CITY OF OAKLAND

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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Sarah T. Schlenk
Budget Department

SUBJECT: Five-Year Financial Forecast Supplemental

DATE: February 21, 2017

City Administrator Approval

Date: 2/23/17

RECOMMENDATION

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

EXECUTIVE SUMMARY

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

REASON FOR SUPPLEMENTAL

The purpose of this report is to transmit the Five-Year Financial Forecast.

BACKGROUND / LEGISLATIVE HISTORY

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

ANALYSIS AND POLICY ALTERNATIVES

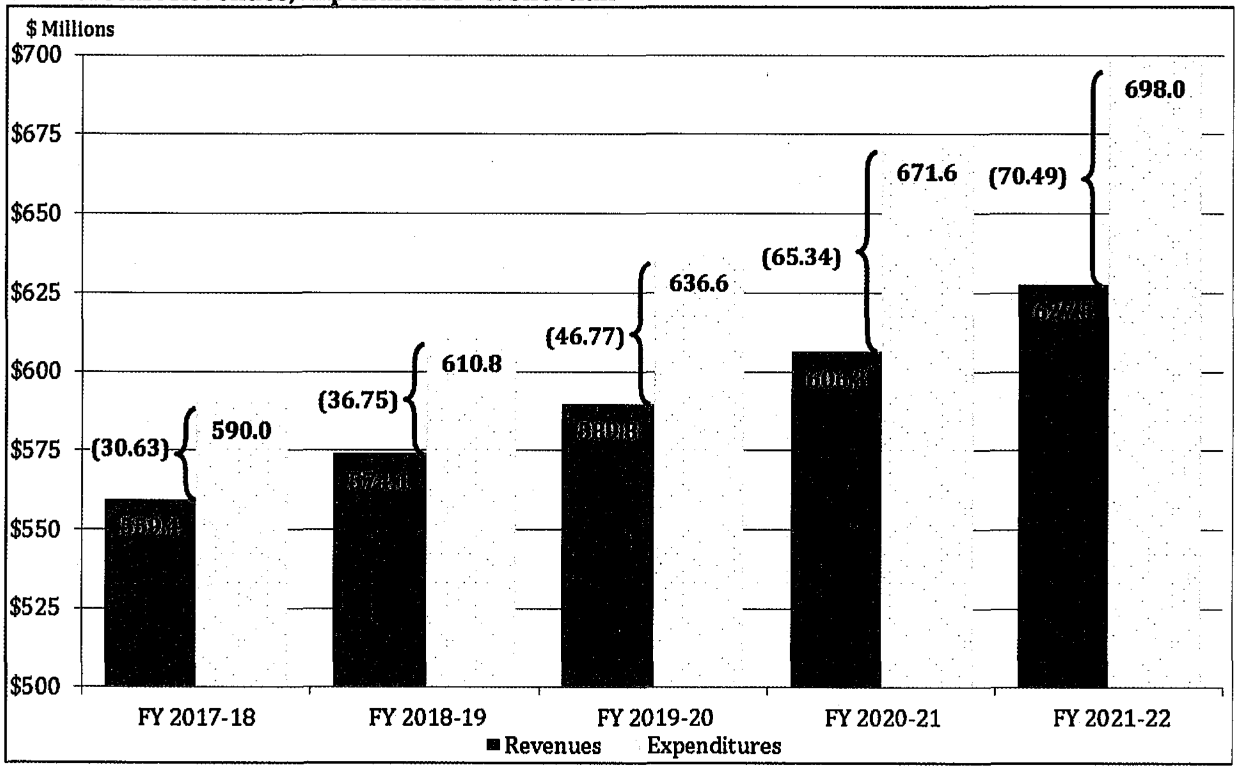
Key Findings

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

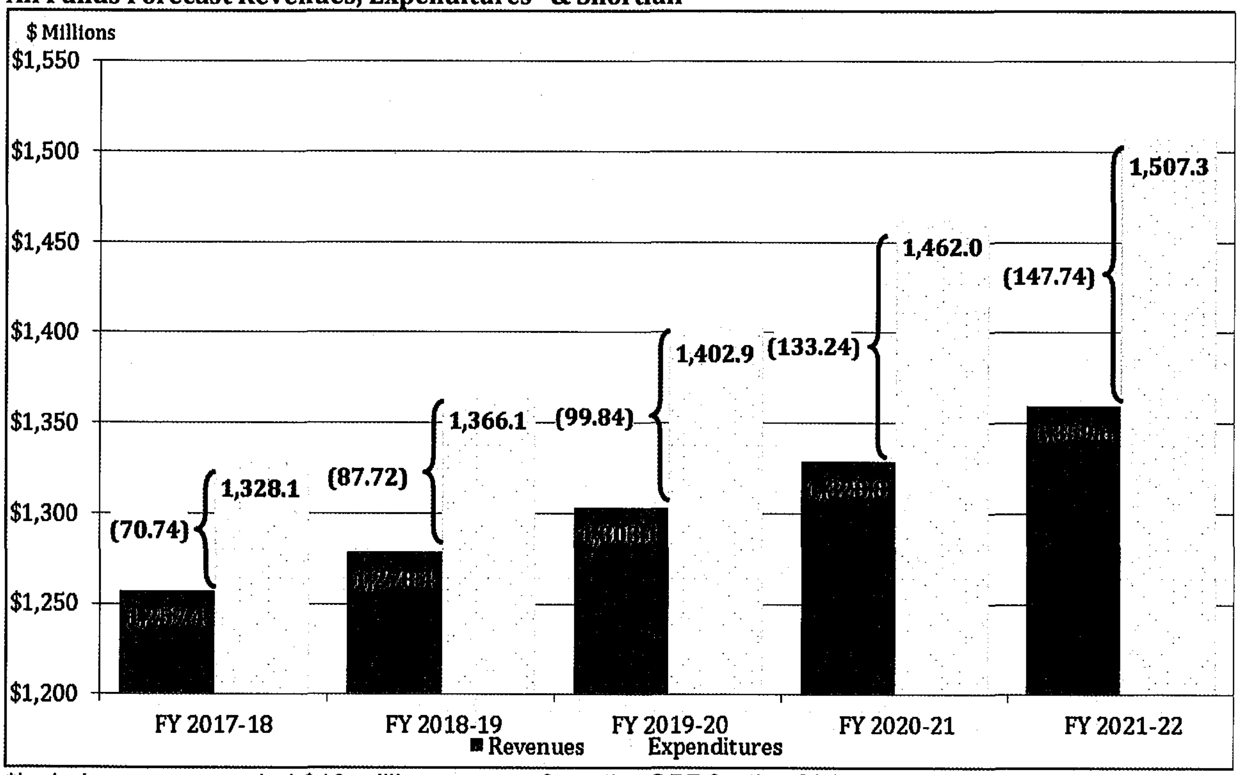
Five years ago, the City weathered the Great Recession and the dissolution of Redevelopment. At the same time, the City started addressing various structural and long-term financial issues and began giving employees wage increases after several years of wage freezes and furloughs. The 7.5% General Purpose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

Since the current period of economic growth has outlasted historical experience, it is likely there will be an economic slowdown or contraction during the forecast period. Additionally, there are many unknowns of how the policies of new administration at the Federal level will impact the City's grant revenues and local economy. **Given these uncertainties, the City should focus on long-term sustainability by: 1) further diversifying the City's economic base; 2) managing expenditure growth and implementing service delivery efficiencies; and 3) prudent reduction of long-term liabilities.** Rather than adding services or programs, the City must focus on properly funding and improving its current mandates and priorities. As the Forecast shows, even without adding services and programs to the City's current portfolio, the projected gap grows due to normal costs outpacing revenues. See the summary charts below for the General Purpose Fund (GPF) and All Funds. The increased shortfall amount compared to the January 31, 2017 presentation is largely due to a recommended $10 million per year allocation for retiree medical; also referred to as Other Post Employment Benefits (OPEB). In order for the City to be successful, clear goals with measurable outcomes are needed and must be accompanied by budgetary discipline aimed at those outcomes.

GPF Forecast Revenues, Expenditures* & Shortfall



All Funds Forecast Revenues, Expenditures* & Shortfall



**Includes recommended $10 million per year from the GPF for the OPEB Trust.*

COORDINATION

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

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental: No direct environmental opportunities have been identified.

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

ACTION REQUESTED OF THE CITY COUNCIL

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

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

Respectfully submitted,

SARAH T. SCHLENK
Budget Director

Prepared by:
Bradley Johnson,
Assistant to the City Administrator

Margaret O'Brien,
Revenue & Tax Administrator

Attachments (1):
A: Five-Year Financial Forecast for FY 2017-19 to FY 2021-22

FIVE-YEAR FINANCIAL FORECAST

Fiscal Year 2017-18 – Fiscal Year 2021-22

CITY OF OAKLAND

CITY OF OAKLAND

Five-Year Financial Forecast
Fiscal Year 2017-19 to Fiscal Year 2021-22

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Sabrina Landreth
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Assistant City Administrator

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City Auditor

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Financial Analyst

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ACKNOWLEDGEMENTS

Staff wishes to acknowledge the staff of the City Administrator's Office, the Controller Bureau, the Revenue Management Bureau, the Treasury Bureau, Department of Human Resource Management, and the Planning & Building Department for the input provided, their oversight and their valued subject matter expertise necessary for the creation of this document.

We would also like to acknowledge City of Oakland Departmental fiscal staff for their diligent work on behalf of the residents of Oakland and in support of their Department's operations.

Mission Statement

The City of Oakland is committed to the delivery of effective, courteous and responsible service. Citizens and employees are treated with fairness, dignity and respect.

Civic and employee pride are accomplished through constant pursuit of excellence and a workforce that values and reflects the diversity of the Oakland community.

CITY OF OAKLAND

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EXECUTIVE SUMMARY

Purpose

The Five-Year Financial Forecast (Forecast) for the City of Oakland (City) spans from Fiscal Years (FY) 2017-18 to FY 2021-22. The purpose of the Forecast is to help make informed budgetary and operational decisions by anticipating future revenues and expenditures, as well as highlighting anticipated fiscal risks and opportunities. The Forecast surfaces major known fiscal conditions, and projected future conditions based on current service levels and staffing. The Forecast is a necessary strategic planning tool for financial sustainability and also ensures the City's compliance with current best practices across other local governmental entities.

As a result of biennial five-year forecasts, the City continues to implement sound financial policies to weather any unforeseen economic downturns. The City's Charter requires adoption of a balanced budget each fiscal year. For the development of the next biennial budget for FY 2017-19, the City will need to develop strategies to address shortfalls projected in the Forecast.

The Forecast is not a budget, and does not include any proposed balancing solutions or revised service levels. Instead, the forecast is a planning tool to: 1) identify opportunities and challenges over a longer time frame; and 2) discuss possible measures to address those opportunities and challenges, which include identifying opportunities for enhanced revenue growth and cost control initiatives. Of note, Oakland also continues its strong economic growth as detailed in ***Appendix A***: Major Housing Projects FY 2015 to FY 2030. In addition, the Army Base and Brooklyn Basin housing project are projected to enhance Oakland's revenue base in the coming years.

The Forecast is also intended to serve as a resource for a diverse audience – residents, elected officials and City employees. The Forecast provides detailed information regarding the City's revenue, expenditures, assets and liabilities, as well as the assumptions, uncertainties, and external factors that are projected to influence the City's fiscal health over the next five years.

Methodology and Assumptions

The FY 2016-17 Amended Midcycle Policy Budget was used as the starting point to forecast revenues and expenditures five-years forward. Revenue projections were further refined using FY 2016-17 2nd Quarter data (July 1, 2016 through December 31, 2016). The first two years of the Forecast coincide with the FY 2017-19 Baseline Budget assuming expenditures necessary to maintain existing staffing and service levels along with anticipated revenues for the two-year period. Assumption variances that differ from the Baseline Budget are highlighted in the document in each appropriate section. The second year (FY 2018-19) of the Baseline Budget was used as the starting point for the additional three years of the Forecast and uses anticipated growth rates depending on category of revenue or expenditure.

Key Findings

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

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

Since the current period of economic growth has outlasted historical experience, it is likely there will be an economic slowdown or contraction during the forecast period. Additionally, there are many unknowns with regard to how the policies of the Trump administration will impact the City's grant revenues and local economy. Given these uncertainties, the City should focus on long-term sustainability by: **1) further diversifying the City's economic base; 2) managing expenditure growth and implementing service delivery efficiencies; and 3) prudent reduction of long-term obligations.** Rather than adding services or programs, the City must focus on properly funding and improving its current mandates and priorities. As the Forecast shows, even without adding services and programs to the City's current portfolio, the projected gap grows due to normal costs outpacing revenues. In order for the City to be successful, clear goals with measurable outcomes are needed and must be accompanied by budgetary discipline aimed at those outcomes. Figures 1 and 2 illustrate these growing shortfalls in the General Purpose Fund (GPF) and All Funds (including the GPF). The increased shortfall amount compared to the January 31, 2017 presentation is largely due to a recommended $10 million per year allocation for retiree medical; also referred to as Other Post Employment Benefits (OPEB).

Figure 1 GPF Forecast Revenues, Expenditures, & Shortfall

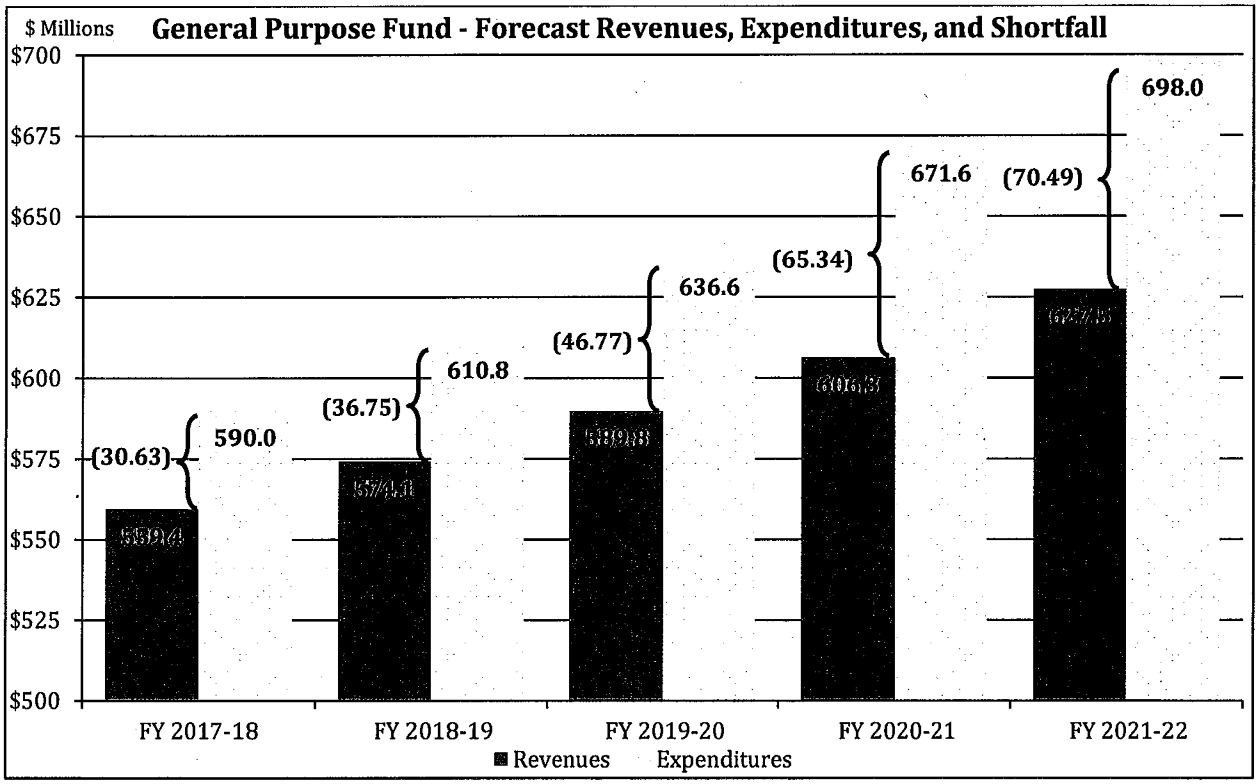
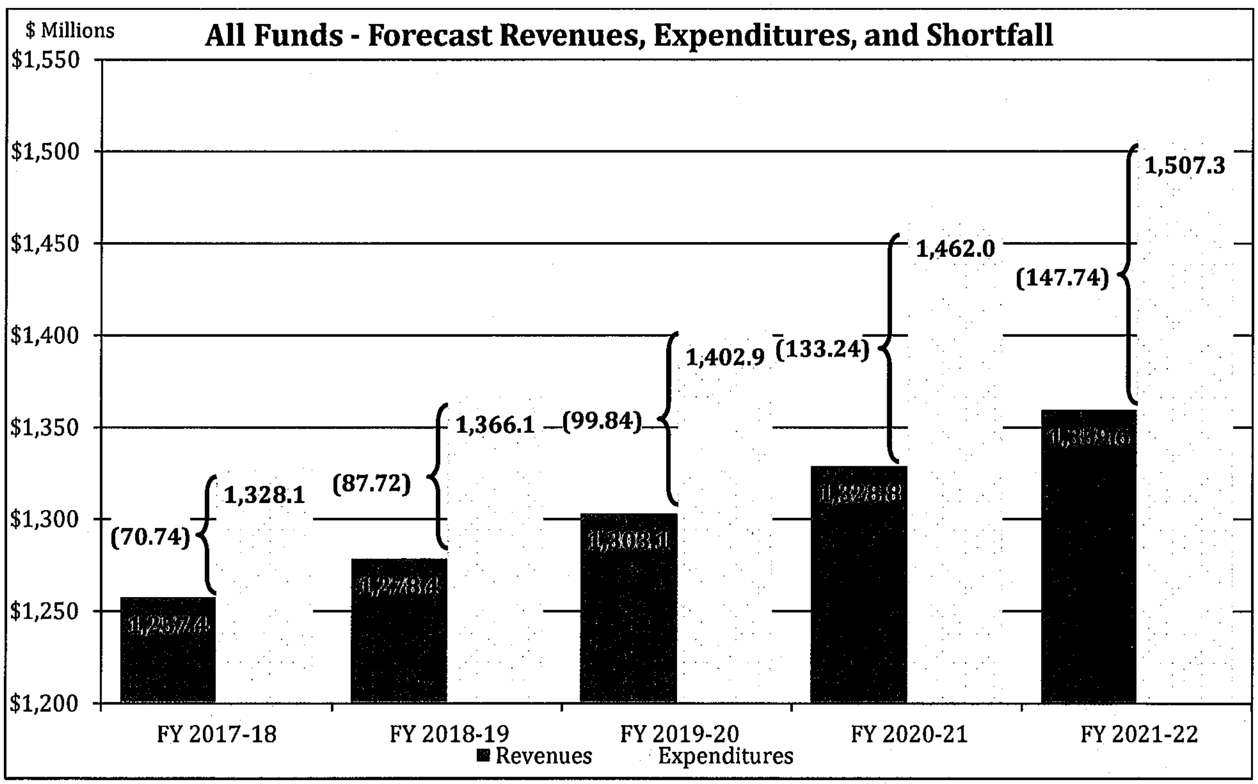


Figure 2 All Funds Forecast Revenues, Expenditures, & Shortfall



Revenues

Total General Purpose Fund Revenues are anticipated to increase by 7.24% in FY 2017-18 and 2.63% in FY 2018-19. These projected increases are driven mainly by increases in property tax, sales taxes, and business license tax revenue. Specifically, the City is projected to benefit from increased property values, increased consumer spending, and a growing business sector. Other revenue categories like utility consumption tax and grants are anticipated to remain relatively flat. A summary of GPF revenues during the forecast period in provided in the table below:

Table 1 GPF Revenues by Category (in millions)

GPF (1010) Revenues in $ Millions	FY 2016-17 Midcycle Adopted Budget	FY 2017-18 Forecast	FY 2018-19 Forecast	FY 2019-20 Forecast	FY 2020-21 Forecast	FY 2021-22 Forecast
Property Tax	$159.11	$180.38	$187.27	$195.09	$204.01	$216.51
Sales Tax	$53.32	$55.99	$57.68	$59.24	$60.84	$62.47
Business License Tax	$72.24	$75.13	$77.38	$79.51	$81.70	$83.95
Utility Consumption Tax	$50.50	$51.00	$51.00	$51.00	$51.00	$51.00
Real Estate Transfer Tax	$69.85	$76.82	$78.96	$80.51	$81.60	$83.75
Transient Occupancy Tax	$19.38	$20.97	$21.55	$22.08	$22.53	$22.98
Parking Tax	$12.14	$10.83	$11.16	$11.46	$11.77	$12.08
Sugar Sweetened Beverage Tax	$0.00	$5.90	$5.90	$5.90	$5.90	$5.90
Licenses & Permits	$2.34	$1.79	$1.79	$1.81	$1.82	$1.84
Fines & Penalties	$24.05	$21.95	$21.97	$22.56	$23.16	$23.79
Interest Income	$0.74	$0.74	$0.74	$0.74	$0.74	$0.74
Service Charges	$50.11	$54.46	$55.22	$56.46	$57.74	$59.05
Grants & Subsidies	$0.12	$0.12	$0.12	$0.12	$0.12	$0.12
Miscellaneous Revenue	$5.15	$0.99	$1.06	$1.06	$1.06	$1.06
Interfund Transfers	$2.55	$2.28	$2.28	$2.27	$2.28	$2.28
Subtotal GPF	**$521.60**	**$559.35**	**$574.08**	**$589.81**	**$606.27**	**$627.52**
Transfers from Fund Balance	$28.07	$0.00	$0.00	$0.00	$0.00	$0.00
Total	**$549.67**	**$559.35**	**$574.08**	**$589.81**	**$606.27**	**$627.52**
Growth rate net of transfer from fund balance*		**7.24%**	**2.63%**	**2.74%**	**2.79%**	**3.51%**

*First year is in comparison to FY 2016-17 Midcycle Adopted Budget.

In terms of All Funds revenues, forecast period growth is projected to be less than GPF revenues. While increases in property tax, local tax, sales tax, and business license tax are driving growth, general low to no growth in other revenue categories will dampen the City's projected revenue growth rate for All Funds. Details are discussed in the Revenue section. Summary information on All Funds revenues during the forecast period is provided in the table below:

Table 2 All Fund Revenues by Category (in millions)

All Funds Revenues in $ Millions	FY 2016-17 Midcycle Adopted Budget	FY 2017-18 Forecast	FY 2018-19 Forecast	FY 2019-20 Forecast	FY 2020-21 Forecast	FY 2021-22 Forecast
Property Tax	$161.93	$183.97	$191.28	$199.46	$209.05	$223.26
Local Tax	$149.64	$181.87	$186.16	$192.08	$198.05	$204.24
Sales Tax	$78.68	$81.92	$84.38	$86.66	$89.00	$91.39
Gas Tax	$7.39	$6.64	$6.64	$6.78	$6.91	$7.05
Business License Tax	$72.24	$75.13	$77.38	$79.51	$81.70	$83.94
Utility Consumption Tax	$50.50	$51.00	$51.00	$51.00	$51.00	$51.00
Real Estate Transfer Tax	$69.85	$76.82	$78.96	$80.51	$81.60	$83.75
Transient Occupancy Tax	$24.66	$26.60	$27.31	$27.97	$28.53	$29.10
Parking Tax	$22.46	$21.22	$21.86	$22.48	$23.12	$23.78
Sugar Sweetened Beverage Tax	$0.00	$5.90	$5.90	$5.90	$5.90	$5.90
Service Charges	$177.29	$192.11	$193.12	$195.65	$198.21	$200.84
Licenses & Permits	$18.46	$17.72	$17.83	$17.86	$17.87	$17.90
Fines & Penalties	$28.80	$24.24	$24.25	$24.87	$25.51	$25.09
Interest Income	$4.22	$0.80	$0.81	$0.81	$0.81	$0.81
Grants & Subsidies	$58.54	$57.09	$56.93	$56.94	$56.94	$56.93
Internal Service Funds	$72.42	$87.40	$88.18	$88.18	$88.18	$88.18
Miscellaneous Revenue	$42.18	$35.35	$36.19	$36.19	$36.19	$36.19
Interfund Transfers	$141.57	$129.86	$129.46	$129.46	$129.46	$129.46
Transfers from Fund Balance	$57.47	$1.71	$0.75	$0.75	$0.75	$0.75
Total	**$1,238.30**	**$1,257.35**	**$1,278.39**	**$1,303.06**	**$1,328.78**	**$1,359.56**
Growth rate *		**1.54%**	**1.67%**	**1.93%**	**1.97%**	**2.32%**

*First Year is in comparison to FY 2016-17 Midcycle Adopted Budget

Expenditures

Expenditures are projected to increase faster than revenues, particularly medical and retirement costs. The Forecast assumes an average Full-Time Equivalent (FTE) count of 4,131 and does not propose any staffing level increases. Even with the assumption of a flat FTE count, increases in fringe benefit rates and California Public Employees Retirement System (CalPERS) rates result in financial challenges.

