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# AGENDA REPORT

**TO:** Deanna J. Santana  
City Administrator

**FROM:** Donna Hom  
Interim Budget Director

**SUBJECT:** FIVE-YEAR FINANCIAL PLAN

**DATE:** November 15, 2012

City Administrator  
Approval

*Deanna Santana*

Date

11/15/12

**COUNCIL DISTRICT:** City-Wide

## RECOMMENDATION

Staff recommends that the City Council accept this informational report on the Five-Year Financial Plan for FY 2013-14 through FY 2017-18.

## EXECUTIVE SUMMARY

The purpose of the Five-Year Financial Plan is to help the City of Oakland make informed financial and operational decisions by better anticipating future revenues and expenditures. The City Council passed a Long-Term Financial Planning Policy in July 2003 (Resolution No. 77923 C.M.S.), which directed the Administration to create a regularly updated plan.

The forecast projects General Purpose Fund (GPF) shortfalls rising over the five-year period from \$14.5M to \$48M per year for recommended service level expenditures, more when including deferred capital and long-term liabilities. The report contains some examples, for illustrative purposes, of possible strategies to reduce expenditures and increase revenues in order to close the forecasted shortfall.

Subsequent to the publication of this plan, the City will publish, in spring 2013, a Five-Year Financial Plan – Service Levels and Budget Strategies report. It will propose specific financial strategies for City Council's consideration to eliminate the shortfall and will feed directly into the creation of the FY 2013-15 Biennial Proposed Budget.

## OUTCOME

With a solid forecast of revenues and expenditures, the City can plan strategies for providing a consistent, appropriate level of service to its customers and bring its revenues and expenditures into sustainable balance. With the forecast, decision makers will know whether revenues and expenditures will generally be in balance in future years, or whether significant interventions are necessary to help ensure balance.

Item: \_\_\_\_\_  
Finance Management Committee  
November 27, 2012

## BACKGROUND/LEGISLATIVE HISTORY

The City's leadership has recognized the need for sound long-term financial planning. The City Council passed a Long-Term Financial Planning Policy in July 2003 (Resolution No. 77923 C.M.S.), which directed the Administration to create a regularly-updated Five-Year Financial Plan that forecasts the City's revenues and expenditures over a five-year period, focusing on the General Purpose Fund (GPF) and other major funds. In response, the City has produced five-year forecasts of its revenues and expenditures of varying detail over the years. The City's policy was subsequently revised in June 2008 (Resolution No. 81399 C.M.S.) to specify that the plan shall be updated and distributed by October 1<sup>st</sup> every other year.

## ANALYSIS

The major findings of the Five-Year Financial Plan are that, although revenues are expected to grow at a modest but healthy rate, expenditures are predicted to grow more, outpacing revenues and leaving the City with an ongoing, structural imbalance between revenues and expenditures, particularly when deferred expenditures for capital assets and long-term liabilities are included.

The forecast projects General Purpose Fund (GPF) shortfalls rising over the five-year period from \$14.5M to \$48M per year for recommended service level expenditures, more when including deferred capital and long-term liabilities. Attachment 1 illustrates the revenue and expenditure changes that result in the projected shortfalls.

The forecast includes a number of reasonable, conservative assumptions about the future. One conservative assumption is that Measure Y (Violence Prevention and Public Safety Act of 2004) will not be extended by voters when it expires in FY 2014-15. The forecast further assumes as a recommended policy that the GPF will backfill the loss of Measure Y funds and support the police and fire services currently funded by Measure Y, but not the community programs funded by Measure Y. Other key assumptions of the five-year forecast are summarized on page two of the report's transmittal letter. Attachment 2 illustrates the forecasted GPF shortfall impact of various possible future scenarios regarding Measure Y funding and services. The Five-Year Financial Plan is included as Attachment 3.

The City has recently made strides in exercising prudent financial management, particularly in paying down unfunded liabilities despite difficult financial times. The City fully funded its GPF reserve and plans to continue to strengthen its financial policies and fiscal practices in the coming year. If the City continues this trend, it has the capacity to make prudent financial decisions to bring revenues and expenditures into long-term balance while maintaining appropriate service levels.

**PUBLIC OUTREACH/INTEREST**

This item did not require any additional public outreach other than the required posting on the City's website.

**COORDINATION**

All major departments had been consulted in the preparation of this report. Major contributors are listed in report.

**COST SUMMARY/IMPLICATIONS**

This is an informational report only.

**SUSTAINABLE OPPORTUNITIES**

*Economic:* None

*Environmental:* None

*Social Equity:* None

For questions regarding this report, please contact Donna Hom, Interim Budget Director, at 238-2038.

Respectfully submitted,



Donna Hom  
Interim Budget Director

***Attachments:***

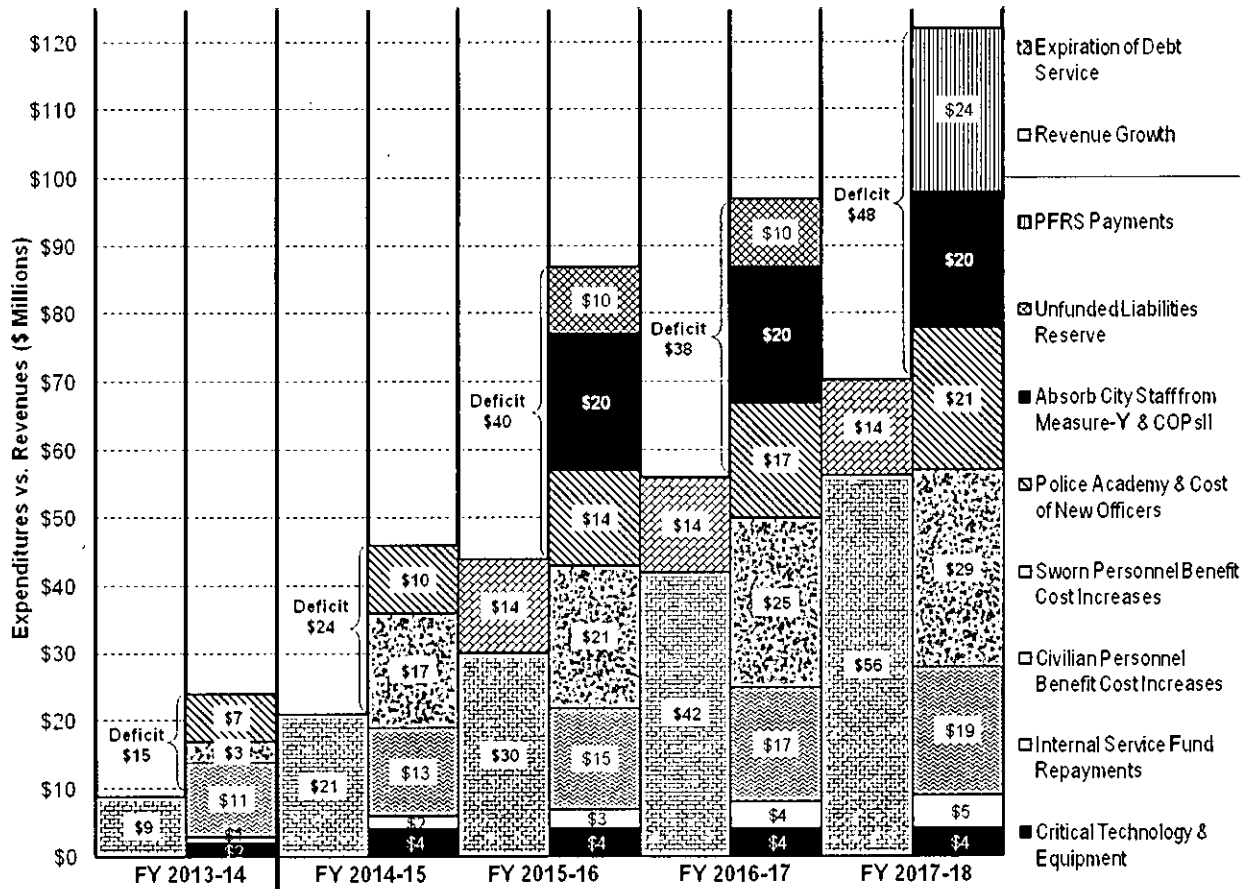
*Attachment 1 - Five-Year Financial Plan General Purpose Fund (GPF) Revenue and Expenditure Growth Forecast*

*Attachment 2 – Attachment 2 -- Scenarios Regarding the Extension of Measure Y and Possible General Purpose Fund (GPF) Backfill of Lost Funding*

*Attachment 3 – Five-Year Financial Plan*

Item: \_\_\_\_\_  
Finance and Management Committee  
November 27, 2012

# Attachment 1 – Five-Year Financial Plan General Purpose Fund (GPF) Revenue and Expenditure Growth Forecast



## Attachment 2 – Scenarios Regarding the Extension of Measure Y and Possible General Purpose Fund (GPF) Backfill of Lost Funding

City of Oakland

Five-Year Financial Plan, Fiscal Year (FY) 2013-14 to FY 2017-18

### Addendum - Scenarios Regarding the Extension of Measure Y and Possible General Purpose Fund (GPF) Backfill of Lost Funding

Assumptions: Police and fire activities cost \$14.5M; community grants \$5.5M; Measure Y funding without extension is \$16.4M in FY 2014-15, \$0 thereafter

#### Scenario 1 - Measure Y sunsets and all activities discontinued

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Sworn police staffing (avg budgeted)	633	665	697	666	698	730
Fire engine companies	30	30	32	30	30	30
Community programs	\$5.5M	\$5.5M	\$1.9M	\$0	\$0	\$0
Forecasted GPF Shortfall	NA	\$14.5M	\$23.5M	\$26.0M	\$23.5M	\$33.3M

#### Scenario 2 (FYFP baseline "Recommended") - Measure Y sunsets, GPF supports police and fire, not community grants

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Sworn police staffing (avg budgeted)	633	665	697	729	761	793
Fire engine companies	30	30	32	32	32	32
Community programs	\$5.5M	\$5.5M	\$1.9M	\$0	\$0	\$0
Forecasted GPF Shortfall	NA	\$14.5M	\$23.8M	\$40.5M	\$38.0M	\$47.8M

#### Scenario 3 - Measure Y sunsets, GPF supports police, fire, and community grants

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Sworn police staffing (avg budgeted)	633	665	697	729	761	793
Fire engine companies	30	30	32	32	32	32
Community programs	\$5.5M	\$5.5M	\$5.5M	\$5.5M	\$5.5M	\$5.5M
Forecasted GPF Shortfall	NA	\$14.5M	\$27.4M	\$46.0M	\$43.5M	\$53.3M

#### Scenario 4 - Measure Y extended by voters

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-15	FY 2016-17	FY 2017-18
Sworn police staffing (avg budgeted)	633	665	697	729	761	793
Fire engine companies	30	30	32	32	32	32
Community programs	\$5.5M	\$5.5M	\$5.5M	\$5.5M	\$5.5M	\$5.5M
Forecasted GPF Shortfall	NA	\$14.5M	\$23.8M	\$26.0M	\$23.5M	\$33.3M

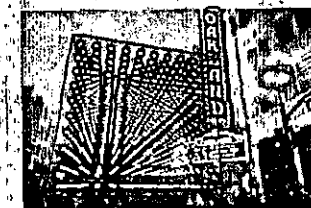
November 2, 2012

For more information, contact the City Administrator's Office, Budget Office

**Attachment 3 – Five-Year Financial Plan**

# FIVE-YEAR FINANCIAL PLAN

*Fiscal Year 2013-14 - Fiscal Year 2017-18*



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# CITY OF OAKLAND



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October 29, 2012

Honorable City Council  
Oakland, California

**RE: Five-Year Financial Plan for Fiscal Year 2013-14 to Fiscal Year 2017-18**

Council President Reid and Members of the City Council:

On behalf of the City Administration, we are transmitting the City of Oakland's Five-Year Financial Plan for Fiscal Year (FY) 2013-14 to FY 2017-18.

## Purpose, Background, and Scope

While Oakland is in its strongest financial condition in years, many challenges lie ahead. The purpose of this report is to illustrate for the City Council where gaps remain in the City's budget picture going forward. The projections included in this forecast report have been made along a very conservative baseline, assuming that employee contributions, Measure Y and the Wildfire district will expire without being renewed. We will return to Council in Spring 2013 with recommendations for how to fill those gaps, as well as suggestions for a capital improvement budget.

The City Council passed a Long-Term Financial Planning Policy in July 2003, which directed the Administration to create a regularly updated plan. The main purpose of a long-term financial forecast is to inform decision-makers of whether revenues and expenditures will generally be in balance in future years, or whether significant interventions are necessary to help ensure balance.

Like the State of California and many cities, Oakland has faced very difficult economic and financial circumstances over the last several years as a result of the Great Recession. This has required that the City take dramatic steps to maintain balance between revenues and expenditures. The City addressed General Purpose Fund (GPF) budget shortfalls averaging over \$50M each year by

reducing service levels and headcount. In addition, employees made significant cost-saving contributions.

Economic Indicators are Improving: We assume continued modest growth.

The City is now experiencing modest economic recovery:

- From September 2011 to September 2012, employment grew from 172,600 to 177,800, a net gain of 5,200 jobs, representing about 3% job growth.
- Over the past two years, the unemployment rate decreased by 3.5%, from 16.6% in January 2011 to 13.1%.
- Property tax is up by \$13.6 million, and in August, *Realtor.com* ranked Oakland the top city for fastest selling homes in the nation.
- Sales tax revenues grew by \$2.2 million, or about 4.5% from fiscal year 2010-11 to fiscal year 2011-12.
- Business license tax is up \$7.7 million, reflecting the growth in new businesses opening in Oakland and new medical and transportation construction projects.

As a result of this modest growth, revenues are increasing. The recently issued FY 2011-12 Q4 Revenue & Expenditure Report shows that actual (unaudited) revenue exceeded the adopted budget by \$34.8M. Although much of the revenue overage is due to one-time payments or early receipt of revenues, about \$10.4 million is directly attributable to economic growth and is projected to be ongoing.

As an illustration of improving financial circumstances, the City adopted a balanced budget for FY 2012-13 without layoffs, for the first time in more than four years. The City has also grown its general purpose reserve to the level required by City Council policy. We have instituted strong fiscal controls that have enabled us to make good progress in paying down negative fund balances, and we have invested in essential services, such as scheduling three police academies, restoring senior and recreation center hours, and funding key economic development initiatives.

Over the past few years, City employees, elected officials, and residents came together to create short-term solutions to extraordinary fiscal challenges. However, despite the fact that the City's revenues are improving, expenditures—including those for deferred capital projects and long-term liabilities—are expected to exceed revenues over the next five years.

As solutions of the past expire, the City will need to turn its attention to finding creative long-term solutions and seeking contributions from all parties to balance revenues and expenditures, including long-term and deferred items.

Key Assumptions

The attached five-year forecast contains some key assumptions regarding revenues and expenditures. Key among them are the following:

- The City will experience continued modest economic growth, increasing in 2015 to the 4% annual growth range. Property tax, sales tax, business license tax, and real estate transfer tax are all expected to grow faster than the rate of inflation.

- Local measures (Measure Y and Wildfire Prevention Assessment District) will require voter approval when they expire in FY 2014-15. To be conservative, we have not included in this forecast revenues that are not yet approved by voters. Similarly, passage of the November 2012 Measure B1 for transportation projects is not assumed to pass.
- The Police Department will run two police academies per year throughout the forecast period to maintain and increase the number of sworn staff. The projected number of police officers, accounting for attrition, will be 793 in FY 2017-18, a net increase of 32 officers each year.
- The General Purpose Fund (GPF) will absorb a number of expenses formerly funded by non-GPF sources, such as 25 Community Oriented Policing Services (COPS) II grant police officers, administrative and/or Charter-associated staff expenses that were previously paid by the Successor Agency, and Police and Fire expenditures (due to labor agreement restrictions, but not the violence prevention programs) formerly funded by Measure Y when it expires in FY 2014-15.
- The baseline projected GPF assumes the City will not absorb Wildfire Prevention Assessment District expenditures when it expires in June 2014.
- The City will appropriate \$10M in FY 2015-16 and an additional \$10M in FY 2016-17 to a reserve for unfunded pension and OPEB liabilities, as directed by City Council.
- The City will invest in critical new information technology, including that necessary to continue to comply with the Negotiated Settlement Agreement and strengthen public safety systems.

The assumptions regarding local measures and employee contributions are prudent and conservative, as any associated revenue or cost savings would require either voter approval or successful completion of labor negotiations.

#### Uncertainties

The forecast also identifies a number of significant uncertainties that are not specifically included in the calculations, such as possible federal receivership of the Oakland Police Department, the outcome of November 2012 State propositions, employee contributions for forecast years, the impact of pension reform, further Redevelopment wind down, and federal budget changes that impact related dollars.

#### Findings

Based on the above assumptions, the forecast projects potential GPF shortfalls rising over the five-year period from \$14.5M to \$48M per year for recommended service level expenditures.

When accounting for deferred expenditures that the City could fund if resources were available -- such as infrastructure repairs and important information technology upgrades -- the shortfall ranges from \$110M to \$152M. Funding these deferred expenditures sooner will lower the related lifecycle expenses. Given this, the City will need to take responsible, effective steps to create long-term structural balance. Note that forecasted shortfalls are cumulative. To the extent that shortfalls in the

early years are addressed through ongoing solutions, the shortfalls in later years will decrease commensurately.

### Next Steps

Despite the difficult circumstances of the Great Recession, the City has made notable, prudent investments to improve its financial situation, such as paying down negative funds, increasing the ratio of funded pension obligations, and fully funding the GPF reserve.

Staff will be providing a detailed presentation on both reports to the Finance and Management Committee including the impacts of the assumptions outlined in the Five-Year Financial Plan (both revenues and expenditures). The five-year financial plan builds upon this progress and indicates that there will likely be room in the upcoming budget for additional investment in top community priorities, including public safety, streets and infrastructure, particularly if measure B1 passes on the November 2012 ballot. The City is now well positioned to make strategic, if difficult, decisions to further improve long-term stability and make investments in priority services.

Later this fiscal year staff will bring forward recommendations to strategically address some of the City's chronically deferred capital and unfunded liabilities, such as the establishment of an Other Post-Employment Benefits (OPEB) trust with a significant initial down payment, replacement plans for our most critical fleet and information technology needs, and a set of revised financial policies to continue to provide the tools to maintain strong financial discipline.

As follow up to the plan, in spring 2013, the City will publish a Five-Year Financial Plan – Service Levels and Budget Strategies report. The report will include specific recommendations of service levels and revenue mechanisms that will provide sustainable, long-term balancing, and will feed directly into the creation of the FY 2013-15 Biennial Proposed Budget.

We are optimistic about Oakland's future, and we recognize that achieving long-term financial health will require us to be realistic, live within our means, fully acknowledge long-term liabilities, and strike the appropriate balance between balancing the budget and investing in the city's growth. We will need to revise service levels to sustainable levels and ensure efficiency of work practices. We are currently working with City departments and other stakeholders on finding the best mix of strategies to meet the City's needs. The whole City team -- the administration, City departments, and employees -- will work with Oakland residents and businesses to find the best mix of strategies to meet our needs and achieve our dreams.

Respectfully submitted,

Jean Quan  
Mayor

Deanna J. Santana  
City Administrator

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## Executive Summary

### Purpose, Background, and Scope

The purpose of the Five-Year Financial Plan is to help the City of Oakland make informed financial and operational decisions by better anticipating future revenues and expenditures. The City Council passed a Long-Term Financial Planning Policy in July 2003 (resolution 77923, Appendix A), which directed the Administration to create a regularly updated plan. With a solid forecast of revenues and expenditures, the City can plan strategies for providing a consistent, appropriate level of service to its customers and bring its revenues and expenditures into sustainable balance. With the forecast, decision makers will know whether revenues and expenditures will generally be in balance in future years, or whether significant interventions are necessary to help ensure balance.

The forecast is a straightforward projection of the City's revenues and expenditures over the forecast period, fiscal year (FY) 2013-14 through FY 2017-18. It covers all major City funds, and generally assumes that service levels and revenue mechanisms will remain constant at base year (FY 2012-13) levels for all of the future forecast years, with a few key exceptions. The forecast does assume that employee contributions will sunset with the current employee contracts, resulting in somewhat higher service levels due to the expiration of Mandatory Leave Without Pay (MLWOP) and Floating Mandatory Leave Without Pay (FMLWOP) days and fire station brownouts. It also assumes that the City will continue to implement financial management best practices. The City has recently made strides in this area, such as by paying down negative funds, increasing the funded ratio of pension obligations, and fully funding the General Purpose Fund (GPF) reserve. The forecast assumes that the City will continue to implement best practices and illustrates the expenditures necessary to increase investment in capital assets and to continue to pay down unfunded liabilities.

Subsequent to the publication of this plan, the City will publish, in spring 2013, a Five-Year Financial Plan – Service Levels and Budget Strategies report. As the City is required by its Charter to adopt a balanced budget each year, the City will need to develop strategies that bring revenues and expenditures into balance. The report will include specific, actionable recommendations that will provide sustainable, long-term balancing, and will feed directly into the creation of the FY 2013-15 Biennial Proposed Budget.

### Methodology

Staff of the City of Oakland, City Administrator's Office, Budget Office used the Adopted Amended Midcycle FY 2012-13 Budget as the baseline, then forecasted revenues and expenditures five years forward. For the expenditure forecast, staff generally assumed that service and staffing levels will remain constant at FY 2012-13 levels, and that costs only escalate due to inflation, with the exception of some special cases. Budget Office staff worked collaboratively with department budget and planning staff to forecast revenues and expenditures. Staff also consulted with independent

municipal finance and economic experts to validate assumptions and methodology. The revenue and expenditure forecast will be updated as part of the Five-Year Financial Plan – Service Levels and Budget Strategies report to incorporate the outcome of the November 2012 elections and other pertinent economic and fiscal changes.

## Major Findings

The major findings of the Five-Year Financial Plan are that, although revenues are expected to grow at a modest but healthy rate, expenditures are projected to grow more, outpacing revenues and leaving the City with an ongoing, structural imbalance between revenues and expenditures, particularly when deferred expenditures for capital assets and long-term liabilities are included. The table below illustrates the forecasted surpluses and shortfalls over the five-year period. Note that to the extent that shortfalls in the early years are addressed through ongoing solutions, the shortfalls in later years will decrease commensurately.

Table 1 – Summary of Forecasted General Purpose Fund (GPF) and All Funds Surpluses and Shortfalls

General Purpose Fund	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2015-17 Forecast	FY 2017-18 Forecast
Revenue	\$417,987,000	\$430,065,000	\$439,187,000	\$451,195,000	\$465,489,000
Expenditures - Recommended	\$432,527,000	\$453,908,000	\$479,658,000	\$489,165,000	\$513,300,000
Surplus/(Shortfall)	(\$14,540,000)	(\$23,842,000)	(\$40,471,000)	(\$37,970,000)	(\$47,811,000)
Expenditures - Deferred	\$95,458,000	\$96,534,000	\$101,584,000	\$102,920,000	\$104,200,000
Surplus/(Shortfall)	(\$109,998,000)	(\$120,376,000)	(\$142,055,000)	(\$140,890,000)	(\$152,011,000)
All Funds	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-15 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Revenue	\$993,052,000	\$1,013,343,000	\$1,009,189,000	\$1,028,241,000	\$1,051,072,000
Expenditures - Recommended	\$1,028,019,000	\$1,046,383,000	\$1,033,936,000	\$1,047,507,000	\$1,069,196,000
Surplus/(Shortfall)	(\$34,967,000)	(\$33,040,000)	(\$24,747,000)	(\$19,266,000)	(\$18,124,000)
Expenditures - Deferred	\$125,023,000	\$126,136,000	\$134,978,000	\$136,345,000	\$137,632,000
Surplus/(Shortfall)	(\$159,990,000)	(\$159,176,000)	(\$159,725,000)	(\$155,611,000)	(\$155,756,000)

Note: "Recommended" service level expenditures generally include FY 2012-13 expenditure levels with normal cost escalation, plus backfilling the sunset of employee contributions and the loss of funding from certain tax, assessment, and other revenue sources. "Deferred" expenditures include deferred capital acquisition (for facilities, infrastructure, vehicles, and information technology), deferred repayment of negative funds, and deferred payment of OPEB liabilities.

