



CITY OF OAKLAND

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OAKLAND

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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Sarah T. Schlenk
Budget Department

SUBJECT: Five Year Financial Forecast

DATE: February 16, 2017

City Administrator Approval

Catherine S. Schlenk

Date:

2/17/17

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On The City Of Oakland's Five-Year Financial Forecast Prepared In Accordance With The City Of Oakland's Consolidated Fiscal Policy, Ordinance 13279 CMS.

EXECUTIVE SUMMARY

The Five-Year Financial Forecast (Forecast) for the City of Oakland (City) spans from Fiscal Years (FY) 2017-18 to FY 2021-22. The purpose of the Forecast is to help make informed budgetary and operational decisions by anticipating future revenues and expenditures, as well as highlighting anticipated fiscal risks and opportunities. The Forecast surfaces major known fiscal conditions, and projected future conditions based on current service levels and staffing. The Forecast is not only a necessary strategic planning tool for financial sustainability; it also ensures the City's compliance with current best practices across other local governmental entities. In part, the biennial forecast helps the City continue to implement sound financial policies to weather any unforeseen economic downturns. The City's Charter requires adoption of a balanced budget each fiscal year. For the development of the next biennial budget for FY 2017-19, the City will need to develop strategies to address shortfalls projected in the Forecast. The Five-Year Financial Forecast will be provided in a supplemental packet.

BACKGROUND / LEGISLATIVE HISTORY

On December 9, 2014, the City Council approved the Consolidated Fiscal Policy (Ordinance 13279 CMS), which directs staff to produce a Five-Year Financial by February as part of the biennial budget development process. This is the third consecutive biennial Five-Year Financial Forecast.

Item: _____
Finance & Management Committee
February 28, 2017

ANALYSIS AND POLICY ALTERNATIVES

Key Findings

The local economy, particularly the real estate market, has recovered from the Great Recession. As City revenues are highly tied to real estate, revenues are growing at a steady rate. The growth in real estate revenues experienced in the past few years is anticipated to continue, but at a lower rate. The City is benefiting from a strong regional economy driven in part by the technology sector. However, there is risk of contraction during this forecast period. Based upon historical experience, the average business cycle and economic expansion lasts between five to seven years. Additionally, expenditure growth continues to outpace revenue growth, which is mostly tied to increased costs for health and retirement benefits for City employees that historically outpace inflation.

Five years ago, the City weathered the Great Recession and the dissolution of Redevelopment. At the same time, the City started addressing various structural and long-term financial issues and began giving employees wage increases after several years of wage freezes and furloughs. The 7.5% General Purpose Fund Emergency Reserve was maintained and in 2014 a Rainy Day policy was approved. This has enabled the City to set aside funds for long-term obligations and establish a Vital Services Stabilization Fund, which is projected to have over \$14 million by June 30, 2017 (2016-17 2nd quarter Revenue and Expenditure report). Negative fund balances that had accumulated over many years have been paid down by over \$64 million (since FY 2009-10). Two years ago, the projected budget shortfall was \$30 million. On January 31, 2017, staff presented a FY 2017-19 preliminary projected budget shortfall of between \$15-20 million. The City has made progress toward attaining a structurally balanced budget in a responsible, measured manner.

Since the current period of economic growth has outlasted historical experience, it is likely there will be an economic slowdown or contraction during the forecast period. Additionally, there are many unknowns with regard to how the policies of the Trump administration will impact the City's grant revenues and local economy. **Given these uncertainties, the City should focus on long-term sustainability by: 1) further diversifying the City's economic base; 2) managing expenditure growth and implementing service delivery efficiencies; and 3) prudent reduction of long-term obligations.** The City must focus on properly funding and improving its current mandates and priorities. Even without adding services and programs to the City's current portfolio, the projected gap will grow due to normal costs outpacing revenues. In order for the City to be successful, clear goals with measurable outcomes are needed and must be accompanied with budgetary discipline aimed at those outcomes.

COORDINATION

This report was prepared in collaboration with the City Administrator's Office, the Revenue Management Bureau, the Treasury Bureau, the Controller Bureau, the Department of Human Resource Management, and the Planning & Building Department.

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental: No direct environmental opportunities have been identified.

Social Equity: No direct social equity opportunities have been identified.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept this informational report on the City of Oakland's Five-Year Financial Forecast prepared in accordance with the City of Oakland's Consolidated Fiscal Policy, Ordinance 13279 CMS.

For questions regarding this report, please contact BRADLEY JOHNSON, Assistant to the City Administrator, at (510) 238-6119.

Respectfully submitted,



SARAH T. SCHLENK
Budget Director