The City currently oversees one active retirement system, CalPERS, and two closed defined benefit retirement systems, Oakland Municipal Employees' Retirement System (OMERS) and Oakland Police and Fire Retirement System (PFRS). OMERS was annuitized in FY 2014-15, and therefore no longer impacts the City's finances. In FY 2017-18, the temporary relief from PFRS payments due to the issuance of 2012 Pension Obligation Bonds will end; however, it is projected that the reserves in the Pension Override Fund will cover the PFRS payments over the next five years.

Currently, the City is funding Other Post-Employment Benefits (OPEB) on a pay-as-you-go basis. Therefore, the City only pays the amount needed to cover benefits in the current year rather than the full amount required to fund the actuarial accrued liability. A trust for OPEB was established in FY 2013-14 and is currently funded through small contributions attributed to the former Redevelopment Agency through annually approved payment schedule. The City needs to annually set aside one-time funds and/or increase the ongoing amount accrued in excess of the pay-as-you-go required amount to further fund the long-term obligation. The forecast includes a recommendation of $10 million per year above the pay-as-you go amount, from the General Purpose Fund toward the OPEB obligation.

The combined risks of a possible economic contraction, escalating expenditures, and long-term liability payments will continue to pressure City finances. While efforts to reduce departmental spending have seen results, there are pressures outside the control of the City that are putting great strain on the City's finances. As a result, the City should consider an array of strategies to address its financial challenges.

Summary information on GPF and All Funds expenditures is provided in Tables 3 and 4 below.

Table 3 GPF Expenditures by Category (in millions)

Category	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Civilian Salaries & Payroll	$89.75	$92.34	$94.66	$97.18	$99.76
Civilian Fringe	$30.78	$31.60	$33.67	$35.96	$38.43
Civilian Retirement	$30.00	$37.13	$37.65	$45.66	$49.67
Police Salaries & Payroll	$105.70	$108.83	$112.93	$115.94	$119.03
Police Fringe	$30.57	$31.72	$33.85	$35.70	$37.70
Police Retirement	$32.40	$36.55	$44.06	$51.86	$56.64
Fire Salaries & Payroll	$66.84	$68.63	$70.47	$72.37	$74.31
Fire Fringe	$24.26	$24.91	$26.17	$27.51	$28.95
Fire Retirement	$24.51	$27.10	$31.59	$37.32	$40.82
O&M	$100.43	$100.44	$100.54	$101.71	$102.92
Debt, Transfers & Other	$44.75	$41.58	$41.00	$40.40	$39.78
Sub-Total	**$579.98**	**$600.83**	**$626.58**	**$661.61**	**$688.01**
Recommended OPEB Trust Payment	$10.00	$10.00	$10.00	$10.00	$10.00
Total	**$589.98**	**$610.83**	**$636.58**	**$671.61**	**$698.01**

Table 4 All Funds Expenditures by Category (in millions)

Category	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Civilian Salaries & Payroll	$254.25	$261.52	$268.28	$275.45	$282.82
Civilian Fringe	$72.88	$74.68	$79.61	$85.01	$90.86
Civilian Retirement	$70.83	$87.45	$88.72	$107.58	$117.01
Police Salaries & Payroll	$114.83	$118.42	$122.89	$126.17	$129.54
Police Fringe	$33.52	$34.82	$37.15	$39.19	$41.37
Police Retirement	$35.67	$40.26	$48.52	$57.12	$62.39
Fire Salaries & Payroll	$69.21	$71.02	$72.93	$74.88	$76.90
Fire Fringe	$24.39	$25.05	$26.31	$27.66	$29.10
Fire Retirement	$24.64	$27.24	$31.75	$37.51	$41.03
O&M	$292.22	$291.75	$295.80	$301.61	$307.60
Debt, Transfers & Other	$325.66	$323.90	$320.94	$319.83	$318.69
Sub-Total	**$1,318.09**	**$1,356.11**	**$1,392.90**	**$1,452.02**	**$1,497.30**
Recommended OPEB Trust Payment	$10.00	$10.00	$10.00	$10.00	$10.00
Total	**$1,328.09**	**$1,366.11**	**$1,402.90**	**$1,462.02**	**$1,507.30**

Forecast Results Summary

The following tables provide a summary of forecast results for the next five fiscal years for GPF and All Funds, respectively. As discussed, while there is a steady growth in revenues, the growth in expenditures outpaces the revenues resulting in projected shortfalls. It is critical to note that these shortfalls do not incorporate any proposed changes or balancing solutions that will be considered as part of the budget process. Per the Oakland City Charter and State law, **the City must and will adopt a balanced budget** by June 30, 2017.

Table 5 GPF and All Funds Shortfall

GPF	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Expenditures *	$589.98	$610.83	$636.58	$671.61	$698.01
Revenues	$559.35	$574.08	$589.81	$606.27	$627.52
Shortfall	**($30.63)**	**($36.75)**	**($46.77)**	**($65.34)**	**($70.49)**

All Funds	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Expenditures *	$1,328.09	$1,366.11	$1,402.90	$1,462.02	$1,507.30
Revenues	$1,257.35	$1,278.39	$1,303.06	$1,328.78	$1,359.56
Shortfall	**($70.74)**	**($87.72)**	**($99.84)**	**($133.24)**	**($147.74)**

*Includes recommended $10 million per year from the GPF for the OPEB Trust.

The issues the City is facing relative to long-term obligations, health care costs and retirement costs are not unique to Oakland. Cities and states around the country are dealing with these same issues. It will take long-term solutions and strategies to resolve the forecasted structural imbalance of revenues and expenditures, which will require fiscal and budgetary discipline that is focused on a limited set of clear outcome-based goals.

INTRODUCTION

Purpose & Development Process

Purpose

The purpose of the Five-Year Forecast is to help the City make informed budgetary and operational decisions by anticipating future revenues and expenditures, and highlighting anticipated fiscal risks and opportunities. The Forecast details major known and projected future fiscal conditions to support informed long-term planning and decision making regarding operational and capital improvement resources with regard to expenditures, labor negotiations, economic development policies, and revenue policies as well as prioritizing competing needs of the City's operations. On December 9, 2014, the City Council approved the Consolidated Fiscal Policy (Ordinance 13279 C.M.S as shown in ***Appendix B***), which directs the Administration to create a Five-Year Forecast biennially that projects the City's revenues and expenditures over a five-year period.

With a forecast of revenues and expenditures under known and foreseeable conditions, the City can plan strategies for providing a consistent, appropriate level of service to its residents and bring its revenues and expenditures into sustainable balance. With the Forecast, decision makers and other participants will know whether revenues and expenditures will generally be in balance in future years, or whether significant interventions are necessary to help ensure balance. Such planning provides for greater financial stability, signals a prudent approach to financial management, prioritizes appropriate service levels, and keeps the City in compliance with the current best practices of similar governmental entities.

The Consolidated Fiscal Policy requires that the Five-Year Forecast:

- Estimates the City's revenues and expenditures over a future period of at least five-years;
- Contains the two-year baseline budget for the forthcoming two-year budget period;
- Assumes continuation of expenditures necessary to maintain existing staffing and service levels, plus an estimate of anticipated revenues without balancing intervention;
- Estimates revenues on the most current data available; including projected revenue for the current fiscal year as reflected in the Second Quarter Revenue and Expenditure Report, with explanation of trends into future years;
- Considers known laws and legislation that impact the City's revenue and expenditure level; and
- Accounts for national, state and local economic conditions to the extent that it is relevant to Oakland.

Development Process

City staff, led by the City Administrator's Office – Budget Department and Revenue Management Bureau, conducted extensive data collection and analysis to produce this Forecast. Staff consulted with independent budget and economic experts to confirm the soundness of the assumptions and analysis.

Technical Methodology

The Five-Year Forecast was produced using the City of Oakland's Oracle Planning & Budgeting Cloud Service (PBCS) system. The PBCS system is maintained and monitored by the City's Controller's Bureau, Budget and Operations Unit. The PBCS system takes a snapshot of the data from the Frozen Budget Baseline; which reflects projected expenditures necessary to maintain existing staffing and service levels, plus anticipated revenues for the two-year Budget period.

The second year (FY 2018-19) of the Frozen Budget Baseline was used as the starting point for the additional three years of the forecast. In most cases, growth rates were applied based upon the account code, which are designated for different types of revenue sources (e.g. property or sales tax) and expenditure items (e.g. employee salaries and operational costs). In some cases a special manual calculation was required. This method resulted in the production of a forecast data set (in compliance with the Open Data provisions of the Consolidated Fiscal Policy). This data was exported to Microsoft Excel and analyzed to produce the various figures, tables, graphs, and charts used in this document. The full forecast data set will be published to the City's Open Data Portal (data.oaklandnet.com), in compliance with the Open Data provisions of the Consolidated Fiscal Policy.

BACKGROUND INFORMATION

General Information

The City of Oakland is located on the east side of the San Francisco Bay in the County of Alameda. Oakland is bordered by 19 miles of coastline to the west and rolling hills to the east. In between are proud and diverse neighborhoods, a progressive downtown, and superior cultural and recreational amenities. As its largest city, Oakland serves as the administrative hub for Alameda County, a regional seat for the federal government, the district location of primary state offices, and the center of commerce and international trade for the Bay Area.

According to the State Department of Finance, Oakland is the eighth largest city in the State of California, with an estimated population of 422,856 in 2016. Oakland is home to the Port of Oakland, which is the fifth busiest maritime port in the U.S. and among the top 25 in the world. Oakland International Airport has undergone a $300 million Terminal Improvement program including construction of a new concourse with seven boarding gates/waiting areas, centralized food/beverage and retail shopping areas, as well as expanded ticketing, security, and baggage claim facilities. The City continues to improve the environment for its residents and business investors. A variety of incentives are available to companies located in its Enterprise, Foreign Trade, and Recycling Market Development Zones.

Oakland is a mature city that has been able to preserve its abundant natural beauty and resources. The City has 106 parks (totaling over 2,500 acres) within its borders, as well as several recreational areas along its perimeter. Lake Merritt, the largest saltwater lake within a U.S. city, borders the downtown area. Its shoreline is a favorite retreat for joggers, office workers and picnickers. Lake Merritt is the oldest officially declared wildlife sanctuary in the United States, dating back to 1870.

In concert with ongoing economic development efforts, the City strives to maintain a balance between old and new structures. Historic structures continue to be renovated, preserved and revitalized, while new buildings are constructed. Major corporate headquarters include Clorox and Kaiser Permanente, which are in close proximity to many new businesses and various small retail shops that have sprung up in the downtown area. In addition, large tech firms like Pandora, Sungevity and Uber have moved to Oakland and are expected to drive growth around downtown over the coming years.

Form of Government

The City of Oakland was chartered as a city in 1852. It was a Council-City Manager form of government until 1998. In 1998, the citizens of Oakland passed Measure X changing the government structure to a Mayor-Council form of government through a City Charter amendment. The Mayor-Council form of government remains in place. The Mayor is elected at-large for a four-year term, and can be re-elected only once. The Mayor is not a member of the

City Council; however, he or she has the right to vote only if the Council members are evenly divided for decisions requiring simple majority passage.

The City Council is the legislative body of the City and is comprised of eight Council members. One Council member is elected "at large," while the other seven Council members represent specific districts. All Council members are elected to serve four-year terms. The Council members elect one member as President of the Council and one member to serve as Vice Mayor every two years.

The City Administrator is appointed by the Mayor and is subject to confirmation by the City Council. The City Administrator is responsible for the day-to-day operations of the City.

For duties and responsibilities of the elected and appointed officials, visit the City's website via the following link: http://www2.oaklandnet.com/Government/CityGovernment101/index.htm.

The City Of Oakland's Role in Service Provision

The City of Oakland is one of many government entities serving the residents of Oakland, California. The City is a key provider of important government services to residents; however, it is not the only provider. Understanding which services are provided by the City, and which are provided by other entities is helpful before engaging in a more in-depth analysis of City services and fiscal position.

Services Provided to Residents of Oakland by Service Provider

The following tables summarize the services provided by various government entities serving the residents of Oakland, California. In some cases, services are provided collaboratively by multiple government agencies; in those instances, the primary service provider is listed.

Table 6 - Oakland Service Providers & Services

The City of Oakland	Alameda County
Police Protection	Courts of Law
Fire Suppression	Jails & Juvenile Hall
Recreation Programs	Corner & Medical Examiner
Oakland Public Libraries	Probation
Violence Prevention Services	Registrar of Voters
Planning & Building	Property Tax Assessment & Collection
Economic Development	Public Defender
Head Start	District Attorney
Senior Centers & Services	MediCal (Medicaid)
KTOP (local government cable channel)	CalFresh (Food Stamps)
Housing Development & Referral Services	CalWORKs (TANF)
Rent Arbitration	Health Programs
Emergency Medical Response	Public Health Services
Children & Youth Services	Child Support & Protection

Parking Management
Sewers & Storm Drains
Transportation Planning
Street & Sidewalk Maintenance (local)
Parks, Trees, & Public Spaces
Street Lights & Traffic Signals
Recycling and Solid Waste
Workforce & Job Training

Mental Health Services
Emergency Medical Transport (Ambulance)

The Oakland Unified School District
Public Elementary, Middle, and High Schools
Adult Education
Charter Schools

The Peralta Community Colleges
Laney & Merritt Community Colleges

East Bay Municipal Utilities District (EBMUD)
Provision of Drinking Water
Treatment of Wastewater
Public Open Spaces near reservoirs

East Bay Regional Park District
Operations of Regional Parks

Alameda-Contra Costa Transit District (AC Transit)
Bus Transportation

Bay Area Rapid Transit District (BART)
Commuter Rail

The Port of Oakland
Oakland International Airport
Oakland Seaport

Economic and Demographic Profile of the City Of Oakland

Economic Profile

Oakland has diversified its economic base significantly in the past few decades. The economy offers a healthy mix of trade, government, financial, medical, information technology, publishing and service-oriented occupations. Industries with the largest growth in jobs in the last two years include professional and business services, education and healthcare, leisure and hospitality, information and communications technology, and traditional and specialty food production.

Oakland offers abundant resources to its businesses and residents: converging transportation services, a vibrant dining and entertainment scene, and utility facilities that keep the City running smoothly. Several new office and mixed-use buildings, public facilities, renovated hotels and convention facilities, park enhancements, and outdoor art installations create a cosmopolitan environment in the downtown area. Waterfront restaurants and shops at Jack London Square, as well as the burgeoning Old Oakland and Uptown districts provide lively nighttime attractions. The City's neighborhood retail areas continue to grow, as evidenced by Oakland's ten Business Improvement Districts and Community Benefit Districts. Manufacturing remains an important segment of the City's economy, and with the recent voter approval of Proposition 64, the City is positioned to be a key hub for the medicinal and recreational cannabis industry.

Located within one of the nation's largest metropolitan areas, California's eighth most populous city is the economic heart of the East Bay and is the geographic center of the Bay Area. Downtown Oakland offers competitive office space and amenities for both traditional and emerging enterprises. The freeways, mass transit systems and ferry service make getting to and from downtown Oakland a relatively quick and easy process—travel times to San Francisco, San Jose and other Bay Area cities are surprisingly short. Oakland has been recognized as a vital transportation hub for more than 100 years. Oakland is also the headquarters of the Alameda-Contra Costa Transit District (AC Transit), and the Bay Area Rapid Transit (BART) system. Oakland has the infrastructure and economic base to support and attract a diverse mix of advanced industries and value-oriented retail. Three major projects are either underway, funded or in planning. These include:

The Oakland Army Base Project: The City and Port of Oakland are leveraging significant public and private investment by transforming approximately 300 acres of the former Oakland Army Base into a modern logistics center. Planned to shift traffic from trucks to trains on site, thereby reducing truck trips through cities within Alameda County to the Central Valley, the project will help improve the City's air quality, roadway safety, and will create a significant number of direct and indirect job opportunities. In 2016, The Alameda Transportation Commission approved a $41 million dollar grant for the construction of public roadway improvements at the former Oakland Army Base. In addition, Prologis, a global industrial real estate development and logistics firm, started construction on the first of three state of the art logistics facilities to be developed at the former Oakland Army Base.

The Brooklyn Basin Project: Brooklyn Basin will transform 65 acres of waterfront property along the Oakland Estuary with 3,100 residential units and approximately 200,000 square feet of retail and commercial space, which is scheduled to be completed in phases with the first 400 units entering the market in 2018, 300 units in 2019, and the balance completed between 2020 and 2030. The project also includes 465 units of affordable housing. The first project, the 241-unit Brooklyn Basin Terraces Apartments, was approved and broke ground in the fall of 2016.

The Coliseum City Project: Coliseum City is the largest transit-oriented development project in California and will transform an entire area of East Oakland, creating thousands of new jobs and a regional destination. While the Coliseum Specific Plan was completed in 2015, this project is still in a very preliminary stage, and therefore there is no scheduled completion date at the time. Certain aspects of the project are also contingent upon the long-term location plans of both the Oakland Athletics and Oakland Raiders sports teams.

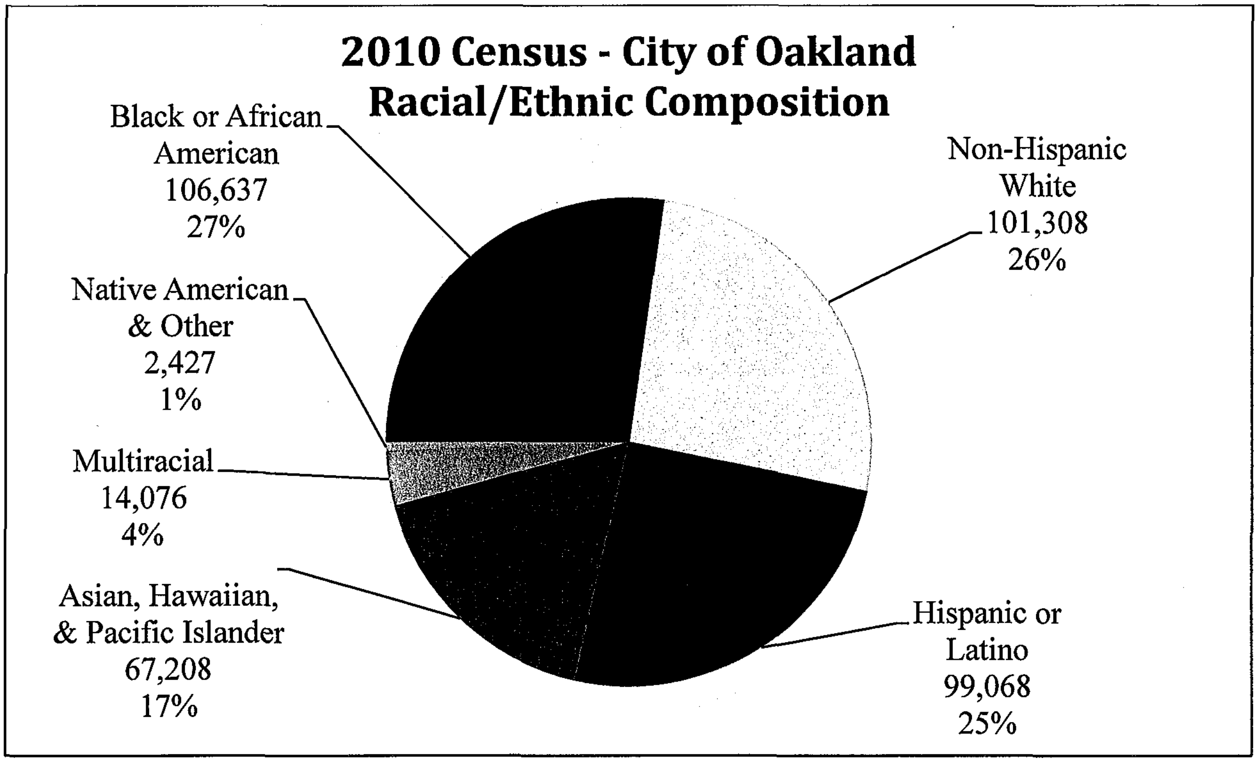
This recent economic growth has come at a price to some of Oakland's longtime residents. Oakland is now the fifth most expensive rental market in the United States, according to a report released at the end of last year by real estate website, Zumper. By the end of 2015, median rents for a one bedroom home increased 19% over 2015 to $2,190 per month, while two bedroom homes increased 13.3% to $2,550 per month or $30,600 per year. Renters, who comprise 59 percent of Oakland households, have a median income of $34,195.

Demographic Profile

According to the California Department of Finance, Oakland was ranked the eighth largest city in the State of California in 2016, with an estimated population of 422,856 residing within approximately 55 square miles. According to the 2010 United States Census, the City's population was 390,724 persons at a density of roughly 7,000 people per square mile. This growth is due to the recovery and resurgence of the local economy, as well as Oakland's growing popularity as a bay area housing and real estate destination.

The racial makeup of Oakland in 2010 was roughly 27.0% African American, 26%, Non-Hispanic White, 25% Hispanic or Latino (of any race), 17% Asian & Pacific Islander, 4% Multiracial and 1% Native American & Other (see figure below):

Figure 3 - 2010 Oakland Census Racial/Ethnic Composition



Per the 2010 United States Census, 21% of the City's population is below the age of 18, and 11% is over the age of 65. In 2000 the United States Census estimated that 25% of the City's population was below the age of 18 and 11% was over the age of 65.

Table 7 - Oakland Population by Age

City of Oakland Population by Age				
Age Range	2000 Census		2010 Census	
	Count	%	Count	%
0 to 4 Years	28,292	7%	26,099	7%
5 to 17 Years	71,467	18%	57,021	14%
18 to 64 Years	257,937	65%	264,045	68%
65+ Years	41,788	10%	43,559	11%
Total	**399,484**	**100%**	**390,724**	**100%**

In 2010 25% of households were families with children, as compared to 29% in 2000. In 2010 roughly 59% of housing units were occupied by renters, essentially unchanged from the 2000 estimate.

Principles of Government Finance

The following section is intended to familiarize the reader with terms, concepts, and documents important in government finance and budgeting. Knowledge of these items will provide the reader a better understanding of this Forecast and other similar documents produced by the City.

Budgets & Fiscal Years

Budgets are plans for how organizations intend to use projected resources (revenues) on payments to perform operations or provide services (expenditures), over a defined period. Budgets are prospective planning tools and must be balanced between revenues and expenditures within the defined time period. The City of Oakland has received the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) for its biennial budgets for the past 20 consecutive fiscal years.

The key period of time for the City of Oakland's Budget (and other Financial Reports) is the Fiscal Year (FY). The City's Fiscal Year begins on the 1st of July and ends on the 30th of June of the following year. Fiscal Years are generally expressed as follows: the Fiscal Year which began July 1, 2016 and will end June 30, 2017 is FY 2016-2017. This same fiscal year can also be expressed as FY 2016-17, FY16-17, or FY17 (This document uses multiple formats depending on context and space requirements). Fiscal Years can be divided into quarters or monthly periods. For instance, the Second Quarter of FY 2016-17 will end on December 31, 2016; this would commonly be expressed as Q2 FY 2016-17 or Q2-17. The 9th Period or Month of FY 2016-17 will end on March 31, 2017; this would commonly be expressed as Q3 FY 2016-17 or Q3-17.

It is important to note that grants awarded to the City may or may not synchronize with the City's fiscal year, and often are based on the granting agency's fiscal period or other predetermined period as determined by the grant agreement.

The City of Oakland adopts a biennial (two-year) balanced budget by June 30th of the preceding fiscal year. For instance, the City of Oakland will adopt the FY 2017-19 Biennial Budget by June 30, 2017.

Operating Budget vs. Capital Improvement Program

In general, the City issues two types of budgets. The first and more commonly known is the Operating Budget. This Budget includes projected revenues and expenditures for the provision of most City operations and services. For instance, the operating budget includes revenues from general taxes as well as expenditures on police services, fire & emergency medical services, youth & recreation programs, library services, minor repairs, etc. The second budget is the Capital Improvement Program (CIP), which presents planned expenditures on projects to improve discrete elements of the City's infrastructure, buildings, and environment, as well as major purchases such as land, buildings and equipment. For example, the CIP includes water quality projects around Lake Merritt, complete repaving of streets and roads, construction of sewer infrastructure, and construction or renovation of City buildings.