## Revenues

As shown in the table below, the forecast anticipates that the City will experience modest revenue growth as the region's economy stabilizes, then beginning in 2015, the forecast assumes that the City will experience revenue growth consistent with long-term trends, in the 4% annual nominal growth range. Property tax, sales tax, business license tax, and real estate transfer tax are all expected to grow faster than the rate of inflation. Transient occupancy tax, parking tax, and permits and service charges are expected to grow at the rate of inflation. Parking citations and other fines

and penalties are forecasted to grow at 0% per year. GPF revenues are forecasted to grow from \$418M in FY 2013-14 to \$465M in FY 2017-18. Note that despite the economic recovery, some revenues are forecasted to be lower in FY 2013-14 than budgeted in FY 2012-13, primarily due to the removal of one-time revenues from the forecast and some FY 2011-12 year-end actuals coming in lower than expected. Revenues are also higher in some cases where FY 2011-12 year-end actuals suggested significantly higher future revenues than those budgeted in FY 2012-13.

Table 2 - General Purpose Fund (GPF) Budgeted Revenue Forecast

Budget Revenue Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-15 Forecast	FY 2015-17 Forecast	FY 2017-18 Forecast
Property Tax	\$125,167,000	\$141,792,000	\$148,227,000	\$151,509,000	\$156,889,000	\$163,243,000
Sales Tax	\$43,556,000	\$45,179,000	\$46,534,000	\$47,930,000	\$49,368,000	\$51,343,000
Business License Tax	\$51,800,000	\$56,941,000	\$59,194,000	\$60,352,000	\$62,163,000	\$64,649,000
Litility Consumption Tax	\$50,500,000	\$51,434,000	\$51,691,000	\$52,828,000	\$53,991,000	\$55,178,000
Real Estate Transfer Tax	\$28,490,000	\$31,430,000	\$32,372,000	\$33,667,000	\$35,014,000	\$36,415,000
Transient Occupancy Tax	\$10,865,000	\$10,950,000	\$11,191,000	\$11,437,000	\$11,688,000	\$11,945,000
Parking Tax	\$8,104,000	\$8,364,000	\$8,548,000	\$8,736,000	\$8,928,000	\$9,125,000
Service Charges	\$43,227,000	\$42,871,000	\$43,254,000	\$43,546,000	\$44,047,000	\$44,456,000
Licenses & Permits	\$926,000	\$1,184,000	\$1,210,000	\$1,237,000	\$1,264,000	\$1,292,000
Fines & Penalties	\$25,426,000	\$24,388,000	\$24,388,000	\$24,388,000	\$24,388,000	\$24,388,000
Interest Income	\$800,000	\$732,000	\$732,000	\$732,000	\$732,000	\$732,000
Grants & Subsidies	\$93,000	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue	\$2,733,000	\$1,716,000	\$1,716,000	\$1,715,000	\$1,716,000	\$1,716,000
Fund Transfers	\$17,483,000	\$1,008,000	\$1,008,000	\$1,008,000	\$1,008,000	\$1,008,000
<b>Grand Total</b>	<b>\$409,167,000</b>	<b>\$417,987,000</b>	<b>\$430,066,000</b>	<b>\$439,187,000</b>	<b>\$451,195,000</b>	<b>\$465,489,000</b>

Note: Property tax increases notably from FY 2012-13 to FY 2013-14 due to additional Residual Property Tax Trust revenues that the City might receive due to the dissolution of redevelopment that were not all assumed in the FY 2012-13 budget. Service charges and fines and penalties are expected to decrease in FY 2013-14 relative to the FY 2012-13 budget as FY 2011-12 year-end actuals came in lower than expected. Miscellaneous revenue is primarily comprised of property sales and billboard revenues. The forecast assumes a modest level of future revenues consistent with historical trends. Fund transfers include one-time transfers among funds, including items such as a transfer from fund balance and a transfer of the proceeds of a portion of the sale of the Henry J. Kaiser Convention Center.

As shown below, all funds revenue is expected to grow from \$993M in FY 2013-14 to \$1,051M in FY 2017-18. This growth, averaging 1.4% per year total, is dragged down primarily by two sources. Whereas nearly every all funds revenue source holds steady or increases year-over-year during the forecast period, local tax and parking tax are projected to decline by a combined \$18M between FY 2013-14 and FY 2015-16. The forecast conservatively assumes the sunseting of local ballot measures that provide special revenue to the City, such as the Wildfire Prevention Assessment District special assessment and Measure Y (the Violence Prevention and Public Safety Act of 2004), and that they will not be extended by voters when they expire in June 2014 and June 2015, respectively. The expiration of Measure Y is the cause of the notable drop in local and parking tax in FY 2015-16. Grant revenues are assumed to continue at their current levels, with no increases due to inflation or decreases as experienced in some recent years.

Table 3 – All Funds Budgeted Revenue Forecast

Budget Revenue Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Property Tax	\$125,355,000	\$141,807,000	\$148,242,000	\$151,524,000	\$156,905,000	\$163,259,000
Local Tax	\$132,207,000	\$141,174,000	\$143,834,000	\$130,024,000	\$132,470,000	\$134,970,000
Sales Tax	\$53,615,000	\$54,499,000	\$56,134,000	\$57,818,000	\$59,552,000	\$61,935,000
Gasoline Tax	\$5,638,000	\$5,796,000	\$5,796,000	\$5,795,000	\$5,795,000	\$5,796,000
Business License Tax	\$51,800,000	\$56,941,000	\$59,194,000	\$60,352,000	\$52,153,000	\$54,549,000
Utility Consumption Tax	\$50,500,000	\$51,434,000	\$51,691,000	\$52,828,000	\$53,991,000	\$55,178,000
Real Estate Transfer Tax	\$28,490,000	\$31,430,000	\$32,372,000	\$33,667,000	\$35,014,000	\$35,415,000
Transient Occupancy Tax	\$13,828,000	\$14,007,000	\$14,315,000	\$14,630,000	\$14,952,000	\$15,281,000
Parking Tax	\$14,992,000	\$15,404,000	\$12,058,000	\$8,735,000	\$8,928,000	\$9,125,000
Service Charges	\$153,745,000	\$144,610,000	\$152,609,000	\$154,725,000	\$156,889,000	\$159,100,000
Licenses & Permits	\$13,320,000	\$14,528,000	\$14,848,000	\$15,174,000	\$15,508,000	\$15,849,000
Fines & Penalties	\$30,145,000	\$27,533,000	\$27,533,000	\$27,533,000	\$27,533,000	\$27,533,000
Interest Income	\$5,702,000	\$8,971,000	\$8,981,000	\$8,990,000	\$8,990,000	\$8,990,000
Grants & Subsidies	\$45,204,000	\$59,229,000	\$59,129,000	\$59,129,000	\$59,129,000	\$59,129,000
Internal Service Funds	\$55,335,000	\$48,865,000	\$51,221,000	\$54,135,000	\$57,523,000	\$52,254,000
Miscellaneous Revenue	\$41,560,000	\$43,652,000	\$43,653,000	\$43,638,000	\$43,538,000	\$43,638,000
Fund Transfers	\$179,550,000	\$133,170,000	\$131,723,000	\$130,487,000	\$129,259,000	\$127,970,000
Grand Total	\$1,003,988,000	\$993,052,000	\$1,013,343,000	\$1,009,189,000	\$1,028,241,000	\$1,051,072,000

Note: The significant decrease in forecasted FY 2015-15 local tax and parking tax revenues is due to the expiration of Measure Y (parking tax will be in effect through 12/31/14 and the parcel tax will be in effect through 6/30/15). The notable changes in revenues from service charges, fines and penalties, interest income, and grants and subsidies are due to FY 2011-12 year-end actuals coming in either higher or lower than budgeted, impacting the FY 2013-14 forecast. As noted above, fund transfers include items such as one-time transfers from fund balance. Clearly one-time transfers were excluded from the forecast years.

## Expenditures

GPF expenditures are forecasted to grow from \$409M in FY 2012-13 to \$513M for “recommended” service level expenditures, and to \$618M including deferred expenditures by FY 2017-18, as shown below. Much of the recommended expenditure growth is forecasted to take place in the first two years, due to the end of employee contributions. Note that recommended service level expenditures generally include FY 2012-13 expenditure levels with normal cost escalation plus backfilling the sunset of employee contributions and the loss of funding from certain tax, assessment, and other revenue sources. “Deferred” expenditures include deferred capital acquisition (for facilities, infrastructure, vehicles, and information technology), deferred repayment of negative funds, and deferred payment of OPEB liabilities.

Table 4 - General Purpose Fund (GPF) Budgeted Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Personnel - civilian	\$92,207,000	\$103,107,000	\$104,824,000	\$107,664,000	\$109,443,000	\$111,359,000
Personnel - sworn	\$194,329,000	\$197,411,000	\$211,447,000	\$235,733,000	\$239,423,000	\$243,304,000
Personnel - sworn - police academies and new officers	\$5,935,000	\$13,512,000	\$17,198,000	\$20,883,000	\$24,569,000	\$28,255,000
Operations and maintenance	\$58,242,000	\$59,705,000	\$60,546,000	\$61,998,000	\$62,830,000	\$63,720,000
Capital acquisitions	\$0	\$1,500,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Debt service, operating transfers, other	\$57,227,000	\$57,292,000	\$56,893,000	\$40,380,000	\$39,900,000	\$39,423,000
Pay down/deposit on long term liabilities - recommended	\$0	\$0	\$0	\$10,000,000	\$10,000,000	\$24,239,000
<b>Subtotal Recommended</b>	<b>\$408,940,000</b>	<b>\$432,527,000</b>	<b>\$453,908,000</b>	<b>\$479,658,000</b>	<b>\$489,165,000</b>	<b>\$513,300,000</b>
Capital acquisitions - deferred	\$0	\$65,590,000	\$65,590,000	\$69,340,000	\$69,340,000	\$69,340,000
Pay down/deposit on long term liabilities - deferred	\$0	\$29,868,000	\$30,944,000	\$32,244,000	\$33,580,000	\$34,860,000
<b>Subtotal Deferred</b>	<b>\$0</b>	<b>\$95,458,000</b>	<b>\$96,534,000</b>	<b>\$101,584,000</b>	<b>\$102,920,000</b>	<b>\$104,200,000</b>
<b>Grand Total</b>	<b>\$408,939,000</b>	<b>\$527,985,000</b>	<b>\$550,442,000</b>	<b>\$581,242,000</b>	<b>\$592,086,000</b>	<b>\$617,500,000</b>

The major drivers of GPF expenditure growth are the following:

- Increase by nearly \$11M from FY 2012-13 to FY 2013-14 in civilian (non-sworn) personnel expenditures due primarily to the expiration of employee contributions of furlough days and increases in retirement and fringe benefit costs;
- Increase by over \$17M from FY 2012-13 to FY 2014-15 in sworn personnel expenditures due primarily to the expiration of temporary salary decreases, expiration of fire station brown outs, implementation of delayed cost of living adjustments (COLAs), and increases in retirement and fringe benefit costs;
- Absorption by the GPF of expenditures that had previously been supported by local revenue measures such as Measure Y (absorption of Police and Fire portions of Measure Y, due to labor contract requirements, but not violence prevention community programs);
- Absorption by the GPF of expenditures that had previously been supported by other sources, including the former Oakland Redevelopment Agency and limited term grants such as Community Oriented Policing Services (COPS) II;
- Increase of over \$20M per year by FY 2017-18 for additional police academies to increase the size of the force, netting 32 new officers each year, and the ongoing carrying cost of the

new officers (total sworn staffing (average budgeted) will grow as follows: 633 (FY 2012-13), 665 (FY 2013-14), 697 (FY 2014-15), 729 (FY 2015-16), 761 (FY 2016-17), and 793 (FY 2017-18));

- New expenditures on capital, primarily deferred; and
- New expenditures (deferred) of approximately \$36M per year on paying down other post employment benefit (OPEB) liabilities, assuming no other method of addressing the unfunded liability. (Staff will be presenting a mechanism for prefunding this liability through the establishment of an OPEB trust later this fall, which will result in incremental decrease to this unfunded liability.)

All funds expenditures are forecasted to grow from \$984M in FY 2012-13 to \$1,069M in FY 2017-18 for recommended expenditures, \$1,207M including deferred expenditures. The majority of the growth in all funds recommended expenditures from FY 2012-13 to FY 2017-18 is due to growth in GPF recommended expenditures. As such, the main cost drivers of GPF expenditure growth are also driving all funds growth.

Table 5 - All Funds Budgeted Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Personnel - civilian	\$245,511,000	\$267,634,000	\$270,408,000	\$273,253,000	\$276,464,000	\$279,915,000
Personnel - sworn	\$213,584,000	\$216,915,000	\$232,211,000	\$236,631,000	\$240,337,000	\$244,234,000
Personnel - sworn - police academies and new officers	\$6,935,000	\$13,512,000	\$17,198,000	\$20,883,000	\$24,569,000	\$28,255,000
Operations and maintenance	\$218,899,000	\$218,866,000	\$216,885,000	\$214,088,000	\$215,727,000	\$217,438,000
Capital acquisitions	\$24,002,000	\$25,000,000	\$28,000,000	\$28,000,000	\$28,000,000	\$28,000,000
Debt service, operating transfers, other	\$274,924,000	\$285,092,000	\$281,681,000	\$251,081,000	\$252,410,000	\$247,115,000
Pay down/deposit on long term liabilities - recommended	\$0	\$0	\$0	\$10,000,000	\$10,000,000	\$24,239,000
<b>Subtotal Recommended</b>	<b>\$983,855,000</b>	<b>\$1,028,019,000</b>	<b>\$1,046,383,000</b>	<b>\$1,033,936,000</b>	<b>\$1,047,507,000</b>	<b>\$1,069,196,000</b>
Capital acquisitions - deferred	\$0	\$88,200,000	\$88,200,000	\$95,700,000	\$95,700,000	\$95,700,000
Pay down/deposit on long term liabilities - deferred	\$0	\$36,823,000	\$37,936,000	\$39,278,000	\$40,545,000	\$41,932,000
<b>Subtotal Deferred</b>	<b>\$0</b>	<b>\$125,023,000</b>	<b>\$126,136,000</b>	<b>\$134,978,000</b>	<b>\$136,345,000</b>	<b>\$137,632,000</b>
<b>Grand Total</b>	<b>\$983,854,000</b>	<b>\$1,153,042,000</b>	<b>\$1,172,519,000</b>	<b>\$1,168,915,000</b>	<b>\$1,183,853,000</b>	<b>\$1,206,828,000</b>

### Imbalance

As illustrated in the table below, based on the expenditure and revenue estimates above, the City is forecasting a GPF shortfall for recommended expenditures of \$14.5M in FY 2013-14, growing to \$48M in FY 2017-18. The significant increase in the shortfall in FY 2015-16 is due to the assumption that the



GPF will absorb the Police and Fire Measure Y expenses (approximately \$15M per year) when that measure sunsets. When deferred expenditures for capital assets and OPEB funding are included, the shortfall is forecasted at \$110M in FY 2013-14 and \$152M in FY 2017-18. Note that the revenue and expenditure projections for FY 2013-14 and FY 2014-15 specifically will be further refined in the two-year baseline budget, which the City will prepare in November 2012. The major drivers of the shortfall are the expenditure growth factors described above, as well as slow revenue growth in some sources that are forecasted to grow slower than inflation or are stagnant. Note that to the extent that shortfalls in the early years are addressed through ongoing solutions, the shortfalls in later years will decrease commensurately.

Table 6 - General Purpose Fund Forecasted Surplus/ (Shortfall)

General Purpose Fund	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Revenue	\$417,987,000	\$430,066,000	\$439,187,000	\$451,195,000	\$465,489,000
Expenditures - Recommended	\$432,527,000	\$453,908,000	\$479,658,000	\$489,165,000	\$513,300,000
Surplus/(Shortfall)	(\$14,540,000)	(\$23,842,000)	(\$40,471,000)	(\$37,970,000)	(\$47,811,000)
Expenditures - Deferred	\$95,458,000	\$96,534,000	\$101,584,000	\$102,920,000	\$104,200,000
Surplus/(Shortfall)	(\$109,998,000)	(\$120,376,000)	(\$142,055,000)	(\$140,890,000)	(\$152,011,000)

As illustrated in the table below, based on the expenditure and revenue estimates above, the City is forecasting an all funds shortfall for recommended expenditures of \$35M in FY 2013-14, falling to \$18M in FY 2017-18. When including deferred expenditures for capital assets and OPEB liabilities, the forecast projects shortfalls ranging from \$156M to \$160M.

Table 7 - All Funds Forecasted Surplus/ (Shortfall)

All Funds	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Revenue	\$993,052,000	\$1,013,343,000	\$1,009,189,000	\$1,028,241,000	\$1,051,072,000
Expenditures - Recommended	\$1,028,019,000	\$1,045,383,000	\$1,033,936,000	\$1,047,507,000	\$1,069,195,000
Surplus/(Shortfall)	(\$34,967,000)	(\$33,040,000)	(\$24,747,000)	(\$19,266,000)	(\$18,124,000)
Expenditures - Deferred	\$125,023,000	\$126,136,000	\$134,978,000	\$135,345,000	\$137,632,000
Surplus/(Shortfall)	(\$159,990,000)	(\$159,176,000)	(\$159,725,000)	(\$155,611,000)	(\$155,756,000)

#### Budget Strategy Examples

The report contains some examples, for illustrative purposes, of possible strategies to reduce expenditures and increase revenues in order to close the forecasted shortfall. The Five-Year Financial Plan – Service Levels and Budget Strategies report, to be issued in spring 2013, will propose specific financial strategies for City Council's consideration to eliminate the shortfall. As noted above, the City has recently made strides in exercising prudent financial management, particularly in paying down unfunded liabilities despite difficult financial times. The City fully funded its GPF reserve and plans to continue to strengthen its financial policies and fiscal practices in the coming year. If the City continues this trend, it has the capacity to make prudent financial

decisions to bring revenues and expenditures into long-term balance while maintaining appropriate service levels.

## Introduction

### Purpose, Background, and Scope

The City's leadership has recognized the need for sound long-term financial planning. The City Council passed a Long-Term Financial Planning Policy in July 2003 (resolution 77923, Appendix A), which directed the Administration to create a regularly-updated Five-Year Financial Plan that forecasts the City's revenues and expenditures over a five-year period, focusing on the GPF and other major funds. In response, the City has produced five-year forecasts of its revenues and expenditures of varying detail over the years. The City's policy was subsequently revised in June 2008 (resolution 81399, Appendix B) to specify that the plan shall be updated and distributed by October 1<sup>st</sup> every other year.

As stated in the Long-Term Financial Planning Policy:

The Five-Year Financial Plan ("Plan") forecasts the City's revenues and expenditures over a five-year period. The Plan focuses on the General Purpose Fund, and other major funds such as the Landscape and Lighting Assessment District and the Oakland Redevelopment Agency. The intent of the Plan is to allow the City Council and the City Administrator to put current funding decisions in the context of forecasted economic conditions. Specifically, long-term financial planning improves the City's ability to make informed decisions regarding labor negotiations, economic development projects and tax policy. The Plan shall incorporate economic and demographic data at the national, local and state level, as well as other data that aids in forecasting.

Credit rating agencies are likely to favor the City's intention to plan ahead because such planning provides for greater financial stability, and signals a prudent approach to financial management. Five-Year planning also brings the City into compliance with current "best practices" of other governmental entities.

Other major goals of the Five-Year Financial Plan, as noted in the FY 2011-13 Adopted Policy Budget, include the following:

- To put the City's two-year budget-making process into a five-year planning horizon, to facilitate prudent financial management.
- To set revenue and expenditure targets, and evaluate budget priorities in light of fiscal conditions projected over the longer term.
- To present a picture of the long-term strategic financial issues facing the City, while highlighting funding priorities for budget planning.
- To identify potential structural budget surpluses or shortfalls.

- To demonstrate to policy-makers the likely impact of short-term capital investment and financing decisions on the City's longer-term financial capacity.
- To provide a useful framework for reviewing and refining the City's financial forecasts, as well as its financial goals and priorities.

The main purpose of a long-term financial forecast is to inform decision makers of whether revenues and expenditures will generally be in balance in future years, or whether significant interventions are necessary to help ensure balance. The Five-Year Financial Plan will help the City better anticipate future revenues and expenditures due to cyclical and irregular changes to its economy and demography. With a solid forecast of expenditures and revenues, the City can make better financial decisions, plan strategies for providing a consistent, appropriate level of service to its customers, and bring its revenues and expenditures into sustainable, long-term balance.

The revenue and expenditure forecast is a straightforward projection of the City's revenues and expenditures over the forecast period, fiscal year (FY) 2013-14 through FY 2017-18. It covers all major City funds, and generally assumes that service levels will remain constant at base year (FY 2012-13) budgeted levels for all of the forecast years, with some exceptions. The forecast does assume that employee contributions will sunset with the current employee contracts, resulting in higher service levels (and expenditures) due to the expiration of Mandatory Leave Without Pay (MLWOP) and Floating Mandatory Leave Without Pay (FMLWOP) and fire station brownouts. It also assumes that the City will continue to implement financial management best practices. The City has recently made strides in this area, such as by paying down negative funds, increasing the funded ratio of pension obligations, and fully funding the GPF reserve. The forecast assumes that the City will continue to implement best practices by increasing investment in capital assets and continuing to pay down unfunded liabilities.

Subsequent to the publication of the plan, the City will publish, in spring 2013, a Five-Year Financial Plan – Service Levels and Budget Strategies report. The financial forecast projects revenues and expenditures for future years assuming that service levels and revenue mechanism generally remain at base year levels. As the City is required to adopt a balanced budget each year, the City will need to develop strategies that bring revenues and expenditures into balance. The Service Levels and Budget Strategies report will address needed service level changes identified by departments and include specific, actionable recommendations that will provide sustainable, long-term balancing, and will feed directly into the creation of the FY 2013-15 Biennial Proposed Budget.

### **Development Process**

City staff, led by staff in the City Administrator's Office, Budget Office, conducted the data collection, analysis, and planning required to complete the forecast. City department leaders and financial and planning staff were responsible for gathering information and conducting analysis jointly with Budget Office staff in order to prepare this report. Staff consulted with independent budget and economic experts to confirm the soundness of the assumptions and analysis. Whereas

the forecast was created primarily through an internal process relying on experts, the development of the Service Levels and Budget Strategies report will involve input from a broader set of stakeholders, specifically to draw in a wide range of perspectives on optimal service levels and how to balance revenues and expenditures. The development of solutions will include opportunities for input from elected officials, City employees, and members of the public.

The Five-Year Financial Plan and Five-Year Financial Plan – Service Levels and Budget Strategies reports are compliant with City policies and have been created using public administration best practices. The Government Finance Officers Association (GFOA), one of the leading professional associations in this field, defines financial forecasting and long-term financial planning as follows:

- Financial forecasting is the process of projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios, and other salient variables.
- Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the government's service objectives and financial challenges.

GFOA's Long-Term Financial Planning best practice requires that a long term financial plan:

- Use a planning horizon of at least five years;
- Consider all funds;
- Be updated regularly;
- Include an analysis of the financial environment, revenue and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and plan monitoring mechanisms; and
- Be visible.

The process of creating and publishing the Five-Year Financial Plan and Five-Year Financial Plan – Service Levels and Budget Strategies reports can be used to spur dialog, develop consensus, and build confidence among key stakeholder groups, such as elected leaders, City staff, the public, and the financial industry, regarding the City's service needs and financial situation. The outcome will be City leadership and other stakeholders informed by better data and able to make better financial and operational decisions.

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## Major Economic and Demographic Trends

Oakland is emerging, along with the rest of the East Bay, from the recent Great Recession. According to the East Bay Economic Development Alliance's (EBEDA) *Economic Outlook 2012*, East Bay job creation has recently started to outpace U.S. and California job creation. The East Bay is experiencing strong job growth in education and health services and in professional, scientific, and technical services. Oakland residents have created a number of social entrepreneurship organizations, promoting sustainable business and maintaining high social, environmental, and legal standards. Companies in the East Bay have attracted a substantial amount of venture capital funding. Traffic at the Port of Oakland has also increased significantly. The total value of imports has grown 62.7% and the total value of exports has grown 83.1% since the recent low of February 2009. Home loan default rates are falling, but are still high by historical standards. Although both multi-family and single-family building permits declined in Oakland in 2011 compared to 2010, vacancy of commercial retail and office space declined from 2010 to 2011 for almost all regions of Oakland.

Beacon Economics, a consulting firm that provides the City with various economic and financial data and forecasts, expects the region's economy to stabilize, then begin again to experience growth consistent with long-term trends, in the 5% annual nominal growth range, beginning in 2015. This will be the result of employment returning to "normal" long-term levels, increased business and consumer spending (including residential and commercial property sales), and other factors.

