



# AGENDA REPORT

**TO:** Edward D. Reiskin  
City Administrator

**FROM:** Adam Benson  
Director of Finance

**SUBJECT:** FY 2020-21 Budget Options

**DATE:** May 19, 2020

City Administrator Approval

Date: May 28, 2020

## **RECOMMENDATION**

**Staff Recommends That City Council Adopt The Following Resolutions:**

- 1) Suspending The Contributions To The Other Post-Employment Benefits Trust For Fiscal Years 2019-20 And 2020-21 Pursuant To Section 5 Of The City Of Oakland Other Post-Employment Benefits Funding Policy (Resolution No. 87551 C.M.S.);**
- 2) Authorizing The Use Of One-Time Revenues To Balance The Fiscal Year 2020-21 Budget Pursuant To Section 1, Part D Of The City Of Oakland Consolidated Fiscal Policy (Ordinance No. 13487 C.M.S.); And**
- 3) Authorizing The City Administrator To Restructure The Negative Funds Repayment Schedule Adopted By Resolution No. 87759 C.M.S. As Part Of The City's Fiscal Year 2020-21 Budget By Postponing The Fiscal Year 2020-21 Payment And Extending The Final Payment Date By One Year.**

## **EXECUTIVE SUMMARY**

On Tuesday, April 21, 2020, staff submitted the FY 2019-20 Third Quarter Revenue and Expenditure Report to City Council. The report provided an update to revenue and fund balance forecasts for the General Purpose Fund (GPF) in Fiscal Year (FY) 2019-20 and FY 2020-21 based on data through March 2020.

FY 2019-20 year-end revenues in the GPF are projected to be \$640.62 million, (\$14.51) million lower than the Adopted Budget of \$655.13 million. Year-end expenditures are expected to be \$666.79 million resulting in a projected operating shortfall of (\$26.17) million. Likewise, FY 2020-21 revenues in the GPF are projected to be \$646.23 million, approximately (\$38.32) million lower than the Adopted Budget. The forecast assumes a possible recovery after the third quarter of FY 2020-21.

The adoption of these resolutions will (1) temporarily suspend approximately \$20 million in contributions to the Other Post-Employment Benefits (OPEB) Trust for FY 2019-20 and FY 2020-21; (2) use one-time revenues for FY 2020-21; and (3) restructure the payments to the Negative Fund Repayment Plan for FY 2020-21 and extend the existing prepayment schedule to balance the budget and maintain and preserve existing services.

City Council  
June 2, 2020

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**BACKGROUND / LEGISLATIVE HISTORY**

In reaction to the COVID-19 pandemic, Alameda County issued a Shelter-in-Place (Order No. 20-04) effective March 17, 2020, directing individuals to stay at home except to provide or receive essential services. The Shelter-in-Place order has since been extended, most recently on May 18, 2020, and remains in effect until rescinded, superseded, or amended. The State of California issued a similar “Stay at Home” order effective Thursday, March 19, 2020. Non-essential businesses are ordered to close, effectively leaving only gas stations, grocery stores, take-out/delivery restaurants, and pharmacies open. These necessary actions to curb the transmission of the virus will result in a negative impact on the City’s anticipated FY 2019-20 and FY 2020-21 revenues. Sales Taxes, Transient Occupancy Taxes, and Parking Taxes, all of which are heavily dependent on purchases and patronage by everyday consumers and travelers alike, are almost certainly impacted.

On April 2, 2020 Governor Newsom announced new measures to help small business weather the economic impacts of COVID-19. One measure allows small businesses with taxable sales of \$5 million or less to defer payment of sales and use taxes of up to \$50,000, for up to 12 months. The deferral of sales tax will create an additional negative impact on the receipt of sales and use taxes in the City’s GPF and Measure BB funds.