The Proposed and Adopted CIP is also summarized in the Operating Budget in accordance with best practices. Because All CIP projects are by definition one-time in nature and require new appropriations each two-years, the Baseline Budget does not included CIP Projects.

There are other special budgets such as the Oakland Redevelopment Successor Agency, which is a separate legal entity of the City responsible for the wind down and completion of the activities of the former Oakland Redevelopment Agency.

Financial Reports & Actuals

"Actuals" are recorded revenues and expenditures that have occurred over a defined period. While budgetary values are projected prior to the close of a fiscal period, actuals are recorded after the fact. A financial report is a statement of actuals and accruals. Actuals can be divided into two categories: unaudited and audited. Unaudited actuals include those reported in the City's quarterly Revenue & Expenditure (R&E) Reports. They are distinguished from audited actuals in that they have not been evaluated by an independent financial auditor. The City has an independent financial audit conducted following the close of each fiscal year to provide an independent opinion of whether the City's financial statements are stated in accordance with General Accepted Accounting Principles (GAAP). The audited actuals are presented in the Comprehensive Annual Financial Report (CAFR).

Revenues

Revenues can be generally understood as the sources of income for the City and divided into several categories or Fund Types (See Funds and Transfers Section for details). Tax revenues are

largely unrestricted and are attributed to the General Purpose Fund. Grant revenues are restricted by the grant agreement and often require matching contributions from other sources. Special revenues include voter-approved measures and are restricted for a specific purpose. Revenue from fines and penalties are largely unrestricted and result from enforcement activities. Based on best practices and Council policy, one-time revenues (e.g. land sales) should not be used to support ongoing expenditures. Fee and Service Charge revenues support many City functions. The rate charged for fees and service charges is regulated by state law (specifically Proposition 26). Generally, fees may not exceed the cost of providing a service (with a few exceptions). Fees are listed in the City's Master Fee Schedule, which is approved annually through a City Ordinance, but can be modified at any time with City Council's approval. The current Master Fee Schedule can be found at the following link:
http://www2.oaklandnet.com/oakca1/groups/cityadministrator/documents/report/oak048945.pdf. Revenues are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories, such as Property Tax, Fines & Penalties, or Service Charges.

Expenditures

Expenditures can be generally understood as the usage of resources by the City. There are two key categories of expenditures: personnel expenditures and operations & maintenance (O&M) expenditures. Personnel expenditures are used to pay for City employees to perform various functions and provide services to the public. They are expended via the City's payroll and benefits systems and include salaries, overtime, premiums, retirement, and healthcare costs. O&M expenditures are used to pay for anything other than City employees and are expended through the contracting, purchasing, and payables systems. O&M expenditures include contracts for services, supplies and materials, utilities, equipment purchases and debt payments. Expenditures are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories that include salaries, retirement, debt payments, or capital expenditures, among others.

Assets & Liabilities

Assets are tangible and intangible items that hold value and include City cash, investments, buildings, land and equipment. Assets can be divided into two types: current and long-term/fixed assets. Current assets include cash, receivables, and short-term investments. Long-term and fixed assets include things such as long-term investments, property, plant, and equipment that have value, but cannot be quickly converted into cash.

Liabilities are amounts that the City is obligated to pay based upon prior events or transactions. For example, if the City owes money resulting from borrowing or issuing debt (e.g. bonds), those would be considered liabilities. Liabilities can also be divided into two types: current liabilities and long-term liabilities. Current liabilities are those that the City expects to pay within a one year. This includes wages paid to active employees for hours worked, or bills for utilities. Long-term liabilities are obligations that the City would pay out over time, such as pensions, retiree medical obligation, and long-term debt service.

Unfunded Actuarial Accrued Liability (UAAL), or Unfunded Liability, is often mentioned in conjunction with government finances. UAAL is defined by the State Actuarial Standards Board as "the excess of the actuarial accrued liability over the actuarial value of assets". Simply put, it is the amount that an entity is projected to owe that is not covered by projected future payments under a specific payment methodology, or by assets currently held by the entity.

Funds & Transfers

Funds are groups of revenues and expenditures that must be individually balanced. The City's Budget contains 112 funds, the largest of which is the General Purpose Fund (GPF). Other Funds normally have restrictions on the types of activities they support. These restrictions could be established by local ordinance, the City Charter, State law, or grant agreements. The General Purpose Fund is unrestricted in its use. The Five-Year Forecast will often summarize information by General Purpose Fund and All Funds.

In certain cases, monies may be transferred between City funds. For instance, 3% of the City's annual unrestricted GPF revenues are required to be transferred between the GPF and the Kids First! Fund to meet the requirements of the 2009 Kids First! ballot measure (Measure D). When a transfer occurs between funds the "sending" fund (where the transfer comes from) records an expenditure and the "receiving" fund (where the transfer goes to) records revenue. This is to ensure that the overall budget remains balanced.

Department & Organizational Structures

The City of Oakland is organized into various departments as defined in Oakland Municipal Code 2.29. These departments are responsible for delivering the various external and internal services of the City. Departments are generally established by City Ordinance approved by the City Council. A few Departments were established by the City Charter itself and generally include the name "Office" in the title; these include The Mayor's Office, the City Attorney's Office, and the City Administrator's Office.

In both the budget and financial forecast documents, there are also two quasi-departments within the City, namely the Capital Improvement Program and the Non-Departmental group. These two groups are distinguished from traditional Departments in that they do not have operational staff attributed to them. These groups are used to record various inter-departmental projects and citywide costs, such as debt service, legally required fund transfers, or major infrastructure projects.

Overhead Rates

Overhead rates are used to recover costs of certain administrative functions like accounting, cash management, and information technology, which can be difficult to allocate to specific funds or projects. Overhead charges are budgeted and recorded as positive expenditures in one fund while overhead recoveries are budged and recorded as a negative expenditure in the Fund supporting the relevant administrative function.

For example, the Oakland Public Works (OPW) Department has a centralized fiscal and human resources staff. Rather than splitting each of these staff across many funds, these expenditures are budgeted and recorded to a departmental overhead fund (Fund 7760). Overhead costs are then budgeted and recorded in the funds that received support from OPW fiscal and human resources based on the payroll of those funds and a calculated overhead rate. Overhead recoveries are then budgeted and recorded in Fund 7760 to offset the costs of OPW fiscal and human resources staff. Thus, when viewed at a fund level, 7760 has net zero expenditures. The expenditures recorded there are offset by overhead recoveries. Other OPW funds have an overhead charge that reflects the use of central OPW services. The City utilizes an outside actuarial consultant to review rates and methodologies for its overhead rates.

Internal Service Funds

Internal Service Funds (ISF) charge departments for services based upon a formula to allow for centralized support functions. Similar to transfers, ISFs operate by recording an expenditure in the fund for which the operations are performed, and recording revenue in the relevant Internal Service Fund. For example, the Oakland Police Department (OPD) requires vehicles to operate; however, the maintenance of OPD vehicles (along with vehicles used by the Oakland Fire Department and other City departments) is provided centrally by OPW. To reflect these costs, an internal service charge expense account is budgeted and charged to OPD in an appropriate fund (in this case, the General Purpose Fund). This expense is then offset by an internal service revenue account in the Equipment Fund (4100). This revenue then pays for the expenses to maintain a vehicle (e.g. mechanics, fuel, parts) within Fund 4100. Each Internal Service Fund apportions costs across departments and funds by a different methodology driven by its nature.

Budget Balancing, Surplus, Projected Surplus, Deficit, & Projected Shortfall

The term 'balanced' refers to a budget or forecast document where all projected revenues are equal to all projected expenditures; if they are not equal then there is an imbalance. If projected revenues exceed projected expenditures, then the budget or forecast is said to have a projected surplus. If expenditures exceed revenues, then there is a projected shortfall. By policy, the City must adopt a balanced budget.

A structural imbalance occurs when there is a difference between ongoing revenues and expenditures. A budget that uses one-time revenue to pay for ongoing expenditures may be balanced over the fiscal period, but suffers from a structural imbalance; in this case a structural shortfall. By contrast if ongoing revenues exceed ongoing expenditures, a budget may have a structural surplus.

Deficit is an actual status of financial health in which expenditures exceed revenues, whereas budget shortfall means that projected spending is greater than projected revenues. The terms 'surplus' and 'deficit' refer to the relative balance of actual expenditures and revenues. A deficit occurs when actual expenditures exceed actual revenues over a fiscal period. By contrast a surplus occurs when actual revenues exceed actual expenditures.

Fund Balances & Reserves

At the end of each fiscal year, each fund's revenue collections are compared against incurred expenditures. If there were revenues in excess of expenditures, a surplus occurs, which is added to that fund's "fund balance." Alternatively, if there were greater expenditures than revenues, then that difference is reduced from the fund balance. A negative fund balance occurs when cumulative fund expenditures exceed cumulative fund revenues. By contrast a positive fund balance exists when cumulative revenues exceed the expenditures.

If a positive fund balance is restricted or earmarked in its usage, it is often termed as 'reserved'. For instance, the General Purpose Fund has a 7.5% emergency reserve for unanticipated and insurmountable events. Therefore, the City Council may direct funds from the positive fund balance to support the emergency reserve. Other funds may have a positive fund balance to support future anticipated expenditure needs such as equipment replacements, or future costs associated with a multi-year project.

REVENUES

This section covers the brief historical trends and revenue data of major revenue categories. This section provides a detailed description and analysis of major revenue categories, which include Property Tax, Sales and Use Tax, Business License Tax, Real Estate Transfer Tax (RETT), Transient Occupancy Tax (TOT) and Parking Tax. Relevant State regulations such as Proposition 13 (Property Tax Rate Cap), Proposition 8 (Property Tax Reassessments), Proposition 218 (Property Owner Approval of Tax Assessments) and Proposition 26 (Supermajority Vote to Pass New Taxes and Fees) will also be introduced in the context of revenue projections. Assumptions of projections will be presented, followed by projections and summary by revenue categories, amount and growth rates. The General Purpose Fund and All Funds will be separated and summarized.

Citywide revenues are projected using dynamic forecasting, which anticipates changes in revenues benefited by the general economic climate and triggered by new economic development, economic growth, changes in fee structures compared to levels of service (in the case of Master Fee Schedule, changes are approved by the City Council), changes in governmental policies at the state or federal level, and various economic and demographic changes. The purpose of this dynamic forecast is to demonstrate the potential impact of various events and actions on the selected revenue sources. Under this scenario:

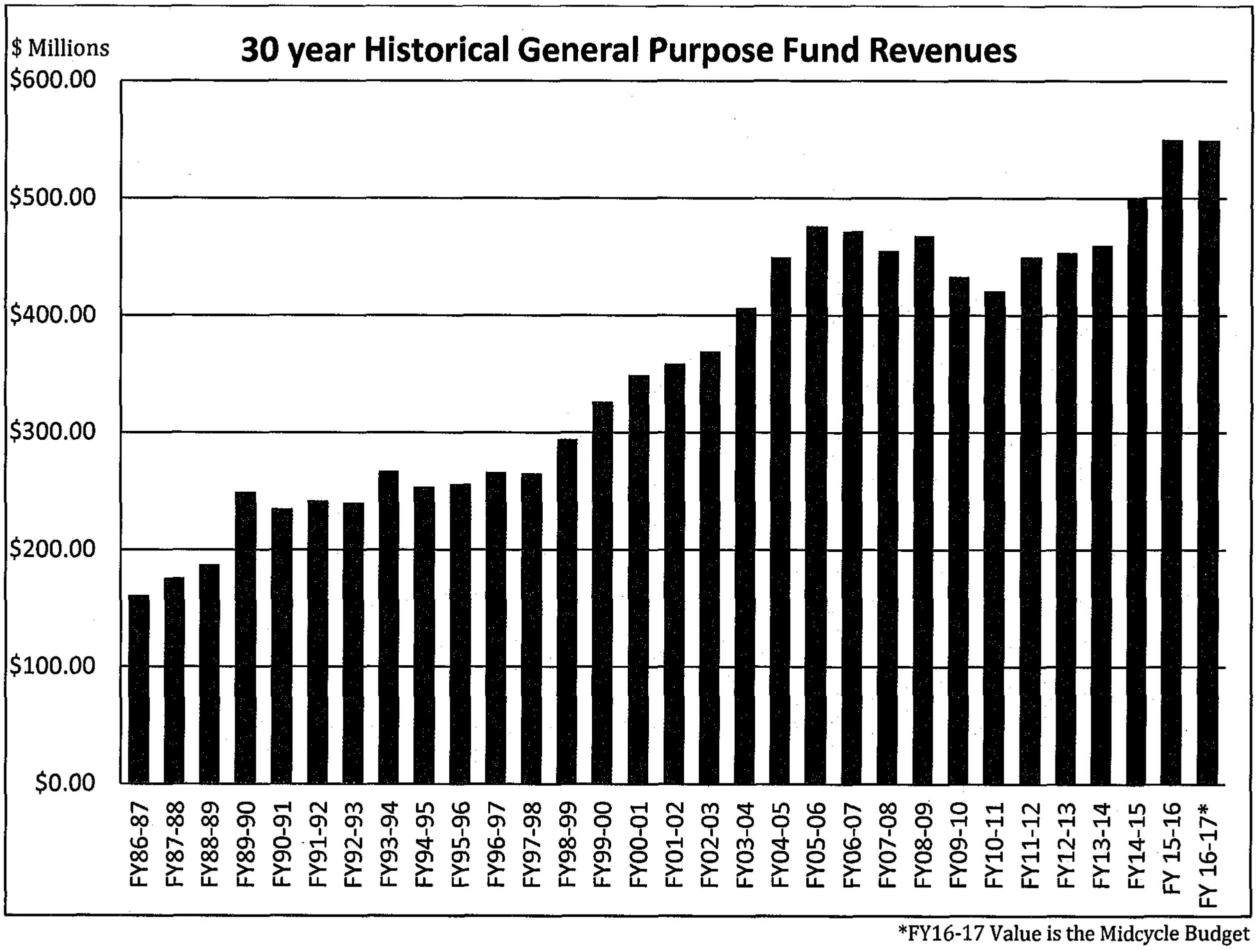
Tax Revenues are projected to grow at rates that are responsive to dynamic forces in the economy. Generally, the assumption is the local economy will be affected by national and state trends, with some deviation expected due to specific characteristics of regional business and labor markets as well as local regulations.

Fee increases will likely follow projected inflation rates and changes in the local population, which may increase service costs and change service demand.

Any known or anticipated changes in revenues as a result of potential changes in state and federal revenue streams and/or legislation are reflected in the analysis. For instance, the forecast provides summary and analysis of recent executive orders from the Trump Administration, as well as any fiscal impact that may result from their implementation. In addition, the revenue forecast takes into consideration a number of local and regional *economic factors and trends*, including changes in economic growth, income, sales and Consumer Price Index.

The Figure 4 depicts the historical General Purpose Fund (GPF) actual revenues since FY 1986-87 (30 years). Historical data shows that between FY 2000-01 and FY 2015-16 (15 years), GPF actual revenues have grown on average by3.46% per fiscal year.

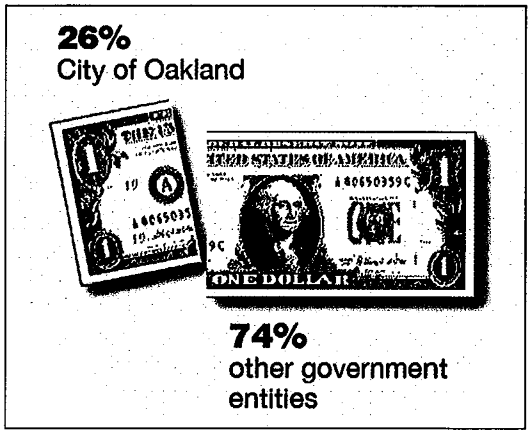
Figure 4 - Historical GPF Revenues



Each of the City's major GPF revenue categories will be discussed using past collections to provide historical context.

Property Tax

Property tax is the largest single source of revenue for the General Purpose Fund, and represents over one third of all General Purpose Fund Revenues. The property tax is *ad valorem*, which means that the tax paid on a property is proportional to the property's value. There are exemptions to certain portions of property values and certain types of properties that are regulated by the State and administered by the County. The exemption that has had the most significant impact to property tax is Proposition 13. Passed in 1978, Proposition 13 introduced two significant changes: 1) the annual tax owed is a maximum of 1% of a property's assessed value and 2) the assessed value can only increase a maximum 2% each year unless ownership changes, in which case the prevailing market value assessment is used as the basis for taxation (see the California Legal Revenue Limits section for additional detail).



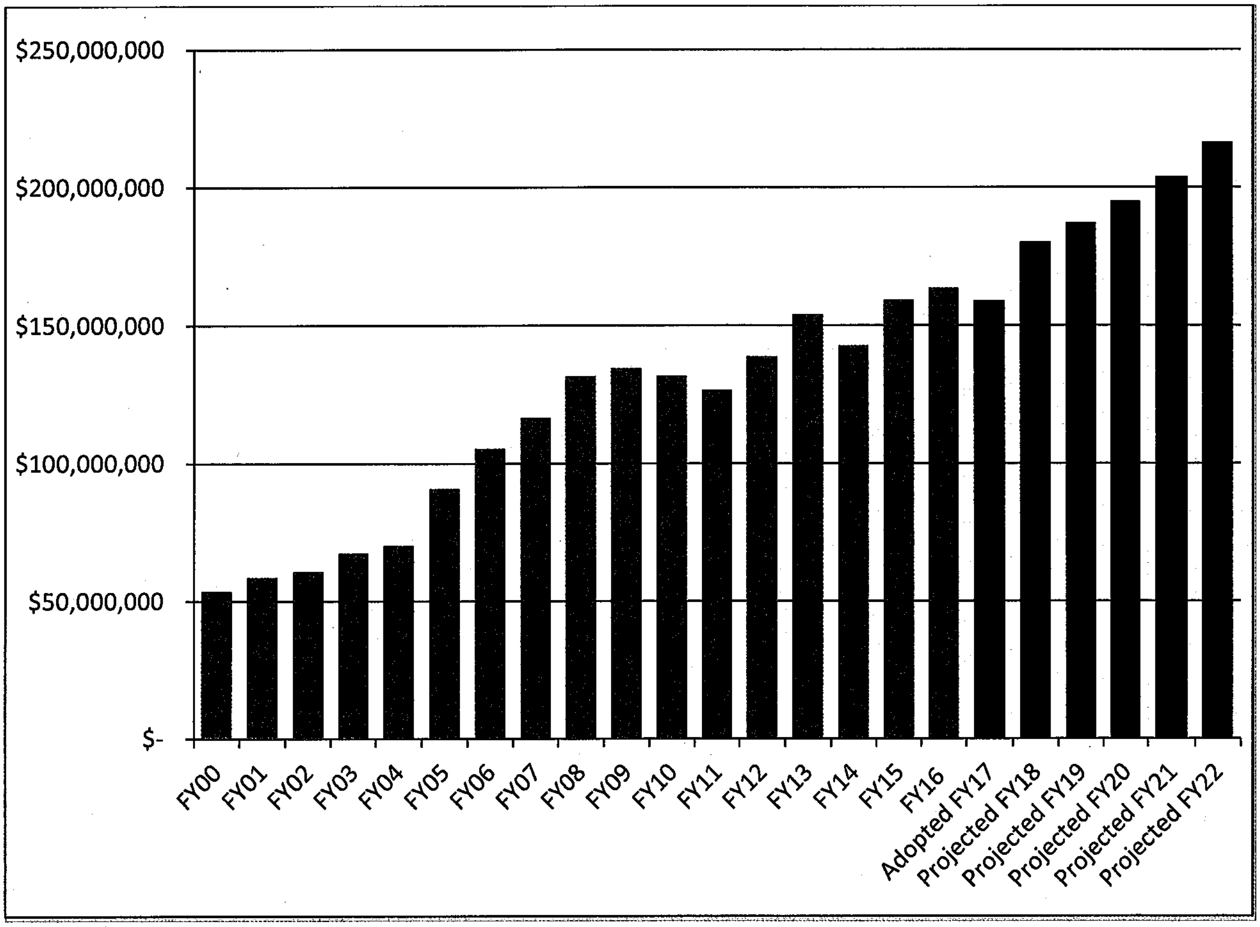
The one percent of property tax assessed value (net after any exemption) is collected by the County and is distributed to various public entities in accordance with a complex formula. The County's computation results in the City receiving approximately 26% of total collections.

Over the last 16 years, property tax revenue has grown on average, year-over-year, at a steady pace of 7.6%. The growth for that period was accelerated by a rapid run-up of housing demand, new construction, and developments that began in FY 2004-05. The rise in FY 2004-05 property tax revenues was also due to a Vehicle License Fee (VLF) "backfill" payment from the State (the difference between the old VLF of 2.0% and new fee of 0.65%) in the form of property tax revenue. The value of rising property tax, which increased more quickly than VLF revenues, brought Oakland additional revenues. Furthermore, starting in FY 2011-12 with the dissolution of the Redevelopment Agency, unallocated property tax increment is flowing back to the City in the form of additional property tax revenues.

Beginning in FY 2004-05, property assessments rose quickly, propelled by high volume of home sales and rising home prices. Driven by economic growth and aggressive lending practices, the housing market accelerated and finally peaked in 2007, when the median single-family home price reached $580,000. After this peak, housing demand and prices declined due to an economic downturn, lack of affordability, loss of jobs, tightened credit, and increased foreclosures. At the start of the Great Recession, the median house price fell from $580,000 in 2007 to $315,000 in 2008. Housing prices further fell to $192,000 in 2009 and the local real estate market bottomed out in FY 2010-11.

Starting in FY 2011-12, the City began to see a rebound in housing prices. Currently the median single-family home price is around $656,000. Figure 3 below shows property tax revenue since 2000 with a five-year projection. Of note, since 2012, the City receives a portion of the residual property tax trust fund (RPTTF) as the result of the dissolution of the Redevelopment Agency, which is regulated by state law. The RPTTF is the portion of property tax increment that would have gone to redevelopment agencies if they had not been dissolved, less the funding required to wind-down the obligations of that redevelopment agency. Of particular note is FY 2012-13, when the City realized a one-time spike in RPTTF resulting from the distribution of all unobligated tax increment revenue held in reserve by the former Redevelopment Agency. Please note that the RPTTF should not be viewed as the growth of property tax, but rather as a shift of local resources after losing redevelopment agency funding.

Figure 5 - GPF Property Tax Revenues Over Time

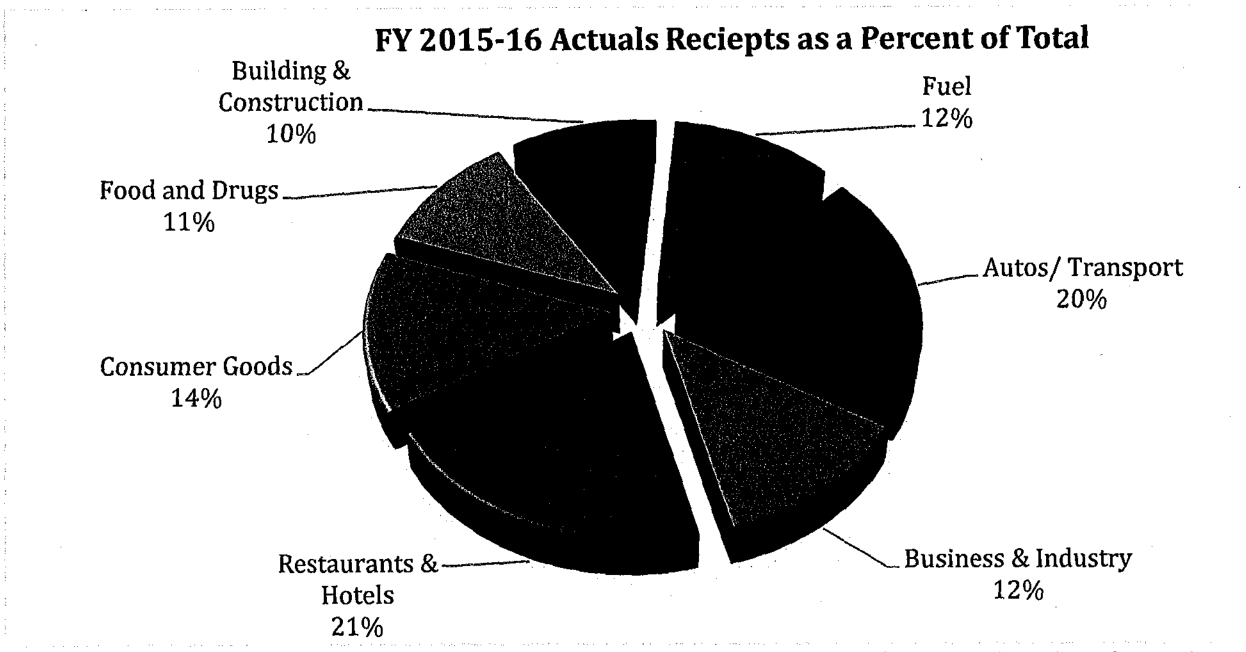


Sales & Use Tax

Sales and Use Tax applies to the retail sale or use of "tangible personal property." The total sales tax percentage in the City of Oakland is 9.25% meaning on a $1 taxable purchase, the sales tax paid is 9.25 cents. The City receives 1% of the total sales, meaning the City receives 1 cent on a $1 purchase. The remaining 8.25% is allocated to the state and local taxing districts. Sales tax revenue generally coincides with overall strength of the local, regional, and national economy. Sales Tax revenues have recovered after significantly declining during the Great Recession.