Regarding demographic trends, for the purpose of the Five-Year Financial Plan, City staff has assumed that Oakland's population size and composition will remain constant over the forecast period. The California Department of Finance estimated that Oakland's population stood at 399,566 in 2000, decreased to approximately 386,000 in 2007, then slowly rebounded to its current level of 395,341 as of January 1, 2012, a growth rate of approximately 0.5% per year. City staff will look more closely at population size and composition forecasts as part of the needs assessment component of the Five-Year Financial Plan – Service Levels and Budget Strategies report, and update the assumptions about future population levels and composition as appropriate, which might affect revenue and expenditure forecasts.

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## General Purpose Fund (GPF) and All Funds History

To provide context in which to consider the forecasted future revenues and expenditures, it is useful to look at past revenue and expenditure levels. Budgeted revenues and expenditures reached their recent peak in FY 2007-08, then generally decreased through FY 2011-12 as revenues dropped due to the recession and the City made spending cuts. In FY 2012-13, budgeted expenditures increased for the first time year-over-year since FY 2007-08.

### GPF and All Funds Revenue History

As discussed in greater detail below, the revenue and expenditure projections contained in the forecast were created using both quantitative and qualitative methods. Quantitative methods included looking at historical rates of change and factoring that information into projected future rates. However, the past few years have been unusual due to the dramatic recession. As such, the economic and fiscal circumstances of the past few years are not as instructive as they might normally be regarding what to expect in the future. Therefore, we present limited information on historic revenues and expenditures to provide context for the forecasted figures presented later in the report. However, as the forecast does not rely heavily on these historical numbers, they are not covered in detail.

Table 8 - General Purpose Fund (GPF) Actual Revenue

Revenue Categories	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Actual (Unaudited)
Property Tax	\$131,744,660	\$134,474,504	\$131,781,702	\$126,682,293	\$ 138,796,954
Sales Tax	\$53,089,829	\$46,122,469	\$35,876,786	\$41,235,072	\$44,740,906
Vehicle License Fee	\$1,810,683	\$1,281,723	\$1,250,869	\$2,168,209	-
Gas Tax	-	-	-	-	-
Business License Tax	\$52,541,762	\$54,289,930	\$54,137,582	\$53,138,616	\$ 58,548,809
Utility Consumption Tax	\$52,524,442	\$52,701,278	\$51,106,503	\$53,440,475	\$51,434,031
Real Estate Transfer Tax	\$35,205,017	\$34,266,148	\$36,971,710	\$31,607,438	\$30,546,398
Transient Occupancy Tax	\$12,200,531	\$10,460,807	\$8,471,713	\$9,544,822	\$10,713,948
Parking Tax	\$8,523,565	\$7,655,031	\$7,522,988	\$8,512,868	\$8,616,474
Local Tax	-	-	-	-	-
Licenses & Permits	\$1,607,539	\$1,281,689	\$720,436	\$888,147	\$1,158,650
Fines & Penalties	\$21,939,433	\$25,566,910	\$27,352,869	\$24,288,276	\$ 24,246,700
Interest Income	\$4,466,914	\$1,706,198	\$1,100,078	\$1,041,723	\$740,482
Service Charges	\$44,063,267	\$43,851,618	\$45,030,416	\$44,646,815	\$45,948,737
Internal Service Funds	328,223	\$44,350	\$9,550	\$(932)	-
Grants & Subsidies	\$4,647,185	\$4,307,889	\$1,950,469	\$82,346	\$229,107
Miscellaneous Revenue	\$4,041,447	\$11,430,702	\$8,043,320	\$6,477,660	\$32,079,762
Fund Transfers	\$25,695,366	\$38,689,296	\$21,855,950	\$17,091,732	\$1,718,023
Grand Total	\$455,129,862	\$468,130,543	\$433,182,944	\$420,845,561	\$ 449,519,488

Table 9 - All Funds Actual Revenue

Revenue Categories	FY 2007-08 Actual	FY 2008-09 Actual	FY 2009-10 Actual	FY 2010-11 Actual	FY 2011-12 Actual (Unaudited)
Property Tax	\$131,987,140	\$134,567,411	\$131,825,198	\$126,725,681	\$138,816,699
Sales Tax	\$64,294,424	\$56,090,373	\$45,502,628	\$51,910,368	\$55,475,445
Vehicle License Fee	\$1,810,683	\$1,281,723	\$1,250,869	\$2,168,209	5 - -
Gas Tax	\$7,305,235	\$6,183,942	\$7,123,935	\$10,356,554	\$5,795,764
Business License Tax	\$52,542,182	\$54,289,930	\$54,140,218	\$53,138,616	\$58,548,809
Utility Consumption Tax	\$52,524,442	\$52,701,278	\$51,106,503	\$53,440,475	\$51,434,031
Real Estate Transfer Tax	\$36,205,017	\$34,266,148	\$36,971,710	\$31,607,438	\$30,546,398
Transient Occupancy Tax	\$12,200,531	\$10,460,807	\$9,978,273	\$12,394,764	\$13,705,762
Parking Tax	\$15,746,303	\$14,196,451	\$13,884,782	\$13,459,028	\$15,975,931
Local Tax	\$125,419,591	\$116,656,343	\$124,833,494	\$125,701,501	\$152,572,913
Licenses & Permits	\$19,821,191	\$14,979,497	\$13,564,441	\$14,815,712	\$14,260,718
Fines & Penalties	\$24,528,013	\$28,800,546	\$30,887,409	\$29,402,256	\$26,986,715
Interest Income	\$32,509,070	\$19,042,229	\$11,447,142	\$8,855,961	\$9,181,333
Service Charges	\$131,412,784	\$128,492,017	\$134,312,433	\$139,813,576	\$148,611,574
Internal Service Funds	\$41,245,384	\$44,990,012	\$49,664,321	\$49,834,226	\$48,122,481
Grants & Subsidies	\$68,344,780	\$73,223,380	\$79,171,944	\$97,814,076	\$103,303,273
Miscellaneous Revenue	\$219,149,440	\$(78,829,659)	\$131,899,433	\$86,978,392	\$56,701,078
Fund Transfers	\$72,735,332	\$109,776,683	\$96,338,624	\$99,699,627	\$265,141,912
Grand Total	\$1,109,781,540	\$821,169,111	\$1,023,903,358	\$1,008,116,460	\$1,195,181,836

### GPF and All Funds Budgeted Expenditures History

Since the recent high of FY 2007-08 and FY 2008-09, the City's budget consistently declined through FY 2011-12, increasing for the first time recently in FY 2012-13. The GPF budget decreased by 14% in nominal terms between FY 2007-08 and FY 2012-13. The all funds budget decreased by nearly 8% in nominal terms over the same period. To reduce expenditures, the City instituted a number of short and long-term budget reductions, including a second retirement tier, reductions in staff, increased employee cost sharing, and work furloughs.

Table 10 – General Purpose Fund and All Funds Budgeted Expenditures

Expenditure Categories	FY 2007-08 Budget	FY 2008-09 Budget	FY 2009-10 Budget	FY 2010-11 Budget	FY 2011-12 Budget	FY 2012-13 Budget
GPF Budgeted Expenditures	\$476,666,453	\$476,479,773	\$421,018,710	\$419,109,150	\$391,609,934	\$408,938,930
All Funds Budgeted Expenditures	\$1,066,031,119	\$1,066,328,235	\$1,033,285,970	\$989,886,600	\$980,677,114	\$983,853,524

## Forecast Methodology

City staff followed public administration best practices when designing the forecast methodology. Staff conducted research on best practices by reviewing the past financial planning work of Oakland, of peer jurisdictions (Los Angeles, San Francisco, and San Jose), other leading municipalities, and by reviewing academic and professional materials on the topic. Best practices are well summarized in the key publication on municipal long term financial planning, GFOA's *Financing the Future: Long-Term Financial Planning for Local Government*.

Future revenues and expenditures are impacted by cyclical and irregular changes in the City's economy and demography. They can be estimated using a number of techniques including qualitative/judgmental analysis; quantitative analysis such as time series and regression analysis; and hybrid techniques. Qualitative forecasting uses non-statistical techniques that rely on human judgment to arrive at projections. Quantitative analysis usually involves statistical techniques to create projections.

City staff used both qualitative and quantitative analysis as part of this forecast, as described below. Staff conducted an environmental scan and consulted extensively with other City staff to gain their thoughts on events that would impact future revenues and expenditures. Much of the forecast also draws on information provided by outside experts, such as future inflation rates and expected medical insurance premium growth rates. City staff took into account historical experience, as well as the economic uncertainties underlying the revenue and expenditure outlook over the five-year period.

The forecast uses FY 2011-12 actual year-end revenues and Adopted Amended Midcycle FY 2012-13 budgeted expenditures as the baseline from which future years are projected. The revenue and expenditure projections for FY 2013-14 and FY 2014-15 will be further refined in the two-year baseline budget, which the City expects to complete in November 2012.

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## Revenue Forecast

### Assumptions and Overview by Source

The table below summarizes assumptions about revenue growth, which are discussed in greater detail below. Generally, the forecast anticipates that the City will experience modest revenue growth as the region's economy stabilizes, then begins in 2015 to experience growth consistent with long-term trends, in the 4% annual nominal growth range. Property tax, sales tax, business license tax, and real estate transfer tax are all expected to grow faster than the rate of inflation. Transient occupancy tax, parking tax, and permits and service charges are expected to grow at the rate of inflation. Parking revenue (meters and citations) and fines and penalties are forecasted to grow at 0% per year.

City staff consulted with a number of independent experts to create the revenue forecast. Staff included its best analysis of revenue growth rates. In some cases, staff was slightly more conservative than independent experts were, based on staff's deep knowledge of Oakland's revenue dynamics.

#### Rate of Inflation Assumption

For the purpose of the forecast, staff projected the rate of inflation to be equal to the ten-year average of the U.S. Bureau of Labor Statistics' Consumer Price Index – All Urban Consumers (CPI-U) for the San Francisco-Oakland-San Jose, CA area. This index has averaged 2.2% annual growth per year from June 2002 to June 2012. This assumption is consistent with forecasts from other sources. The California Department of Finance forecasts CPI-U annual growth for the San Francisco-Oakland-San Jose, CA area to average 2.07% per year for 2013, 2014, and 2015, rising from 2.0% in 2013 to 2.2% in 2015. Economists from the City's merchant bank, Wells Fargo, are also assuming annual inflation of about 2.2% for California for the next couple of years.

Table 11 - Summary of Revenue Assumptions

Issue	Revenue Assumptions
Rate of inflation	2.2% each year
Property tax	2% in FY 2013-14 and FY 2014-15, 3% thereafter
Sales tax	2% in FY 2013-14, 3% in FY 2014-15 and FY 2015-16, 4% thereafter
Business tax	2% in FY 2013-14 and FY 2014-15, 3% in FY 2015-15, 4% thereafter
Utility consumption tax	0% in FY 2013-14, 1% in FY 2014-15, rate of inflation (2.2%) thereafter
Real estate transfer tax (RETT)	3% in FY 2013-14 and FY 2014-15, 4% thereafter
Transient occupancy tax (TOT)	Rate of inflation (2.2%) each year
Parking tax	Rate of inflation (2.2%) each year
Permits, Licenses, and Service Charges excluding Meter Collections	Rate of inflation (2.2%) each year
Parking Meters (included within Service Charges)	0% each year
Parking Citations, Fines, Penalties	0% each year

### Property Tax

Staff assumes that property tax revenues will grow at 2% in FY 2013-14 and FY 2014-15, 3% thereafter. Assumptions are consistent with those used in the City's recent pension obligation bond issuance and expert forecasts. Staff assumed similar growth rates for the additional property tax that the City will receive from the Residual Property Tax Trust (RPTT), the City's portion of former redevelopment tax increment revenue returned as undesignated property tax. This revenue is forecasted at \$13M in FY 2013-14 and expected to grow to \$20 million annually by FY 2017-18 as a result of normal growth and as the recognized obligations of redevelopment are paid off.

### Sales Tax

Staff assumes that sales tax will grow by 2% in FY 2013-14, 3% in FY 2014-15 and FY 2015-16, and then 4% thereafter. This is an average of growth rates forecasted by various experts, including Beacon Economics. The FY 2011-12 sales tax base was adjusted to remove one-time recoveries. Note that the forecast assumes no additional sales tax revenues to the City as a result of online out-of-state retailers beginning to collect sales tax in California in mid-September 2012, as the magnitude of the sales tax collection has not been precisely estimated.

### Business Tax

The business tax base is composed of three primary components: normal business gross receipts; gross receipts from construction activity; and business tax from the rental of residential and commercial property. Gross receipts tend to lag sales tax by one year, thus 2% growth is expected in the first two forecast years, 3% in FY 2015-16, 4% thereafter. Present construction activity was removed from the base before growth rates were applied, and future projected construction activity was added in appropriate fiscal years. Forecasted business tax from future construction activity was based on approved projects that are almost certain to go forward. Importantly, this does not include many projects that have been planned but not scheduled (such as the Oakland Army Base development) or projects that have not been planned. The forecast assumes the impact of ongoing revenues of \$600K due to continued compliance of rental housing businesses that were subject to a large property owner audit in FY 2011-12.

### Utility Consumption Tax

Utility consumption tax is anticipated to remain at the current level in the first year of the forecast. Increases in cable and energy utility usage are offset by energy efficiency projects and leakage in the telecommunications base to non-taxable communications. The growth rate recovers to 1% in FY 2014-15, then the rate of inflation (2.2%) over the remainder of the forecast window due to resumed economic growth, exhaustion of inexpensive energy efficiency measures, and stabilization of the telecommunications base.

### Real Estate Transfer Tax

Real estate transfer tax (RETT) is projected to grow at 3% in FY 2013-14 and FY 2014-15, 4% thereafter. This growth rate reflects no assumed change in the volume of real estate transactions and some increase in the average sale value of properties. The 3% growth rate is .8% higher than the assumed rate of inflation, and .1% higher than the average forecast inflation for shelter for the San Francisco Bay Area from calendar year 2012 through 2015 as estimated by the California Department of Finance Research Division.

### Transient Occupancy Tax

Transient occupancy tax (TOT) is anticipated to grow at the rate of inflation, 2.2%, due to stable occupancy rates and number of rooms, but growth in room rates consistent with regional price inflation. Growth in FY 2011-12 is assumed to continue as a part of the TOT base. This assumes no new construction of major hotel facilities and no strong growth in recreational or commercial travel.

### Parking Tax

Parking tax is anticipated to grow at the rate of inflation, 2.2%. Growth in FY 2011-12 is assumed to continue as a part of the parking tax base. The forecast conservatively assumes no changes in the usage at the Coliseum site or increased travel through Oakland International Airport. Parking tax is forecasted to decrease notably in FY 2014-15 and thereafter as the parking tax component of Measure Y is assumed to expire on 12/31/14.

### Permits, Licenses, and Service Charges, Including Parking Meter Collections

Service charges and other similar revenues are projected to increase at the rate of inflation. The FY 2013-14 amount has been trued relative to the FY 2012-13 budget because FY 2011-12 year-end actuals came in lower than expected. In the past, the City Council has approved fee increases based on growth in the Consumer Price Index (CPI). This forecast assumes a continuation of this trend, but no more aggressive full cost recovery initiative. Revenues from the City's parking meters are assumed to be constant over the forecast period. This assumes no policy changes to increase meter rates or economic circumstances that significantly increase meter usage. There is the possibility to increase revenue by an unknown amount when the City installs next generation meters and related equipment, as a result of fewer damaged and unreliable meters.

### Parking Citations, Fines, Penalties

Revenues from the City's fines and penalties (largely parking citations) are expected to remain constant over the forecast period. The forecast anticipates no dramatic changes in behavior nor increases in the amount charged for fines. There is the possibility of an unknown amount of decreased revenue when the City installs next generation meters and related equipment, which

might increase the ease of meter payment, and therefore decrease the rate of meter nonpayment and related citations.

#### Local Ballot Measures

The forecast assumes that local ballot measures, such as the wildfire prevention assessment and Measure Y (the Violence Prevention and Public Safety Act of 2004), which provide approximately \$1.85M and \$20M annually to the City, respectively, will not be renewed by voters when they sunset in June 2014 and June 2015, respectively. Although revenues from these measures fund important public services, it is not clear that extensions of these measures will be placed on the ballot nor that they would pass. The forecast also conservatively assumes that Measure B1 (Alameda County Transportation Commission Sales Tax Measure), on the November 2012 ballot, will not pass. Its passage would result in an annual increase of approximately \$7.9M for street and \$.9M for bicycle and pedestrian projects.

#### Special Revenues

The forecast assumes that sewer service charges will increase in January 2014. Fees and franchise taxes related to solid waste are assumed to continue at their present levels with no growth.

#### Grants

Re-occurring grants are forecasted to be renewed at their current levels, such as the U.S. Department of Housing and Urban Development's Community Development Block Grant. However, it is important to note that some of these grants have actually decreased dramatically in recent years, and federal grant levels may continue to be impacted in the near-term by federal budget balancing measures. Certain non-recurring grants, such as the Community Oriented Policing Services (COPS) II grant, are assumed to expire.

#### Miscellaneous Revenue and Fund Transfers

Miscellaneous revenue is primarily comprised of property sales and billboard revenues. The forecast assumes a modest level of future revenues consistent with historical trends. Fund transfers include one-time transfers among funds, including items such as a transfer from fund balance and a transfer of the proceeds of a portion of the sale of the Henry J. Kaiser Convention Center. The forecast removes clearly one-time fund transfers.

#### Forecast

As shown in the tables below, GPF revenues are expected to grow from \$418M to \$465M from FY 2013-14 to FY 2017-18, averaging 2.7% growth per year. All funds revenues are expected to grow from \$993M to \$1,051M over the same period. The growth in all funds and GPF revenue is noteworthy for two reasons. First, if the forecast is accurate, it represents the first multi-year period



of revenue growth since FY 2008-09, before the beginning of the recent recession. Second, although growth rates differ by revenue category, some of the most significant revenue sources, including property tax, sales tax, business license tax, and real estate transfer tax, are projected to grow faster than general price inflation, at an accelerating rate, increasing the City's purchasing power with these resources. However, the sunset of Measure Y would particularly be a setback for revenue in FY 2015-16 and beyond.

Table 12 – General Purpose Fund (GPF) Budgeted Revenue Forecast

Budget Revenue Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Property Tax	\$125,167,000	\$141,792,000	\$148,227,000	\$151,509,000	\$156,889,000	\$163,243,000
Sales Tax	\$43,556,000	\$45,179,000	\$46,534,000	\$47,930,000	\$49,368,000	\$51,343,000
Business License Tax	\$51,800,000	\$56,941,000	\$59,194,000	\$60,352,000	\$62,163,000	\$64,649,000
Utility Consumption Tax	\$50,500,000	\$51,434,000	\$51,691,000	\$52,828,000	\$53,991,000	\$55,178,000
Real Estate Transfer Tax	\$28,490,000	\$31,430,000	\$32,372,000	\$33,667,000	\$35,014,000	\$36,415,000
Transient Occupancy Tax	\$10,865,000	\$10,950,000	\$11,191,000	\$11,437,000	\$11,688,000	\$11,945,000
Parking Tax	\$8,104,000	\$8,364,000	\$8,548,000	\$8,736,000	\$8,928,000	\$9,125,000
Service Charges	\$43,227,000	\$42,871,000	\$43,254,000	\$43,646,000	\$44,047,000	\$44,456,000
Licenses & Permits	\$926,000	\$1,184,000	\$1,210,000	\$1,237,000	\$1,264,000	\$1,292,000
Fines & Penalties	\$25,426,000	\$24,388,000	\$24,388,000	\$24,388,000	\$24,388,000	\$24,388,000
Interest Income	\$800,000	\$732,000	\$732,000	\$732,000	\$732,000	\$732,000
Grants & Subsidies	\$93,000	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenue	\$2,733,000	\$1,716,000	\$1,716,000	\$1,716,000	\$1,716,000	\$1,716,000
Fund Transfers	\$17,483,000	\$1,008,000	\$1,008,000	\$1,008,000	\$1,008,000	\$1,008,000
<b>Grand Total</b>	<b>\$409,167,000</b>	<b>\$417,987,000</b>	<b>\$430,066,000</b>	<b>\$439,187,000</b>	<b>\$451,195,000</b>	<b>\$465,489,000</b>

Note: Property tax increases notably from FY 2012-13 to FY 2013-14 due to additional Residual Property Tax Trust revenues that the City might receive due to the dissolution of redevelopment that were not all assumed in the FY 2012-13 budget. Service charges and fines and penalties are expected to decrease in FY 2013-14 relative to the FY 2012-13 budget as FY 2011-12 year-end actuals came in lower than expected. Miscellaneous revenue is primarily comprised of property sales and billboard revenues. The forecast assumes a modest level of future revenues consistent with historical trends. Fund transfers include one-time transfers among funds, including items such as a transfer from fund balance and a transfer of the proceeds of a portion of the sale of the Henry J. Kaiser Convention Center.

Table 13 – All Funds Budgeted Revenue Forecast

Budget Revenue Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Property Tax	\$125,355,000	\$141,807,000	\$148,242,000	\$151,524,000	\$156,905,000	\$163,259,000
Local Tax	\$132,207,000	\$141,174,000	\$143,834,000	\$130,024,000	\$132,470,000	\$134,970,000
Sales Tax	\$53,616,000	\$54,499,000	\$56,134,000	\$57,818,000	\$59,552,000	\$61,935,000
Gasoline Tax	\$6,638,000	\$5,796,000	\$5,796,000	\$5,796,000	\$5,796,000	\$5,796,000
Business License Tax	\$51,800,000	\$56,941,000	\$59,194,000	\$60,352,000	\$62,163,000	\$64,649,000
Utility Consumption Tax	\$50,500,000	\$51,434,000	\$51,691,000	\$52,828,000	\$53,991,000	\$55,178,000
Real Estate Transfer Tax	\$28,490,000	\$31,430,000	\$32,372,000	\$33,667,000	\$35,014,000	\$36,415,000
Transient Occupancy Tax	\$13,828,000	\$14,007,000	\$14,315,000	\$14,630,000	\$14,952,000	\$15,281,000
Parking Tax	\$14,992,000	\$15,404,000	\$12,068,000	\$8,736,000	\$8,928,000	\$9,125,000
Service Charges	\$153,745,000	\$144,610,000	\$152,609,000	\$154,725,000	\$156,889,000	\$159,100,000
Licenses & Permits	\$13,320,000	\$14,528,000	\$14,848,000	\$15,174,000	\$15,508,000	\$15,849,000
Fines & Penalties	\$30,146,000	\$27,533,000	\$27,533,000	\$27,533,000	\$27,533,000	\$27,533,000
Interest Income	\$5,702,000	\$8,971,000	\$8,981,000	\$8,990,000	\$8,990,000	\$8,990,000
Grants & Subsidies	\$46,204,000	\$59,229,000	\$59,129,000	\$59,129,000	\$59,129,000	\$59,129,000
Internal Service Funds	\$56,335,000	\$48,866,000	\$51,221,000	\$54,136,000	\$57,523,000	\$62,254,000
Miscellaneous Revenue	\$41,560,000	\$43,652,000	\$43,653,000	\$43,638,000	\$43,638,000	\$43,638,000
Fund Transfers	\$179,550,000	\$133,170,000	\$131,723,000	\$130,487,000	\$129,259,000	\$127,970,000
Grand Total	\$1,003,988,000	\$993,052,000	\$1,013,343,000	\$1,009,189,000	\$1,028,241,000	\$1,051,072,000

On a percentage basis, GPF revenues are forecasted to grow as shown below. Note that the rates below might vary in some cases from the general revenue growth rate assumptions due to specific one-time incidents. Also, note that the FY 2013-14 forecasted growth rate is the difference between the FY 2012-13 budgeted revenue and the forecasted FY 2013-14 revenue. The growth rates for this year particularly are variable due to the FY 2013-14 forecast incorporating later, more accurate information about revenue trends than was available when the FY 2012-13 budget was adopted, particularly from FY 2011-12 year-end actuals.

