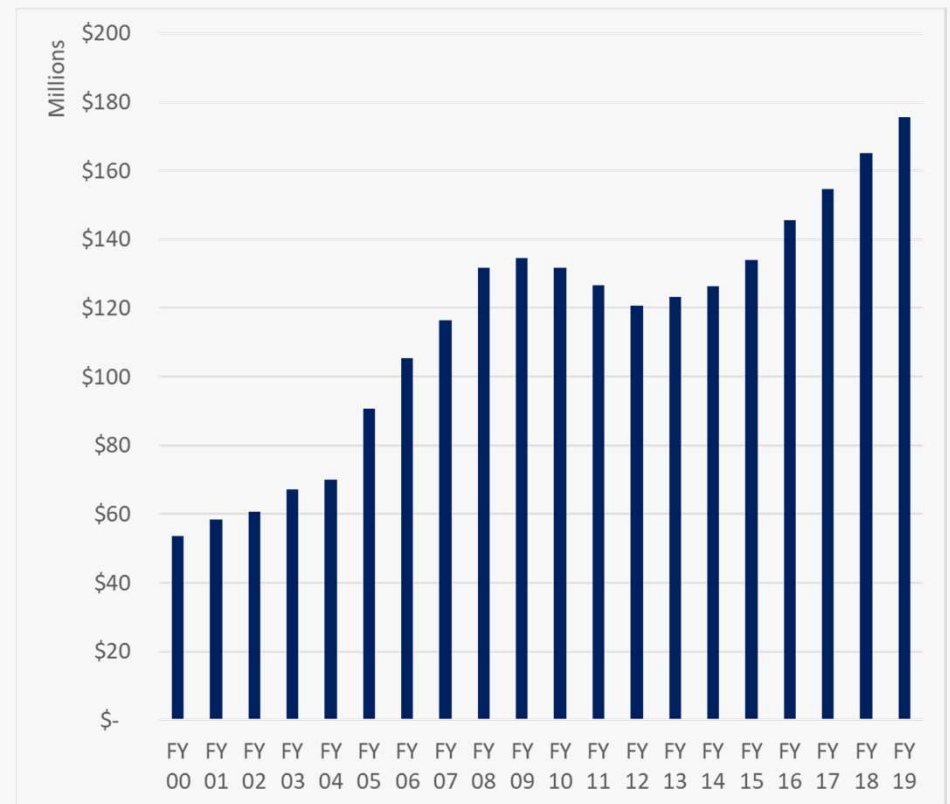
Property Tax

- Redevelopment Property Tax Trust Fund- A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

Redevelopment RPTTF (Includes 2013 1x)