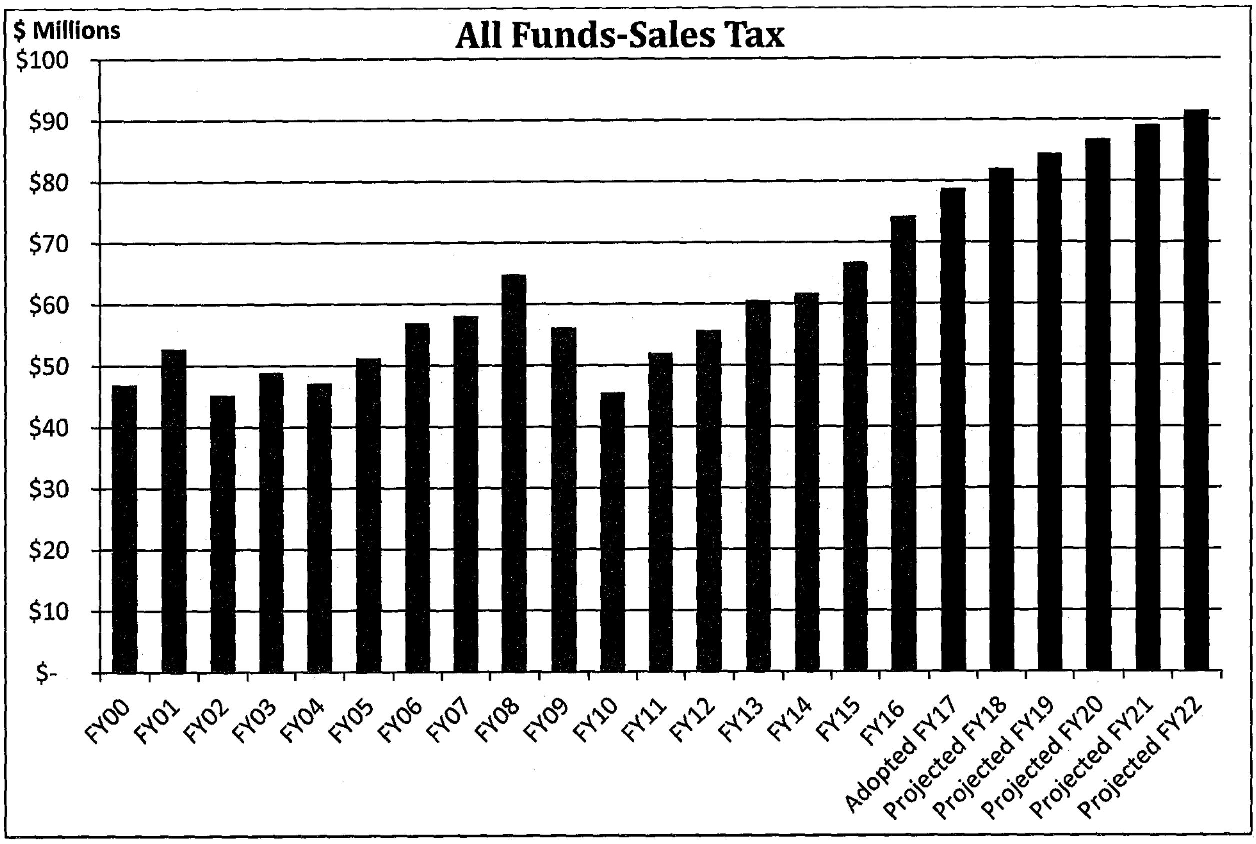
One of the strengths of the Oakland Sales Tax base is its diversity, derived from seven major business groups, namely: auto and transportation, restaurants and hotels, fuel and service stations, business and industry, general consumer goods, building and construction, and food and drugs. No single group accounts for more than 21% of the total. The chart below shows the share of revenue generated in each category:

Figure 6 - Sales Tax by Category



The chart below shows the historical All Fund actual sales revenue since 2000 and projects the next five years of sales tax revenue.

Figure 7 - All Funds Sales Tax Over Time

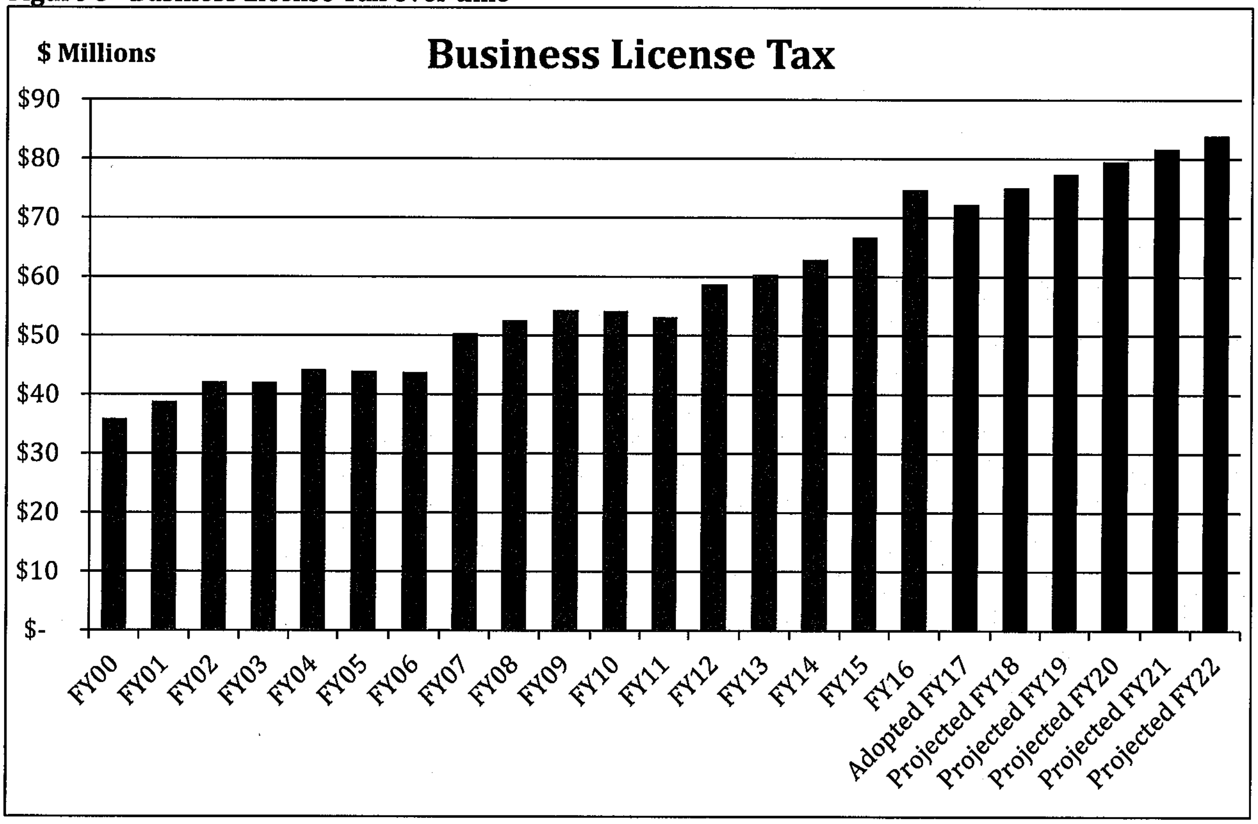


Business License Tax

The Business License Tax (BLT) is charged annually to Oakland businesses based either on gross receipts (accounts for approximately 60% of business license tax revenue) or rental income (40% of revenue). The rate on gross receipts varies by type of business, ranging currently from a low of sixty cents per $1,000 of receipts for grocers to six dollars per $1,000 of receipts for public utilities. The rate on rental income is $13.95 per $1,000.

BLT has been a relatively steady and reliable revenue source for the City, as shown in next chart. However, BLT is impacted by the health of the economy. Recessions slow down business activities, which in turn slow the number of businesses paying business license taxes and reduces gross receipts. Recovery of the local economy and the implementation of a new business discovery program are expected to help increase revenues in future years. As a result of state legislation (AB63 – Tax Discovery Program), the California State Franchise Tax Board (FTB) is now authorized to disclose certain records related to business activities of residents, corporations, and other entities within the City of Oakland. By matching the FTB data to existing records the City now has an additional, effective tool to identify unregistered businesses within the City of Oakland . In FY 2015-16, the City conducted a non-compliant rental property audit project. Staff licensed and brought into compliance approximately 4,900 unregistered landlords. The project generated invoices of $8.25 million of which $2 million is anticipated to be on-going revenues.

Figure 8 - Business License Tax over time

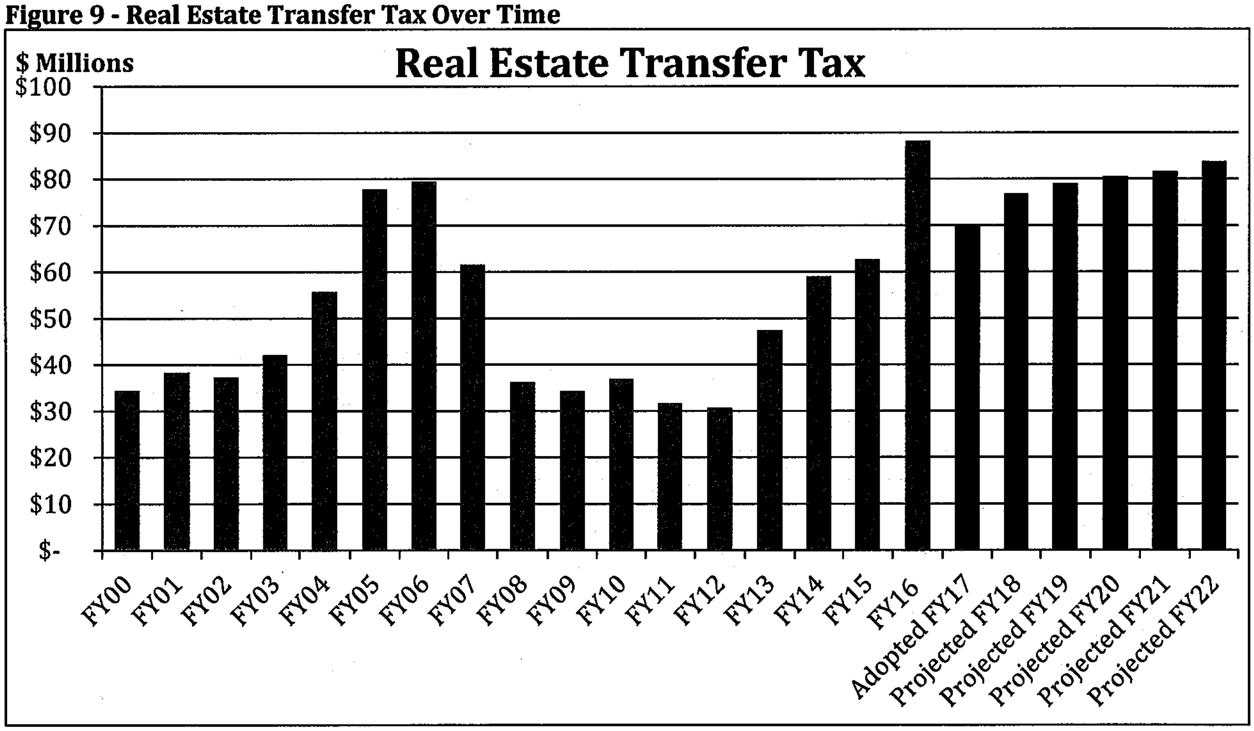


Real Estate Transfer Tax

The Real Estate Transfer Tax (RETT) rate on residential and commercial sales is 1.61% of the value of each real estate transaction. Oakland's share is 1.5%; with Alameda County receiving the remaining 0.11%. The tax is triggered by the transfer of property ownership and both the buyer and seller are responsible for ensuring the tax is paid.

Through 2006, RETT revenue was one of the fastest growing major revenue categories, following significant real estate market growth and a high transaction rate. As the real estate market slowed in 2007, sales volume significantly declined, and home prices decreased. This resulted from the economic downturn, rising new and existing home inventories, and escalating home foreclosures due to falling home prices, and a growing number of adjustable rate mortgages and subprime loan defaults. Additionally, new and more stringent lending standards, plus reluctance on the part of lenders, applied further downward pressure on the housing market. As demand for ownership housing and sales transactions plummeted, RETT revenue took a major hit during the Great Recession. As mentioned in the property tax section of this Forecast, in FY 2012-13 the local housing market began to experience a substantial recovery in the average sale price of homes. These price increases have resulted in strong increases in RETT revenues. By the volatile nature of this tax, RETT is not considered a consistent, recurring revenue stream. When certain high value commercial properties are sold, they can result in anomalously high revenue. In FY 2015-16, the City experienced approximately $21.65 million of RETT revenue derived from the sale of eight major commercial properties. These very large transactions cannot be assumed every year, nor can they be easily predicted due to the complexity and classified nature of some real estate transactions.

Figure 9 - Real Estate Transfer Tax Over Time

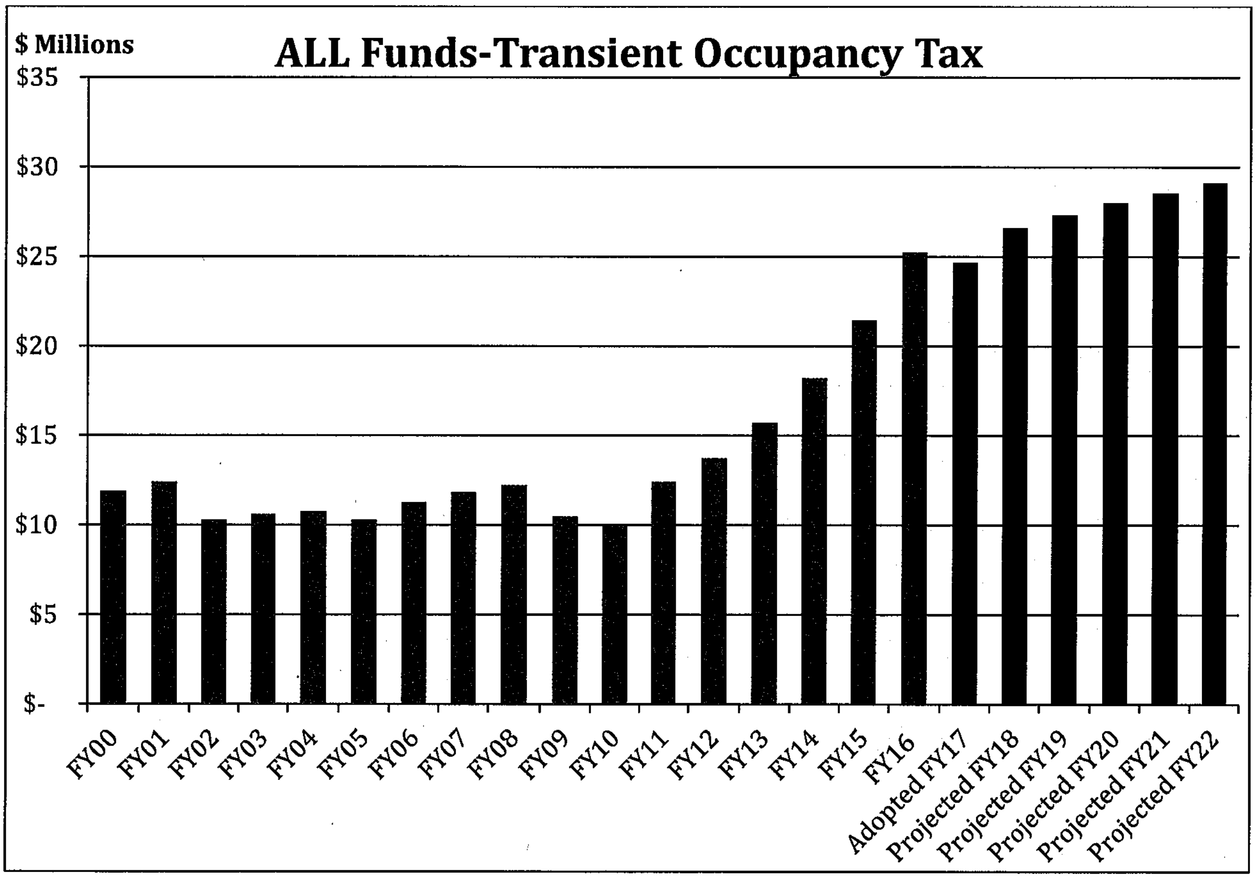


Transient Occupancy Tax (TOT)

The Transient Occupancy Tax (TOT) rate is 14% of the hotel rate and is paid by individuals who stay thirty days or less in a hotel located within the City of Oakland. This tax is collected and remitted by hotel operators. The rate was increased from 11% to 14% in FY 2008-09 due to the voter-approved Measure C tax surcharge. Measure C allocates 3% of total TOT revenue to support various community-based institutions such as the Oakland Zoo, Oakland Convention and Visitors Bureau, Chabot Space and Science Center, Oakland Museum, and cultural art and festival activities. The Measure C portion (3%) is booked in a separate fund.

TOT revenue declined by 17% between FY 2008-09 and FY 2009-10 due to the Great Recession's adverse effects on tourism and travel. This type of decline is consistent with prior periods of economic recession. For example, following the September 11th, 2001 terrorist attacks and subsequent economic slowdown, TOT revenues declined sharply and remained flat for the next four years. In FY 2005-06, TOT rebounded by 9.7%, and continued positive growth two years afterward, culminating in a near-record high of $12.2 million in FY 2007-08. In FY 2008-09, TOT was again affected by an unprecedented economic downturn. Starting in FY 2011-12, the City started to experience a rebound and steady growth in TOT revenue. The chart below shows the TOT revenue historical trend since 2000 and provides a five-year projection.

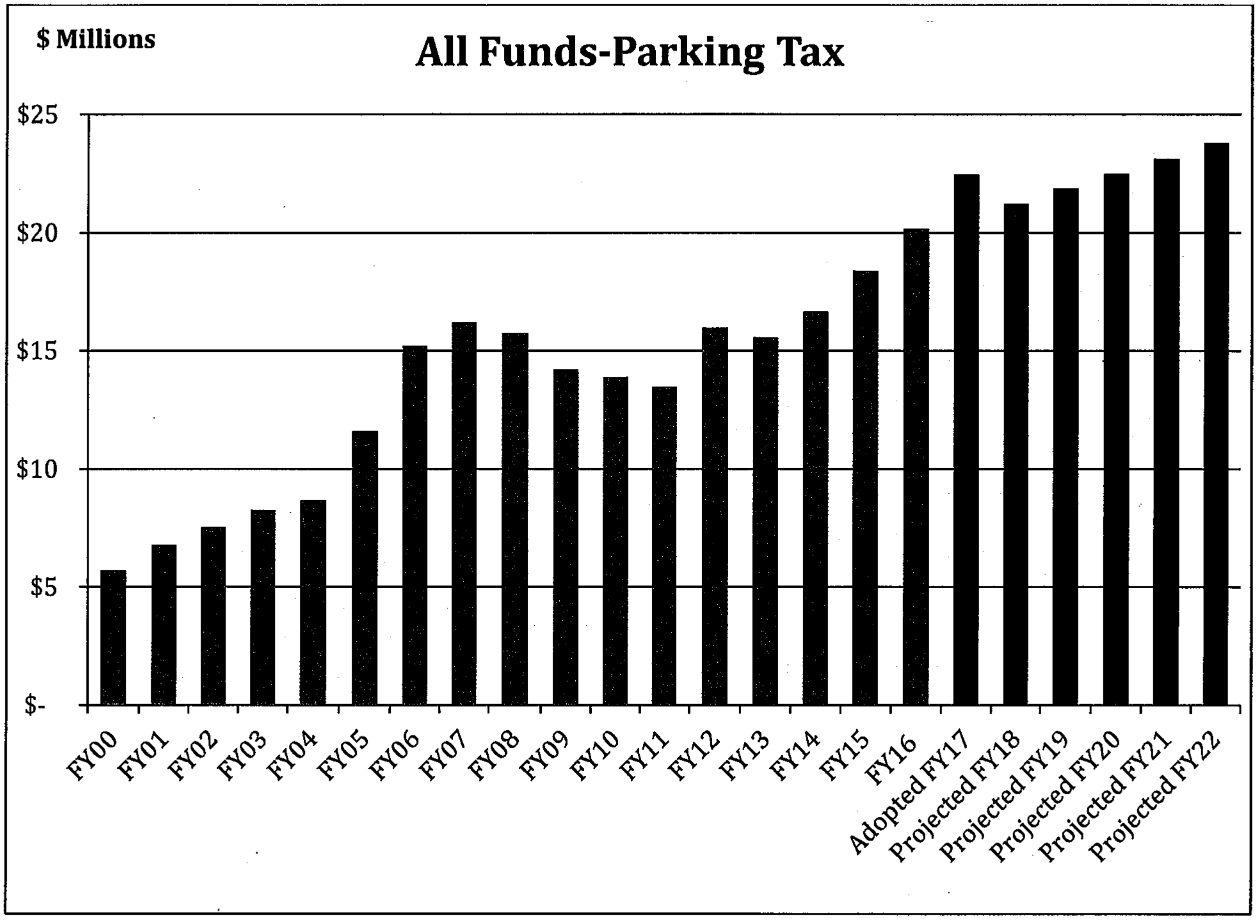
Figure 10 - Transient Occupancy Tax Over Time



Parking Tax

The Parking Tax is a tax imposed on the occupant of an off-street parking space. The tax rate is 18.5 % (8.5% supports voter-approved Measure Z activities [public safety] and is allocated to a separate fund), and is collected by parking operators. Approximately half of the City's Parking Tax revenue is generated from parking at the Oakland International Airport. As such, the Parking Tax revenues are strongly correlated with passenger volume at the Oakland International Airport. Parking revenue declined sharply in FY 2008-09, due to aggressive price competition, the economic downturn, and reduced airline travel. The chart below shows the historical parking tax revenue trend and five-year projection.

Figure 11 - Parking Tax over time



Background on California Legal Revenue Limitations

Public funds are highly regulated and as such, some of the major regulations that impact local revenue generation will be discussed in this section. This information serves as the background to gain understanding of how tax revenue is generated and restricted.

Propositions 13

Proposition 13, approved by voters in 1978, amended the state constitution and imposed restrictions on the collection of revenue by California's local governments. Proposition 13 declared that the maximum amount of any ad valorem tax on real property shall not exceed 1% of the full cash value of such property. That 1% tax is collected by the counties and apportioned to the cities and special districts within each County.

The only exception to the 1% limitation is for bonded indebtedness for the acquisition or improvement of real property, which must be approved by a two-thirds vote of the electorate. This exception is most commonly used when voters approve a General Obligation Bond to pay for capital improvements to infrastructure such as streets, parks, and buildings. The 2016 Oakland Measure KK Infrastructure Bond was an example of the use of this exception.

Proposition 13 also requires a two-thirds vote of the qualified electors for a City to impose special taxes. Special taxes are restricted for a specific purpose rather than a general purpose, such as a tax designated for public safety or libraries. Parcel taxes are also considered special taxes regardless of the use.

Proposition 8

Proposition 8, approved by voters in 1978, strengthened Proposition 13 and established that when property values decline due to the real estate market, property tax assessors are obliged to conduct "decline in value reviews" so that the tax assessed is set at a lower rate if the value of the property has declined. A lower assigned value resulting from such a review is known as a "Proposition 8 reduction."

Proposition 218

Proposition 218, approved by voters in 1996, further restricted local government's abilities to raise revenue. It requires a majority vote of the public to raise general purpose taxes in Charter cities such as Oakland.