Table 14 – General Purpose Fund (GPF) Revenue Forecasted Annual Growth Rates

Budget Revenue Categories	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Property Tax	13%	5%	2%	4%	4%
Sales Tax	4%	3%	3%	3%	4%
Business License Tax	10%	4%	2%	3%	4%
Utility Consumption Tax	2%	0%	2%	2%	2%
Real Estate Transfer Tax	10%	3%	4%	4%	4%
Transient Occupancy Tax	1%	2%	2%	2%	2%
Parking Tax	3%	2%	2%	2%	2%
Service Charges	-1%	1%	1%	1%	1%
Licenses & Permits	28%	2%	2%	2%	2%
Fines & Penalties	-4%	0%	0%	0%	0%

Interest Income	-9%	0%	0%	0%	0%
Grants & Subsidies	-100%	0%	0%	0%	0%
Miscellaneous Revenue	-37%	0%	0%	0%	0%
Fund Transfers	-94%	0%	0%	0%	0%
Grand Total	2%	3%	2%	3%	3%

As noted above, some revenue sources, such as property tax, sales tax, business license tax, real estate transfer tax, and transient occupancy tax are sensitive to general economic conditions. Other sources, such as fines and penalties and grants and subsidies, are less sensitive to economic conditions. Given that some of the City's more prominent revenue sources are closely tied to the economy, it is important to understand the sensitivity of the revenue forecast to assumptions about future economic conditions. The forecast conservatively assumes nominal economic growth of approximately 3% per year in FY 2013-14 and FY 2014-15, increasing to approximately 4% in the subsequent years. This results in projected GPF revenue of \$465M in FY 2017-18. If the forecast were to assume slower economic growth (2% in the first two years, 3% thereafter), it would result in projected GPF revenue of \$447M in FY 2017-18. Somewhat higher growth (4.5% in the first two years, 5.5% thereafter) would result in projected GPF revenue of \$485M in FY 2017-18.

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## Expenditure Forecast

The expenditure forecast explicitly followed the guidance of GFOA’s *Financing the Future: Long-Term Financial Planning for Local Government*. This resource recommends that expenditures be grouped into units of analysis that are meaningful to the organization, such as departments and standard budget categories of expenditures. It also directs that operating, capital, and non-current liability expenditures be addressed. As such, staff grouped baseline (FY 2012-13) budgeted expenditures by department and by major expenditure category, consistent with the City’s chart of accounts, into personnel civilian; personnel sworn; operations and maintenance; capital acquisitions; debt service, operating transfers, other; and pay down/deposit on long term liabilities. As illustrated in the table below, each of these major categories of expenditures was further divided into subgroups of expenditures with similar growth patterns, such as civilian fringe benefits, civilian retirement benefits, contract services, equipment/vehicles, OPEB annual required contributions (ARC), etc. Note that expenditures were divided into “recommended” and “deferred” categories. “Recommended” service level expenditures generally include FY 2012-13 expenditure levels with normal cost escalation, plus backfilling the sunset of employee contributions and the loss of funding from certain tax, assessment, and other revenue sources. “Deferred” expenditures include deferred capital acquisition (for facilities, infrastructure, vehicles, and information technology), deferred repayment of negative funds, and deferred payment of OPEB liabilities.

Table 15 - Expenditure Categories

Expenditures
Recommended
Personnel - civilian
Civilian salaries
Civilian fringe
Civilian retirement
Personnel - sworn
Sworn salaries
Sworn fringe
Sworn retirement
Personnel - sworn - police academies and new officers
Academy and field training – first academy
Ongoing salary, benefits, O&M – first academy
Academy and field training – second academy
Ongoing salary, benefits, O&M – second academy
Operations and maintenance
Services and supplies
Contract services
Internal service/work order
Other
Capital acquisitions
Land, buildings, infrastructure, furniture
Equipment/vehicles
Other fixed assets/computers and software (over \$5,000)
Debt service, operating transfers, other
Debt service
Operating transfers
Overhead

Overhead - Project Recoveries
Bank, bond, loan, and other expenditures
Other
Pay down/deposit on long term liabilities - recommended
Deposits to reserve for unfunded pension and OPEB liabilities
Required contribution for PFRS
Deposits to GPF reserves
Deferred
Capital acquisitions - deferred
Land, buildings, infrastructure, furniture
Equipment/vehicles
Other fixed assets/computers and software (over \$5,000)
Pay down/deposit on long term liabilities - deferred
Net new negative fund balance repayment
OPEB - Net new Police to achieve ARC
OPEB - Net new Fire to achieve ARC
OPEB - Net new Misc to achieve ARC

Future expenditures were forecasted from the baseline level to account for both inflationary cost escalation and expenditure increases due to new operating expenditures, which are changes in service or staffing levels. As noted, this forecast generally assumes that expenditures will only grow due to inflationary cost escalation, with a few exceptions, described below.

### Assumptions on Inflationary Cost Escalation

Staff assumed that most expenditures would change only due to inflationary cost escalation. Staff considered various cost escalation factors that could reasonably be applied to different categories of expenditures (e.g., salaries, fringe benefits, contract services, capital acquisition, etc.). Expenditure assumptions are summarized in the table below.

Table 16 - Summary of Inflationary Cost Escalation Assumptions

Issue	Inflationary Cost Escalation Assumptions
Salaries	No cost of living adjustment (COLA) during forecast period. Salary step increases will be unfrozen in FY 2013-14 for miscellaneous union employees due to the expiration of a salary step freeze employee contribution, but future salaries will not grow significantly due to salary step increases due to the countervailing influence of attrition.
Retirement	City's retirement expenditures for current employees will grow by 1.5% per year for civilian employees and 2.5% per year for sworn employees, consistent with California Public Employees' Retirement System (CalPERS) estimates.
Fringe Benefits	All civilian and sworn fringe benefit expenditures will grow by 6% per year, consistent with expert projections, based primarily on medical insurance rates.
Operations and Maintenance	Operations and maintenance expenses will generally grow at 0% per year.

#### Salaries

Staff assumed that civilian and sworn salaries would change due to the sunset of employee contributions and a reduction in the number of Successor Agency project staff. The forecast assumes no cost of living adjustment (COLA) for any staff during the forecast period, except deferred COLAs for police officers due to the end of that employee contribution in their current contract. The expenditure

forecast is fairly sensitive to the assumption regarding COLAs. If a COLA of the projected rate of inflation (2.2%) were granted to all employees in the first year following the sunset of their employee contributions, it would increase salaries for all funds, all employees in FY 2017-18 from \$325M to \$349M, an increase of \$24M, with additional increases to pension expenditures of approximately \$7M. For simplicity, the forecast also assumes no salary step increases during the forecast years, except in FY 2013-14 due to expiration of a miscellaneous union employee contribution freezing salaries. No additional step increases are assumed as many of the City's employees are already near the top salary step and step increases are often offset by attrition savings.

#### Retirement

Staff assumed that that the City's employer contribution retirement expenditures for current civilian and sworn employees would grow as projected by the California Public Employees' Retirement System (CalPERS), the City's retirement program administrator, by approximately 1.5% per year for civilian employees and 2.5% per year for sworn employees. Although CalPERS identifies an "employer contribution" and "employee contribution" for retirement deposits, the actual cost sharing between the City and employees is a bargained arrangement codified in Memoranda of Understanding (MOUs) between the City and employee unions. Note that because of employee contributions negotiated for the FY 2011-13 Adopted Budget, all City employees, sworn and civilian, now pay the full employee contribution of their retirement, with some groups contributing a portion of the employer's share. Previously, the City had paid some of the employee share as an employee benefit. For the purpose of the forecast, staff assumed that employees would continue to pay the full employee contribution, but that the employer portion paid by Service Employees International Union (SEIU) Local 1021 members would expire at the end of the contract term (FY 2012-13).

The California Legislature recently passed, and the Governor signed, a pension reform bill. The bill will have immediate impacts on new State workers, such as increasing the retirement age, capping pensionable salaries, and other provisions. It may eventually have a similar impact on municipal workers. For the purpose of the forecast, we have assumed that the legislation will have no substantial impact on Oakland's required retirement contributions to CalPERS during the forecast period, particularly as the City is not expecting to add many new employees during the forecast period. Staff will be refining the pension costs in this forecast as additional analysis is completed on the potential impacts of the legislation to the City. Similarly, the forecast assumes that the City's recently adopted second tier retirement program will not result in any retirement savings to the City during the forecast period.

#### Fringe Benefits

Civilian and sworn fringe benefit expenditures are comprised of many components, including health insurance, workers' compensation, dental and vision insurance, disability insurance, unemployment insurance, and others. Staff assumed that health insurance costs would grow by 6% per year during the forecast period. Although the City's health insurance program administrator, CalPERS, will not provide a

long-term estimate, this is consistent with a blend of recent history (see table below) and estimates by experts, notably the City's actuary, Aon Hewitt, and the City's health benefits broker. Other fringe benefit expenditures are also projected to grow by an average of 6% per year. Note that the forecast does not assume any decrease in workers' compensation costs during the forecast period, although there is hope that the recent passage of related legislation (SB 863) will improve delivery of benefits to injured workers and reduce costs for employers.

Cost sharing between employer and employee on fringe benefits is also a bargained arrangement. For the purpose of the forecast, staff assumed that the arrangement currently in place would continue (e.g., the City fully pays the Kaiser family of four health insurance premium). Fringe benefits represent a very substantial City expense, forecasted to total \$125M for all employee groups (civilian and sworn, excluding new police staff) all funds in FY 2017-18 when escalated at a 6% annual growth rate. Although staff think that the 6% rate is the most likely, and therefore the best to use in the forecast, it is important to note that the expenditure forecast is fairly sensitive to this number. If costs are escalated at 7% annually, the FY 2017-18 all funds expense increases from \$125M to nearly \$131M. Conversely, if costs are escalated at 5% annually, the FY 2017-18 all funds expense decreases from \$125M to \$119M. For the GPF, fringe costs in FY 2017-18 are forecasted to total \$75M, \$79M, and \$82M for cost escalation rates of 5%, 6%, and 7% respectively.

Table 17 - CalPERS Health Insurance Premium Annual Changes

Year	HMOs	PPOs	Overall (All Plan Types)
2004	18.0%	13.2%	16.4%
2005	11.4%	6.4%	9.9%
2006	8.7%	9.5%	8.9%
2007	11.6%	12.6%	11.9%
2008	7.4%	4.2%	6.8%
2009	6.6%	0.0%	4.8%
2010	3.4%	3.3%	3.2%
2011	10.6%	8.7%	9.9%
2012	5.3%	3.0%	4.6%
2013	8.7%	13.9%	9.6%
Average 2004-2013	9.2%	7.5%	8.6%
Average 2009-2013	6.9%	5.8%	6.4%

#### Operations and Maintenance

Staff held operations and maintenance (O&M) expenditures constant, consistent with budgeting practices. Historically, operations and maintenance expenditures, which are composed of services and supplies and contracts, have grown very slightly, and therefore 0% growth seems like a prudent estimate. However, it is a somewhat sensitive assumption. If operations and maintenance expenses were forecasted to increase at the projected rate of inflation, 2.2% per year, rather than 0%, GPF O&M would increase from \$62M in FY 2017-18 to \$69M, and all funds O&M would increase from \$219M to \$244M.



## Debt Service

The City's Treasury Division estimated the future debt service expenditures based on the repayment schedule of the City's current debt. Debt service includes principal and interest expenses on bonds and other loans.

Table 18 – Debt Service Payment Schedule

Debt Service	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
<b>General Purpose Fund Supported</b>						
Master Lease	\$2,178,184	\$2,177,372	\$1,802,529	\$1,431,758	\$951,892	\$476,098
Oakland-Alameda County Coliseum Authority JPA City Share	\$10,034,000	\$10,034,000	\$10,034,000	\$10,034,000	\$10,034,000	\$10,034,000
Lease Revenue - Series 2008B (Administration Building)	\$9,057,774	\$9,058,638	\$9,057,906	\$9,061,350	\$9,060,650	\$9,058,238
Lease Revenue - Series 2001 (Oakland Convention Center)	\$14,120,100	\$14,100,450	\$14,071,613	\$0	\$0	\$0
Subtotal	\$35,390,058	\$35,370,460	\$34,966,048	\$20,527,108	\$20,046,542	\$19,568,336
<b>Non-General Purpose Fund Supported</b>						
Total Debt Service	\$141,934,919	\$145,331,518	\$142,331,279	\$127,610,649	\$129,067,810	\$123,903,132

Note: GPF lease revenue bond expenditures for Series 2008B and 2001 are technically accounted for as transfers out of the GPF, rather than direct debt service payments, but are noted as GPF supported in the debt service table above.

## Overhead and Operating Transfers

Overhead and operating transfers were assumed to grow at 0%. City staff are currently analyzing the City's overhead cost recovery rates and will revise them as needed and present the proposed new rates with the FY 2013-15 Biennial Proposed Budget.

## Other Assumed Expenditure Changes

Although the expenditure forecast generally assumes that future expenses will be equal to the baseline (FY 2012-13) plus simple inflationary cost escalation in most cases, it does assume other recommended cost increases in a few instances, as well as presents some important deferred expenditures.

### Recommended:

- Employee contributions in current contracts will expire with those contracts, which should be accompanied by somewhat increased service levels due to the end of Mandatory Leave Without Pay (MLWOP) and Floating Mandatory Leave Without Pay (FMLWOP) and fire station brownouts;
- The Police Department will run one police academy per year throughout the forecast period to maintain the number of sworn staff;

- The Police Department will run one additional police academy per year throughout the forecast period (two academies total per year) to increase the number of sworn staff;
- The GPF will absorb the ongoing cost beginning in FY 2015-16 of 25 police officers that will be paid using Community Oriented Policing Services (COPS) II grant funding through FY 2014-15;
- The City will lose Successor Agency project staff as their projects and funding wind down;
- The GPF will absorb some administrative staff expenses that were previously paid by the Successor Agency, as the projects wind down;
- GPF will absorb the Police and Fire expenditures formerly funded by Measure Y, but will not absorb the violence prevention contracts, which will be discontinued;
- The City will make payments as required on its unfunded pension liability;
- The City will appropriate \$10M in FY 2015-16 and an additional \$10M in FY 2016-17 to a reserve for unfunded pension and OPEB liabilities, as directed by City Council; and
- The City will invest in critical new information technology, including that necessary to continue to comply with the Negotiated Settlement Agreement.

#### Deferred:

- The City will follow prudent business practices by paying down negative fund balances;
- The City will follow prudent business practices by increasing its investment in capital assets, thereby reducing the lifetime total cost of ownership of the assets and increasing efficiency; and
- The City will follow prudent business practices by paying down unfunded OPEB liabilities.

### Recommended Expenditures

#### Employee Contribution Expiration

To help close budget shortfalls, the City's employees made contributions totaling approximately \$122M in savings for all funds over the period FY 2011-12 through FY 2014-15. These contributions are codified in MOUs between the City and its employees' unions. Some of these contributions are permanent, continuing when the current MOUs expire. This includes the police officers (members of the Oakland Police Officers' Association (OPOA)) picking up the full 9% employee contribution to their retirement and officer Step 1 and trainee pay reductions. It also includes the new two-tier retirement program. However, many of the contributions are set to expire when the current MOUs expire. These include a delayed COLA for OPOA, a temporary 8.85% salary reduction by firefighters (members of the International Association of Firefighters (IAFF)), Mandatory Leave Without Pay (MLWOP) and Floating Mandatory Leave Without Pay (FMLWOP) days for miscellaneous union employees, and a 4% pickup of the employer portion of SEIU Local 1021's retirement expenses. The expenditure forecast assumes that all of the contributions that are set to expire with the current contracts will in fact expire, and will not be renewed nor replaced with other comparable contributions. Note that one furlough day or compensation of equivalent value was removed from

contributions for FY 2012-13 as part of the Adopted Amended Midcycle FY 2012-13 Budget, and is therefore already included in the FY 2012-13 baseline expenditures.

Table 19 - Employee Contributions Schedule - Estimated All Funds Savings

Contribution	Union	FY 2012-13	FY 2013-14	FY 2014-15
Mandatory Leave Without Pay (MLWOP) and Floating Mandatory Leave Without Pay (FMLWOP)	Misc	\$15.7M	Sunset	Sunset
Salary step freeze	Misc	\$2.7M	Sunset	Sunset
Additional retirement contribution	Misc	\$2.7M	Sunset	Sunset
8.85% temporary salary reduction	IAFF	\$8.4M	\$8.8M	Sunset
Vacation reduction	IAFF	\$0.9M	\$1.0M	Sunset
Brown out of two companies	IAFF	\$4.0M	\$4.0M	Sunset
4% COLA delay	OPOA	\$2.2M	\$4.1M	\$1.0M
Suspend reinstatement of holidays	OPOA	\$0.4M	\$0.4M	\$0.4M
<b>Total Expiring Employee Contributions</b>		<b>\$37.0M</b>	<b>\$18.3M</b>	<b>\$1.4M</b>

Note: OPOA 9% employee pension contribution and lower Step one and trainee pay do not sunset after expiration of the current contract.

#### Increased Police Staffing

As noted, the forecast assumes that the Police Department will run one academy per year in FY 2013-14 through FY 2017-18 to maintain the current officer staffing level. The forecast also includes a second police academy each year to increase the staffing level. Assuming each second academy will net 32 new officers, if adopted the average budgeted sworn staffing level of the department will increase from 633 in FY 2012-13 to 793 in FY 2017-18, the final year of the forecast. Note that the forecast includes the June 2013 academy as the first in FY 2013-14.

#### General Purpose Fund (GPF) to Absorb 25 COPS II Officers

Beginning in FY 2015-16, the expenses (approximately \$3.6M per year) associated with 25 police officers that have been paid with an expiring COPS II grant will be shifted from non-GPF to GPF. The City is required to retain the officers for a year following the end of the grant, and they are counted as part of the baseline number of officers.

#### Reduced Successor Agency Project Staffing and General Purpose Fund (GPF) Absorption

Due to the dissolution of the Oakland Redevelopment Agency (ORA), City staff, in positions that are wrapping up Successor Agency funded projects, are assumed to leave the Successor Agency as their projects and funding wind down. Thirty such staff members are assumed to gradually leave the City between FY 2014-15 and FY 2017-18. Some Successor Agency administrative expenses, totaling approximately \$4.6M per year, are assumed to shift to new sources of funding beginning in FY 2013-14. These administrative expenses are primarily for approximately 22 full time equivalents.

(PTEs) across several administrative departments, such as fiscal and legal staff, as well as for general operations and maintenance costs of the Successor Agency. The forecast assumes that the GPF will bear this full cost, although in actuality the cost will likely be borne by a mix of funds including the GPF.

Given the expected Successor Agency project staff reductions noted above, the total FTE staff citywide is forecasted as shown in the table below. If second police academies are implemented in each forecast year, the City will experience a net increase in staff, totaling 3,811 in FY 2017-18. Headcount will still be significantly below the recent high of 4,401 in FY 2007-08 and previous high of 4,634 in FY 2002-03.

Table 20 – Citywide All Funds Full Time Equivalent (FTE) Employees

Fiscal Year (FY)	Baseline (FY 2012-13)	Total Net Less Successor Agency Project Staff	Total FTE	Net Second Police Academy	Total FTE (Incl. Second Police Academy)
FY 1996-97					3,952
FY 1997-98					3,993
FY 2000-01					4,225
FY 2001-02					4,565
FY 2002-03					4,634
FY 2003-04					4,248
FY 2004-05					4,327
FY 2005-06					4,266
FY 2006-07					4,325
FY 2007-08					4,401
FY 2008-09					4,288
FY 2009-10					4,124
FY 2010-11					3,950
FY 2011-12					3,755
FY 2012-13					3,681
FY 2013-14	3,681		3,681	32	3,713
FY 2014-15	3,681	-8	3,673	64	3,737
FY 2015-16	3,681	-15	3,666	96	3,762
FY 2016-17	3,681	-23	3,658	128	3,786
FY 2017-18	3,681	-30	3,651	160	3,811

### Measure Y General Purpose Fund (GPF) Absorption

Measure Y (the Violence Prevention and Public Safety Act of 2004) will expire in June 2015. It provides approximately \$20M annually to fund fire services; 63 additional problem solving, truancy enforcement, domestic violence, and special victims police officers; and contracts with community organizations for violence prevention programs. The violence prevention programs focus on family violence intervention, violent incident response, young adult reentry, and youth comprehensive services. Measure Y funds are generated through a parcel tax along with a parking surcharge in commercial lots. The parking tax will be in effect through 12/31/14 and the parcel tax will be in effect through 6/30/15.

The forecast assumes that, after Measure Y funding ends, the GPF will absorb the cost of Measure Y police and fire staffing and activities, which are tied to fire employee contracts or police staffing goals. However, the forecast assumes that the GPF will not absorb the violence prevention programs with community organizations. These programs are budgeted for \$5.5M in FY 2012-13. Measure Y funds will fall by approximately \$3.6M in FY 2014-15 when the parking tax ends. As such, the budget for community programs will be reduced by \$3.6M in FY 2014-15 and totally eliminated beginning in FY 2015-16. The loss of Measure Y funding alone creates a significant share of the City's forecasted budget shortfall, even if important community programs are entirely eliminated.

### Wildfire Prevention Assessment District

The revenue forecast assumes that the Wildfire Prevention Assessment District special assessment will sunset at the end of its current life in June 2014. Assessment district revenues, totaling approximately \$1.85M annually, are expended on defensible space programs. Although these preventative measures are a priority for the City, and help reduce its liability, it is assumed that the City will not fund these defensible space activities when the assessment ends due to competing needs for GPF resources.

### Unfunded Pension Liability for PFRS and OMERS

Regarding unfunded pension liability, the City has three defined benefit retirement plans: the Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS) (both are closed systems), and the safety plan and miscellaneous plan with CalPERS. According to the City's FY 2010-11 Comprehensive Annual Financial Report (CAFR), PFRS' Unfunded Actuarial Accrued Liability (UAAL) was \$426.7M as of July 1, 2011 and OMERS' UAAL was \$743,000 as of July 1, 2010. The City recently issued pension obligation bonds to reduce the PFRS UAAL from approximately \$426M to \$216M. The debt service on the bonds is included in the debt service portion of the forecast. As part of the financing, the City made advanced payments for five years on its obligation to PFRS, and therefore does not need to make any new payment until FY 2017-18. The GPF portion of the UAAL payment beginning in FY 2017-18 is estimated to be \$24.2M.

The City is required, by Charter, to fully fund this liability by 2026, so the GPF portion of the payment will continue to be an average of approximately \$21.5M each year through 2026. Although the funded ratios of the safety and miscellaneous plan with CalPERS are below 100%, they are within an acceptable range of close to 80% funded, and the City will continue to maintain the required funded ratios through increases in CalPERS' required contributions from the City, which are already accounted for in the cost escalation of current employees' retirement contribution.

#### Reserve for Unfunded Pension and OPEB Liabilities

At a Special Meeting on June 28, 2012, the City Council approved an ordinance authorizing the sale of pension obligation bonds. The passage included the requirement that the City will commit, through a future resolution, to reserving the first two years of future savings from the retirement of the Convention Center debt in 2014 to a reserve fund for unfunded retirement or pension liabilities, starting payments in FY 2015-16. The intention is to use the \$20M cumulative to make required payments to PFRS (which will restart in FY 2017-18 at an amount of \$24.2M and average \$21.5M per year thereafter through 2026) or some other long-term liability. The Council can appropriate funding from this reserve in the future, which the forecast does not currently include, to offset pension and OPEB liability expenditures.

#### Capital Acquisitions - New Information Technology

Regarding other fixed assets/computers and software (over \$5,000), the Department of Information Technology (DIT) estimates that the City needs to invest, in addition to its current maintenance spending of approximately \$2.5M per year, \$20M additional per year in FY 2013-14 and FY 2014-15, and \$7.5M additional per year thereafter to catch up with deferred information technology needs and then remain current. The forecast assumes that the City will expend \$3M in FY 2013-14 and \$6M in each subsequent year, split evenly between the GPF and non-GPF, on debt service to finance the \$20M in purchases needed for each of FY 2013-14 and FY 2014-15 (assuming a seven year term). These purchases will cover urgent information technology projects, including a number of critical public safety projects. The City is in the process of researching possible financing related to these expenditures, and staff will be presenting recommendations to City Council in the near term. The expenditure forecast will be updated as part of the Five-Year Financial Plan – Service Levels and Budget Strategies report to account for this investment.

#### Deferred Expenditures

##### Capital Acquisitions - Deferred

The forecasts for capital acquisition expenditures on land, buildings, infrastructure, and furniture; equipment/vehicles; and other fixed assets/computers and software (over \$5,000) rely on analyses conducted by the Public Works Agency (PWA) and DIT. The City has been under-investing in capital relative to what would be required to maintain its capital assets in serviceable condition and

minimize the lifecycle total cost of ownership of those assets. The condition of the City's assets has deteriorated substantially over the past decades in tandem with reduced capital spending. Oakland is not alone in this regard. Many organizations have under-invested in infrastructure to deal with short term operational shortfalls. However, sound financial management suggests that the City should begin to significantly increase capital investments.