Staff is continuing to monitor the impact of the pandemic on the City’s pension liabilities and other post-employment benefits. The global and domestic market has experienced unprecedented volatility in the last few weeks which is certainly affecting the asset value in both the California Public Employees’ Retirement System (CalPERS) and Police and Fire Retirement System (PFRS) pension funds. While this year’s returns will not impact the current fiscal year or FY 2020-21 as those contribution rates are already built into the budget, staff is expecting significant increases to the required contributions in the next 2-3 fiscal years.

**ANALYSIS AND POLICY ALTERNATIVES**

**Other Post-Employment Benefits**

Resolution No. 87551 C.M.S. was approved by the City Council on February 26, 2019, which established the Other Post-Employment Benefits Funding Policy. Beginning in FY 2019-20, the City contributed 2.5% (approximately \$10 million) of payroll to the OPEB Trust Fund.

Pursuant to Section 5.3 OPEB Trust Funding Adjustments states:

*“In the event of a severe economy downturn the City will seek to continue the above payment structure in full, but, if authorized via Council Resolution, may temporarily reduce or defer its supplemental payments above pay-go until the City’s revenues have recovered.*

*For the purpose of this provision: a severe downturn shall be defined as a fiscal year in which aggregate General Purpose revenues are projected to be negative and/or less than 50% of forecast growth in the Consumer Price Index for the ensuing fiscal year; and recovery shall be defined as the next fiscal year following a fiscal year when General Purpose revenues are*

*estimated to have again been positive and exceeded 50% of forecast growth in the Consumer Price Index.”*

Staff is projecting year-end revenues in the General Purpose Fund of approximately \$640.62 million, (\$14.51) million lower than the Adopted Budget of \$655.13 million for FY 2019-20. Likewise, FY 2020-21 revenues in the GPF are projected to be \$646.23 million, a decrease of \$38.32 million or 5.6% than the Adopted Budget of \$684.55 million. According to the International Monetary Fund, the inflation rate for the United States is projected to be 0.8% and 2.4% for 2020 and 2021, respectively. Due to the projected budget shortfalls in FY 2019-20 and FY 2020-21 and positive inflation rates for the United States in calendar years 2020 and 2021, it is necessary for the City to suspend approximately \$20 million in contributions to the OPEB Trust for FY 2019-20 and FY 2020-21 to balance the budget and maintain and preserve existing services. The City plans to restore making contributions into the OPEB Trust pursuant to the Other Post-Employment Benefits Funding Policy once the City's revenues have recovered.

### **One-Time Revenues**

Pursuant to Section 1, Part D. Use of One-Time Revenues of the Consolidated Fiscal Policy:

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 Real Estate Transfer Tax (RETT) revenues.
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 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.

Due to the projected budget shortfall in FY 2020-21, it is necessary for the City to use one-time revenues and the Vital Services Stabilization Fund of approximately \$14.7 million to balance the budget and maintain and preserve existing services.

The City plans to return to using one-time revenues pursuant to the Consolidated Fiscal Policy formula once the City's revenues have recovered.

### **Negative Fund Repayment Plan**

Council Ordinance No. 12946 C.M.S. was passed on July 9, 2009 to amend the reserve policy to establish criteria for the use of excess RETT revenues and one-time revenues. As one-time revenues are received by the City (e.g., sales of property or proceeds from the refinancing of debt), 50 percent of these revenues (unless legally restricted to other purposes) will be used to pay off negatives in the Internal Service Funds, and 50 percent will be used to pay off negatives in all other funds.

On December 9, 2014 Council Ordinance No.13279 C.M.S. amended the City's Consolidated Fiscal Policies to include designated reserves for both the Vital Services Stabilization Funds and for the acceleration of long term obligations, in addition to the mandated 7.5% GPF Emergency Reserve (refer to City of Oakland Consolidated Fiscal Policy, Section I, Part C: Use of Excess Real Estate Transfer Tax).

On April 17, 2018 Council Ordinance No. 87140 C.M.S. revised the existing repayment schedule to add 10-year repayment plans for specified funds with negative fund balances.