The law requires that any new or increased property assessments may only be levied on properties that receive a special benefit from the project rather than a general benefit to the public, and that an engineer's report is required to ascertain the value of the special benefit. A weighted majority of property owners must approve such assessment.

Proposition 218 restricts the use of property related fees such that they cannot be used to pay for a general governmental service, or a service not immediately available to the property owner.

Proposition 26

Proposition 26, approved by voters in 2010, defined and restricted governments' abilities to raise revenues through fees and charges for service by defining revenues as taxes unless they met one of the criteria listed below.

•A charge imposed for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.

•A charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

•A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.

•A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.

•A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law.

•A charge imposed as a condition of property development.

•Assessments and property-related fees imposed in accordance with the provisions of Article XIII D of the California Constitution (see Proposition 218).

Under Proposition 26, the local government bears the burden of showing that the amount charged is no more than necessary to cover the reasonable costs of the activity, and allocation of the costs to the payer bears a reasonable relationship to the payer's burdens on, or benefits received from, the activity.

Revenue Forecast Assumptions

Various assumptions were applied to the revenue projections in the Five-Year Forecast. Major assumptions include:

- Revenues are anticipated to grow from 7.24% in FY 2017-18 to 3.54% in 2021-2022 in the General Purpose Fund;
- $5.9 million in new revenues from the sugar sweetened beverage tax will be realized beginning in FY 2017-18;
- The use of fund balance one-time is not assumed during the five-year projection period;
- Consumer Price Index (CPI) is projected to be increased at the rate of 2.7% annually, consistent with the State Department of Finance methodology;
- Property tax is projected to have a strong growth in FY 2017-18 due to strong sales in the FY 2016-17 and thereafter stabilize; and
- Real Estate Transfer Tax is projected to grow at a modest rate as larger commercial property sales return to a more normal pattern.

City staff consulted with a number of independent experts, including Beacon Economics, HdL, and Colliers International, to develop 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 upon staff's knowledge of Oakland's revenue dynamics.

Inflation

According to the California Department of Finance (DOF), 2.7% is projected to be the change in the Consumer Price Index (CPI) over the forecast period. This is roughly equal to the historical 5 and 15-year average growth rates in the CPI.

Local (Parcel) Taxes

Local parcel tax revenues consist of revenues approved by the voters. Parcel taxes appear as an assessment on the local property tax bills of real property owners whose property falls within the boundary of the assessment district. Some of these local parcel taxes, such as the pension override tax (see expenditure section for additional detail) increase with assessed property values; some local parcel taxes, such as the landscape and lighting district, do not adjust; and some local parcel taxes, such as paramedic emergency services parcel tax (Measure N) adjust with the CPI. These various assessments fund important public services, such as libraries (Measure Q) and violence prevention and public safety (Measure Z).

Property Tax

General Purpose Fund property taxes, inclusive of real property tax trust funds (RPTTF), are expected to grow from a budgeted $159 million in FY 2016-17 to $216 million in FY 2021-22. This is an average annual increase of 4.96% in years 2-5 of the forecast period. In FY 2017-18, the growth, inclusive of RPTTF, is projected to be 13.37% over the FY 2016-17 Midcycle

Adopted Budget. The large variance for FY 2017-18 is due to greater than anticipated growth in property values due to strong growth of resale property values, Proposition 8 restoration and movement in the commercial real estate markets. Real estate revenues derived from new construction such as Brooklyn Basin and Oak Knoll, are accounted for in the forecast and further discussed in the Risks, Opportunities and Uncertainties section.

Starting in FY 2011-12, due to the dissolution of the Oakland Redevelopment Agency (ABX 1 26), the property tax increment that would have been allocated to the Agency is now put into a property tax trust fund administered by Alameda County. Every six months the City (and other affected taxing agencies) receives a distribution of those revenues net of payments for existing encumbrances for which the Agency is still responsible. As the work of the Agency continues to wind down, the City will experience a fluctuation in the amount of revenues received. For purposes of forecasting, RPTTF revenues are forecasted separately from other property tax revenues and the aggregate value of all property tax revenues are presented in the forecast.

It is important to note that it takes approximately $283.1 million in new property value to add 1% in revenue to the General Purpose Fund. The locally assessed secured roll typically grows based on an annual statewide inflation factor capped at 2%. New property value assessments triggered by changes in ownership or new construction are forecasted to add another 2%. General Purpose Fund property tax, net of RPTTF, is projected to grow 3.29% in FY 2018-19, 3.79% in FY 2019-20, 3.79% in FY 2020-21, and 3.8% in FY 2021-22.

Sales Tax

On average, local sales tax is projected to grow at inflation. In FY 2015-16 the City received one-time revenues of $3 million due to the end of the Triple Flip. The Triple Flip refers to a funding shift beginning in FY 2004-05 under which the State withheld 0.25% of the local 1% portion of sales tax to pay debt service on $15.0 billion in bonds authorized under Proposition 57, the California Economic Recovery Bond Act. The withheld 0.25% was backfilled with an equivalent amount of property tax revenue that would have otherwise been given to schools. The bonds were retired in FY 2015-16. Furthermore, there was an increase in FY 2015-16 revenues due to the passage of Measure BB. Measure BB revenues are considered ongoing and, thereafter, staff assumes sales tax will grow an average of 2.7% in years 2-5 of the forecast period.

Business License Tax

The business license tax 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. The City is seeing a benefit from an increase in the rental real estate market. Office space realized a drop in the vacancy rate to 6.8% at the end of 2016. Continuing growth activity is largely centered in the business districts close to BART, particularly Lake Merritt and Oakland City Center areas. The increasing demand and low supply is pushing rents upward, which will result in an increase in business taxes received from commercial landlords.

Furthermore, increased demand in the residential rental market causing residential rents to rise faster than inflation will also drive up business tax revenues.

In FY 2017-18, the assumed growth over the FY 2016-17 Adopted Midcycle Budget, is 4.00%. Thereafter, the forecast calls for 3.0% growth in FY 2018-19 and 2.75% in the remaining years of the forecast period. The City does anticipate new revenues from the passage of Proposition 64 (The Adult Use of Marijuana Act). However, those revenues are not included in the forecast as the City has yet to adopt regulations.

Utility Consumption Tax

Utility Consumption Tax (UCT) is projected to remain at the current level throughout the forecast period. Increases in cable and energy usage are offset by energy efficiency projects and "green" buildings.

Assembly Bill 1717 (AB 1717) passed by the legislature in 2014, established the Prepaid Mobile Telephony Services Surcharge Collection Act and Local Prepaid Mobile Telephone Services Collection Act. AB 1717 effectively closed a loophole whereby the sale of prepaid calling cards, cell phones and the like were not subject to the City's local UCT. The California State Board of Equalization (BOE) has been charged with establishing a surcharge rate that will be charged on the sales of all prepaid mobile telephony services, collected by the retailer, remitted to the BOE quarterly, and then remitted to the appropriate local taxing jurisdiction less an administrative fee. AB1717 generates approximately $500,000 annually in additional UCT revenue.

Real Estate Transfer Tax

As mentioned earlier in this report, the Real Estate Transfer Tax (RETT) is one of the City's most volatile revenue streams and highly sensitive to economic cycles. RETT is assessed whenever there is a change in ownership of real property. Oakland's share of the transfer tax is 1.5% of recorded transaction value. The recent growth in RETT has been largely due to the sale of large commercial buildings as post-recession commercial real estate once again becomes an attractive investment. Also, the City recently experienced double digit year-over-year growth in home prices. Furthermore, while the sale value of real estate has continued to increase, the sale of both residential and commercial real estate is slowing down. Staff assumes growth of 9.98% FY 2017-18, 2.79% in FY 2018-19, 1.96% in FY 2019-20, and 1.35% in FY 2020-21 and 2.63% in FY 2021-22.

The Consolidated Fiscal Policy (See Appendix B) states that RETT greater than 14% of GPF Tax Revenue is to be considered one-time or "Excess RETT". One-half of Excess RETT may be spent on one-time expenditures, 25% is to be allocated to the Vital Services Stabilization Fund and 25% is allocated to repayment of long term obligations. Any variance from this policy requires certain findings to be adopted by a Council Super-majority.

Transient Occupancy Tax

Transient occupancy tax is projected to grow at a modest pace over the next 5 years. Hotel revenue is measured by 3 factors: occupancy, average daily room rate, and revenue per occupied room (REVPAR). REVPAR is a performance metric in the hotel industry, which is calculated by multiplying a hotel's average daily room rate by its occupancy rate. Due to an increase in demand, the City has seen its hotel occupancy increase to 79.5%. In 2016 REVPAR increased 9.9%. The average daily room rate is hovering around $131. However, the City is limited by a static supply of hotel rooms and what the market can bear regarding pricing. Staff is assuming growth of 7.87% in FY 2017-18, 2.67% in FY 2018-19, 2.42% in FY 2019-20 and 2.00% growth in the remaining fiscal years. Building of new hotels has been discussed in recent development plans. However, until projects are approved and project completion is certain, they are not included in the forecast.

Parking Tax

The City of Oakland imposes a parking tax at a rate of 18.5% (10% GPF and 8.5% Measure Z) on the rental of every parking space in a parking station in the City. Under a negotiated agreement with the Coliseum Authority, the City only receives the Measure Z portion of parking tax revenues generated at the Coliseum. The forecast assumes no changes in the usage of the Coliseum site. However, if one of the City's three sports teams were to leave the City during the forecast period, Measure Z parking tax revenues would be negatively impacted due to a decrease in attendance rates. Furthermore, threats exist from peer-to-peer Transportation Network Companies, such as Uber, which are cheaper than taxis and may reduce individual reliance on personal autos, thus impacting parking tax. The dip in FY 2017-18 is due to revenues in FY 2016-17 not growing as anticipated. The forecast assumes modest growth during FYs 2018-2022.

Sugar Sweetened Beverage Tax

In 2016 the voters of Oakland passed Measure HH, the Sugar Sweetened Beverage Tax (SSBT). The SSBT is a general tax and will be presented in the General Purpose Fund. Collection of the SSBT begins July 1, 2017. Revenues are forecasted to be $5.9 million annually.

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

After an initial increase in FY 2017-18 compared to FY 2015-16 actual receipts, service charges and other similar revenues are projected to remain flat in FY 2018-2019 and increase at slightly less than the rate of inflation in years 3-5 of the forecast. Many of these revenues are considered cost recovery and thus, tied to staff costs. Historically, the City Council has approved fee increases based upon growth in the CPI or staff costs. Each department has prepared amendments to the Master Fee Schedule, which will be brought to the City Council in March 2017 and Council direction will be incorporated into the FY 2017-19 Budget.

Parking meter collections are assumed to grow modestly over the forecast period. In 2016, the City adopted dynamic meter pricing. Revenues from increased parking meter rates are incorporated into the forecast.

Impact Fees

In 2016, the City completed an impact fee nexus study and implementation strategy. The nexus study and associated economic feasibility analysis support the City Council's consideration of a fair and equitable set of development impact fees that will require private development to fund its fair share of potential transportation, infrastructure, and affordable housing projects in a manner that does not hamper new development.

Revenues from impact fees are not included in the Five-Year Financial Forecast. These revenues, when they are realized, will be equal to expenditures, which are also excluded from the forecast. As these revenues and expenditures will offset one another, their exclusion will not affect the overall structural balance of the City's budget.

Parking Citations, Fines and Penalties

Revenues from the City's fines and penalties (largely parking citations) are expected to remain relatively flat over the forecast period based on actual FY 2015-16 receipts. The forecast anticipates no dramatic changes in behavior nor increases in the amount charged for fines.

Interest Income & Miscellaneous Revenue

Miscellaneous revenue is primarily comprised of property sales, bond sales, equipment financing, and litigation recoveries. Most of these revenues are infrequent and considered one-time. FY 2016-17 includes an assumed one-time land sale, which is why the revenue projection for FY 2017-18 appears to drop off dramatically. Beyond FY 2017-18, staff assumes revenues to be constant over the forecast period.

Internal Service Revenue

Internal service funds (ISF) are used to report and recoup the cost for a department to provide services to other departments. These revenues are held constant over the forecast period.

Grants & Subsidies

In the first two years of the forecast period, re-occurring grants are forecasted to be renewed at the current levels, such as U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG). It is important to note that grant levels may be impacted by various budget-balancing measures at the State and Federal level. Grants are assumed to increase at the rate of inflation in years 3-5 of the forecast period.

Interfund Transfers

Interfund transfers are transfers between funds to recover costs associated with providing services or paying debt service. These revenues are projected to grow at the rate of inflation or based on prescribed schedules, such as transfers for debt service payments.

Transfers from Fund Balance

Transfers from fund balance are one-time transfers necessary when expenses out pace revenues in a given year. These transfers are implemented on an as-needed basis and are only an option when unallocated fund balance is available. This projection does not assume any transfers from the fund balance.

Revenue Forecast Summary

As shown in the tables below, GPF revenues are projected to grow from $559.35 million to $627.52 million between FY 2017-18 and FY 2021-22, averaging approximately a 3.0% growth in years 2-5 of the forecast period. All Funds (which includes the GPF) are projected to grow from $1.26 billion to $1.36 billion over the forecast period. The tables below present the forecast revenues by category.

Outcomes by Category of Revenue

Table 8 - GPF Revenues by Category (in millions)

GPF (1010)- Revenue in $ Millions	FY 2016-17 Midcycle Adopted Budget	FY 2017-18 Forecast	FY 2018-19 Forecast	FY 2019-20 Forecast	FY 2020-21 Forecast	FY 2021-22 Forecast
Property Tax	$159.11	$180.38	$187.27	$195.09	$204.01	$216.51
Sales Tax	$53.32	$55.99	$57.68	$59.24	$60.84	$62.47
Business License Tax	$72.24	$75.13	$77.38	$79.51	$81.70	$83.95
Utility Consumption Tax	$50.50	$51.00	$51.00	$51.00	$51.00	$51.00
Real Estate Transfer Tax	$69.85	$76.82	$78.96	$80.51	$81.60	$83.75
Transient Occupancy Tax	$19.38	$20.97	$21.55	$22.08	$22.53	$22.98
Parking Tax	$12.14	$10.83	$11.16	$11.46	$11.77	$12.08
Sugar Sweetened Beverage Tax	$0.00	$5.90	$5.90	$5.90	$5.90	$5.90
Licenses & Permits	$2.34	$1.79	$1.79	$1.81	$1.82	$1.84
Fines & Penalties	$24.05	$21.95	$21.97	$22.56	$23.16	$23.79
Interest Income	$0.74	$0.74	$0.74	$0.74	$0.74	$0.74
Service Charges	$50.11	$54.46	$55.22	$56.46	$57.74	$59.05
Grants & Subsidies	$0.12	$0.12	$0.12	$0.12	$0.12	$0.12
Miscellaneous Revenue	$5.15	$0.99	$1.06	$1.06	$1.06	$1.06
Interfund Transfers	$2.55	$2.28	$2.28	$2.27	$2.28	$2.28
Subtotal GPF	**$521.60**	**$559.35**	**$574.08**	**$589.81**	**$606.27**	**$627.52**
Transfers from Fund Balance	$28.07	$0.00	$0.00	$0.00	$0.00	$0.00
Total	**$549.67**	**$559.35**	**$574.08**	**$589.81**	**$606.27**	**$627.52**
Growth rate net of transfer from fund balance*		**7.24%**	**2.63%**	**2.74%**	**2.79%**	**3.51%**

*First Year is in comparison to FY 2016-17 Midcycle Adopted Budget.

Table 9 - All Fund Revenues by Category (in millions)

All Funds Revenue in $ Millions	FY 2016-17 Midcycle Adopted Budget	FY 2017-18 Forecast	FY 2018-19 Forecast	FY 2019-20 Forecast	FY 2020-21 Forecast	FY 2021-22 Forecast
Property Tax	$161.93	$183.97	$191.28	$199.46	$209.05	$223.26
Local Tax	$149.64	$181.87	$186.16	$192.08	$198.05	$204.24
Sales Tax	$78.68	$81.92	$84.38	$86.66	$89.00	$91.39
Gas Tax	$7.39	$6.64	$6.64	$6.78	$6.91	$7.05
Business License Tax	$72.24	$75.13	$77.38	$79.51	$81.70	$83.94
Utility Consumption Tax	$50.50	$51.00	$51.00	$51.00	$51.00	$51.00
Real Estate Transfer Tax	$69.85	$76.82	$78.96	$80.51	$81.60	$83.75
Transient Occupancy Tax	$24.66	$26.60	$27.31	$27.97	$28.53	$29.10
Parking Tax	$22.46	$21.22	$21.86	$22.48	$23.12	$23.78
Sugar Sweetened Beverage Tax	$0.00	$5.90	$5.90	$5.90	$5.90	$5.90
Service Charges	$177.29	$192.11	$193.12	$195.65	$198.21	$200.84
Licenses & Permits	$18.46	$17.72	$17.83	$17.86	$17.87	$17.90
Fines & Penalties	$28.80	$24.24	$24.25	$24.87	$25.51	$25.09
Interest Income	$4.22	$0.80	$0.81	$0.81	$0.81	$0.81
Grants & Subsidies	$58.54	$57.09	$56.93	$56.94	$56.94	$56.93
Internal Service Funds	$72.42	$87.40	$88.18	$88.18	$88.18	$88.18
Miscellaneous Revenue	$42.18	$35.35	$36.19	$36.19	$36.19	$36.19
Interfund Transfers	$141.57	$129.86	$129.46	$129.46	$129.46	$129.46
Transfers from Fund Balance	$57.47	$1.71	$0.75	$0.75	$0.75	$0.75
Total	**$1,238.30**	**$1,257.35**	**$1,278.39**	**$1,303.06**	**$1,328.78**	**$1,359.56**
Growth rate *		**1.54%**	**1.67%**	**1.93%**	**1.97%**	**2.32%**

*First Year is in comparison to FY 2016-17 Midcycle Adopted Budget.

Revenue Growth Rates

On a percentage basis, GPF revenues are forecasted to grow as shown below. Note that the rates below may vary in some cases from the general revenue growth rate assumptions dues to specific one-time incidents. Also, note that the FY 2017-18 forecasted growth rate is the difference between the FY 2016-17 budgeted revenue and the forecasted FY 2017-18 revenue. The growth rates for this year are particularly variable due to the forecast incorporating more recent and accurate information about revenue trends than was available when the FY 2016-17 Midcycle Budget was adopted, particularly from FY 2015-16 year-end actuals and data from the current FY 2016-17 2nd Quarter. The Revenue Forecast Assumptions section beginning on page 32 provides more information on the rates reflected below.

Table 10 - GPF Revenue Growth Rates by Category

General Purpose Fund (1010)- Revenue	FY 2017-18 Forecast*	FY 2018-19 Forecast	FY 2019-20 Forecast	FY 2020-21 Forecast	FY 2021-22 Forecast
Property Tax	13.37%	3.82%	4.18%	4.57%	6.13%
Sales Tax	5.01%	3.02%	2.70%	2.70%	2.68%
Business License Tax	4.00%	2.99%	2.75%	2.75%	2.75%
Utility Consumption Tax	0.99%	0.00%	0.00%	0.00%	0.00%
Real Estate Transfer Tax	9.98%	2.79%	1.96%	1.35%	2.63%
Transient Occupancy Tax	8.20%	2.77%	2.46%	2.04%	2.00%
Parking Tax	-10.79%	3.05%	2.69%	2.71%	2.63%
Sugar Sweetened Beverage Tax		0.00%	0.00%	0.00%	0.00%
Licenses & Permits	-23.50%	0.00%	1.12%	0.55%	1.10%
Fines & Penalties	-8.73%	0.09%	2.69%	2.66%	2.72%
Interest Income	0.00%	0.00%	0.00%	0.00%	0.00%
Service Charges	8.68%	1.40%	2.25%	2.27%	2.27%
Grants & Subsidies	0.00%	0.00%	0.00%	0.00%	0.00%
Miscellaneous Revenue	-80.78%	7.07%	0.00%	0.00%	0.00%
Interfund Transfers	-10.59%	0.00%	-0.44%	0.44%	0.00%
Subtotal GPF	**7.24%**	**2.63%**	**2.74%**	**2.79%**	**3.51%**
Transfers from Fund Balance	0.00%	0.00%	0.00%	0.00%	0.00%
Total	**7.24%**	**2.63%**	**2.74%**	**2.79%**	**3.51%**

*First Year is in comparison to FY 2016-17 Midcycle Adopted Budget.

Table 11 - All Funds Revenue Growth Rates by Category

All Funds- Revenue	FY 2017-18 Forecast*	FY 2018-19 Forecast	FY 2019-20 Forecast	FY 2020-21 Forecast	FY 2021-22 Forecast
Property Tax	13.61%	3.97%	4.28%	4.81%	6.80%
Local Tax	21.54%	2.36%	3.18%	3.11%	3.13%
Sales Tax	4.12%	3.00%	2.70%	2.70%	2.69%
Gas Tax	-10.15%	0.00%	2.11%	1.92%	2.03%
Business License Tax	4.00%	2.99%	2.75%	2.75%	2.74%
Utility Consumption Tax	0.99%	0.00%	0.00%	0.00%	0.00%
Real Estate Transfer Tax	9.98%	2.79%	1.96%	1.35%	2.63%
Transient Occupancy Tax	7.87%	2.67%	2.42%	2.00%	2.00%
Parking Tax	-5.52%	3.02%	2.84%	2.85%	2.85%
Sugar Sweetened Beverage Tax		0.00%	0.00%	0.00%	0.00%
Service Charges	8.36%	0.53%	1.31%	1.31%	1.33%
Licenses & Permits	-4.01%	0.62%	0.17%	0.06%	0.17%
Fines & Penalties	-15.83%	0.04%	2.56%	2.57%	-1.65%
Interest Income	-81.04%	1.25%	0.00%	0.00%	0.00%
Grants & Subsidies	-2.48%	-0.28%	0.02%	0.00%	-0.02%
Internal Service Funds	20.68%	0.89%	0.00%	0.00%	0.00%
Miscellaneous Revenue	-16.19%	2.38%	0.00%	0.00%	0.00%
Interfund Transfers	-8.27%	-0.31%	0.00%	0.00%	0.00%
Transfers from Fund Balance	-97.02%	-56.14%	0.00%	0.00%	0.00%
Total	**1.54%**	**1.67%**	**1.93%**	**1.97%**	**2.32%**

*First Year is in comparison to FY 2016-17 Midcycle Adopted Budget.

EXPENDITURES

In this section, expenditure background information is discussed, followed by expenditure historical trends, assumptions for projections, and a summary of the projection. Key expenditure categories include salary, pension, healthcare, post-employment benefit, and unfunded needs. Finally, a summary of the forecast expenditures is presented by category.

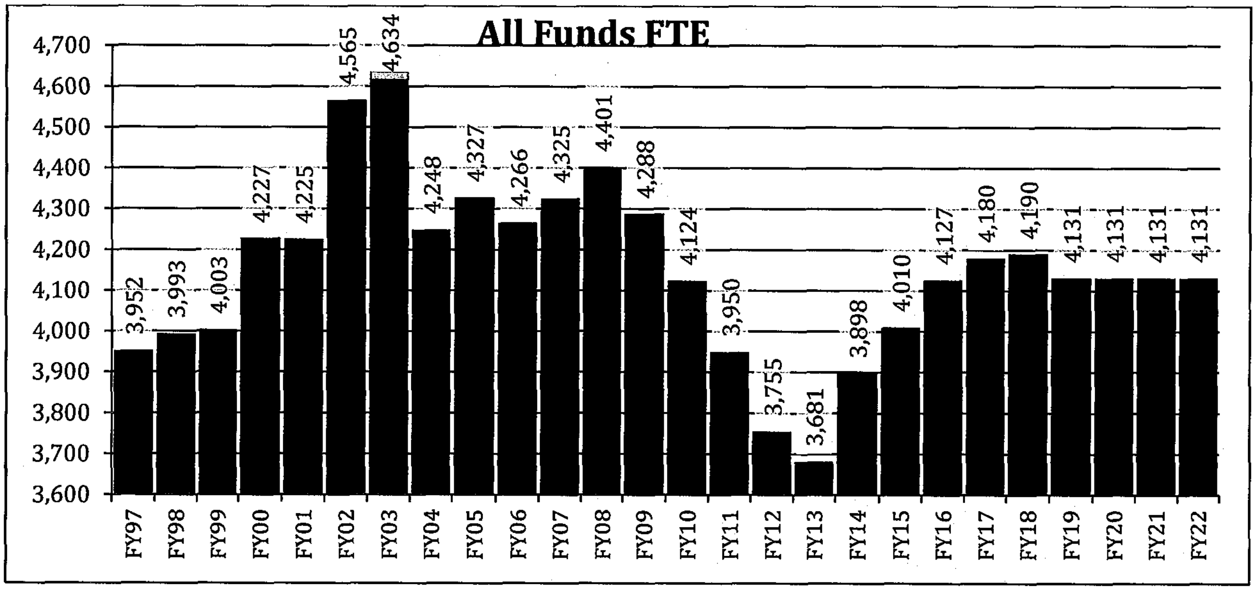
Background Information

The expenditure forecast follows the guidance of the Government Finance Officers Association (GFOA), which recommends that expenditures be grouped into meaningful units of analysis, such as departments and standard budget categories of expenditures. It also directs that operating, capital, and non-current liability expenditures be addressed.