#### *Land, Buildings, Infrastructure, and Furniture*

The current backlog of deferred capital investment in the City's assets is estimated to be \$1.7 billion for land, buildings, infrastructure, and furniture. PWA estimates that the City should spend \$100M per year on replacement and renewal over the next 20 years to completely address the backlog of overdue deferred maintenance as well as to address newly accruing replacement and renewal needs. This estimate was derived from an assessment of the City's various assets and the cost to restore those assets to a maintainable condition, based on best practices in the public works field. \$22M of this need is already funded in FY 2012-13 from non-GPF revenues, and the forecast assumes that amount will continue to be expended in future years. Some portion of the \$100M overall need is considered critical, addressing legal, life safety, and critical operational requirements that must be funded by the GPF. As discussed in the risks and uncertainties section later in the report, the passage of Measure B1 in November 2012 will result in a revenue increase to the City of approximately \$7.9M for street projects and \$.9M for bicycle and pedestrian projects.

PWA will soon publish an update of the City's five-year Capital Improvement Program (CIP) plan, which will refine this estimate and provide additional detail for consideration in prioritizing funding for asset improvement.

#### *Equipment/Vehicles*

Regarding equipment/vehicles, PWA estimates that to maintain a cost effective and available fleet of vehicles and equipment will require an average annual capital investment of \$10.2M. Based on the standards of the National Association of Fleet Administrators (NAFA) and other best practices, each type of fleet vehicle and piece of equipment has an average age for retirement that minimizes the total cost of ownership. The annual capital cost to replace the fleet can be calculated by dividing replacement cost by life expectancy. PWA's Equipment Service Division performed this analysis for the City's entire fleet and computed the \$10.2M figure. Note that due to the high number of vehicles currently overdue for replacement, immediate replacement costs are higher than they will be ongoing, but they will average \$10.2 million per year over the next five years. The City employs one of the most broadly used fleet management systems, FleetFocus by AssetWorks, to maintain its asset inventory, record maintenance, and account for fleet costs. PWA's most recent Infrastructure Report: Vehicle and Equipment Fleet, is included as Appendix C. The City is in the process of researching possible financing related to new vehicles, and staff will be presenting recommendations to City Council in the near term. The expenditure forecast will be updated as

part of the Five-Year Financial Plan – Service Levels and Budget Strategies report to account for this investment.

#### Computers/Software

As noted above regarding other fixed assets/computers and software (over \$5,000), DIT estimates that the City needs to invest, in addition to its current maintenance spending of approximately \$2.5M per year, \$20M per year in FY 2013-14 and FY 2014-15, and \$7.5M per year thereafter to catch up with deferred information technology needs and then remain current.

The forecast assumes that the City will expend \$3M in FY 2013-14 and \$6M in each subsequent year, split evenly between the GPF and non-GPF, on debt service to finance the \$20M in purchases needed for each of FY 2013-14 and FY 2014-15 (assuming a seven year term). This leaves \$7.5M of needed expenditures for each of FY 2015-16, FY 2016-17, and FY 2017-18 as deferred.

The City does not currently have a long-term replacement plan for IT systems and equipment. City Administration is working to create one, which will be presented later this fiscal year.

As part of the Five-Year Financial Plan – Service Levels and Budget Strategies report, each City department will conduct a needs assessment of its client base. PWA and DIT will also prepare complementary updates of the long-term capital, vehicle, and information technology plans.

#### Additional Negative Fund Balance Repayment - Deferred

As of FY 2011-12 year end, the City had \$105M (unaudited) in negative fund balances. These negative balances are a result of historical overspending or under-recovery. The City has borrowed from available positive funds to cover shortfalls in negative funds. However, most of the positive funds are restricted, and therefore the City must repay them what it has borrowed. The City has established a formal repayment schedule for many negative funds and has shown good discipline and made strong progress on paying down the negatives, from approximately \$138M to \$105M over the past few years, despite the difficult recent budget situation. The City has recently made other strides in adopting public administration best practices, such as by increasing the funded ratio of pension obligations and fully funding the GPF reserve.

Although the City Council has adopted a repayment plan for some negative funds, it is projected that the City would have to increase its payment on negative funds by approximately \$3M per year over a ten-year period to completely address all negative funds. The forecast conservatively assumes that the additional deferred \$3M per year will be paid by the GPF, which will in fact make the bulk of repayments, although some repayments will also come from other funds. The most recent negative funds report can be found in Appendix D. Negative funds that need to be put on new repayment plans include funds such as old grant funds that were never drawn down and funds with historical negatives due to overspending.



## Other Post Employment Benefits (OPEB) - Deferred

Like many municipalities, the City has accrued significant unfunded long-term liabilities for other post employment benefits (OPEB) for police, fire, and miscellaneous employees. Public administration and financial management best practices dictate that the City must begin to make deposits to build assets in order to offset these liabilities. In addition, the Governmental Accounting Standards Board (GASB) now requires that municipalities report these liabilities in their CAFR and other appropriate financial reports.

According to the most recent report from the City's actuary, Aon Hewitt, as of September 13, 2011, the annual required contribution (ARC) for a 30-year amortization (the maximum amortization allowed by GASB) of the police, fire, and miscellaneous OPEB Unfunded Actuarial Accrued Liability (UAAL) was \$20,941,230, \$12,413,116, and \$13,303,004 respectively, totaling over \$46M per year. The City is currently paying for OPEB benefits for its retirees on a pay-as-you-go basis, through which it pays as much each year as is required for just that year's expenses (approximately \$16M per year). The forecast shows what the fiscal picture would be if the City chose to make a net new investment each year to meet the full ARC, dividing the cost between the GPF and all other funds proportionate to the amount of salary paid from each. The table below shows the City's current and forecasted pay-as-you-go amount, ARC, and net new expense. Note that the City's net OPEB obligation increased in FY 2011-12 and will increase again in FY 2012-13 because the City did not make the full ARC payment in those years. As a result, when the City's net OPEB obligation is next calculated by the actuary, the recalculated ARC will likely be higher than that displayed in the table below.

Table 21 – Forecasted OPEB Pay-As-You-Go and ARC Contributions

OPEB Contributions	FY 2012-13 Forecast	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
<b>Misc</b>						
Pay as you go	\$6,989,759	\$7,479,042	\$7,927,785	\$8,403,452	\$8,907,659	\$9,442,118
ARC	\$14,000,000	\$14,300,000	\$14,600,000	\$14,900,000	\$15,200,000	\$15,500,000
Net new to achieve ARC	\$7,010,241	\$6,820,958	\$6,672,215	\$6,496,548	\$6,292,341	\$6,057,882
<b>Police</b>						
Pay as you go	\$6,558,564	\$7,017,664	\$7,438,724	\$7,885,047	\$8,358,150	\$8,859,639
ARC	\$23,500,000	\$24,900,000	\$26,300,000	\$27,800,000	\$29,400,000	\$31,000,000
Net new to achieve ARC	\$16,941,436	\$17,882,336	\$18,861,276	\$19,914,953	\$21,041,850	\$22,140,361
<b>Fire</b>						
Pay as you go	\$4,935,189	\$5,280,652	\$5,597,491	\$5,933,341	\$6,289,341	\$6,666,702
ARC	\$13,700,000	\$14,400,000	\$15,000,000	\$15,800,000	\$16,600,000	\$17,400,000
Net new to achieve ARC	\$8,764,811	\$9,119,348	\$9,402,509	\$9,866,659	\$10,310,659	\$10,733,298
<b>Total</b>						
Pay as you go	\$18,483,512	\$19,777,358	\$20,963,999	\$22,221,839	\$23,555,150	\$24,968,459
ARC	\$51,200,000	\$53,600,000	\$55,900,000	\$58,500,000	\$61,200,000	\$63,900,000
Net new to achieve ARC	\$32,716,488	\$33,822,642	\$34,936,001	\$36,278,161	\$37,644,850	\$38,931,541

Note that the City is currently considering using existing fund balance to create a significant OPEB trust using funds restricted for this purpose. If the City does take this step, it will reduce the City's ARC necessary to fully fund this liability. Staff will be bringing forward a recommendation to City Council later this year to begin to invest in the California Employers' Retiree Benefit Trust (CERBT) Fund. Staff will be recommending a substantial deposit of funds (\$20M to \$40M) to fund health and other post-employment benefit costs for City retirees and their beneficiaries. The expenditure forecast related to paying down this liability will be updated in the Five-Year Financial Plan – Service Levels and Budget Strategies report accordingly. Investing in the CERBT will help the City minimize future cost impacts, as the investment returns will pay for the majority of the benefit; it will demonstrate prudent financial management, and bond rating agencies now expect an OPEB plan; and agencies that invest in the CERBT use a higher discount rate, which will lower projected liabilities and the ARC.

### Reserves

Finally, best practices in municipal finance suggest that cities should maintain unrestricted reserves or fund balance to help cover unexpected changes in revenues and expenditures, maintain a good credit rating, and ensure liquidity. GASB Statement No. 54 (*Fund Balance Reporting and Governmental Fund Type Definitions*) defines fund balance as being either nonspendable or spendable. Nonspendable balance includes balances that are inherently nonspendable, such as the principal of an endowment or long-term loan receivables, which are booked as revenue when the loan is established. Spendable balances are classified as restricted or unrestricted, as follows:

- Restricted fund balance has limitations imposed by external laws, creditors, grantors, etc. that the jurisdiction's governing body cannot change;
- Unrestricted fund balance is comprised of the following three categories, which are all fund balances for which the only restrictions on use are those imposed by the jurisdiction's governing body, and therefore the restrictions could be lifted to make the funds available for other purposes:
  - Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the governing body, such as contracts;
  - Assigned fund balance is intended to be used by the government for specific purposes but does not meet the criteria to be classified as restricted or committed; and
  - Unassigned fund balance is the residual for the government's general fund and includes all spendable amounts not contained in the other classifications.

GFOA recommends that, at a minimum, general purpose governments maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or expenditures. For the City of Oakland, that amounts to approximately \$68M (17%) on approximately \$409M of Adopted Amended Midcycle FY 2012-13 Budget budgeted expenditures.

Some risk factors in considering the appropriate size of the unrestricted reserve include vulnerability to extreme events, revenue and expenditure stability, and liquidity. Some additional drivers of optimal reserve levels include other contingency balances, government size, and borrowing capacity. Note that the City of Oakland's General Fund Reserve Policy, as codified in ordinance 13008 (Appendix E), requires the City to provide a reserve of undesignated, uncommitted fund balance equal to 7.5% of the GPF appropriations, or approximately \$30.7M on \$409M of original adopted midcycle FY 2012-13 budgeted expenditures. With a GPF available fund balance (unaudited) of \$63.5M as of FY 2011-12 year end, the City is currently in compliance with its own General Fund Reserve Policy and close to GFOA's recommended level. The forecast assumes that the City will not need to make any additional deposits to GPF reserve over the forecast period to comply with the General Fund Reserve Policy, as the reserve would only have to total \$34.9M on GPF revenues of \$465M in FY 2017-18. However, the City's required available GPF fund balance amount will increase as the budget increases, and is very sensitive to potential decisions that could be made by the State regarding former Oakland Redevelopment Agency transactions, and the City will need to continue to monitor and approach its reserve levels very cautiously in light of these risks.

Table 22 – General Purpose Fund “Available” Fund Balance

Available GPF Fund Balance	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12 (unaudited)
	\$11,570,000	\$10,000,000	\$23,300,000	\$63,500,000

Lastly, staff assumed in this forecast that there will be no additional expenditure reductions in the forecast years in addition to the reorganizations put in place in FY 2011-12 and FY 2012-13. However, individual departmental position details will be refined and presented as part of the FY 2013-15 Biennial Proposed Budget in spring 2013.

### Forecast

Given the assumptions above, GPF expenditures are forecasted to grow from \$409M in FY 2012-13 to \$513M for recommended expenditures and \$618M including deferred expenditures by FY 2017-18, as shown below. Much of the recommended expenditure growth is forecasted to take place in the first two years, due to the end of employee contributions.

Table 23 – General Purpose Fund (GPF) Budgeted Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Personnel - civilian	\$92,207,000	\$103,107,000	\$104,824,000	\$107,664,000	\$109,443,000	\$111,359,000
Personnel - sworn	\$194,329,000	\$197,411,000	\$211,447,000	\$235,733,000	\$239,423,000	\$243,304,000
Personnel - sworn - police academies and new officers	\$6,935,000	\$13,512,000	\$17,198,000	\$20,883,000	\$24,569,000	\$28,255,000
Operations and maintenance	\$58,242,000	\$59,705,000	\$60,546,000	\$61,998,000	\$62,830,000	\$63,720,000
Capital acquisitions	\$0	\$1,500,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Debt service, operating transfers, other	\$57,227,000	\$57,292,000	\$56,893,000	\$40,380,000	\$39,900,000	\$39,423,000
Pay down/deposit on long term liabilities - recommended	\$0	\$0	\$0	\$10,000,000	\$10,000,000	\$24,239,000
<b>Subtotal Recommended</b>	<b>\$408,940,000</b>	<b>\$432,527,000</b>	<b>\$453,908,000</b>	<b>\$479,658,000</b>	<b>\$489,165,000</b>	<b>\$513,300,000</b>
Capital acquisitions - deferred	\$0	\$65,590,000	\$65,590,000	\$69,340,000	\$69,340,000	\$69,340,000
Pay down/deposit on long term liabilities - deferred	\$0	\$29,868,000	\$30,944,000	\$32,244,000	\$33,580,000	\$34,860,000
<b>Subtotal Deferred</b>	<b>\$0</b>	<b>\$95,458,000</b>	<b>\$96,534,000</b>	<b>\$101,584,000</b>	<b>\$102,920,000</b>	<b>\$104,200,000</b>
<b>Grand Total</b>	<b>\$408,939,000</b>	<b>\$527,985,000</b>	<b>\$550,442,000</b>	<b>\$581,242,000</b>	<b>\$592,086,000</b>	<b>\$617,500,000</b>

All funds expenditures are forecasted to grow from \$984M in FY 2012-13 to \$1,069M in FY 2017-18 for recommended expenditures, \$1,207M including deferred expenditures. The majority of the growth in all funds recommended expenditures from FY 2012-13 to FY 2017-18 is due to growth in GPF recommended expenditures. As such, the main cost drivers of GPF expenditure growth are also driving all funds growth.

Table 24 - All Funds Budgeted Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Personnel - civilian	\$245,511,000	\$267,634,000	\$270,408,000	\$273,253,000	\$276,464,000	\$279,915,000
Personnel - sworn	\$213,584,000	\$216,915,000	\$232,211,000	\$236,631,000	\$240,337,000	\$244,234,000
Personnel - sworn - police academies and new officers	\$6,935,000	\$13,512,000	\$17,198,000	\$20,883,000	\$24,569,000	\$28,255,000
Operations and maintenance	\$218,899,000	\$218,866,000	\$216,885,000	\$214,088,000	\$215,727,000	\$217,438,000
Capital acquisitions	\$24,002,000	\$25,000,000	\$28,000,000	\$28,000,000	\$28,000,000	\$28,000,000
Debt service, operating transfers, other	\$274,924,000	\$286,092,000	\$281,681,000	\$251,081,000	\$252,410,000	\$247,115,000
Pay down/deposit on long term liabilities - recommended	\$0	\$0	\$0	\$10,000,000	\$10,000,000	\$24,239,000
<b>Subtotal Recommended</b>	<b>\$983,855,000</b>	<b>\$1,028,019,000</b>	<b>\$1,046,383,000</b>	<b>\$1,033,936,000</b>	<b>\$1,047,507,000</b>	<b>\$1,069,196,000</b>
Capital acquisitions - deferred	\$0	\$88,200,000	\$88,200,000	\$95,700,000	\$95,700,000	\$95,700,000
Pay down/deposit on long term liabilities - deferred	\$0	\$35,823,000	\$37,936,000	\$39,278,000	\$40,645,000	\$41,932,000
<b>Subtotal Deferred</b>	<b>\$0</b>	<b>\$125,023,000</b>	<b>\$126,136,000</b>	<b>\$134,975,000</b>	<b>\$136,345,000</b>	<b>\$137,632,000</b>
<b>Grand Total</b>	<b>\$983,854,000</b>	<b>\$1,153,042,000</b>	<b>\$1,172,519,000</b>	<b>\$1,168,915,000</b>	<b>\$1,183,853,000</b>	<b>\$1,206,828,000</b>

## Personnel - Civilian

Civilian personnel expenses are forecasted to grow from \$246M in FY 2012-13 to \$280M in FY 2017-18, an increase of \$34M. Civilian salaries jump notably between FY 2012-13 and FY 2013-14 due to the expiration of non-sworn employee contributions, including Mandatory Leave Without Pay (MLWOP) and Floating Mandatory Leave Without Pay (FMLWOP), the salary step increase freeze, and the additional retirement pickup from SEIU Local 1021. Apart from this, assuming no COLA or step increases keeps civilian salaries nearly constant throughout the remainder of the forecast. Fringe expenses grow due to increases in FY 2013-14 to the fringe portion of the expiration of employee contributions and the assumed annual growth rate of 6%, primarily driven by medical insurance premiums. Retirement expenses increase due to the assumed 1.5% annual increase in employer retirement contributions for this group. Of note, the City will be refining these annual increase amounts as more information becomes available from CalPERS on how they will phase-in the expected increased rates to municipalities.

Table 25 – All Funds Personnel – Civilian Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-15 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Civilian salaries	\$160,125,000	\$175,186,000	\$174,458,000	\$173,638,000	\$172,908,000	\$172,177,000
Civilian fringe	\$52,259,000	\$58,823,000	\$52,000,000	\$65,351,000	\$68,952,000	\$72,785,000
Civilian retirement	\$33,127,000	\$33,624,000	\$33,950,000	\$34,264,000	\$34,605,000	\$34,952,000
<b>Total Personnel - civilian</b>	<b>\$245,511,000</b>	<b>\$267,634,000</b>	<b>\$270,408,000</b>	<b>\$273,253,000</b>	<b>\$276,454,000</b>	<b>\$279,915,000</b>

## Personnel - Sworn

Baseline sworn personnel expenses are forecasted to grow from \$214M in the base year to nearly \$244M in the final year. Salaries increase from \$141M in FY 2012-13 to \$153M in FY 2014-15 due to the expiration of contributions from OPOA and the contributions from IAFF, notably the 8.85% temporary salary reduction and rotating brownouts of two companies. Sworn personnel expenses also increase each year due to the assumed 2.5% annual increase in the employer retirement contributions for this group. Similarly, fringe benefits increase at the assumed annual rate of 6.0%.

Table 26 - All Funds Personnel – Sworn Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Sworn salaries	\$141,118,000	\$141,168,000	\$153,008,000	\$153,898,000	\$153,898,000	\$153,898,000
Sworn fringe	\$39,045,000	\$41,492,000	\$44,092,000	\$46,791,000	\$49,599,000	\$52,575,000
Sworn retirement	\$33,419,000	\$34,255,000	\$35,111,000	\$35,942,000	\$36,841,000	\$37,762,000
<b>Total Personnel - sworn</b>	<b>\$213,584,000</b>	<b>\$216,915,000</b>	<b>\$232,211,000</b>	<b>\$236,631,000</b>	<b>\$240,337,000</b>	<b>\$244,234,000</b>

An additional increase in sworn personnel cost is due to the two police academies per year throughout the forecast period to increase staffing levels. The forecast counts the June 2013 academy as the first in FY 2013-14. Assuming each academy has 40 graduates, and that attrition remains constant at 48 officers per year, one academy is approximately able to maintain the current level of staffing. The forecast includes a second police academy each year. Whereas one academy per year is needed to maintain the current staffing level, a second academy is required to add to the staffing level. As shown below, each academy has a one-time cost for the academy itself and the field training. In addition, because a second academy would add to the overall staffing level, it would result in ongoing salary and benefits costs associated with each net new officer. A second academy each year would increase the average budgeted number of police officers from 633 in FY 2012-13 to 793 in FY 2017-18.

Table 27 – All Funds Ongoing Cost of Two FY 2012-13 Police Academies and of Two Academies Each Forecast Year

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Ongoing salary, benefits, O&M – FY 2012-13 net new officers	\$0	\$3,686,000	\$3,686,000	\$3,586,000	\$3,586,000	\$3,686,000
Academy and field training - first academy	\$6,935,000*	\$3,823,000	\$3,823,000	\$3,823,000	\$3,823,000	\$3,823,000
Academy and field training - second academy	\$0	\$3,823,000	\$3,823,000	\$3,823,000	\$3,823,000	\$3,823,000
Ongoing salary, benefits, O&M - second academy	\$0	\$2,180,000	\$5,865,000	\$9,551,000	\$13,237,000	\$16,922,000
<b>Total Personnel - sworn - police academies and new officers</b>	<b>\$6,935,000</b>	<b>\$13,512,000</b>	<b>\$17,198,000</b>	<b>\$20,883,000</b>	<b>\$24,569,000</b>	<b>\$28,255,000</b>
<b>Total sworn staffing (average budgeted)</b>	<b>633</b>	<b>665</b>	<b>697</b>	<b>729</b>	<b>761</b>	<b>793</b>

\*Note that FY 2012-13 budgeted expenditures for multiple police academies were grouped into one figure.

### Operations and Maintenance

Baseline operations and maintenance expenses generally grow at 0%, consistent with experience. However, some cost escalation is assumed for services and supplies expenditures for the Equipment Fund and City Facilities Fund, to align forecasted expenditures with those adopted as part of the official repayment schedules for these negative funds, adopted as part of the FY 2012-13 Amended Midcycle Budget. Contract service expenditures decline in FY 2014-15 and again in FY 2015-16 primarily due to the loss of Measure Y funding, and the attendant elimination of violence prevention program contracts with community organizations.

Table 28 – All Funds Operations and Maintenance Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Operations and maintenance	\$218,899,000	\$218,866,000	\$216,885,000	\$214,088,000	\$215,727,000	\$217,438,000

### Capital Acquisitions

As noted above, the forecast assumes the continuation of \$22M in annual non-GPF expenditures for facilities and infrastructure. It also includes new expenditures for debt service to enable the investment of \$20M in each of FY 2013-14 and FY 2014-15 for critical information technology systems.

Table 29, All Funds Capital Acquisitions - Other Fixed Assets/Computers and Software

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Land, buildings, infrastructure, furniture	\$22,095,000	\$22,000,000	\$22,000,000	\$22,000,000	\$22,000,000	\$22,000,000
Equipment/vehicles	\$1,594,000	\$0	\$0	\$0	\$0	\$0
Other fixed assets/computers and software (over \$5,000)	\$314,000	\$3,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000
Total Capital acquisitions	\$24,002,000	\$25,000,000	\$28,000,000	\$28,000,000	\$28,000,000	\$28,000,000

### Debt Service, Operating Transfers, and Other Expenditures

Expenditures for debt service, operating transfers, and overhead recoveries fall over the forecast period, due primarily to the decrease in debt service as bonds and other debt are paid off, particularly in FY 2015-16 when the Oakland Convention Center lease revenue bonds are paid off. Operating transfers are transfers among funds for various purposes, such as transfers from the GPF to a fund from which debt service is paid.

Table 30 – All Funds Debt Service, Operating Transfers, and Other Expenditure Items Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Debt service, operating transfers, other	\$274,924,000	\$286,091,000	\$281,681,000	\$251,080,000	\$252,410,000	\$247,115,000

## Long Term Liabilities

The forecast assumes payments of \$10M in each of FY 2015-16 and FY 2016-17 as deposits to a reserve for unfunded long-term pension or medical liabilities, as directed by City Council on July 3, 2012. The forecast also includes an expenditure of \$24.2M in FY 2017-18 when the PFRS prefunding period ends. Note that the \$24.2M figure is an estimate, which is based on forecasted investment returns. The actual amount will depend on actual returns.

Table 31 – All Funds Long Term Liability Expenditures Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Deposits to reserve for unfunded pension and OPEB liabilities	\$0	\$0	\$0	\$10,000,000	\$10,000,000	\$0
Required contribution for PFRS	\$0	\$0	\$0	\$0	\$0	\$24,239,000
Deposits to GPF reserves	\$0	\$0	\$0	\$0	\$0	\$0
Total Pay down/deposit on long term liabilities - recommended	\$0	\$0	\$0	\$10,000,000	\$10,000,000	\$24,239,000

## Capital Acquisitions - Deferred

As described above, the City has a substantial deferred capital liability. The forecast assumes as recommended certain non-GPF expenditures (approximately \$22M per year) for facilities and infrastructure and both GPF and non-GPF expenditures for information technology capital. However, the bulk of the capital need is included as deferred, not recommended, as shown below.