The City's All Funds estimated balance of negative funds was (\$64.62) million as of June 30, 2019, compared to (\$138.77) million in FY 2009-10, net of which is a total repayment to date of \$74.15 million (Table 1).

**Table 1: Negative Fund Summary FY 2010 to FY 2019**

Ending Fund Balance FY 2009-10	Ending Fund Balance FY 2018-19	Total Repayment Amount
(\$138,773,926)	(\$64,624,992)	(\$74,148,934)

Negative fund balances accumulate largely due to operating expenses that outpace ongoing revenues and ultimately become the responsibility of the GPF if corrective action is not taken. In some cases, funds have appropriations that do not have cash to support them.

Staff is proposing to revise the existing repayment schedule for negative funds by extending the final repayment date by one year. This will allow funds with negative balances to maintain a similar repayment amount. Table 2 provides the amounts by fund previously authorized for repayment in FY 2020-21 that will be paid in the following year after this restructuring.

**Table 2: Negative Fund Detail FY 2019**

Fund	Fund Description	Fund Balance (6/30/2019)	FY 2020-21 Previously Scheduled Repayment
1100	Self Insurance Liability	(\$6,765,124)	\$1,797,270
1600	Underground District Rev. Fund	(1,007,824)	107,700
2992	Park and Recreation Grants	(2,629,726)	281,000
4400	Reproduction*	(1,769,605)	177,000
4500	Central Stores*	(4,248,984)	426,500
4550	Purchasing*	(530,078)	53,200
5012	JPFA Admin Building	(1,685,100)	180,000
5500	Municipal Capital Improvement	(5,681,526)	606,900
5510	Capital Reserves	(1,206,798)	123,300
5999	Miscellaneous Capital Projects	(3,170,791)	343,500
	<b>Total Negative Funds</b>	<b>(\$28,695,556)</b>	<b>\$4,096,370</b>

\* Reported as Cash Balance as of June 30 of each fiscal year

### **FISCAL IMPACT**

The fiscal impacts will depend largely on how long the COVID-19 crisis will last and if the City receives any Federal, State or local bailout money. Assuming this is a quick one-off event and the economy returns back to normal in the second half of 2020 then the City should be able to weather the storm through the proposed and implemented policy changes and use of reserves. However, if the COVID-19 crisis extends for a prolong period of time, then the City will need to make additional structural changes to better align revenues and expenditures for a balance budget.

The temporary suspension of contributions into the OPEB Trust will increase the OPEB unfunded liabilities. The use of one-time revenues will increase the City's unfunded long-term obligations and increase the risks to respond to unexpected events such as natural disasters. The restructuring of payments to the Negative Fund Repayment Plan and revise repayment schedule will accumulate negative interest in the funds resulting in a growing liability. This will have a direct impact to the General Purpose Fund since negative funds are ultimately the responsibility of the GPF. The temporary reduction to the Maintenance of Effort requirements in Measures D will reduce funding below voter approved appropriated levels for library services.

### **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 between the Finance Department, the City Administrator's Office and various departments.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** These actions are intended to sustain the City's ability to respond to the COVID-19 emergency and related budgetary and economic impacts.

***Environmental:*** There are no direct environmental opportunities associated with this report, but the recommended actions are intended to support the City's continued ability to address these concerns.

***Race & Equity:*** There are no direct race & equity opportunities associated with this report, but the recommended actions are intended to support the City's continued ability to address these concerns.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That City Council Adopt The Following Resolutions:

- 1) Suspending The Contributions To The Other Post-Employment Benefits Trust For Fiscal Years 2019-20 And 2020-21 Pursuant To Section 5 Of The City Of Oakland Other Post-Employment Benefits Funding Policy (Resolution No. 87551 C.M.S.);
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For questions regarding this report, please contact Adam Benson, Director of Finance, at (510) 238-2026.

Respectfully submitted,



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Adam Benson  
Finance Director

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