Expenditure information is presented by major expenditure category – civilian personnel, police personnel, fire personnel, operations & maintenance (O&M), capital acquisitions, debt service, transfers & other. The personnel expenditure can be further divided into salaries & payroll expenditures (which include overtime & premiums), retirement, and fringe benefits such as healthcare and worker's compensation costs. Expenditure data are also presented by Department and by Fund (please see the Principles of Government Finance section on page 16 for additional information).

The forecast assumes that staffing and services will continue at existing levels. Thus, changes in personnel and O&M expenditures reflect increases to the costs that drive those expenditures rather than additional positions or services. The figure below shows historical budgeted Full Time Equivalent (FTE) count across all City Funds and the forecast FTE assuming staffing and services will continue at existing levels.

Figure 12- All Funds Historical FTE Summary



Expenditure Categories & Forecast Assumptions

Summary of Assumptions

The following tables summarize the assumptions used in the forecast by category of expenditure. In the subsequent sections, each forecast category is discussed in detail. The forecast assumes a constant level of staffing and services. Thus, the FTE count for the City remains constant in years two through five of the forecast (see Figure 12 above). The small variance in FTE between FY 2017-18 and FY 2018-19 is due to a small number of limited duration positions and 50 one-time police officer trainee positions, which reflect a previously approved additional police academy.

Table 12 Expenditure Assumption Summary

Salary & Payroll Expenditure Assumptions % Growth					
Employee Group	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Civilian	2.70%	2.70%	2.70%	2.70%	2.70%
Police	3.5%*	2.0% -2.5%*	2.70%	2.70%	2.70%
Fire	2.70%	2.70%	2.70%	2.70%	2.70%
*Police COLA - per existing MOU (3.5% January 2018, 2.0% July 2018, 2.5% January 2019)					

Assumed PERS Retirement Rates - Employer Contribution					
Employee Group	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Civilian	36.35%	43.86%	45.37%	51.27%	54.32%
Safety	36.67%	39.49%	45.43%	52.19%	55.55%

Assumed Fringe Benefit Rates					
Employee Group	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Civilian	37.66%	37.66%	39.14%	40.71%	42.38%
Police	36.26%	36.26%	37.20%	38.20%	39.26%
Fire	39.97%	39.97%	40.89%	41.85%	42.88%

Other Expenditures Assumed % Growth					
Category	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
O&M	0.00%	0.00%	2.70%	2.70%	2.70%
Natural Gas	0.00%	0.00%	5.50%	5.50%	5.50%
Electricity	0.00%	0.00%	3.87%	3.87%	3.87%
Water	0.00%	0.00%	8.50%	8.50%	8.50%
Debt Payments	According to Debt Repayment Schedule				

Historical Personnel Expenditure Trends

Personnel expenditures are the largest element of the City's costs. The growth rate in these expenditures has a significant impact on the resources available to provide services to the public. The following graphics show historical cost increases for four job classifications over the past 15 years. These job classes - Public Works Maintenance Worker, Engineer, Assistant II (Office), Police Officer, and Fire Fighter are the most prevalent job classifications in each of the City's largest bargaining units. Costs are based upon the 3rd salary step and the City's historical approved indirect cost rates updated annually in Administrative Instruction No. 1303.

Figure 13 shows that expenditure costs have increased significantly for all four positons over the past 15 years. The growth in retirement costs is especially noteworthy. Figure 14 shows that the share of compensation composed of salary has been falling significantly as pension and benefit costs increase.

Figure 13 Historical Positons Costs by Expenditure Type

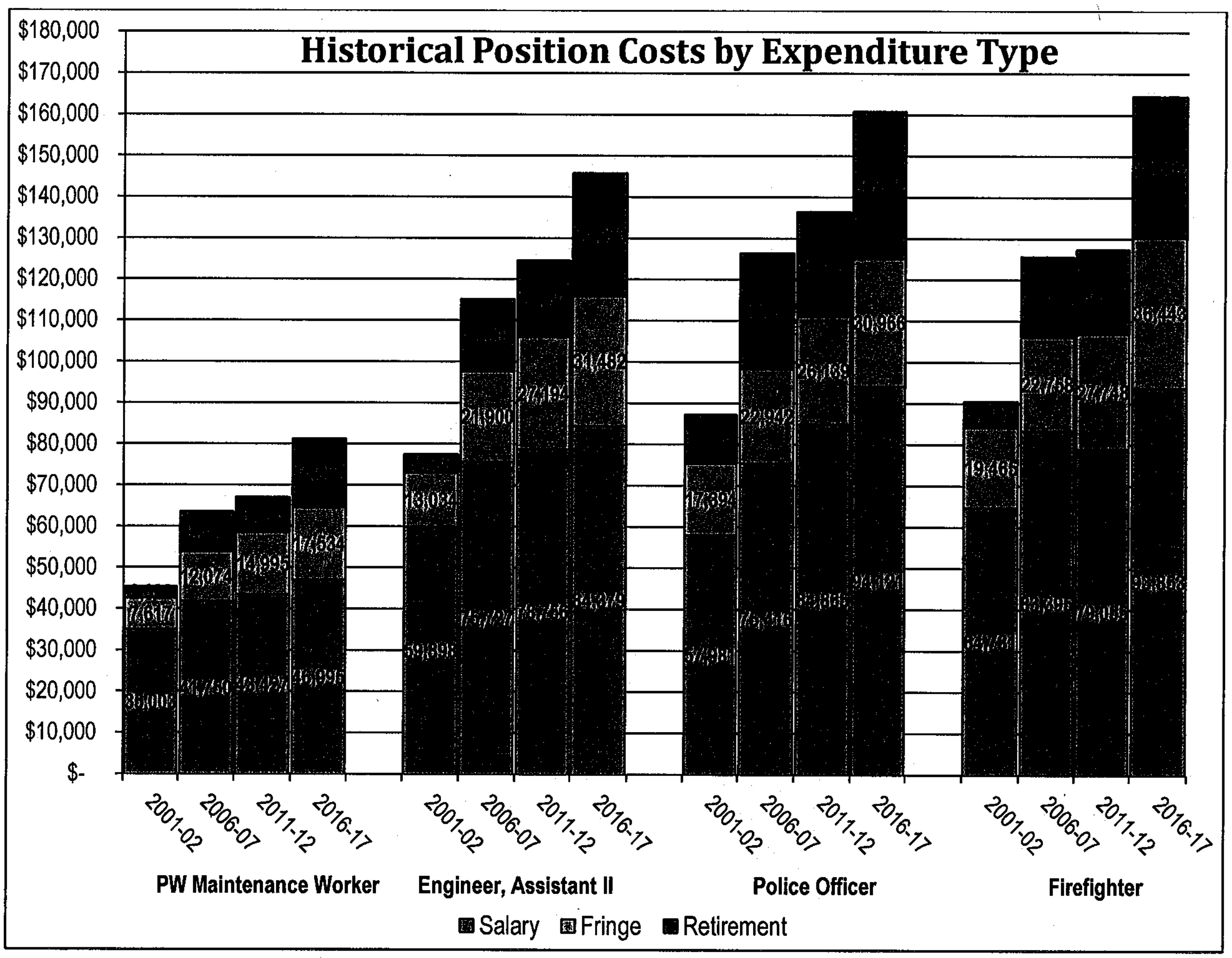


Figure 14 Historical Position Costs by Expenditure Type as a % of Total

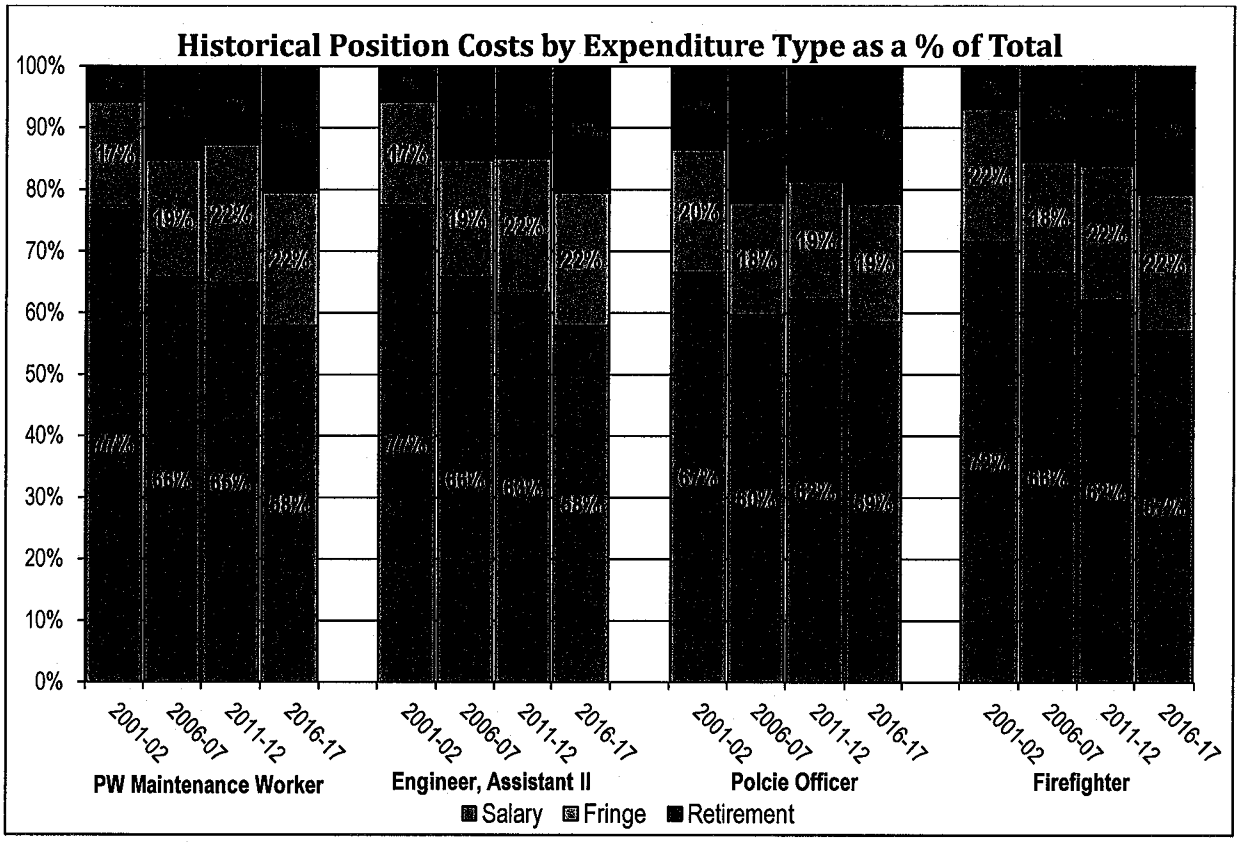
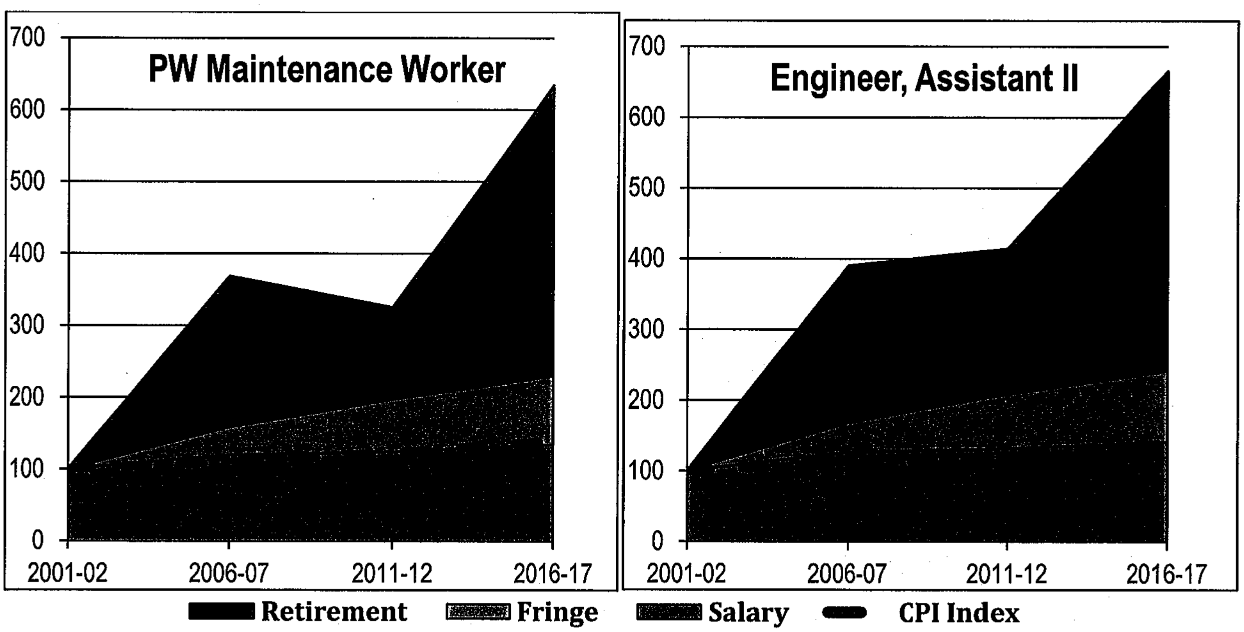
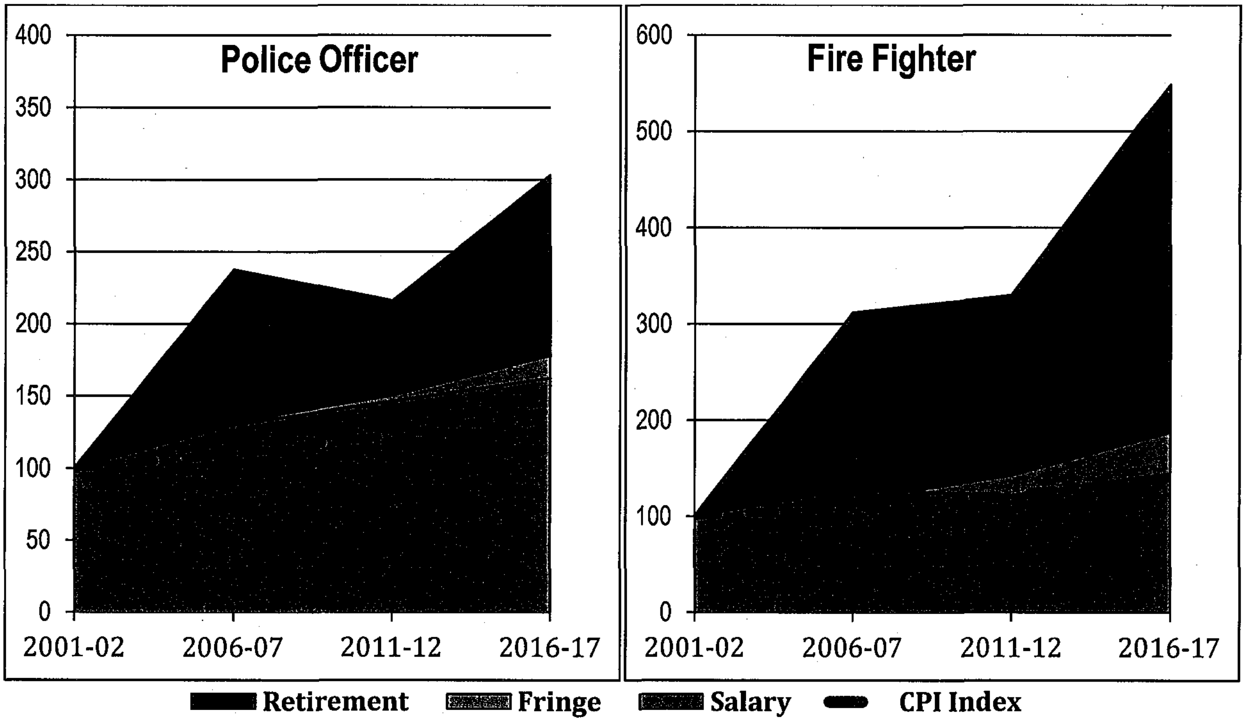


Figure 15 below shows the relative growth rates of salary, fringe benefits, and retirement cost by indexing each to a value of 100 in FY 2001-02, for each of the four job classifications. The equivalent growth rate for the Bay Area CPI is also shown for comparison.

Figure 15 Relative Indexed Growth Rates of Personnel Costs





Salaries & Payroll Expenditures

The base values of salaries and premiums used in the Forecast reflect actual values from the City's payroll system as of November 2016. This payroll snapshot captures salaries and premiums paid and are used as the base for FY 2017-18 and onward. The snapshot is then adjusted to incorporate any known changes in rates that occur afterward. Overtime values are based upon the prior year's ongoing approved overtime budget.

The City's established baseline methodology assumes no changes due to cost of living adjustments (COLA) unless there are existing approved labor contract(s) that covered the relevant period. Currently, the only approved labor contract that covers the two-year baseline budget is for the Oakland Police Officer's Association and the Oakland Police Management Association. All other City bargaining units have contracts that expire at the beginning of FY 2017-18 with no negotiated and approved Cost of Living Adjustments during the Five-Year horizon.

As it is impossible to specify what Cost of Living adjustments will be negotiated and approved for open contracts, this forecast assumes that a 2.7% COLA will be applied in July of each year where there is no approved MOU. The 2.7% calculation is equivalent to the assumed rate of inflation throughout the Forecast. The assumed rate of inflation is calculated by finding the historical average of the Bay Area Consumer Price Index (CPI) over the past 15 and 5 years (2.6% and 2.8% respectively) and then averaging those two calculations. The Governor's proposed State budget for FY 2017-18, released in January 2017, also assumes a projected CPI of 2.7%.

Active Retirement & Pension Plans (CalPERS)

Projected future pension rates for active employees are based on estimates provided by the California Public Employees Retirement System (CalPERS). CalPERS rates are calculated as a percentage of covered payroll and therefore any increases to salary and payroll expenditures will proportionately impact retirement costs. The chart below shows the calculated retirement rates by employee group over the five-year forecast window. The projected rates are provided by CalPERS or calculated using information provided by CalPERS. The City recently received a notice from CalPERS of a reduction in the assumed rate of return from 7.5% to 7.0% over the next three years. This impacts the employer contribution rates with larger increases beginning in FY 2018-19.

Table 13 Assumed CalPERS Retirement Rates

Assumed PERS Retirement Rates - Employer Contribution					
Employee Group	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Civilian	36.35%	43.86%	45.37%	51.27%	54.32%
Safety	36.67%	39.49%	45.43%	52.19%	55.55%

The funded ratios of the safety and miscellaneous (civilian) plan with CalPERS are below 100% - the Miscellaneous (Civilian) plan is funded at 70.2% with a $717.8 million unfunded liability and the Safety (Police & Fire) plan is funded at 67.2% with a $575.1 million unfunded liability, based on the most recent actuarial report dated June 30, 2015. The City will continue to improve these funded ratios through increases in CalPERS' required contributions.

Table 14 City Pension Funded Ratios and Unfunded Amounts

Funded Ratios and Unfunded Amounts for City Pension Plans		
Plan	**Unfunded Amount**	**Funded Ratio**
CalPERS – Miscellaneous	$717.8 million	70.2%
CalPERS – Public Safety	$575.1 million	67.2%

After the dissolution of the former Redevelopment Agency, the City has requested payments for unfunded pension obligations through the Recognized Obligation Payment Schedule (ROPS) to fund pension obligations derived from City staff that supported the former Redevelopment Agency. To date, the City has received approximately $4,681,958 which was deposited to CalPERS to pre-fund the unfunded liabilities. The City will receive approximately $1.3 million annually until June 30, 2022 to allocate towards unfunded liabilities. Thus over this period, the City has secured approximately $26 million to pay retirement liabilities.

The implementation of a three-tier pension benefit structure has helped to ease the financial condition in the long-term. Some of the features are within the State Pension Reform regulation (AB340), which is required to be implemented on or before January 1, 2018. Recent pension reform in Oakland is summarized in the table below:

Table 15 - Pension Tiers

Pension Descriptions	Public Safety Employees	Civilian Employees	Effective Dates
1st tier[1]	3% @ 50	2.7% @ 55	Prior to Feb. 2012
2nd tier[2]	3% @ 55	2.5% @ 55	Feb. 2012 for public safety employees and June 2012 for civilian employees
3rd tier[3]	2.7% @ 57	2.0% @ 62	January 1, 2013

[1] 3% of highest 12 consecutive month salary for each year of service at age 50 for public safety employees and 2.7% of highest 12 consecutive salary for civilian employees

[2] 3% of the 3 years' average salary at age 55 for public safety employees and 2.5% highest three consecutive years average at age 55 for civilian employees

[3] 2.7% of final 3 years' average salary and subject to established cap at age 57 for public safety employees; 2.0% of final 3 years average salary and subject to established cap at age 62 for civilian employees. The third tier was added in accordance with the Public Employees' Pension Reform Act of 2013 (PEPRA)

Closed Retirement & Pension Plans (PFRS & OMERS)

The City has two closed defined benefit retirement plans: the Oakland Municipal Employees' Retirement System (OMERS) and the Oakland Police and Fire Retirement System (PFRS). The OMERS system was recently annuitized by the City through the passage of Measure EE by the voters in November of 2014 and thus does not present an ongoing financial challenge to the City.

On July 30, 2012, the City issued Taxable Pension Obligation Bonds, Series 2012 totaling approximately $212.5 million. The proceeds of the bonds were deposited into the closed Police and Fire Retirement System (PFRS) to fund the Unfunded Actuarial Accrued Liability (UAAL) or beneficiary retirement benefits. As a result, the City will not be required to make any further periodic payments to the Retirement System through June 30, 2017, thereby providing temporary relief to the City's General Purpose Fund. Most importantly, the bonds are secured and payable from any legally available source of funds of the City, as well as and including the pledge of Tax Override Revenues (TOR) received by the City from a levy of a 0.1575% tax on property within the City of Oakland.

The City will resume paying the Actuarial Required Contribution (ARC) starting in FY 2017-18, a pre-payment schedule is shown in the following table. Since there are no other dedicated revenues to fund PFRS besides the TOR, payments in excess of the available revenues (TOR) will be payable from the General Purpose Fund. As a result of building up a sizable reserve in the fund, the City does not anticipate that the General Purpose Fund will need to make payments to PFRS in the next five years. Even if the assumed assessed valuation growth that drives the TOR is more conservative than presented in the table below, it is not anticipated that a payment from the General Purpose Fund will be needed in the next five years. However, significant deviation from actuarial assumptions do present a risk to this forecast outcome. Further, PFRS benefit amounts are indexed to the compensation of active employees, which means future cost of living increases to active police and fire labor groups would also increase the likelihood that General Purpose Fund will need to make contributions.