Table 32 – All Funds Deferred Capital Expenditures

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Land, buildings, infrastructure, furniture	\$0	\$78,000,000	\$78,000,000	\$78,000,000	\$78,000,000	\$78,000,000
Equipment/vehicles	\$0	\$10,200,000	\$10,200,000	\$10,200,000	\$10,200,000	\$10,200,000
Other fixed assets/computers and software (over \$5,000)	\$0	\$0	\$0	\$7,500,000	\$7,500,000	\$7,500,000
Total Capital acquisitions - deferred	\$0	\$88,200,000	\$88,200,000	\$95,700,000	\$95,700,000	\$95,700,000



## Long Term Liabilities - Deferred

The forecast also includes as a deferred expense \$3M per year in additional direct repayments on negative funds, due to approximately \$30 million in negative funds that have not yet been placed on formal repayment plans. It also includes as deferred net new expenditures to meet the OPEB ARC for police, fire, and miscellaneous employees.

Table 33 – All Funds Pay Down/Deposit on Long Term Liabilities - Deferred

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Net new negative fund balance repayment	\$0	53,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
OPEB - Net new Police to achieve ARC	\$0	\$17,882,000	\$18,861,000	\$19,915,000	\$21,042,000	\$22,140,000
OPEB - Net new Fire to achieve ARC	\$0	\$9,119,000	\$9,403,000	\$9,867,000	\$10,311,000	\$10,733,000
OPEB - Net new Misc to achieve ARC	\$0	\$6,821,000	\$6,672,000	\$6,497,000	\$6,292,000	\$6,058,000
Total Pay down/deposit on long term liabilities - deferred	\$0	\$36,823,000	\$37,936,000	\$39,278,000	\$40,645,000	\$41,932,000

## General Purpose Fund (GPF)

The forecasted growth of expenditures in the GPF is more pronounced, on a percentage basis, than that of all funds. GPF expenses are forecasted to grow from \$409M in the base year to \$513M in FY 2017-18 for recommended expenditures, \$618M including deferred expenditures.

Table 34 – General Purpose Fund Expenditure Forecast

Expenditure Categories	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Personnel - civilian	\$92,207,000	\$103,107,000	\$104,824,000	\$107,664,000	\$109,443,000	\$111,359,000
Personnel - sworn	\$194,329,000	\$197,411,000	\$211,447,000	\$235,733,000	\$239,423,000	\$243,304,000
Personnel - sworn - police academies and new officers	\$6,935,000	\$13,512,000	\$17,198,000	\$20,883,000	\$24,559,000	\$28,255,000
Operations and maintenance	\$58,242,000	\$59,705,000	\$60,546,000	\$61,998,000	\$62,830,000	\$63,720,000
Capital acquisitions	\$0	\$1,500,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Debt service, operating transfers, other	\$57,227,000	\$57,292,000	\$56,893,000	\$40,380,000	\$39,900,000	\$39,423,000
Pay down/deposit on long term liabilities - recommended	\$0	\$0	\$0	\$10,000,000	\$10,000,000	\$24,239,000
Subtotal Recommended	\$408,940,000	\$432,527,000	\$453,908,000	\$479,658,000	\$489,165,000	\$513,300,000
Capital acquisitions - deferred	\$0	\$65,590,000	\$65,590,000	\$69,340,000	\$69,340,000	\$69,340,000
Pay down/deposit on long term liabilities - deferred	\$0	\$29,868,000	\$30,944,000	\$32,244,000	\$33,580,000	\$34,860,000
Subtotal Deferred	\$0	\$95,458,000	\$96,534,000	\$101,584,000	\$102,920,000	\$104,200,000
Grand Total	\$408,939,000	\$527,985,000	\$550,442,000	\$581,242,000	\$592,086,000	\$617,500,000

On a percentage basis, GPF expenditures are forecasted to grow at the following rates. Note that the rates below might vary in some cases from our general expenditure growth rate assumptions due to specific incidents.

Table 35 – General Purpose Fund (GPF) Expenditure Forecasted Annual Growth Rates

Expenditure Categories	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Personnel - civilian	12%	2%	3%	2%	2%
Personnel - sworn	2%	7%	11%	2%	2%
Personnel - sworn - police academies and new officers	95%	27%	21%	18%	15%
Operations and maintenance	3%	1%	2%	1%	1%
Capital acquisitions	0%	100%	0%	0%	0%
Debt service, operating transfers, other	0%	-1%	-29%	-1%	-1%
Pay down/deposit on long term liabilities - recommended	0%	0%	0%	0%	142%
<b>Subtotal Recommended</b>	<b>6%</b>	<b>5%</b>	<b>6%</b>	<b>2%</b>	<b>5%</b>
Capital acquisitions - deferred	0%	0%	6%	0%	0%
Pay down/deposit on long term liabilities - deferred	0%	4%	4%	4%	4%
<b>Subtotal Deferred</b>	<b>0%</b>	<b>1%</b>	<b>5%</b>	<b>1%</b>	<b>1%</b>
<b>Grand Total</b>	<b>29%</b>	<b>4%</b>	<b>6%</b>	<b>2%</b>	<b>4%</b>

#### Department Expenditures

The forecast primarily looked at expenditures on a citywide basis. However, it is possible to map expenditures by character (e.g., personnel, operations and maintenance, capital, etc.) to departments. The most noteworthy expenditure increases, when classified by department, are the following:

- Growth in Capital Improvement Projects due to increased capital spending on recommended and deferred projects;
- Growth in the Police Department, due primarily to the expiration of employee contributions and additional police academies and staffing;
- Growth in the Fire Department, due primarily to the sunset of employee contributions; and
- Growth in Nondepartmental and Port, due primarily to increased payment on deferred long-term liabilities such as negative funds and OPEB.

Table 36 – General Purpose Fund (GPF) Expenditure (Recommended and Deferred) Forecast, By Department

Departments	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Administrative Services	\$17,192,769	\$19,120,351	\$19,415,203	\$19,666,018	\$19,954,155	\$20,268,278
Capital Improvement Projects	\$502,000	\$67,592,000	\$69,092,000	\$72,842,000	\$72,842,000	\$72,842,000
City Administrator	\$24,517,450	\$26,889,167	\$27,258,311	\$27,659,830	\$27,932,784	\$28,255,146
City Attorney	\$4,311,203	\$5,091,442	\$5,180,037	\$5,227,603	\$5,296,273	\$5,376,429
City Auditor	\$900,535	\$952,049	\$974,572	\$998,311	\$1,023,337	\$1,049,724
City Clerk	\$1,930,089	\$2,151,836	\$2,178,116	\$2,193,660	\$2,214,961	\$2,239,477
City Council	\$2,898,046	\$3,516,653	\$3,589,868	\$3,632,391	\$3,691,204	\$3,758,992
Community Services	\$17,290,866	\$18,255,863	\$18,419,409	\$19,559,423	\$19,768,425	\$19,978,338
Fire Services Agency	\$95,082,296	\$97,030,580	\$106,853,970	\$113,184,316	\$114,958,614	\$116,826,142
Library	\$8,829,585	\$9,473,622	\$9,599,462	\$9,732,180	\$9,872,177	\$10,019,881
Mayor	\$1,302,162	\$1,460,463	\$1,485,517	\$1,596,616	\$1,622,995	\$1,651,869
Non Departmental and Port	\$64,654,586	\$95,795,894	\$96,467,919	\$91,391,441	\$92,246,773	\$107,287,647
Police Services Agency	\$168,711,136	\$179,800,275	\$188,301,455	\$211,116,518	\$217,389,267	\$223,795,799
Public Works Agency	\$816,207	\$853,398	\$1,625,623	\$2,431,545	\$3,272,599	\$4,150,280
<b>Grand Total</b>	<b>\$408,938,930</b>	<b>\$527,984,593</b>	<b>\$550,442,462</b>	<b>\$581,241,853</b>	<b>\$592,085,565</b>	<b>\$617,500,001</b>

Note: The Revenue Division is included in the figures above for City Administrator. Non Departmental expenditures are primarily comprised of negative fund repayment and OPEB ARC payments.

Table 37 – All Funds Expenditure (Recommended and Deferred) Forecast, By Department

Departments	FY 2012-13 Budget	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Administrative Services	\$30,909,620	\$32,720,575	\$33,077,500	\$33,423,730	\$33,820,392	\$34,238,681
Capital Improvement Projects	\$33,512,000	\$124,663,000	\$127,663,000	\$135,163,000	\$135,163,000	\$135,163,000
City Administrator	\$50,412,983	\$50,562,116	\$50,224,771	\$49,596,239	\$49,297,716	\$49,020,320
City Attorney	\$12,058,374	\$13,015,319	\$12,917,307	\$12,828,274	\$12,748,746	\$12,679,276
City Auditor	\$900,535	\$952,049	\$974,572	\$998,311	\$1,023,337	\$1,049,724
City Clerk	\$2,108,852	\$2,210,466	\$2,230,243	\$2,251,088	\$2,273,064	\$2,296,235
City Council	\$3,419,414	\$3,684,254	\$3,738,300	\$3,795,264	\$3,855,315	\$3,918,634
Community Services	\$75,264,767	\$77,039,250	\$73,916,197	\$72,409,597	\$72,908,861	\$73,435,512
Dept. of Planning/Neigh. Pres.	\$20,708,482	\$21,922,486	\$22,177,448	\$22,446,268	\$22,729,755	\$23,028,768
Fire Services Agency	\$108,509,408	\$112,153,458	\$122,562,218	\$122,385,431	\$124,244,722	\$126,201,858
Housing & Community Development	\$13,312,193	\$15,866,887	\$15,573,270	\$15,283,564	\$14,997,996	\$14,716,808
Library	\$24,369,101	\$25,980,055	\$26,258,551	\$26,552,279	\$26,862,131	\$27,189,051
Mayor	\$1,546,515	\$1,653,986	\$1,679,200	\$1,705,776	\$1,733,792	\$1,763,334
Non Departmental and Port	\$290,658,010	\$334,297,684	\$331,381,235	\$311,996,988	\$314,820,139	\$325,179,177
Police Services Agency	\$194,952,142	\$209,842,982	\$218,959,415	\$226,054,708	\$232,372,515	\$238,826,536
Public Works Agency	\$121,211,128	\$126,477,506	\$129,185,741	\$132,024,724	\$135,001,030	\$138,121,578
<b>Grand Total</b>	<b>\$983,853,524</b>	<b>\$1,153,042,074</b>	<b>\$1,172,518,970</b>	<b>\$1,168,915,242</b>	<b>\$1,183,852,510</b>	<b>\$1,206,828,492</b>

Note: The Revenue Division is included in the figures above for City Administrator. Non Departmental expenditures are primarily comprised of negative fund repayment and OPEB ARC payments.

## Imbalance

As illustrated in the table below, based on the expenditure and revenue estimates above, the City is forecasting a GPF shortfall for recommended expenditures of \$14.5M in FY 2013-14, growing to \$48M in FY 2017-18. The significant increase in the shortfall in FY 2014-15 is primarily due to the sunset of employee contributions, and in FY 2015-16 is due to the assumption that the GPF will absorb the majority of Measure Y expenses when that measure sunsets. When deferred expenditures for capital assets and OPEB funding are included, the shortfall is forecasted at \$110M in FY 2013-14 and \$152M in FY 2017-18. Note that the revenue and expenditure projections for FY 2013-14 and FY 2014-15 specifically will be refined in the two-year baseline budget, which the City will prepare by November 2012. The forecasted figures in this report provide planning level estimates of the medium- and long-term revenue and expenditure imbalance. While the Five-Year Financial Plan incorporates many of the same assumptions and calculations that will be included in the FY 2013-15 baseline budget, it is important to note that these numbers are preliminary relative to the two-year baseline. Note that to the extent that shortfalls in the early years are addressed through ongoing solutions, the shortfalls in later years will decrease commensurately.

Table 38 - General Purpose Fund Forecasted Surplus/ (Shortfall)

General Purpose Fund	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Revenue	\$417,987,000	\$430,066,000	\$439,187,000	\$451,195,000	\$465,489,000
Expenditures - Recommended	\$432,527,000	\$453,908,000	\$479,658,000	\$489,165,000	\$513,300,000
Surplus/(Shortfall)	(\$14,540,000)	(\$23,842,000)	(\$40,471,000)	(\$37,970,000)	(\$47,811,000)
Expenditures - Deferred	\$95,458,000	\$96,534,000	\$101,584,000	\$102,920,000	\$104,200,000
Surplus/(Shortfall)	(\$109,998,000)	(\$120,376,000)	(\$142,055,000)	(\$140,890,000)	(\$152,011,000)

As illustrated in the table below, based on the expenditure and revenue estimates above, the City is forecasting an all funds shortfall for recommended expenditures of \$35M in FY 2013-14, falling to \$18M in FY 2017-18. When including deferred expenditures for capital assets and OPEB liabilities, the City is forecasting shortfalls ranging from \$156M to \$160M. Note that the shortfall increase is more dramatic for the GPF than for all funds, due primarily to the assumed absorption by the GPF of expenditures that were previously funded by non-GPF sources.

Table 39 - All Funds Forecasted Surplus/ (Shortfall)

All Funds	FY 2013-14 Forecast	FY 2014-15 Forecast	FY 2015-16 Forecast	FY 2016-17 Forecast	FY 2017-18 Forecast
Revenue	\$993,052,000	\$1,013,343,000	\$1,009,189,000	\$1,028,241,000	\$1,051,072,000
Expenditures - Recommended	\$1,028,019,000	\$1,046,383,000	\$1,033,936,000	\$1,047,507,000	\$1,069,196,000
Surplus/(Shortfall)	(\$34,967,000)	(\$33,040,000)	(\$24,747,000)	(\$19,266,000)	(\$18,124,000)
Expenditures - Deferred	\$125,023,000	\$126,136,000	\$134,978,000	\$136,345,000	\$137,632,000
Surplus/(Shortfall)	(\$159,990,000)	(\$159,176,000)	(\$159,725,000)	(\$155,611,000)	(\$155,756,000)

As there are many factors causing revenue and expenditure increases and decreases each year, the table below illustrates the major changes in GPF revenues and expenditures during the forecast period. Note that for simplicity, the numbers have been rounded to the nearest million, and therefore the numbers do not exactly match the more detailed tables above on forecasted surplus/ (shortfall).

Table 40 – Major Changes in General Purpose Fund (GPF) Revenues and Recommended Expenditures (Approximate Values), from FY 2012-13 Baseline

Fiscal Year	Revenues	Expenditures	Change in Surplus/(Shortfall)
FY 2013-14	Growth +\$9M	<ul style="list-style-type: none"> <li>Civilian salaries, fringe benefits, and retirement increase due to sunset of miscellaneous employee contributions, normal fringe and retirement cost escalation, and GPF absorption of Successor Agency funded staff +\$11M</li> <li>Sworn fringe benefits and retirement due to normal cost escalation +\$3M</li> <li>Second police academy and ongoing carrying cost of new officers +7M</li> <li>Operations and maintenance due to Internal Service Fund repayment schedule +\$1M</li> <li>Capital acquisitions for IT debt financing +\$2M</li> </ul> <p>Total expenditure growth from major changes: +\$24M</p>	(\$15M) Cumulative: (\$15M)
FY 2014-15	Growth +\$12M	<ul style="list-style-type: none"> <li>Civilian salaries, fringe benefits, and retirement increase due to normal fringe and retirement cost escalation +\$2M</li> <li>Sworn salaries, fringe benefits, and retirement increase due to sunset of firefighter employee contributions and some police employee contributions and normal fringe and retirement escalation +\$14M</li> <li>Ongoing carrying cost of new police officers +3M</li> <li>Additional capital acquisitions for IT debt financing +2M</li> <li>Operations and maintenance due to Internal Service Fund repayment schedule +\$1M</li> </ul> <p>Total expenditure growth from major changes: +\$21M</p>	(\$9M) Cumulative: (\$24M)
FY 2015-16	Growth +\$9M	<ul style="list-style-type: none"> <li>Civilian salaries, fringe benefits, and retirement increase due to normal fringe and retirement cost escalation +\$2M</li> <li>Civilian salaries, fringe benefits, and retirement increase due to GPF absorption of Measure Y activities +\$1M</li> <li>Sworn salaries, fringe benefits, and retirement increase due to sunset of police employee contributions and normal fringe and retirement escalation +\$4M</li> <li>Sworn salaries, fringe benefits, and retirement increase due to GPF absorption of Measure Y police and fire activities +\$15M</li> <li>Sworn salaries, fringe benefits, and retirement increase due to GPF absorption of 25 police officers formerly funded by COPS II grant +\$4M</li> <li>Ongoing carrying cost of new police officers +4M</li> <li>Appropriation to reserve for unfunded pension and OPEB liabilities +\$10M</li> <li>Reduction in debt service due to expiring repayment for Oakland Convention Center lease revenue bonds -\$14M</li> <li>Operations and maintenance due to Internal Service Fund repayment schedule +\$1M</li> </ul> <p>Total expenditure growth from major changes: +\$26M</p>	(\$17M) Cumulative: (\$41M)
FY 2016-17	Growth +\$12M	<ul style="list-style-type: none"> <li>Civilian salaries, fringe benefits, and retirement increase due to normal fringe and retirement cost escalation +\$2M</li> </ul>	+\$3M Cumulative: (\$38M)

		<ul style="list-style-type: none"> <li>• Sworn fringe benefits and retirement increase due to normal cost escalation +\$4M</li> <li>• Ongoing carrying cost of new police officers +3M</li> <li>• Operations and maintenance due to Internal Service Fund repayment schedule +\$1M</li> </ul> <p><b>Total expenditure growth from major changes: +\$9M</b></p>	
FY 2017-18	Growth +\$14M	<ul style="list-style-type: none"> <li>• Civilian salaries, fringe benefits, and retirement increase due to normal fringe and retirement cost escalation +\$2M</li> <li>• Sworn fringe benefits and retirement increase due to normal cost escalation +\$4M</li> <li>• Ongoing carrying cost of new police officers +4M</li> <li>• Restart of PFRS pension obligation payments +\$24M</li> <li>• End of appropriation to reserve for unfunded pension and OPEB liabilities -\$10M</li> <li>• Operations and maintenance due to Internal Service Fund repayment schedule +\$1M</li> </ul> <p><b>Total expenditure growth from major changes: +\$24M</b></p>	<p><b>(\$10M)</b>  <b>Cumulative: (\$48M)</b></p>

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## Budget Strategy Examples

The main purpose of the Five-Year Financial Plan is to present a forecast of the City's revenues and expenditures based on some assumptions. The Five-Year Financial Plan – Service Levels and Budget Strategies report, to be issued in spring 2013, will contain an updated forecast and will also propose revised service levels, revenues, and expenditures for the five-year period. City departments will be working over the next few months to assess their clients' needs and optimal service levels. Based on the proposed service levels, the report will contain recommended revenue increase, cost recovery, efficiency, and expenditure reduction strategies to bring revenues and expenditures into long-term balance. As noted above regarding the reports' development process, whereas the plan was created primarily through an Internal process relying on experts, the development of the Service Levels and Budget Strategies report will involve input from a broader set of stakeholders, specifically to draw in a wide range of perspectives on optimal service levels and how to balance revenues and expenditures. The development of budget solutions will include more opportunities for input from elected officials, City employees, and members of the public.

Although it is not the purpose of the Five-Year Financial Plan to propose specific revenue and expenditure strategies, it is helpful to include a summary of some possible strategies to allow the reader to begin to think about the upcoming discussion of how to create revenue and expenditure balance. As such, included below are some examples of possible strategies. It will likely be desirable to create long-term balance through a mixture of revenue increase, cost recovery, efficiency, and expenditure reduction. Note that the forecast indicates a continuing GPF deficit during the forecast period, even when not accounting for high priority deferred expenditures, and despite assumptions of modest but healthy economic growth. As such, the City should implement long-term budget balancing measures where possible. Importantly, the list below is not exhaustive, nor is it meant to indicate policy recommendations that the City Administration will ultimately propose as future balancing measures.

As noted above, the City has recently made strides in exercising prudent financial management, particularly in paying down unfunded liabilities despite difficult financial times. The City has fully funded its GPF reserve and plans to strengthen its other financial policies. If the City continues this trend, it has the capacity to make prudent financial decisions to bring revenues and expenditures into long-term balance while maintaining appropriate service levels.

### Private Revenue Sources

1. Increase philanthropic support or public-private partnerships to generate revenue for some service areas

### Fees

2. Establish fees where allowable to fully recoup City costs for services, particularly those funded primarily by the GPF, such as fire suppression or basic life support
3. Development impact fees for community facilities or infrastructure
4. Seek voter extension of Wildfire Prevention Assessment District (\$1.85M per year)

### Taxes

5. The midcycle FY 2012-13 budget proposal included a suggestion of Modernized Revenue Structures, involving a review of all of the City's tax rates and structures to determine whether they are aligned with current industry standards
6. GPF parcel tax (single family, multifamily, nonresidential parcels)
7. Increase in Business License Tax
8. Impose transactions and use tax
9. Seek voter extension of Measure Y

### Bonds and Debt

10. Seek voter support of General Obligation bonds for capital needs

### Other

11. Disposal of surplus property
12. Invest fund balance for high priority one-time expenditures
13. Focused economic development to result in higher City revenue base
14. Use other methods of financing infrastructure, such as Infrastructure Financing Districts (IFDs)
15. Update internal service fund (ISF) charges to ensure that non-GPF funds are appropriately reimbursing the GPF, including for information technology, which does not currently have an ISF

### New Service Models and Efficiencies

16. Aggressively seek new state and federal funding
17. In-source service provision where cost reduction and performance improvement opportunities exist
18. Seek renegotiation for lower costs from vendors

19. Reduce expenditures by implementing new processes or technologies that are more efficient and improving performance management, thereby reducing headcount commensurately
20. Reduce expenditures by eliminating discretionary services (down to legally required minimums or those leveraging matching resources)
21. Finance or refinance information technology, fleet, and other capital assets over several years in order to decrease immediate budgetary impact
22. Implement other alternative service delivery models, including shared services with another city or county. Three opportunities mentioned in the midcycle FY 2012-13 budget proposal are animal shelter transition, public safety dispatch consolidation, and consolidated inspection/permit services
23. Dispose of surplus property to reduce maintenance expenditures and put to higher use

#### Extend Payments on Long-Term Liabilities

24. Extend repayment of \$105M in negative fund balances from 10 years to 15 years
25. Reduce capital spending in near-term, ramp up in future with dedicated revenue

#### Salary Expenditure Reductions

26. Reduce staff levels
  - a. Reduce all civilian staffing by 10%
  - b. Increase standard work week to 40 hours for all full-time civilian staff while holding salaries constant, thereby reducing civilian headcount by 6.25%
  - c. Reduce sworn fire staffing by 10%
  - d. Reduce target police staffing level
  - e. Furloughs or temporary salary reductions (temporary until long-term measures take effect)
27. Revise compensation policies
  - a. Sick leave payout structure
  - b. Premium pays or pay associated with certificates, education levels, etc.
  - c. Compensation structure (e.g., rate and magnitude of step increases, overtime eligibility, other compensation, salary ranges, etc.)
  - d. Conduct regular wage studies to ensure that salaries are at competitive levels
  - e. Modify employee contract provisions regarding parity and "me too" provisions for retirees
28. Modify work schedules and rules
  - a. Modify regular schedules to reduce the use of overtime, including for those who work nontraditional schedules
  - b. Modify work rules to make consistent with best and efficient practices, including issues such as minimum staffing

### Retirement Expenditure Reductions

29. Migrate to defined contribution retirement plan
30. Increase employee retirement contributions so that all employees pay fuller share
31. Create new retirement tier with more modest benefits

### Fringe Expenditure Reductions

32. Establish fixed amount for retiree medical benefit for sworn retirees, comparable to current situation for civilian retirees
33. Increase employee payment of fringe benefits or hold fringe benefit costs per employee constant
  - a. Hold civilian staff fringe benefit cost per employee constant at FY 2012-13 levels
  - b. Hold sworn staff fringe benefit cost per employee constant at FY 2012-13 levels
34. Reduce benefit levels or increase co-payments
35. Elimination of dual coverage

### Other

#### Financial Policies and Practices

The City Council has adopted General Purpose Fund Financial Policies (Ordinance NO. 12496) and other financial policies. The City Administrator's Office, Budget Office is in the process of preparing a proposed set of revisions to the financial policies that will further strengthen long-term reserves and the use of one-time funds in order to help achieve long-term structural balance. The City will also continue to strengthen its financial practices.