Property Tax Net of RPTTF

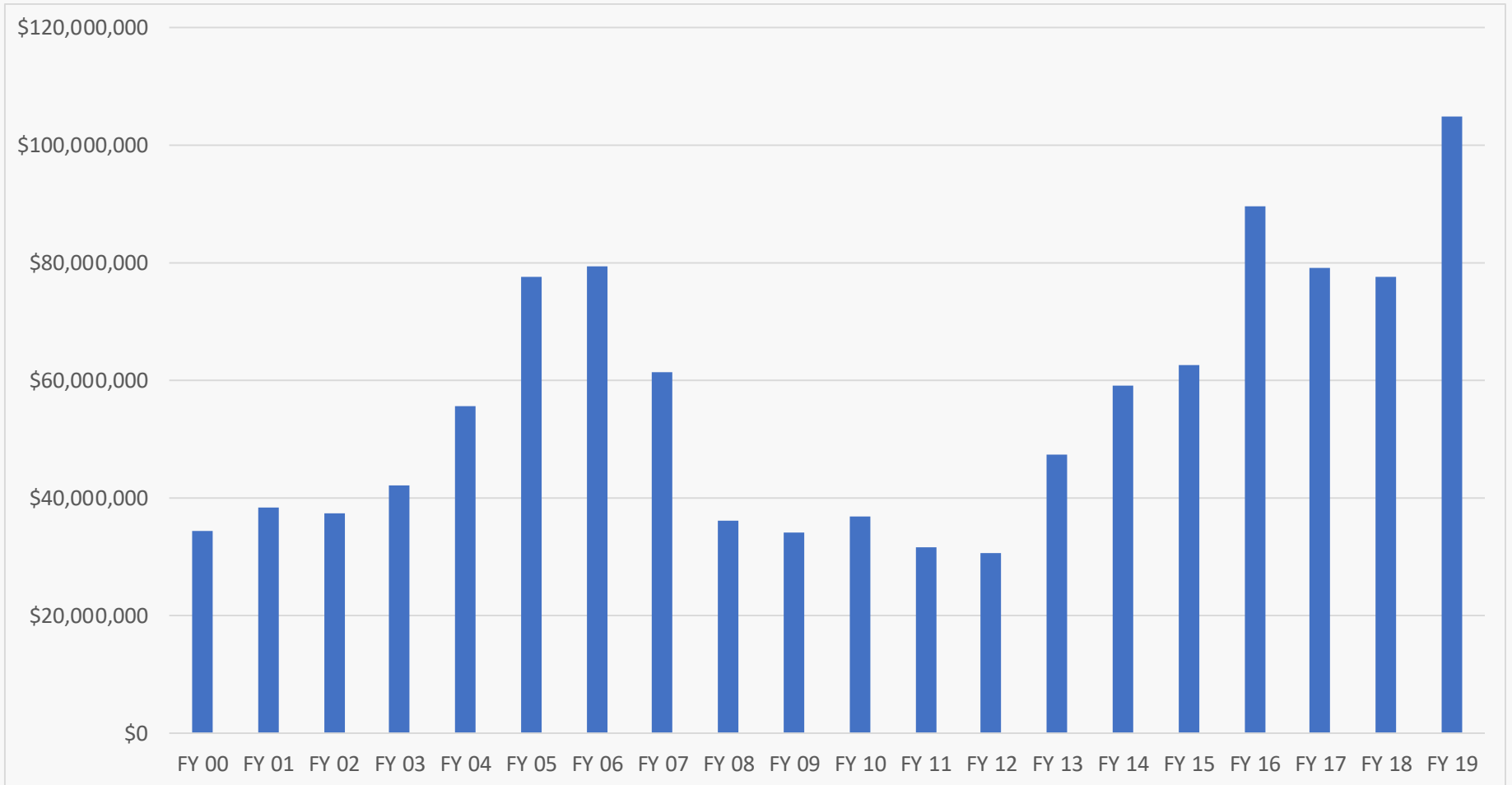


Real Estate Transfer Tax



Real Estate Transfer Tax

- A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.





Real Estate Transfer Tax

- In the first 6 months of FY 2019-20, real estate transfer transactions have increased but overall total gross sales have decreased.

Range	July - Dec FY 2019		July - Dec FY 2020		Year-over-Year	
	Gross Sales	Volume	Gross Sales	Volume	Gross Sales	Volume
Less Than \$300K	\$33,756,000	200	\$30,545,500	192	-9.51%	-4.00%
\$301K - \$2.00 MM	\$1,753,335,136	2,139	\$1,859,835,536	2,229	6.07%	4.21%
\$2.01 MM - \$5.00 MM	\$248,927,500	88	\$217,446,500	77	-12.65%	-12.50%
\$5.01 MM - \$10.00 MM	\$162,773,500	23	\$91,445,500	13	-43.82%	-43.48%
\$10.01 MM - \$50.00 MM	\$333,017,000	17	\$473,624,000	19	42.22%	11.76%
\$50.01 MM - \$100.00 MM	\$122,900,000	2	\$142,650,000	2	16.07%	0.00%
Over \$100.01 MM	\$429,542,500	2	\$175,000,000	1	-59.26%	-50.00%
Total	\$3,084,251,636	2,471	\$2,990,547,036	2,533	-3.04%	2.51%

	July - Dec FY 2019	FY 2020
Total Tax Revenue Calculated at Current Marginal Rate:	\$57,199,643	\$54,076,289

-5.46%



Discussion

- *Revenue stability / volatility*
- *Business cycle considerations*
- *Revenue forecasting*
- *Key tax categories*
- *Full cost recovery targets*