Table 16 GPF Impact of PFRS With historical avg. property tax growth (5.24%) in (millions)

Fiscal Year Ending	Total Funding Available for PFRS	Outstanding Debt Service Obligations	Net of Debt Obligations	Actuarial Recommended Contributions (ARC)	General Fund Support Required	Net GF Support Using TOR Reserve
Excess Reserve Balance(1)						$56.60
2017(2)	$87.66	$57.52	$30.14	$0.00	$30.14	$86.74
2018(2)	$91.74	$66.09	$25.64	$44.90	($19.26)	$67.49
2019(2)	$95.67	$66.99	$28.68	$46.40	($17.72)	$49.77
2020(2)	$99.85	$67.94	$31.91	$47.90	($15.99)	$33.78
2021	$104.31	$68.93	$35.38	$49.50	($14.12)	$19.66
2022	$109.05	$69.94	$39.11	$51.10	($11.99)	$7.67
2023	$114.09	$71.02	$43.07	$52.80	($9.73)	($2.06)
2024	$119.45	$53.27	$66.17	$54.60	$11.57	$9.51
2025	$125.13	$54.08	$71.05	$56.40	$14.65	$24.16
2026	$131.15	$1.31(1)	$129.84	$58.40	$71.44	$95.60
Total	**$1,078.09**	**$577.09**	**$501.00**	**$462.00**		
(1) Balance as of December 1, 2016 and Net of one year of debt service for the pension bonds of $54M, which is applied to DS in FY 2026.						
(2) AV Growth rate: 2017: 7.5%; 2018: 5.75%; 2019 to 2026: 5.24%						

Fringe Benefits

Fringe benefits are paid by using an accrual methodology based upon payroll. Each year a rate is established and that rate is used to capture income from the City's various funds to pay the fringe benefits that the City owes for its active and retired employees. Fringe benefit rates for the first two years of the Five-Year Forecast are identical to the estimates used in the baseline budget. Civilian fringe benefits are accrued at 37.66% of payroll, sworn police fringe benefits are accrued at 36.26% of payroll, and sworn fire fringe benefits are accrued at 39.97% of payroll. Civilian and sworn fringe benefit expenditures are comprised of many components, including health insurance, retiree medical benefits, workers' compensation, dental and vision insurance, disability insurance, unemployment insurance, and others. However, health expenses are by far the largest category composing roughly two-thirds of fringe benefit costs.

The City's current labor contracts have a provision that the City will pay the full amount required for an employee's medical coverage up to the amount required to provide a Kaiser Foundation Health Plan.

As medical benefits are by far the largest share of active employee fringe benefits the growth rate of fringe benefits (other than retiree medical) is assumed to grow at the rate of medical inflation. Estimates from the City's benefit broker suggest that medical inflation will be 6% annually for the forecast years beyond the baseline. This is lower than the historic rate of medical inflation as shown in the table below.

Table 17 - Kaiser Health Plan History

Kaiser Foundation Health Plan HMO						
Year	1 Party		2 Party		3+ Party	
	Amount	% Increase	Amount	% Increase	Amount	% Increase
2003	$259	NA	$518	NA	$674	NA
2004	$305	17.8%	$611	17.8%	$794	17.8%
2005	$355	16.1%	$709	16.1%	$922	16.1%
2006	$355	0.0%	$779	9.8%	$1,012	9.8%
2007	$389	9.8%	$862	10.7%	$1,121	10.7%
2008	$471	20.9%	$941	9.2%	$1,224	9.2%
2009	$508	8.0%	$1,016	7.9%	$1,322	8.0%
2010	$533	4.8%	$1,065	4.8%	$1,385	4.8%
2011	$569	6.8%	$1,138	6.8%	$1,479	6.8%
2012	$610	7.3%	$1,221	7.3%	$1,587	7.3%
2013	$669	9.5%	$1,337	9.5%	$1,738	9.5%
2014	$743	11.1%	$1,485	11.0%	$1,931	11.1%
2015	$714	-3.9%	$1,429	-3.8%	$1,858	-3.8%
2016	$746	4.48%	$1,493	4.48%	$1,941	4.47%
2017	$733	-1.74%	$1,467	-1.74%	$1,907	1.75%
Average		**7.92%**		**7.85%**		**8.11%**

Other Post-Employment Benefits

Fringe benefit accounts are also used to accrue payments for retiree medical also known as Other Post-Employment Benefits (OPEB). The City pays a partial cost of health insurance premiums for retirees meeting certain requirements related to age and years of service. The OPEB are extended to retirees pursuant to approved labor agreements

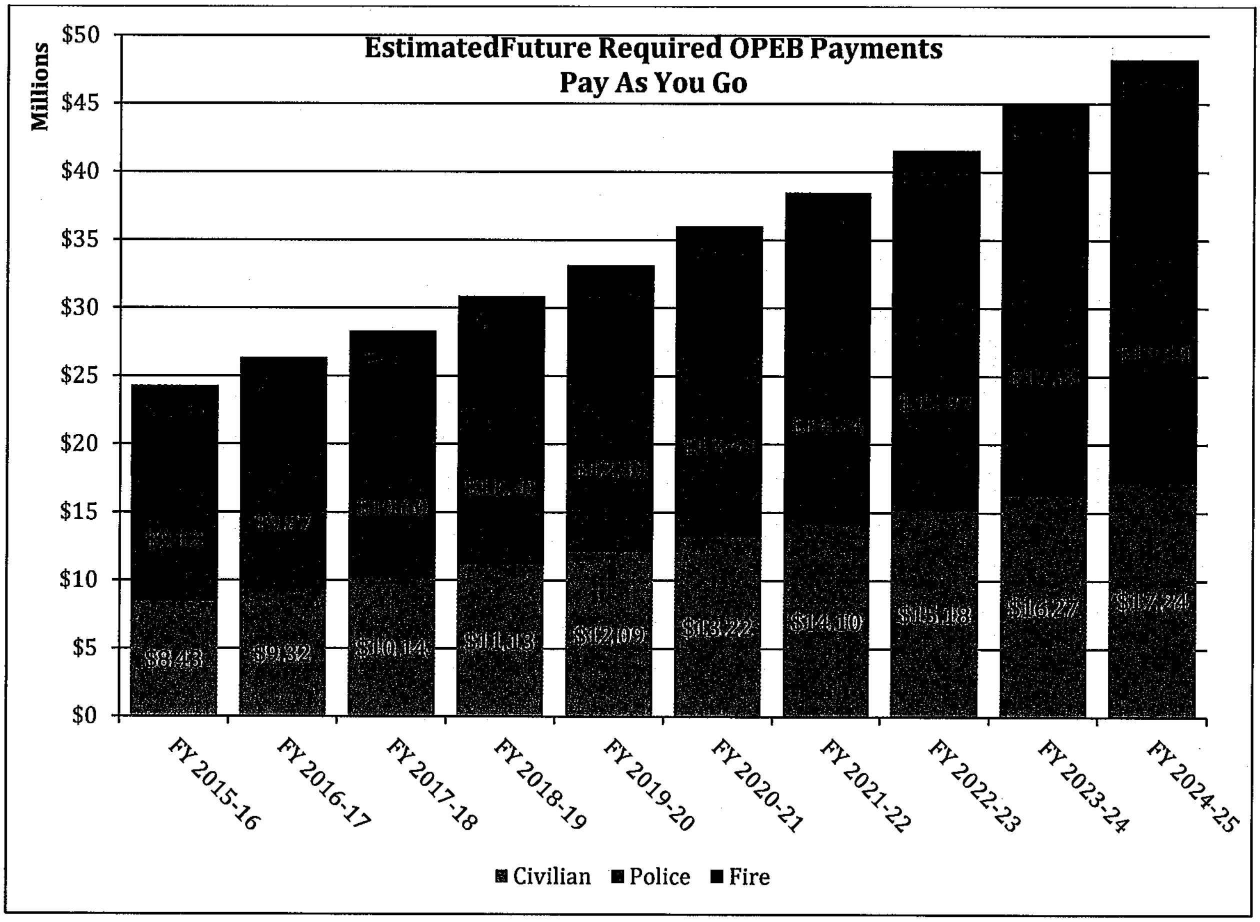
The City implemented Governmental Accounting Standard Board Statement No. 45 ("GASB 45") in fiscal year 2008 which addresses how state and local governments should account for and report the annual Post-Employment Benefits Other than Pensions ("OPEB") cost. GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

Based on the most recent actuarial valuation report as of July 1, 2015, the Unfunded Actuarial Accrued Liability or UAAL (which is equal to that portion of the Actuarial Present Value of OPEB Benefits that have been earned to date), was $906 million. This is substantially greater than the prior valuation, which assessed the UAAL at almost $464 million. The increase in UAAL is due to changes in the GASB reporting, changes in assumptions, and calculation standard related to OPEB.

Currently, the City is funding OPEB on a pay-as-you-go basis. Therefore, the City only pays the amount needed to cover benefits in the current year rather than the full amount required to fund the actuarial accrued liability. The total actual expected contribution to OPEB in FY 2017-18 is roughly $28.0 million and grows to $38.5 million by FY 2021-22.

In FY 2013-14, the City began contributing into California Employer's Retirement Benefit Trust (CERBT), an agent multiple-employer defined benefit postemployment healthcare plan administered by CalPERS. After the dissolution of the former Redevelopment Agency, the City requested payments for OPEB through the Recognized Obligation Payment Schedule ("ROPS"). The City has begun investing those funds in the CERBT. The City will receive approximately $665,000 annually until June 30, 2022. Thus over this period, the City has secured over $13 million to pay unfunded OPEB liabilities. By partially pre-funding the annual required contribution (ARC) to CERBT, the City has established assets for future liabilities and is able to use a higher discount rate.

Figure 16 - Future Estimated Pay-As-You-Go OPEB payments



Operations & Maintenance

Operations & Maintenance expenditures in the two-year baseline are reflected at the same values as in the FY 2016-17 Amended Midcycle Budget. Any expenditures designated as one-time are removed from the baseline budget. No increases in O&M are assumed for the two-year baseline budget unless there are legal requirements. O&M for the three years beyond the two-year baseline are adjusted for assumed annual rate of inflation (2.7%).

Debt, Transfers & Other

Debt service expenditures are based on approved payment schedules. Many of the City's debt obligations are tied to specific dedicated revenue sources and thus do not impose a burden to the City's General Purpose Fund. However, most of the City's master leases are being supported by the General Purpose Fund (e.g., Parking Meters, Oracle, IBM, Vehicle & Equipment, etc.).

Transfers between funds, capital investments, and other expenditures are assumed to continue at baseline budget values unless there are other legal requirements or prescribed schedules. Examples include transfers related to approved debt obligations, the Kid's First Transfer, and Transfers to the Self Insurance Liability Fund based upon its negative fund balance repayment schedule.

Capital Projects

In addition to the operating expenditures noted above, the City has significant capital expenditures. The City appropriates funding for capital projects each two-year alongside the biennial budget. Through the Capital Improvement process, the City identifies and prioritizes capital projects from eligible funding sources. Most funding sources provide capital for infrastructure projects such as sewers, streets, and sidewalks.

The forecast assumes capital projects over the next 5 years in the same amount and from the sources as the capital allocations in FY 2016-17. Of the roughly $34.8 million in capital projects budgeted in FY 2016-17, $13.1 million was dedicated for streets, roads, and transportation projects, with $21.5 million for improvements to the City's sewer system. These allocations will likely be modified in the coming years.

Historically, the City has lacked significant dedicated funding streams for capital improvement of buildings, facilities, parks and open space and as such most funding for these projects is derived from the General Purpose Fund or special one-time grant funds. With the passage of the Infrastructure Bond (Measure KK) in November 2016, an infusion of infrastructure funds will be available over the next decade totaling $500 million - $350 million for streets and sidewalks and $150 million for public facilities (another $100 million will be issued for affordable housing projects). The City is currently in the process of determining how the first issuance will be allocated. The forecast does not include expenditure on, or revenue from Infrastructure Bond (Measure KK). As the capital outlays and revenues for Measure KK projects will be equal to one another the exclusion of these revenues and expenditures will not affect the overall structural balance of the City's budget.

While the Infrastructure Bond will substantially help reduce the City's backlog of unfunded high priority capital projects, the City's capital needs will likely still exceed available funding in certain categories such as storm drains and information technology infrastructure. Continued deferral of capital needs may result in legal costs associated with accidents and settlements, and impacts to the City's capacity to deliver services. For instance, deferral of maintenance of sidewalks may result in settlements for "trip & fall" accidents, deferral of maintenance for streets may result in vehicle related accident settlements, and deferral of maintenance for information technology systems could result in City-wide shut downs of critical applications necessary for service delivery and operations.

Expenditure Forecast Summary

The tables below provide Expenditures by Category for the GPF and All Funds, respectively.

Table 18 GPF Expenditures by Category (in millions)

Category	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Civilian Salaries & Payroll	$89.75	$92.34	$94.66	$97.18	$99.76
Civilian Fringe	$30.78	$31.60	$33.67	$35.96	$38.43
Civilian Retirement	$30.00	$37.13	$37.65	$45.66	$49.67
Police Salaries & Payroll	$105.70	$108.83	$112.93	$115.94	$119.03
Police Fringe	$30.57	$31.72	$33.85	$35.70	$37.70
Police Retirement	$32.40	$36.55	$44.06	$51.86	$56.64
Fire Salaries & Payroll	$66.84	$68.63	$70.47	$72.37	$74.31
Fire Fringe	$24.26	$24.91	$26.17	$27.51	$28.95
Fire Retirement	$24.51	$27.10	$31.59	$37.32	$40.82
O&M	$100.43	$100.44	$100.54	$101.71	$102.92
Debt, Transfers & Other	$44.75	$41.58	$41.00	$40.40	$39.78
Sub-Total	**$579.98**	**$600.83**	**$626.58**	**$661.61**	**$688.01**
Recommended OPEB Trust Payment	$10.00	$10.00	$10.00	$10.00	$10.00
Total	**$589.98**	**$610.83**	**$636.58**	**$671.61**	**$698.01**

Table 19 All Funds Expenditures by Category (in millions)

Category	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Civilian Salaries & Payroll	$254.25	$261.52	$268.28	$275.45	$282.82
Civilian Fringe	$72.88	$74.68	$79.61	$85.01	$90.86
Civilian Retirement	$70.83	$87.45	$88.72	$107.58	$117.01
Police Salaries & Payroll	$114.83	$118.42	$122.89	$126.17	$129.54
Police Fringe	$33.52	$34.82	$37.15	$39.19	$41.37
Police Retirement	$35.67	$40.26	$48.52	$57.12	$62.39
Fire Salaries & Payroll	$69.21	$71.02	$72.93	$74.88	$76.90
Fire Fringe	$24.39	$25.05	$26.31	$27.66	$29.10
Fire Retirement	$24.64	$27.24	$31.75	$37.51	$41.03
O&M	$292.22	$291.75	$295.80	$301.61	$307.60
Debt, Transfers & Other	$325.66	$323.90	$320.94	$319.83	$318.69
Sub-Total	**$1,318.09**	**$1,356.11**	**$1,392.90**	**$1,452.02**	**$1,497.30**
Recommended OPEB Trust Payment	$10.00	$10.00	$10.00	$10.00	$10.00
Total	**$1,328.09**	**$1,366.11**	**$1,402.90**	**$1,462.02**	**$1,507.30**

Historic Cost Containment & Fiscal Planning

Prior Legislative Action

City leadership has continuously recognized and addressed unfunded needs and planed for future circumstances. The City Council has adopted a number of policies to improve the city's financial conditions. The table below lists major relevant legislation.

Table 20 - Past Legislative Actions regarding Fiscal Policies

Policy	Date of Adoption	Resolution/Ordinance #
Policy on Balance Budget	July 15, 2003	Resolution #77922 C.M.S.
Policy on Charges for Services	July 15, 2003	Resolution #77924 C.M.S.
Reserve Policy – General Fund and Capital Improvement Fund	October 2, 2012	Ordinance #13134 C.M.S.
Investment Policy for FY 2013-14	June 18, 2013	Resolution # 84453 C.M.S.
Debt Management Policy and Swap Policy for FY 2012-13	October 16, 2012	Resolution #84063 C.M.S.
Long-Term Financial Planning	April 2, 2013	Resolution #84264 C.M.S.
Consolidated Fiscal Policy	December 9, 2014	Ordinance #13279 C.M.S.

Long-Term Structural Measures

The City has taken a number of key actions to structurally manage the City's long-term financial practices, including:

1. Maintaining 7.5% General Purpose Fund Emergency Reserve (Ordinance #13134 C.M.S.);
2. Use of one-time revenue for one-time expenditure (Ordinance #13134 C.M.S.);
3. Creating a Vital Services Stabilization Fund to limit reductions in services in the case of a recession – projected to have a balance of over $12 million by June 30, 2017.
4. Approval of Measure KK, the Capital Improvement Bond that will provide additional funding for capital improvements and help stabilize or reduce the cost of maintaining City infrastructure.
5. Negotiated with Oakland Police Officer's Association to increase contribution toward their pension to 12% beginning January 2017, Local 55, International Association of Firefighters members contribute 13%, Civilian employees contribute 8%;
6. Negotiated with all labor unions establishing the third tier of the pension benefit level, which further modified for public safety employees from 3% @ 50 formula to 2.7% @ 57 and for civilian employees from 2.5% @ 55 to 2.00% @ 62 effective January 2013;
7. Repayment of negative fund balances and pay down long-term debt and liabilities (Ordinance #13134 C.M.S.);
8. Pay down the negative fund balance with a repayment plan and one-time revenues (Ordinance #13134 C.M.S. and FY 2013-15 Budget, Resolution #86644 C.M.S.); and
9. Issued a pension bond to reduce/refinance Police and Fire Retirement System (PFRS) outstanding debt and increase funding ratio to the amount of $250 million in 2012 (Resolution #83940); and

10. Increase reserve when funds are available (Resolution #85085 C.M.S.). The total reserve in the General Purpose Fund is 8.02% as December 31, 2014.

Administrative Actions

The City has also undertaken a series of actions to ensure rigorous expenditure controls and proactive revenue collection. Examples include:

1. Implementation of the City Council's direction on financial policies and adopted budget items;
2. Closely monitor departmental expenditures and schedule regular meetings with departments to strengthen internal controls and communication;
3. Closely monitor hiring processes and ensure vacancies are only filled when positions are authorized and funded;
4. Closely review fund balance to avoid potential increase of negative fund balance;
5. Actively pursue revenue audits and collection;
6. Monitor revenue realization and use of one-time vs. on-going revenue;
7. Review and modify service fee charges to cover costs, where feasible; and
8. Review and modify internal service rate calculation.

The City will continue to address its fiscal challenges by growing its sustainable revenue base, reduce costs, improve its operational efficiency, and find innovative ways to operate.

SUMMARY & CONCLUSIONS

Comparison of Revenues & Expenditures

The following tables summarize both the expenditure and revenue forecast results by Fund Group and show the variance (shortfall) based on those values.

Table 21 GPF and All Funds Shortfall

GPF	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Expenditures	$589.98	$610.83	$636.58	$671.61	$698.01
Revenues	$559.35	$574.08	$589.81	$606.27	$627.52
Shortfall	**($30.63)**	**($36.75)**	**($46.77)**	**($65.34)**	**($70.49)**

All Funds	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Expenditures	$1,328.09	$1,366.11	$1,402.90	$1,462.02	$1,507.30
Revenues	$1,257.35	$1,278.39	$1,303.06	$1,328.78	$1,359.56
Shortfall	**($70.74)**	**($87.72)**	**($99.84)**	**($133.24)**	**($147.74)**

Risks, Opportunities, & Uncertainties

Possibility of Economic Contraction

Historically, periods of expansion are followed by economic contraction. According to the FY 2015-16 State of California Governor's Budget Summary, in the post war period (post World War II), the average expansion period lasts for approximately 5-6 years. Since the end of the Great Depression, there have been 13 recessions. This current economic expansion has exceeded 5 years. The longest period of economic expansion in the Post-War War II period was 10 years from 1991 to 2001 during the "Dot Com" boom. Thus, it would be inconsistent with historical patterns not to experience an economic contraction during the Forecast period. To address this historical trend, staff assumes slower overall growth in the outer years of the Forecast period.

Future Demographic Trends and Pressures on Service Levels

The City of Oakland's population is dynamic and diverse with many cultures and age groups and it is growing. Currently the City is experiencing an increase in population in the downtown area as new housing developments are built and new developments are planned in the near future. The majority of these housing units are aimed at young professionals, both single and beginning families, as Oakland is viewed as an affordable place to live and has established and reliable mass transit. The growing downtown is spurring growth to other areas of the City. However, as Oakland grows, it puts greater pressure on its aging infrastructure, such as streets and sewers, and curbs and sidewalks. As the population increases, this will increase the demand for community service programs, parks and recreation, after school programs, animal services, homelessness/housing needs, family assistance, and public safety. The Bay Area regional housing crisis will also place additional pressure on the City to prevent displacement of current residents and shelter & housing assistance to the most vulnerable.

Protest Activity & Related Police Services (Overtime)

Police costs remain one of the largest expenditures of the City of Oakland. Public safety is a top priority and to increase safety requires greater funding and puts strain on the General Purpose Fund to cover unexpected events, such as protests and civil unrest. Since these events are unplanned, extra police officers are required to protect the safety of Oakland's citizens as well as help to facilitate acts of free speech. These events result in a greater share of the General Purpose Fund to cover the overtime costs for extra officers needed to protect human safety and property.

Baby Boomer Retirements

Government employees are able to retire as early as age 55. As the population of employees increasingly reach or surpass this age, many retire and start collecting retirement benefits. Currently, the largest demographic age group able to retire are the "Baby Boomers," those born during 1946-1964 and are now between the ages of 53 and 71. The Baby Boomers represent the largest one period population increase of the country. As such, this impacts the ability of CalPERS to finance this age group's retirement, since there is such a large volume in the retirement pool. To balance this financing requirement, CalPERS has increased contribution rates from both the City of Oakland and employees. As the City pays the largest share, this requires large portions of the General Purpose Fund as retirement rates increase over time. Additionally, CalPERS recently issued a notice to its members that it would continue to reduce its assumed rate of return from 7.5% to 7.0% over the next three years.

Negative Fund Balances

Many non-GPF City funds have negative fund balances. These negative fund balances are the result of historical overspending and/or under-recovery, as well as operational deficits (cost increases outpacing revenue growth). Several of these funds have formal or informal repayments plans designed to reduce the negative balance. Notably, the repayment of the negative balance in the Facilities Fund is projected to provide an additional $3.6 million in facilities capital or savings to other funds beginning in FY 2019-20. Increasing repayments to the Self Insurance Liability Fund will, by contrast, place additional pressure on contributing funds. The negative fund balances of funds that lack sources or reimbursement and a repayment plan total roughly $14 million and will require new revenue sources or diversion of existing resources to resolve the negative balances.

Real Estate & Economic Development

Historically in the State of California, real estate developments, both residential and commercial, are major drivers of the state and local economic development. The employment rate and interest rate play a major role in determining housing demand. When the interest rate decreases and the employment rate increases, the result is an increase in construction. There are many subsections of the economy that are linked to the real estate development sector, such as professional trade services in the form of general contractors and architects, the purchase of durable consumer goods, and the construction of commercial structures, such as office complexes, manufacturing, and warehousing sites.

According to data received from the City's Planning Department, the City has approximately 18,000 new residential units, from projects such as Brooklyn Basin (3,100 units) and Oak Knoll (960 units) in the pipeline. The fiscal impacts from these projects anticipated to be completed during the forecast period are reflected in the Forecast.

During FY 2015-16 and FY 2016-17, approximately one half of the new residential units projected to be complete are considered "affordable" to low- and moderate-income households and therefore are exempt from imposition of property taxes and business license taxes derived from rental income. Under state law, real and personal property owned and operated by certain nonprofit organizations can be exempted from local property taxation through a program jointly administered by the Board of Equalization and County Assessors' Offices in California. For additional information visit: http://www.boe.ca.gov/proptaxes/proptax.htm. This exemption, known as the Welfare Exemption, is available to qualifying organizations that have income- tax-exempt status under Internal Revenue Code section 501(c)(3) or 23701(d) of the Revenue and Taxation Code and are organized and operated exclusively for religious, charitable, scientific or hospital purposes. Furthermore, the City exempts registered nonprofits from remitting business tax and RETT when real property is purchased by a nonprofit.

GPF revenues derived from increased assessed valuation is forecasted to increase $2.14 in FY 2017-18 and $3.35 million in FY 2018-19. These revenues will only be realized in those fiscal years if the projects complete construction within the anticipated time frame. The following table presents the revenue impacts from new residential units. Additional detail is provided in ***Appendix A.***

Table 22 - Projected Revenue from New Housing Units

Projected Revenue Increase (assuming timely project completion)	
Fiscal Year	**Property Tax Revenue**
FY2017-18	$2,147,925
FY2018-19	$3,350,100
FY2019-20	$5,109,975
FY2020-21	$2,239,575
Total	**$12,847,575**

Long-Term Impacts from the loss of redevelopment are still unknown. In the near term, there are still projects in the pipeline and remaining restricted bond funds that will help spur economic growth. However, without a replacement for the tools that redevelopment provided, surviving and recovering from the next economic recession may be even more difficult.

Medical Cost Inflation

The cost of providing health care to employees remains a large portion of the General Purpose Fund expenditures. If medical costs continue to increase greater than revenues, health care costs will require an increased share to the General Purpose Fund. Furthermore, non-general funds that cannot bear the cost increase may put pressure on the General Purpose Fund for a subsidy, such as the Head Start program. To promote employees' health and reduce costs, the City is emphasizing preventative measures such as offering health assessments, onsite flu shots, and an employee wellness program.