## Risks and Uncertainties

Staff made assumptions in the forecast based on what they considered the most likely scenario, or somewhat more conservative assumptions. As such, the forecast is robust and conservative enough to weather some slightly worse than expected actual revenues and expenditures in the future. Nonetheless, there are certain significant risks or uncertainties that were not specifically modeled in the forecast but that are so substantial they must be addressed specifically. These include:

- Changes in federal spending;
- Changes in State spending;
- Local ballot measure B1;
- A slower than expected economic recovery;
- Redevelopment clawback;
- Major economic development projects, including sports arenas;
- New requirements related to possible federal receivership of the Police Department due to noncompliance with the Negotiated Settlement Agreement (NSA); and
- Potential liabilities.

### Federal Spending

The City receives over \$100M in grants and other funding from the State and federal government. The federal government's revenues have been reduced as a result of the recent recession. However, the federal government can pass an unbalanced budget and issue new debt to cover expenditures that exceed revenues. The federal government has both reduced expenditures for certain programs and borrowed money to smooth expenditures during this period. As such, the City generally expects that revenues from federal sources will remain more or less stable over the forecast period compared to the baseline. Even if there is a change of administration, City staff project that federal programs have been reduced to such a level that it would be hard to further reduce municipally-oriented programs without angering significant constituencies, and is therefore politically undesirable. American Resource and Recovery Act (ARRA) funding was significant, but limited term, intended to spur economic activity. Note that in accordance with the federal Budget Control Act of 2011, cuts of approximately \$109 billion (also referred to as sequestration) will be triggered, beginning in January 2013, if Congress fails to act on a plan to reduce the federal deficit by \$1.2 trillion. There is no detailed estimate of how the sequestration would affect specific federal programs, although it is likely that programs such as the Community Development Block Grant and other common programs could be impacted. The forecast assumes that Congress will act or that some other action will prevent sequestration.

## State Spending

As noted, the City receives over \$100M in grants and other funding from the State and federal government. The State is predicting a significant budget shortfall for the current and future fiscal years, particularly if one of two measures on the November 2012 ballot, Propositions 30 and 38, does not pass. Proposition 30 (Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment.) is a temporary personal income tax and sales tax increase, the proceeds of which will flow to K-12 education and community colleges. Local agencies will also be guaranteed revenues to cover new responsibilities transferred to counties as part of corrections realignment in 2011. If this proposition does not pass, automatic cuts to State spending, primarily on education, will be triggered. Proposition 38 (Tax to Fund Education and Early Childhood Programs. Initiative Statute) would increase taxes, but would not have a significant direct effect on the City of Oakland's revenues if passed, as it also primarily deals with education. Only one of Proposition 30 or 38 can pass.

## Local Measure B1

There is one local measure on the November 2012 ballot that would impact the City of Oakland's revenues. Measure B1 (Alameda County Transportation Commission Sales Tax Measure) seeks voter approval for two important items:

- An extension in perpetuity of the existing 0.5% transactions and use tax for transportation purposes, currently set to expire in March of 2022; and
- An increase to the transactions and use tax by 0.5% in perpetuity resulting in a total tax of 1%.

From this source, the City currently receives approximately \$8.8M annually for street projects and another \$1M for bicycle and pedestrian projects. The passage of Measure B1 in November would result in an increase of approximately \$7.9M for streets and \$.9M for bicycle and pedestrian projects.

## Economic Recovery

There is continued uncertainty about the strength of the economic recovery. Staff have made reasonably conservative estimates about economic growth over the forecast period. If the recovery were to weaken, or the economy dipped into a second recession, it would have an impact on the City's revenues. Consistent with the view of many experts, the forecast assumes economic growth will increase to about 4% per year for the Oakland area beginning in 2015. If economic growth is slower, it will negatively impact revenues.

## Redevelopment

The ultimate financial impact of the dissolution of redevelopment agencies in California cannot yet be fully determined. On April 24, 2012, the City and other California local government agencies received from the State Controller an order under Section 34167.5 of the dissolution statute to return assets transferred to them by their former redevelopment agencies after January 1, 2011. Certain transactions between the City and its former redevelopment agency during the relevant time are potentially subject to the order. These transactions include, among others, the sale of certain real property by the City to its redevelopment agency. In addition, the City and its redevelopment agency entered into a Funding Agreement providing for the City to undertake a variety of development projects with funds provided by its redevelopment agency. In the event the City is required to transfer such funds to its Successor Agency, there may be projects and staffing that will be adversely affected. There is also a risk that the Oversight Board and/or State Department of Finance do not allow the funding for project or administrative staffing levels as assumed in this forecast.

## Major Economic Development Projects

Major economic development projects, including sports arenas and the Oakland Army Base, have not been specifically addressed in this forecast. Revisions to this forecast will need to be made as additional analysis of the potential fiscal impacts, both positive and negative, is performed of these projects.

## Outcome of Police Department Negotiated Settlement Agreement Hearing

New requirements related to possible federal receivership of the Police Department due to noncompliance with the Negotiated Settlement Agreement (NSA) might result in new required expenditures. City staff will modify this forecast if necessary in the event that additional resources are ordered to be allocated for compliance purposes.

## Potential Liabilities

Finally, the City faces some potential liabilities that might be underfunded, depending on how the liabilities unfold. The City has a Workers' Compensation accrual account with an estimated maximum potential liability, if all current Workers' Compensation claims against the City were decided fully in the employees' favor, of \$82M, but accrued assets of just \$15M. The City will conduct additional analysis to calculate a best guess actual liability (opposed to maximum possible), and if the account is determined to have a negative fund balance, put it on a repayment plan similar to those for funds with negative balances, as part of the FY 2013-15 Biennial Proposed Budget. Similarly, the City has a liability of \$39M for paid leave earned by employees, but has saved just \$11M in assets. Similar to the Workers' Compensation account, the City will conduct analysis and create a repayment plan as appropriate.

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## Next Steps

### Five-Year Financial Plan – Service Levels and Budget Strategies Report

As noted, the City will publish the Five-Year Financial Plan – Service Levels and Budget Strategies report in spring 2013. The Service Levels and Budget Strategies report will address needed service level changes identified by departments and include specific, actionable recommendations that will provide sustainable, long-term budget balancing, and will feed directly into the creation of the FY 2013-15 Biennial Proposed Budget. The development of the Service Levels and Budget Strategies report will involve input from a broad set of stakeholders, specifically to draw in a wide range of perspectives on optimal service levels and how to balance revenues and expenditures. The development of solutions will include opportunities for input from elected officials, City employees, and members of the public.

### Publication of Next Five-Year Financial Plan

As required by resolution 81399, the City will publish the next Five-Year Financial Plan by October 1, 2014.

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## Appendices

### Appendix A - Long-Term Financial Planning Policy, Resolution No. 77923 (Adopted 7/15/2003)

#### RESOLUTION ADOPTING THE CITY OF OAKLAND LONG-TERM FINANCIAL PLANNING POLICY

WHEREAS, the City of Oakland's Five-Year Financial Plan is the City Manager's best assessment of future revenues, expenditures and operating results over a five year forecast period; and

WHEREAS, the Five-Year Financial Plan includes analysis of economic and demographic data at the national, local and state level, and analyzes revenue and expenditure trends for the General Purpose Fund and other major funds such as the Landscape and Lighting Assessment District and the Oakland Redevelopment Agency; And

WHEREAS, the Five-Year Financial Plan forecasts major revenue and expenditure components of the aforementioned funds; and

WHEREAS, a long-term financial planning policy is intended to help the City make prudent and informed financial decisions on matters such as economic development, tax policy and labor negotiations; and

WHEREAS, the implementation of a long-term financial planning policy will help the City attain a favorable rating from credit rating agencies; and

WHEREAS, the implementation of a long-term financial planning policy should not result in significant increases in staff costs; now therefore be it

RESOLVED: that the City Council of the City of Oakland hereby finds, determines, declares and resolves as follows:

Section 1. All of the recitals set forth above are true and correct.

Section 2. In order to insure that City of Oakland decision makers have the information to allow them to prudently manage the City's fiscal resources, the City Council hereby adopts the financial policy, as set forth below:

#### CITY OF OAKLAND LONG-TERM FINANCIAL PLANNING POLICY

## I. Purpose/Definition

The Five-Year Financial Plan ("Plan") forecasts the City's revenues and expenditures over a five-year period. The Plan focuses on the General Purpose Fund, and other major funds such as the Landscape and Lighting Assessment District and the Oakland Redevelopment Agency. The intent of the Plan is to allow the City Council and the City Manager to put current funding decisions in the context of forecasted economic conditions. Specifically, long-term financial planning improves the City's ability to make informed decisions regarding labor negotiations, economic development projects and tax policy. The Plan shall incorporate economic and demographic data at the national, local and state level, as well as other data that aids in forecasting.

Credit rating agencies are likely to favor the City's intention to plan ahead because such planning provides for greater financial stability, and signals a prudent approach to financial management. Five-Year planning also brings the City into compliance with current "best practices" of other governmental entities.

## II. General Responsibilities

### City Manager

The City Manager, shall be responsible for producing an updated Five-Year Financial Plan on an annual basis. The Plan shall be produced and distributed prior to the beginning of any annual budget deliberations by the Council. The Budget Office, under the supervision and direction of the City Manager currently performs this function. '

### Other Departments

Other departments shall be responsible to the City Manager for providing such information as the City Manager requires to produce the Plan in a timely manner. Currently, the Budget Office under the supervision and direction of the City Manager oversees this process.

### The City Council and the City Manager

The City Council and City Manager shall make use of the information contained in the Plan as they consider any action that would have a significant impact on the City's revenue or expenditures over a five-year period.

## **Appendix B - Long-Term Financial Planning Policy, Resolution No. 81399 (Adopted 6/17/2008)**

RESOLUTION AMENDING RESOLUTION NO. 77923 C.M.S. REGARDING THE CITY OF OAKLAND LONG-TERM FINANCIAL PLANNING POLICY TO ADD A SPECIFIC DATE WHEN THE FIVE-YEAR FINANCIAL PLAN IS TO BE PROVIDED TO THE CITY COUNCIL

WHEREAS, the City of Oakland's Five-Year Financial Plan is the City Administrator's best assessment of future revenues, expenditures and operating results over a five year forecast period; and

WHEREAS, the Five-Year Financial Plan includes analysis of economic and demographic data at the national, local and state level, and analyzes revenue and expenditure trends for the General Purpose Fund and other major funds such as the Landscape and Lighting Assessment District and the Oakland Redevelopment Agency; and

WHEREAS, the Five-Year Financial Plan forecasts major revenue and expenditure components of the aforementioned funds; and

WHEREAS, a long-term financial planning policy is intended to help the City make prudent and informed financial decisions on matters such as economic development, tax policy and labor negotiations; and

WHEREAS, the implementation of a long-term financial planning policy will help the City attain a favorable rating from credit rating agencies; and

WHEREAS, the implementation of a long-term financial planning policy should not result in significant increases in staff costs; now, therefore, be it

RESOLVED, that the City Council of the City of Oakland hereby finds, determines, declares and resolves as follows:

Section 1. All of the recitals set forth above are true and correct.

Section 2. In order to insure that City of Oakland decision makers have the information to allow them to prudently manage the City's fiscal resources, the City Council hereby adopts the financial policy, as set forth below:

CITY OF OAKLAND LONG-TERM FINANCIAL PLANNING POLICY

## I. Purpose/Definition

The Five-Year Financial Plan ("Plan") forecasts the City's revenues and expenditures over a five-year period. The Plan focuses on the General Purpose Fund, and other major funds such as the Landscape and Lighting Assessment District and the Oakland Redevelopment Agency. The intent of the Plan is to allow the City Council and the City Administrator to put current funding decisions in the context of forecasted economic conditions. Specifically, long-term financial planning improves the City's ability to make informed decisions regarding labor negotiations, economic development projects and tax policy. The Plan shall incorporate economic and demographic data at the national, local and state level, as well as other data that aids in forecasting.

Credit rating agencies are likely to favor the City's intention to plan ahead because such planning provides for greater financial stability, and signals a prudent approach to financial management. Five-Year planning also brings the City into compliance with current "best practices" of other governmental entities.

## II. General Responsibilities

### Budget Office

The City Administrator, shall be responsible for producing an updated Five-Year Financial Plan on a biennial basis. The Plan shall be produced and distributed by October 1 of every other year, prior to the beginning of any budget deliberations by the Council.

### Other Departments

Other departments shall be responsible for providing such information as the City Administrator requires to produce the Plan in a timely manner.

### The City Council and the City Administrator

The City Council and City Administrator shall make use of the information contained in the Plan as they consider any action that would have a significant impact on the City's revenue or expenditures over a five-year period.

FURTHER RESOLVED, that this Resolution shall take effect immediately upon its passage.

## Appendix C – Infrastructure Report: Vehicle and Equipment Fleet



FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

2012 AUG 29 AM 9:45

# AGENDA REPORT

TO: DEANNA J. SANTANA  
CITY ADMINISTRATOR

FROM: Vitaly B. Troyan, P.E.  
Public Works Agency Director

SUBJECT: Infrastructure Report:  
Vehicle and Equipment Fleet

DATE: August 22, 2012

City Administrator  
Approval

Date

8/28/12

COUNCIL DISTRICT: City-Wide

## RECOMMENDATION

This is an informational report on the state of the City's vehicle and equipment fleet.

## EXECUTIVE SUMMARY

This report provides an overview of the City's automotive and equipment fleet, fleet reduction efforts, and vehicle/equipment additions and retirements for the FY 2011-12. There is also a discussion about the current age of the fleet and the capital requirements for its sustainment.

Currently, the City's fleet is comprised of 1,489 vehicles and pieces of equipment that have a total replacement value of approximately \$105 million. There has been a reduction of 341 units over the last 10 years including a reduction of 98 units in FY 2011-12.

Each vehicle type has an industry average age for retirement as published by the National Association of Fleet Administrators (NAFA). Assuming the average age of each type of vehicle should be half of its retirement age, our fleet should average 5.2 years old. In reality, our fleet averages 10.7 years old. Half of the vehicles in the fleet are over the average age of retirement as published by NAFA.

Most of the Equipment Services Division (ESD) activity is related to maintenance of the fleet. The Division achieved a 90% fleet availability rate for FY 2011-12.

The Equipment Fund is an Internal Service Fund (ISF) which accounts for services provided to users within the City to allocate the cost of resources consumed to the activities supported. The Equipment Fund balance is being restored from a one-time low of a negative \$16.4 million. The fund is ahead of schedule to be restored and staff projects it will have a zero balance by FY 2018-19. The fund balance was negative \$7.7 million as of June 30, 2012.

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Recent finding for vehicle and equipment replacement has been inadequate to ensure a cost-effective fleet. There is a \$25.9 million backlog of fleet replacement needs. In addition there is an average annual capital requirement of \$10.2 million to keep assets within their economic life. ESD is working with Treasury to identify funding options to replace equipment as it reaches its replacement age.

### OUTCOME

This is an informational report and no action is required. This report is presented to appraise the Council as to the status of the City's fleet.

### BACKGROUND/LEGISLATIVE HISTORY

The Public Works Agency (PWA) provided its last fleet status report to the Finance Committee on November 10, 2009. This was followed by a supplemental report on June 8, 2010.

### ANALYSIS

This report provides an overview of the City's automotive and equipment fleet, fleet reduction efforts, and vehicle/equipment additions and retirements for FY 2011-12. There is also a discussion about the current age of the fleet and the capital requirements for its sustainment.

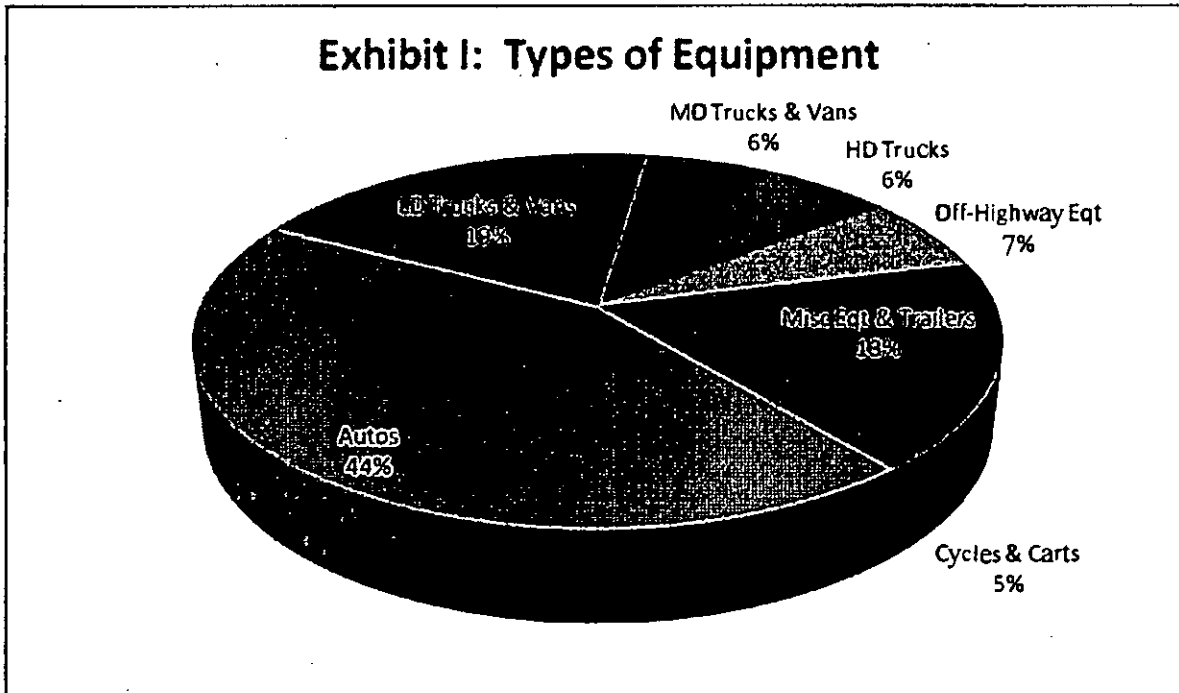
#### Equipment Services Division (ESD) Overview:

The ESD provides a full complement of equipment services, including vehicle and equipment maintenance and repair, governmental and environmental compliance, vehicle and equipment specification development, acquisition and disposal, repair part acquisition, motor pool services, fuel for City-owned vehicles and equipment, and specialized services such as automated vehicle locator, vehicle wash and outside vehicle/equipment rental.

The ESD completed FY 2011-12 with an adjusted operating budget of \$16.5 million and 50 funded full-time equivalent (FTE) staff positions assigned to the division. Most of the ESD activity is related to maintenance of the fleet. There are 37 technicians supported by four supervisors, three parts technicians and an equipment superintendent who oversees the maintenance activity. Staff accomplishes preventive maintenance and repairs even though productive hours have been constrained through frozen positions and furlough time. Staff achieved a 90% fleet availability rate for FY 2011-12.

**Exhibit I** illustrates the makeup of the City's fleet while **Exhibit II** provides the distribution by department.

**Exhibit I: Types of Equipment**



**Exhibit II: Department of Assignment**

	Police Dept	Fire Dept	Public Works	Other	Total
Autos	504	32	38	79	653
Light Duty Trucks & Vans	44	17	195	34	290
Medium Duty Trucks & Vans	13	8	75	1	97
Heavy Duty Trucks	2	51	30	3	86
Off-Highway Equipment	1	2	73	15	91
Misc Equipment & Trailers	11	26	152	7	196
Cycles & Carts	56	1	13	6	76
<b>Total</b>	<b>631</b>	<b>137</b>	<b>576</b>	<b>145</b>	<b>1,489</b>

The ESD is also responsible for working with City agencies/departments to assess annual vehicle and equipment needs as required by Administrative Instruction 4304 Fleet Utilization Policy.

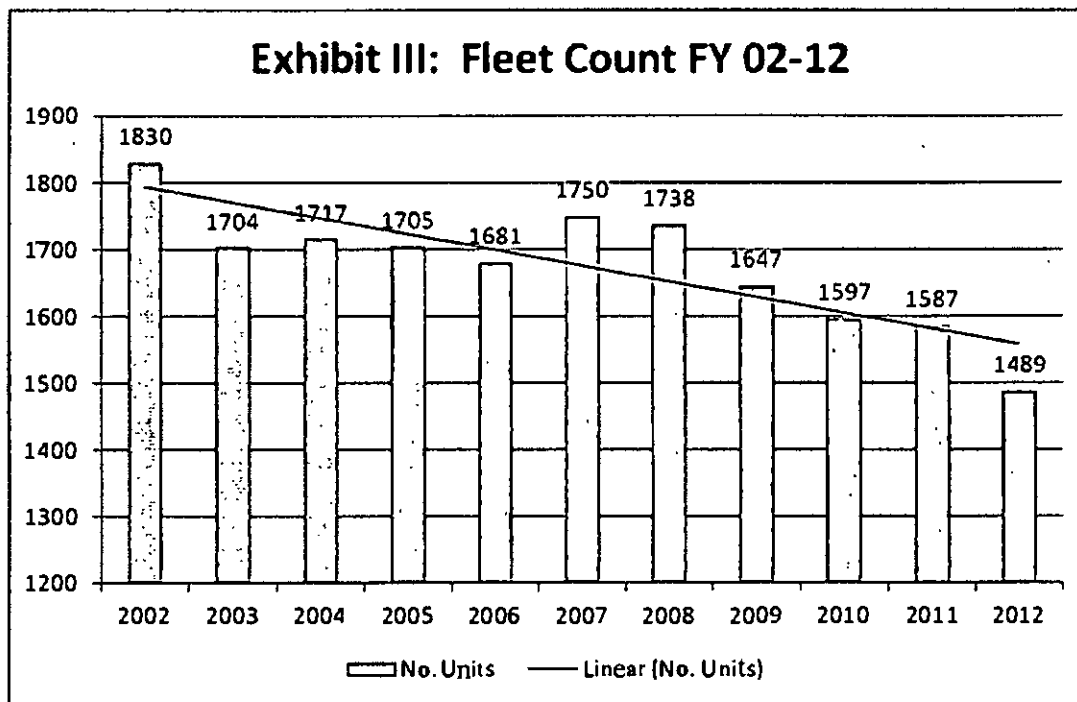
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The ESD adds value in the fleet acquisition process through the following activities:

- Identifying vehicle reduction opportunities;
- Establishing and applying fleet standards;
- Developing technical specifications;
- Employing cooperative purchasing agreements;
- Complying with environmental regulations; and
- Achieving green fleet goals.

*Exhibit III* displays the downward trend in fleet size over the last 10 years.

Exhibit III: Fleet Count FY 02-12



### Fleet Funding

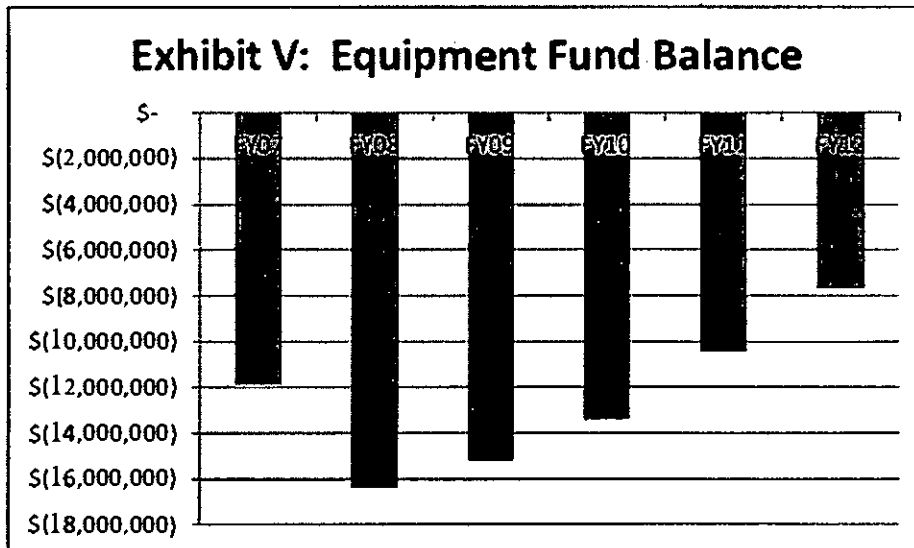
The Equipment Fund is an Internal Service Fund (ISF). An ISF accounts for services provided by a unit within an organization to other users within the same organization, thereby allocating cost of resources consumed to the activities supported. Revenues generated from charges to users are intended to be enough to cover the actual costs of services provided.

The Equipment Fund is currently collecting revenue for administration, maintenance and repairs, fuel and motor pool in addition to eliminating the negative fund balance. A rough breakdown of revenue activities is shown in *Exhibit IV*. The restoration plan calls for the fund balance to be restored in FY 2018-19. A history of the Equipment Fund balance is shown in *Exhibit V*.

**Exhibit IV: Internal Services Cost Recovery**

Service Provided	Cost Recovery Method	Approximate Annual Revenue
Fleet administration, routine maintenance and debt service	Monthly rental rates per unit based on labor effort	\$13.9M
Damage repairs and user-requested modifications	Hourly shop labor rate and markup on parts and sublet work	\$0.8M
Fuel	Cost per gallon plus percentage markup	\$2.0M
Motor pool	Time and mileage rates	\$0.2M

**Exhibit V: Equipment Fund Balance**



In FY 2011-12, the Public Works Agency developed a vehicle and equipment rates standard, which specifies the method and frequency for recalculating the monthly rental rates charged to using departments. New rates using this standard were put into effect on February 1, resulting in annualized cost savings of \$1.2 million to the GPF. The rates will be recalculated again in December and put into effect at the start of FY 2013-14. The rates do not include replacement costs.

Asset Management

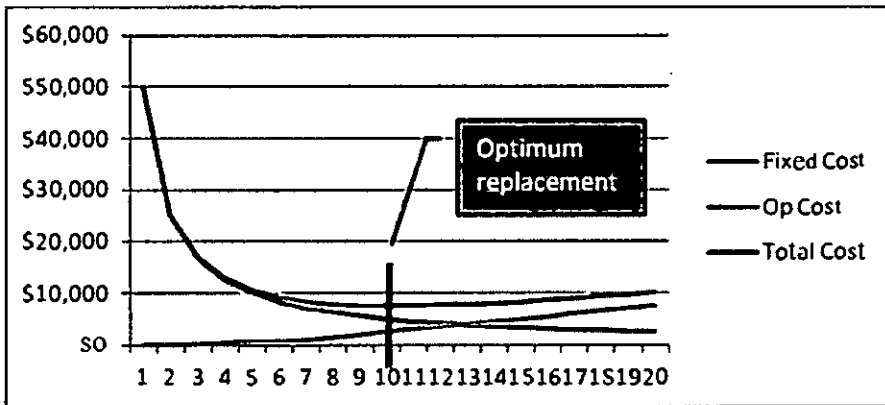
During FY 2011-12 vehicles and equipment items were cycled into and out of the fleet as shown in *Exhibit VI*. There were 30 items added to the fleet and 128 removed from service in FY 2011-12. The majority of items were added to Sewer Maintenance to ensure compliance with the Environmental Protection Agency Stipulated Order and were funded out of the Sewer Fund 3100.

**Exhibit VI: Vehicles and Equipment In and Out of the Fleet**

Type	Quantity Placed in Service	Quantity Removed from Service
Administrative vehicles		22
Boats		2
Fire marked sedans		2
Fire marked SUV	1	2
Heavy rescue truck	1	1
Mechanical street sweeper		3
Off-highway equipment		11
Parking enforcement vehicles		7
Police covert vehicle	1	
Police marked sedan	8	25
Police marked SUV	4	
Police unmarked sedan		3
Police unmarked SUV	2	
Trailer-mounted flusher	1	
Compact pickup truck	3	
Sewer CCTV van	1	
Police pickup truck	1	
Aerial work platform truck	2	3
Sewer flusher truck	2	3
Sewer power rodder truck	2	1
Traffic line painter truck	1	
Trailers, other		4
Trucks and vans, other		39
<b>TOTALS</b>	<b>30</b>	<b>128</b>

As assets age, their fixed cost is reduced while their operational costs increase. For each type of equipment, there is a point where the total costs rise and the equipment has reached its economic life. Keeping the equipment in service after that point has a greater annualized cost than replacing it with a new asset. The process of determining the economic life of assets is known as lifecycle cost analysis. *Exhibit VII* is a graph of a typical lifecycle analysis result showing the ideal point for a unit's replacement.

**Exhibit VII: Lifecycle Cost Analysis Illustration**

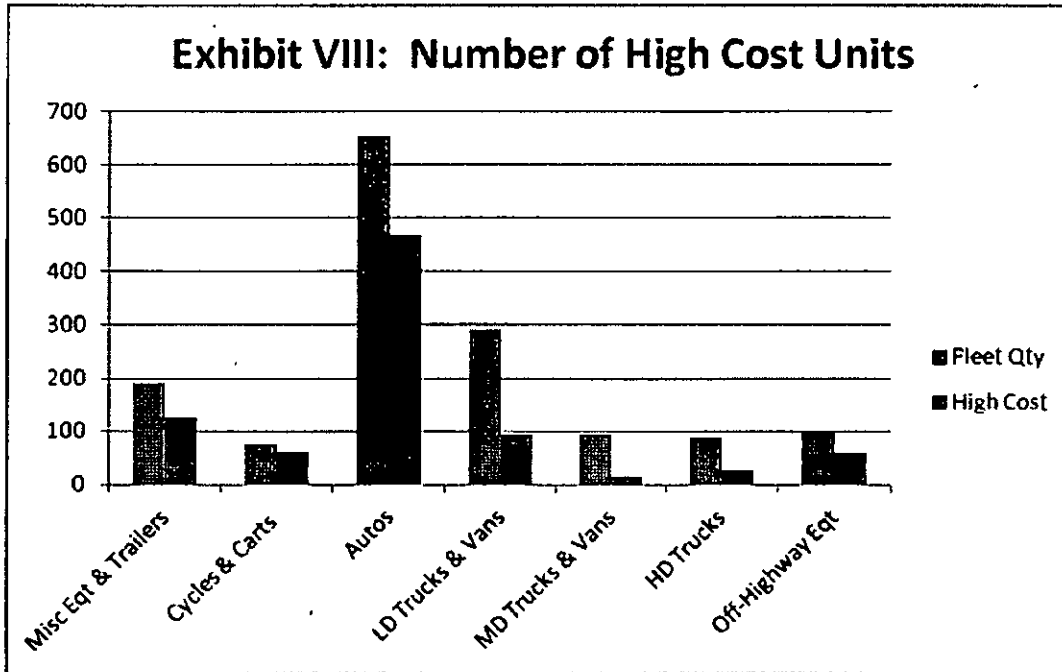


In an effort to identify potential savings in fleet costs, ESD compared the age of each vehicle and equipment item in the fleet to the average life of similar assets as reported by the National Association of Fleet Administrators (NAFA). It was found that 55% of the City's fleet exceeded the average holding period published by NAFA. Classes of vehicles with a high number of aged units were selected for detailed lifecycle cost analysis which confirmed the optimum replacement point for those groups. These analyses used actual City of Oakland data for each vehicle in the class to determine operational costs.

The vehicles and equipment aged beyond their economic life are resulting in costs greater than if they had been replaced at the optimum point. The large number of over-age units, as illustrated in *Exhibit VIII*, is having a significant impact on fleet costs. These costs reflect direct maintenance expenses plus the cost of extra vehicles to make up for the downtime while repairs are carried out. An ideal resolution would be immediate replacement of some high cost vehicles, a reduction in the total number of vehicles and an ongoing replacement plan to keep assets within their economic life.

Many vehicles are driven short distances to job sites and parked while work is done. Frequently, the vehicle is used as a mobile office, a workshop, a storage for materials, or for power to operate tools.

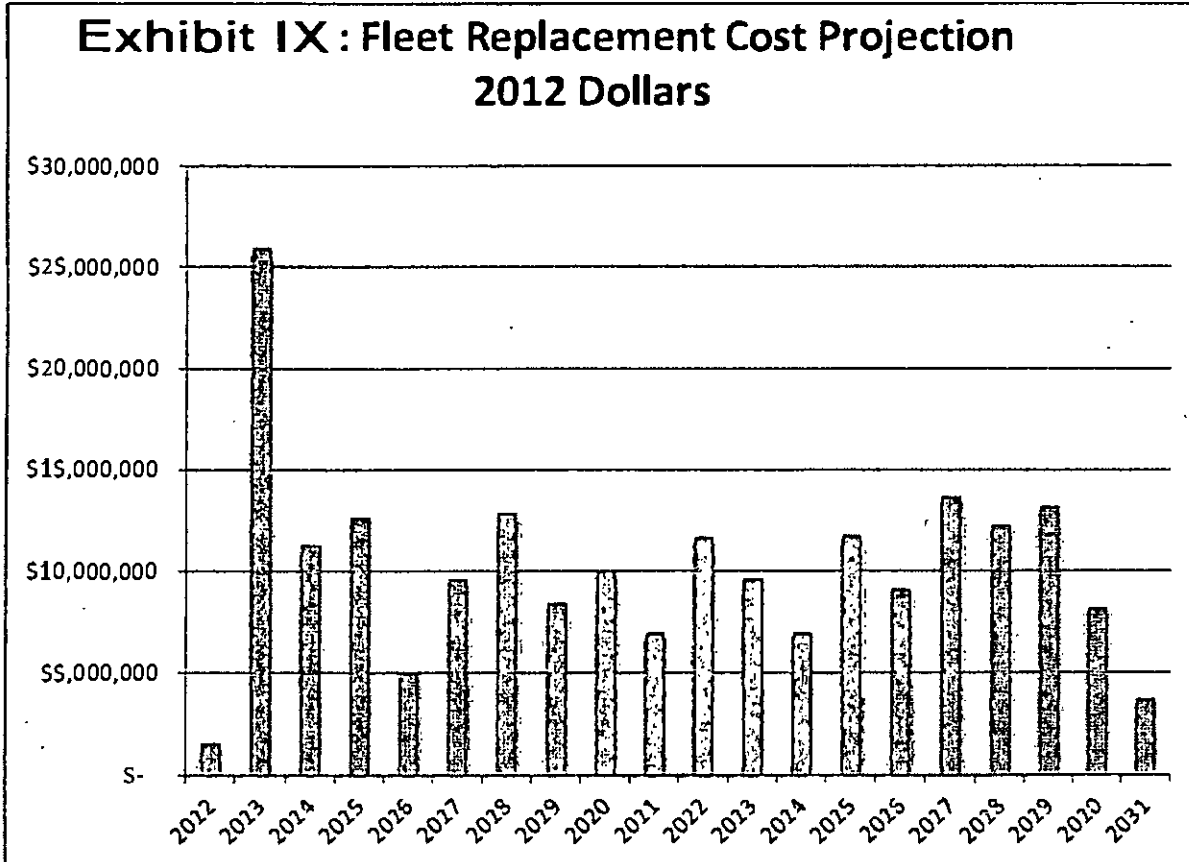
Exhibit VIII: Number of High Cost Units



As mentioned earlier, the fleet has a current replacement value of \$105 million. If each item were to be replaced at a reasonable interval for its type, there is an average annual capital funding requirement for \$10.2 million in current dollars. Due to the high number of vehicles currently overdue for replacement, immediate funding needs are high with normal cyclical patterns afterward. *Exhibit IX* provides an estimated 20-year capital forecast using current year dollars.

Recent funding for vehicle and equipment replacement has been inadequate to ensure a cost-effective fleet. ESD is working with Treasury and the Budget Office to identify funding options to meet this significant ongoing capital requirement.

Exhibit IX: Fleet Replacement Cost Projection – 2012 Dollars



**PUBLIC OUTREACH/INTEREST**

This item did not require any additional public outreach other than the required posting on the City's website.

**COORDINATION**

Information that is the basis of this report has been coordinated with the City Budget Office. Equipment Services regularly discusses with user department the type and number of vehicles needed for their activities and the cost of operating and maintaining the equipment.

**COST SUMMARY/IMPLICATIONS**

None. This report is submitted for information only.

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## SUSTAINABLE OPPORTUNITIES


**Economic:** Sound management of the City's fleet reduces overall costs and increases available funding for direct services to citizens. The vehicle and equipment rate structure allocates costs of fleet services to supported activities in proportion to resources consumed. This helps to show the true costs of those activities.

**Environmental:** Regular replacement of fleet assets deploys up-to-date technologies that reduce fuel consumption and emissions.

**Social Equity:** There are no known impacts in this area.

For questions regarding this report, please contact Ken Bailey, Equipment Services Manager, at (510) 615-5487.

Respectfully submitted,

  
\_\_\_\_\_  
VITALY B. TROYAN, P.E.  
Public Works Agency Director

Reviewed by:  
David Ferguson, Assistant Director  
Department of Infrastructure and Operations

Prepared by:  
Ken Bailey, Equipment Services Manager  
Equipment Services Division, PWA

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## Appendix D – Negative Fund Balance Report

	Negative Fund Category	Ending Fund Balance FY 2009-10	Ending Fund Balance FY 2010-11	Un-audited Fund Balance FY 2011-12
1	Negative Funds with Repayment Plan	(98,175,474)	(94,379,909)	(79,260,347)
2	Reimbursable Negative Funds	(22,448,746)	(13,525,732)	(12,485,594)
3	Non-Reimbursable Negative Funds without Repayment Plan	(17,542,656)	(13,441,408)	(14,031,629)
<b>Total Negative Funds</b>		<b>\$ (138,166,876)</b>	<b>\$ (121,347,049)</b>	<b>\$ (105,777,570)</b>
FY 2010-11 and FY 2011-12 repayment amount		\$ 32,389,306		

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## Appendix E – City Council’s General Purpose Fund (GPF) Financial Policies, Ordinance No. 13008 (Adopted 5/4/2010)

ORDINANCE AMENDING ORDINANCE NO. 12496 C.M.S. WHICH SETS FORTH THE CITY COUNCIL'S GENERAL PURPOSE FUND (GPF) FINANCIAL POLICIES TO ADD A FISCAL POLICY REQUIRING THAT BEFORE THE CITY COUNCIL TAKES ANY ACTION THAT HAS A FISCAL IMPACT OR COST, THE COUNCIL MUST (1) IDENTIFY AND APPROVE THE FUNDING SOURCE TO FULLY FUND THE COST OF THE PROPOSED COUNCIL ACTION, SUCH AS THE APPROVAL OF OR CHANGES TO A POLICY, PROGRAM, SERVICES, OR POSITIONS AND (2) MAKE ANY ADJUSTMENTS TO THE BUDGET THAT ARE NECESSARY TO MAINTAIN A BALANCED BUDGET; AND SETTING FORTH THE COUNCIL'S GPF FINANCIAL POLICIES IN THEIR ENTIRETY, AS AMENDED.

WHEREAS, on June 30, 2009, the City Council adopted Ordinance No. 12946 C.M.S. which revised the amended reserve policy for the City's undesignated general fund balance to clarify the established reserved requirements; establish criteria for the use of GPF reserve, use of excess Real Estate Transfer Tax (RETT) revenue, and use of one-time revenues; and to minimize drawdowns from the GPF reserve by previously approved project carryforwards and purchase order encumbrances; and

WHEREAS, to ensure fiscal prudence and responsibility, the City desires to amend its reserve policy to require that proposed changes to City programs, policies and services include fiscal impacts and maintain a balanced budget; now therefore,

THE COUNCIL OF THE CITY OF OAKLAND DOES ORDAIN AS FOLLOWS:

SECTION 1. The City Council finds and determines the forgoing recitals to be true and correct and hereby adopts and incorporates them into this Ordinance.

SECTION 2. The Municipal Code is hereby amended to add, Delete, or modify sections as set forth below (section numbers and titles are indicated in bold type; additions are indicated by underscoring and deletions are indicated by strike through type; portions of the regulations not cited or not shown in underscoring or strike-through type are not changed).

SECTION 3. Ordinance No. 12946 C.M.S. is hereby amended in its entirety to read as follows:

### A. General Purpose Fund Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland to provide in each fiscal year a reserve of 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 (the “General Purpose Fund Reserve Policy”).

2. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the General Purpose Fund Reserve to City Council and on the adequacy of the 7.5% reserve level. If in any fiscal year the General Purpose Fund Reserve Policy is not met, the City Administrator shall present to Council a strategy to meet the General Purpose Fund Reserve Policy. Each year, the City Administrator shall determine whether the 7.5 % reserve level requires adjustment, and recommend any changes to the City Council.

3. The amounts identified as the General Purpose Fund Reserve may be appropriated by Council only to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of the City Council.

#### B. Capital Improvements Reserve Fund

1. There is hereby established a fund in the Treasury of the City of Oakland to be known as the - Capital Improvements Reserve Fund.

2. On an annual basis, an amount equal to \$6,000,000 shall be held in the Capital Improvements Reserve Fund. Revenues received from one-time activities, including the sale of real property, shall be deposited into the Capital Improvements Reserve Fund, unless otherwise provided in sections D and E of this ordinance or otherwise directed by a majority vote of the City Council. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein.

3. Monies on deposit in the Capital improvements Reserve Fund may be appropriated by Council to fund unexpected emergency or major capital maintenance or repair costs to City-owned facilities and to fund capital improvement projects through the Five-Year Capital Improvement Program.

4. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the Capital Improvements Reserve Fund to City Council. If in any fiscal year the required Capital Improvements Reserve Fund threshold of \$6,000,000 is not met, the City Administrator shall present to Council a strategy to meet the said threshold.

C. Prior to appropriating monies from the reserves established by this Ordinance, the Budget Office shall prepare an analysis of the proposed expenditure and the City Administrator shall present such analysis to the City Council. Upon review and approval of the proposed expenditure by the City Council, and appropriate fiscal emergency declaration necessary for the use of GPF reserve, the City Administrator will have the authority to allocate from the reserves. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by Council majority vote.

D. Use of Excess Real Estate Transfer Tax (RETT) Revenues To Build Up the GPF Reserve, Pay Back Negative Internal Service Fund balances, Establish Set-Asides for Other Post-Employment Benefits (OPES) and Police and Fire Retirement System (PFRS) Liabilities, and Fund Capital Improvements Projects.

To ensure adequate levels of the General Purpose Fund reserves and to provide necessary funding for municipal capital improvement projects, the City shall require that excess Real Estate Transfer Tax revenues be defined and used as follows:

- 1) The "excess" Real Estate Transfer Tax (RETT) revenue is hereby defined as any annual amount collected in excess of the "normal baseline" collection threshold of \$40 million.
- 2) The excess Real Estate Transfer Tax collections, as described in this section, shall be used in the following manner:
  - a. Replenish General Purpose Fund (GPF) reserves until such reserves reach to 10 percent of current year budgeted GPF appropriations.
  - b. After such reserves have been replenished, the order of use of the remaining excess collection is as follows: 50 percent to repay negative internal services funds balances; 30 percent set aside for the Police and Fire Retirement System (PFRS) liability until this obligation is met; 10 percent to establish a trust for other Post-Employment Retirement Benefits (OPEB); and 10 percent to replenish the Capital Improvements Reserve Fund until it reaches \$10,000,000.
- 3) Use of the "excess" RETT revenue for purposes other than those established above may only be allowed upon declaration of a fiscal emergency. For the purposes of this Ordinance, "emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of the City Council.

E. Use of One Time Revenues To Repay Negative Fund Balances in Internal Service and Other Funds; and Provide Criteria for Project Carryforwards and Encumbrances in the GPF.

- 1) From time to time, the City may receive one time revenues, defined as financial proceeds that will not likely occur on an ongoing basis, such as sales of property or proceeds from the refinancing of debt, but not including additional Real Estate Transfer Tax revenues discussed in Section "D" above.
- 2) Fiscal prudence and conservancy requires that one time revenues not be used for recurring expenses, that outstanding negative balances in various City funds be paid off, and that municipal capital projects addressing health and safety issues be adequately funded. Therefore, upon receipt

of one time revenues, such revenues shall be used in the following manner, unless legally restricted to other purposes: 50 percent to payoff negative fund balances in the internal Service Fund, and another 50 percent to payoff negatives in all other funds.

3) Use of the "one time revenues" for purposes other than those established above may only be allowed upon declaration of a fiscal emergency. For the purposes of this Ordinance, "emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of the City Council.

F. Criteria for Project Carryforwards and Encumbrances in the General Purpose Fund. Previously approved but unspent project appropriations ("carryforwards"), as well as funding reserved to pay for purchases or contracts that are entered into in the current year but are not paid for until the following year ("encumbrances"), draw down funding from reserves. Fiscal prudence requires that such drawdowns be limited in the General Purpose Fund (GPF). Therefore:

1) Funding for nonoperating projects and purchases shall be restricted within the General Purpose Fund; capital purchases and projects in particular shall not be funded from the General Purpose Fund.

2) in cases when non-capital, operating projects and purchases must be funded in the General Purpose Fund, these shall be included in an annual budget and supported with new annual revenues.

3) Carryover of unspent project carryforwards and encumbrances in the GPF from one year into the next, with no new funding, will be allowed only on an exception basis.

4) in the beginning of each fiscal year, before project carryforwards and encumbrances are carried over from the prior year, and no later than August 1:

- The Budget Director shall liquidate all unspent project carryforwards and encumbrances in the GPF and advise affected City departments of said action.
- The Budget Director shall provide a report of all unspent project carryforwards and encumbrances to the City Council for review and direction.

5) Departments may request to retain some or all of the liquidated GPF carryforwards and encumbrances, only if and when such balances are deemed essential to the delivery of city projects, programs and services, and only if the liquidation of such balances would be in violation of legislative or legal requirements, could lead to health or safety issues, and/or would greatly impact essential City projects, programs and services.

6) A request to retain some or all of the liquidated carryforwards or encumbrances must be submitted in writing to the Budget Director within five (5) working days of receiving an advisory



from the Budget Office about said liquidations, and must detail specific reasons necessitating such a request, including but not limited to those stated in item (3) above.

7) The Budget Director, upon review of a department's request, shall recommend an action to the City Administrator within five (5) working days of receiving the department's request.

8) The City Administrator, In consultation with the Budget Director, shall make a final determination of any and all requests for exceptions by departments, by August 20, and all requesting departments should be so notified by August 30.

**G. Requirement That Before The City Council Takes Any Action That Has A Fiscal Impact Or Cost. The Council Must (1) Identify And Approve The Funding Source To Fully Fund The Cost Of The Proposed Council Action, Such As The Approval Of Or Changes To A Policy, Program, Services, Or Positions And (2) Make Any Adjustments To The Budget That Are Necessary To Maintain A Balanced Budget**

From time to time the City Council may present changes to existing City policy, programs and/or services that may have a cost not anticipated in the most recently adopted or amended policy budget. Fiscal prudence requires that prior to City Council approval of such changes in policy, program, and/or services, the following occur:

1) Identification of existing, viable funding source to fully fund the cost of the proposed actions. If new programs and/or initiatives are presented as cost-covering, an analysis of such cost-coverage be conducted prior to approval of the proposed changes to program, policies or services, and that such analysis of cost-coverage be conducted annually through the life of said program, policy or service change. If cost-coverage of said program, policy and/or services changes is deemed not to be cost-covering in any year per audited financials, it must be re-presented for City Council approval in order for its appropriation to continue.; and

2) Propose any adjustments to the most recently adopted/amended budget necessary to maintain a balanced budget for City Council approval in concert with approval of the proposed changes to program, policies and/or services.

Exceptions to this policy exist if proposed changes to policy, program and/or services are time-sensitive requiring an immediate change in policy or program, such as ongoing programmatic expense as a result of a legal settlement. Such urgency may be determined by a majority vote of the City Council. Staff must return to the City Council within 60 days to present a report analyzing these fiscal impacts and any required proposal for maintaining a balanced budget as necessary for Council review and approval.

**H. Requirement that the City Administrator submit an annual report to identify all grant-funded positions with mandatory retention clauses, showing proposed transfers of said positions and/or related services to the General Purpose Fund in the next fiscal year.**

Grant awards received by City agencies/departments may contain retention clauses requiring the City to retain grant-funded staff, services and/or programs for a specified period after the end of the grant term. Such retention clauses may have a fiscal impact on the General Purpose Fund. This fiscal impact must be disclosed. Each year, during the biennial and midcycle budget review and prior to approval of the proposed or amended budgets, staff must provide a report to the City Council delineating possible impacts on the General Purpose Fund of such retained positions, programs, and/or services. Staff must indicate the period of time for which the retention clause applies and must present estimated fiscal impacts for each fiscal year affected.

SECTION 4. This ordinance shall be effective immediately, if passed by the affirmative vote of at least six City Council members; if this ordinance is passed by the affirmative vote of five City Council members, it will be effective seven days after final passage.