Federal Actions

Affordable Care Act Repeal. In early January, the Senate and House passed a resolution directing its various committees to draft legislation to repeal and replace the Affordable Care Act (ACA), also known as Obamacare. The measure narrowly passed the Senate by a vote of 51 to 48, while the House passed the bill largely along party lines in a 227 to 198 vote.

It is important to note that the resolution is not the official ACA repeal, as lawmakers have yet to change the laws that comprise the ACA. The resolution is merely the vehicle by which it will happen, offering the legislature a way to fast track changes without the threat of filibuster through reconciliation, a process which addresses federal budgetary issues and requires only a simple majority. Congress can now draft legislation to repeal how the ACA is funded, and pass laws with Republican votes. However, a replacement of the ACA would require a full 60 votes in the Senate to pass. As such, a timetable for the full repeal, as well as the development of a replacement healthcare, remains uncertain. While Congressional Republicans would like at least two years to phase in a replacement, the president is demanding an immediate repeal and replace.

The City has invested resources into ensuring compliance with the Affordable Care Act, which will be wasted if the ACA is fully repealed. Through the Affordable Care Act, 105,917 Alameda County residents are enrolled through the Medi-Cal/Medicaid Coverage expansion, which covers low-income individuals, seniors and families. An additional 64,110 Alameda County residents are enrolled in health insurance plans through the Covered California state exchange. In total, over 170,000 Alameda County residents - or 10.4% of the population - are at immediate risk of losing their health insurance coverage if Congress repeals the ACA without a replacement plan.

Federal Budget. In addition to healthcare cuts, there is currently uncertainty regarding federal spending and its potential impact on the City of Oakland. Currently, the federal government is operating under a Continuing Resolution (CR) for Fiscal Year 2017. This means that instead of passing a series of spending (i.e. appropriations) bills, or one large comprehensive spending bill, Congress authorized the government to operate on the previous fiscal year's spending levels. The current CR is set to expire by April 28, 2017, at which point Congress would need to pass its spending bills or extend last year's spending to the end of the current fiscal year, to avert government shutdown. Congress has the task of finalizing spending bills for the current fiscal year, while simultaneously setting the spending statutes for the 2017-2018 fiscal year.

Reports suggest that a budget proposal may come from the President as late as May 2017. The President's budget serves as a starting point for congressional budget negotiations, by which it drafts and approves its spending bills. If reports are accurate, the President's budget could include major cuts to programs that provide substantial support to the City. According to numerous sources, the proposal could include major cuts to the Department of Housing and Urban Development, including the elimination of the Community Development Block Grant (CDBG) program and deep cuts to the Section 8 Housing Voucher program, which heavily subsidizes affordable housing in the City. Other potential cuts could include ending Head Start, and diminishing the Supplemental Nutritional Assistance Program (SNAP).

Sanctuary Cities. In the Trump Administration, the future of federal grant funding remains uncertain at best. Throughout the election campaign, President Donald Trump promised to take away federal funding from "Sanctuary Cities," which loosely refers to cities, counties and other jurisdictions that limit their cooperation with federal immigration authorities through noncompliance with requests to detain, pursue or report undocumented immigrants who have had contact with local law enforcement.

In the current fiscal year (2016-2017), the City of Oakland has approximately $130 million in federal grants from recurring grants, one-time grants, or prior-year balances. The recurring annual federal funds total approximately $40 million, of which nearly half is for the Head Start and Early Head Start programs. Other recurring funds come from mandatory grants like the US Department of Housing and Urban Development (HUD)'s Community Development Block grant program, which provides funding on a formula basis for a variety of community needs ranging from economic development and housing to disaster relief. Non-recurring funds come from discretionary grant programs that are awarded through a competitive process. These grants include the US Department of Justice's Community Oriented Policing Services (COPS) grant, which provides funding for the hiring of new police officers. President Trump's executive order regarding sanctuary jurisdictions, as well as recent public statements, appears to threaten these areas of funding.

Due to Oakland's support of immigrants and practice of sanctuary jurisdiction policies, the City of Oakland could be considered a Sanctuary City according to the executive order, and therefore could be targeted for funding cuts. While there is cause for concern, there are numerous legislative hurdles and legal precedence that could drastically limit the Administration's ability to cut most federal programs for these jurisdictions. Mandatory federal funding programs that provide grants and financial assistance to cities require that funds be disbursed based on formulas mandated by statute. The same applies to other federal programs that provide direct assistance to residents of sanctuary cities, such as Medicare, Medicaid, and SNAP funding. Any changes to this standard would require legislation to be passed, which could prove difficult, even under single party control of the White House and Congress. Competitive grants are subject to both statutory eligibility requirements and administrative funding priorities. The Trump administration could add funding priorities making it tougher for sanctuary cities to compete, but these priorities must be consistent with the authorizing statute. In theory, when it comes to immigration policy, the Trump Administration has the power to only take away funds that are related to immigration and law enforcement. As such, the City could stand to lose $5.3 million in law enforcement related funding. Efforts to restrict funding for sanctuary cities on matters unrelated to law enforcement or immigration could expose the grant program to lawsuits, potentially freezing funding for the whole program.

San Francisco City Attorney Dennis Herrera recently filed suit challenging President Trump's executive order on sanctuary cities. The suit claims that the order is unconstitutional and exceeds the president's power. Specifically, the suit alleges that Trump's order violates the Tenth Amendment, which states that powers not explicitly given to the federal government by the Constitution are reserved for the states. There is legal precedence to support the claim. In 2012, when the Supreme Court ruled on the constitutionality of the Affordable Care Act (ACA) in case "NFIB v. Sebelius," it created a precedent stating that the federal government cannot coerce states or cities into action by threatening to withhold financial assistance. Based on this standard, federal courts may similarly find restricting non-law enforcement-related funding from sanctuary cities is unconstitutional.

In addition, the State of California has taken a strong position against the Executive Order, and has recently introduced legislation to become a Sanctuary State. Trump recently stated intentions to cut all federal funding from the State of California if it were to designate itself as a Sanctuary jurisdiction, which could ultimately jeopardize federal pass through funding from State agencies. However, any reduction of funding would most likely be challenged by the State.

State Actions

Budget: In the FY 2017-18 Proposed Budget, Governor Gerry Brown anticipates that the overall state economy, which has been growing steadily for the last several years, will grow at a much slower pace in the upcoming year. According to the Administration's forecast, if corrective action is not taken, the FY 2017-18 budget would have a $1.6 billion budget deficit, as well as deficits of $1 to $2 billion in the following three budgets. The projected decrease is due to a lower forecast for all three major revenue sources. Over the past three fiscal years, personal income tax is down $2.1 billion, sales tax is down $1.9 billion, and corporation tax is down $1.7 billion. According to the Governor's budget proposal:

- **Downgraded revenue forecast for personal income tax is driven by lower wage growth.** Because of the increases in the minimum wage, a greater share of the growth in wages appears to be going to lower income workers. Thus, the budget calls both for lower wage growth and for that growth to be distributed more evenly among taxpayers. The more equal distribution of wages reduces the average tax rate.

- **The sales tax forecast** has been reduced to reflect slower growth in consumer spending and business investment. California's high housing costs are reducing the amount of disposable income.
- **The reduced corporation tax forecast** reflects continued weak performance for corporate tax receipts.

To address the potential budget deficit in FY 2017-18, the Administration is proposing $3.2 billion in corrective actions. If the Legislature adopts these actions, the budget will contain a $1.6 billion reserve in FY 2017-18 and will be balanced into the future.

The California Legislative Analyst Office (LAO) sees the Governor's revenue projections as too conservative and projects growth at a higher rate. The Governor's projections for a contracted economy and tightened budget could change in May, once revenue numbers for the current year are more complete. However, the Governor's budget did not account for how the new President's policies will impact California, and therefore could have a major effect on the State's budgetary process moving forward. For example, the FY 2017-18 budget contains $800 million for the State's portion of Medi-Cal expansion from the Affordable Care Act. This $800 million assumes that the federal government will continue to provide a 95% funding level, as was set forth in the ACA. Now that Congress is working on a repeal of Obamacare, which could include the end of the Medicaid expansion, California could be responsible for a significantly higher level of funding to sustain healthcare coverage for low-income individuals.

Cap and Trade: The Cap and Trade program is a program that sets carbon emission limits, but allows for the purchase of additional credits above limits. The revenue, which is funneled into the Greenhouse Gas Reduction Fund (GGRF), represents a significant funding source for city projects that focus on greenhouse gas emissions. Local governments and/or developers can apply for the Cap and Trade grants to develop the affordable housing and transportation projects. In FY 2016-2017, the City and partnering developers secured nearly $50 million in grants and financing through the California Strategic Growth Council's Affordable Housing and Sustainable Communities Program (AHSC).

There are some considerable risks to the future of the Cap and Trade program. While previous quarterly credit auctions yielded hundreds of millions of dollars in revenue, two auctions in 2016 netted a total of $18 million, calling into question the sustainability of the program. Much of the volatility within the Cap and Trade market was attributed to lower costs for credits in secondary markets, as well as a pending court case challenging the legal validity of cap and trade, arguing that it is a tax not passed through the state legislature. In November, auction proceeds rebounded to $364 million, mitigating some of the uncertainties about the program. Being cautiously optimistic, the Governor's proposed budget allocates a total of $2.2 billion next year as part of the cap and trade investment plan. However, in order for the funds to be included in the budget, the Governor is requiring that the Legislature take action to extend the authorization of the cap and trade program beyond 2020. This is an action requiring a 2/3 vote of the Legislature, which is likely to pass with the current Democratic super majority. As such, while the program may face a few challenges moving forward, it is anticipated that GGRF funds will be in place and could serve as a source of grant funding for the City for years to come.

Reserves

Reserves help cities weather multi-year economic downturns, provide essential funding during natural disasters, provide for the support of essential City services, and reduces the financing costs through better credit ratings. As evidenced by the State, the City should continue to invest in reserves since economic downturns are inevitable.

New Revenue Sources

With limited financial resources, the City could seek out for additional revenue sources. The passage of Measure Z (Violence Prevention & Public Safety) in 2014 and Measure KK (Infrastructure & Housing Bond) in 2016, by wide margins, indicate that residents have been willing to pay additional taxes for services. Further recent polling suggests that more than two-thirds of Oaklanders are willing to pay additional taxes and fees to maintain and improve 19 of 28 City services. A majority of Oaklanders are willing to pay additional taxes and fees to maintain and improve 27 of the 28 City services polled.

Fee Recovery

Fee recovery is a funding source for which the City has substantial control. A large number of fees were reviewed and revised to be full cost recovery in the FY 2015-16 cycle. However, many City fees still do not meet full cost recovery, which results in the need for additional funding resources from the General Purpose Fund to fill the gap. When no additional funds are available, a lack of sufficient funding to meet service needs is the result.

Pre-Funding Unfunded Liabilities

As detailed earlier in this report, unfunded liabilities, specifically pension obligations, represent a significant financial liability. New CalPERS regulations require that Cities contribute larger amounts towards pension obligations to account for increased medical costs and longer life expectancy rates. In general, allocating additional funds for paying down pension obligations will reduce the City's long-term liabilities.

Investing in Employee Skills & Wellness

The Harvard Business Review reported in 2014 that 39% of employers had difficulty finding employees that have the necessary skills to fill vacancies. To be able to provide services that meet new demands, the City should seek out training opportunities for employees to learn new skills or update existing skills. This is especially true for the highly competitive technology fields that can attract qualified candidates with high salaries and perks with which cities cannot compete. One alternative could be for the city to focus on training internal candidates for these positions. Additionally, studies find the latest generation of workers are looking for jobs that offer better work-life balance.

Beginning in FY 2014-15 the City has been rebuilding its training program with approved funding for a training coordinator. This positon has been able to organize training opportunities to improve employees' skills and on personal/health development, which could potentially decrease city healthcare costs and other liabilities.

Investing in Technology

The upgrade of the City's technology infrastructure and investment in new systems can increase productivity and ensure that decision makers have sufficient data to make informed decisions. The City has a large amount of informative data, but lacks tools to be able to sort and analyze these large data sets. In many areas of the City's operations manual processes are present or there inefficient and/or inadequate IT systems that create additional burdens on City staff.

New Practices & Service Delivery Models

The continued review of our internal processes will help the City identify potential cost savings and the implementation of efficiencies. Critical city resources should be allocated to initiatives that prove to be effective and the disinvestment should be encouraged in initiatives that are failing and/or underperforming. Pilot projects are an effective tool to test projects before citywide implementation. The implementations of large projects contain a number of variables that sometimes cannot be defined until they are implemented. Pilot projects allow one or multiple ideas to be tested and the effectiveness can be closely monitored to ensure effectiveness. Since these are often small scale projects, they require less financial and staff resources to implement.

Key Conclusions

The local economy, particularly the real estate market, has recovered from the Great Recession. Given that City revenues are highly tied to real estate, revenues are growing at a healthy rate. New economic development is expected to add a sustainable revenue base to the City. However, there is risk of contraction during the Forecast period based on historical experience with prior economic cycles.

Expenditures are rising faster than revenues at current service levels, particularly medical and retirement costs. Notably in FY 2018-19, the impact of the CalPERS reduced rate of return is expected to impact the City. In addition to service demands on the operating budget, there are pressures associated with long-term liabilities and capital needs not covered by recently passed Measure KK Infrastructure Bond, such as technology.

The combined risks of a possible economic contraction, uncertainty with regard to the impact of federal policy changes, expenditure growth rates and long-term liability payments will continue to squeeze City finances in the near-term. The City should focus on long-term sustainability by 1) further diversifying the City's economic base, 2) managing expenditure growth and implementing service delivery efficiencies, and 3) prudent reduction of long-term liabilities. Rather than adding services or programs, the City must focus on properly funding and improving its current mandates and priorities. The City will consider an array of strategies to address the projected budget shortfall, which is often some combination of revenue growth and expenditure reduction.

APPENDIX A-
Major Housing Projects FY 2015 to FY 2030

Year	Major Housing Projects	Units Available when Complete	Proposed Affordable	Nbr. Market Rate Units	Projected Value	Projected Property Tax	Year Projected Complete
2016	Former Bay Chevrolet	435	0	435	$ 217,500,000	$ 565,500	2017
2016	Valdez & 23rd	193	0	193	$ 96,500,000	$ 250,900	2017
2016	1401 Wood St, Town Houses Phase1	171	0	171	$ 85,500,000	$ 222,300	2017
2016	The Courthouse	162	0	162	$ 81,000,000	$ 210,600	2017
2016	Broadway & 51st Street, Merrill Gardens, Senior Housing	127	0	127	$ 63,500,000	Unknown due to possible Age 55 Exemptions	2017
2016	The Temescal	126	0	126	$ 63,000,000	$ 163,800	2017
2016	Jefferson Apartments	84	0	84	$ 42,000,000	$ 109,200	2017
2016	Micro Units Valdez St.	71	71	0	$ -	$ -	2017
2016	Prosperity Place, 1110 Jackson Street	71	71	0	$ -	$ -	2017
2016	Derby Lofts	63	0	63	$ 31,500,000	$ 81,900	
2016	Valley & 23rd	65		65	$ 32,500,000	$ 84,500	2017
2016	Kingfish	33		33	$ 16,500,000	$ 42,900	
2016	632 14th Street	40	40	0	$ -	$ -	2017
2016	Temescal (4801 Shattuck)	42	0	42	$ 21,000,000	$ 54,600	2017
2016	Jingle Town	41	0	41	$ 20,500,000	$ 53,300	2017
2016	528 Berkley	25	0	25	$ 12,500,000	$ 32,500	2017
2016	388 12th Street	25	25	0	$ -	$ -	2017
2016	1400 Wood Street	10	0	10	$ 5,000,000	$ 13,000	2017
2016	5500 Lowell	8	0	8	$ 4,000,000	$ 10,400	2017
2016	5801 Lowell	15	0	15	$ 7,500,000	$ 19,500	2017
2016	4425 Piedmont	3	0	3	$ 1,500,000	$ 3,900	2017
2016	4435 Piedmont	25	0	25	$ 12,500,000	$ 32,500	2017
2016	4449-4467 Howe Street	10	0	10	$ 5,000,000	$ 13,000	2017
2016	Webster & 4th street JLS	8	0	8	$ 4,000,000	$ 10,400	2017
2016	Leona Quarry Townhouses	10	0	10	$ 5,000,000	$ 13,000	2017
2016	Single Family Dwelling	60	0	60	$ 30,000,000	$ 78,000	Varies
2016	Duplexes	8	0	8	$ 4,000,000	$ 10,400	Varies
2016	Triplexes	6	0	6	$ 3,000,000	$ 7,800	Varies
2016	Four-plexes	4	0	4	$ 2,000,000	$ 5,200	Varies
2016	Broadway & 2nd	48	0	48	$ 24,000,000	$ 62,400	2017
2016	Temescal (4700 Telegraph)	47	0	47	$ 23,500,000	$ 61,100	2017

Year	Major Housing Projects	Units Available when Complete	Proposed Affordable	Nbr. Market Rate Units	Projected Value	Projected Property Tax	Year Projected Complete
2016	6137 MacArthur	5	0	5	$ 2,500,000	$ 6,500	2017
2016	6809 Skyview	6	0	6	$ 3,000,000	$ 7,800	2017
2016	Former Bay Chevrolet	435	0	435	$ 217,500,000	$ 565,500	2017
2017	2126 MLK Way	62	62	0	$ -	$ -	2017
2017	Coliseum Transit Village	110	55	55	$ 27,500,000	$ 71,500	2017
2016	27th & Broadway	255	0	255	$ 127,500,000	$ 331,500	2018
2017	Brooklyn Basin Phase I 845 Embarcadero @ 9th	241	0	241	$ 120,500,000	$ 313,300	2018
2017	MacArthur Transit Village Parcel A	286	18	268	$ 134,000,000	$ 348,400	2018
2017	MacArthur Transit Village Parcel c	96	0	96	$ 48,000,000	$ 124,800	2018
2017	Valley & 23rd (456 23rd St)	34	0	34	$ 17,000,000	$ 44,200	2018
2017	Kia Dealership	146	0	146	$ 73,000,000	$ 189,800	2018
2017	Icehouse	125	0	125	$ 62,500,000	$ 162,500	2018
2017	Mews House	47	0	47	$ 23,500,000	$ 61,100	2018
2017	Hannah Street	47	0	47	$ 23,500,000	$ 61,100	2018
2017	Hollis Street	94	0	94	$ 47,000,000	$ 122,200	2018
2017	The Union	110	0	110	$ 55,000,000	$ 143,000	2018
2017	Central Station	235	0	235	$ 117,500,000	$ 305,500	2018
2017	4690 Tompkins	40	0	40	$ 20,000,000	$ 52,000	2018
2017	2100 MLK Way	100	100	0	$ -	$ -	2018
2017	3268 San Pablo	40	40	0	$ -	$ -	2018
2017	Broadway & 17th	254	0	254	$ 127,000,000	$ 330,200	2018
2017	2855 Broadway	212	0	212	$ 106,000,000	$ 275,600	2018
2017	3000 Broadway	128	0	128	$ 64,000,000	$ 166,400	2018
2017	905 72nd Street	59	59	0	$ -	$ -	2018
2017	377 2nd Street - JLS	134	0	134	$ 67,000,000	$ 174,200	2018
2017	335 3rd Street - JLS	18	0	18	$ 9,000,000	$ 23,400	2018
2017	1801 Wood Street	100	100	0	$ -	$ -	2018
2017	Temescal	185	0	185	$ 92,500,000	$ 240,500	2018
2017	Jack London Square	260	0	260	$ 130,000,000	$ 338,000	2018
2017	3927 Wattling	79	79	0	$ -	$ -	2018
2017	Alice & 17th	150	0	150	$ 75,000,000	$ 195,000	2018
2017	718 Clay Street	24	0	24	$ 12,000,000	$ 31,200	2018
2017	53rd & San Pablo	16	0	16	$ 8,000,000	$ 20,800	2018
2017	34th & Louise	8	0	8	$ 4,000,000	$ 10,400	2018
2017	Hannah Park Residence	92	0	92	$ 46,000,000	$ 119,600	2018
2017	Chase Street	12	0	12	$ 6,000,000	$ 15,600	2018
2017	2242 Magnolia	16	0	16	$ 8,000,000	$ 20,800	2018

Year	Major Housing Projects	Units Available when Complete	Proposed Affordable	Nbr. Market Rate Units	Projected Value	Projected Property Tax	Year Projected Complete
2017	4200 Filbert Street	55	0	55	$ 27,500,000	$ 71,500	2018
2017	1437 34th Street	8	0	8	$ 4,000,000	$ 10,400	2018
2017	2503 Adeline	9	0	9	$ 4,500,000	$ 11,700	2018
2017	40th & Shafter	51	0	51	$ 25,500,000	$ 66,300	2018
2017	2805 Park Blvd	20	4	16	$ 8,000,000	$ 20,800	2018
2017	Single Family Dwellings	50	0	50	$ 25,000,000	$ 65,000	2018
2017	Bay Alarm - Chinatown	160		160	$ 80,000,000	$ 208,000	2019
2017	2450 Valdez	225		225	$ 112,500,000	$ 292,500	2019
2017	Acura Site	437		437	$ 218,500,000	$ 568,100	2019
2017	The Webster	235	36	199	$ 99,500,000	$ 258,700	2019
2017	1700 Webster	206		206	$ 103,000,000	$ 267,800	2019
2017	MacArthur Transit Village Parcel B	357	45	312	$ 156,000,000	$ 405,600	2019
2017	2538 Telegraph Avenue	97		97	$ 48,500,000	$ 126,100	2019
2017	T5-6	250	20	230	$ 115,000,000	$ 299,000	2019
2017	4th & Madison	330		330	$ 165,000,000	$ 429,000	2019
2017	Coliseum Place	59	59	0	$ -	$ -	2019
2017	Alice & 14th	125		125	$ 62,500,000	$ 162,500	2019
2017	Church Rehab	60	60	0	$ -	$ -	2019
2017	Lucasey Lofts	200		200	$ 100,000,000	$ 260,000	2019
2018	3884 MLK Way	40		40	$ 20,000,000	$ 52,000	2019
2018	2970 Summit	8		8	$ 4,000,000	$ 10,400	2019
2018	Merchants Garage Site	575		575	$ 287,500,000	$ 747,500	2019
2018	Webster & 15th	176		176	$ 88,000,000	$ 228,800	2019
2018	Harrison & 13th	250		250	$ 125,000,000	$ 325,000	2019
2018	MacArthur BART Village	152		152	$ 76,000,000	$ 197,600	2019
2018	Brooklyn Basin	400		400	$ 200,000,000	$ 520,000	2019
2018	2305 Webster	200		200	$ 100,000,000	$ 260,000	2019
2018	12th & Webster (339/77)	416		416	$ 208,000,000	$ 540,800	2019
2018	657 W MacArthur Blvd	41	9	32	$ 16,000,000	$ 41,600	2019
2018	Webster - Harrison	224		224	$ 112,000,000	$ 291,200	2019
2018	1508 Webster - On Hold	12		12	$ 6,000,000	$ 15,600	na
2018	3129 Elmwood Avenue	30		30	$ 15,000,000	$ 39,000	2019
2018	40th & Telegraph	19		19	$ 9,500,000	$ 24,700	2019
2018	5325 San Pablo	18		18	$ 9,000,000	$ 23,400	2019
2018	Parcel 4 Site	250	100	150	$ 75,000,000	$ 195,000	2019
2018	335 3rd Street	18		18	$ 9,000,000	$ 23,400	2019
2018	12th Street Remainder	330	150	180	$ 90,000,000	$ 234,000	2020

Year	Major Housing Projects	Units Available when Complete	Proposed Affordable	Nbr. Market Rate Units	Projected Value	Projected Property Tax	Year Projected Complete
2018	19th & Harrison	220		220	$ 110,000,000	$ 286,000	2020
2018	14th & Harrison	250		250	$ 125,000,000	$ 325,000	2020
2018	Jack London Square	400		400	$ 200,000,000	$ 520,000	2020
2018	West Oakland BART Area	417		417	$ 208,500,000	$ 542,100	2020
2018	Uptown Housing	220		220	$ 110,000,000	$ 286,000	2019
2018	Uptown Housing	110		110	$ 55,000,000	$ 143,000	2019
2018	1900 Broadway	300		300	$ 150,000,000	$ 390,000	2019
2018	Oak Knoll - Phase I	200		200	$ 100,000,000	$ 260,000	2020
2018	Redwood Hill	28	28	0	$ -	$ -	2020
2018	Single Family Dwellings	50		50	$ 25,000,000	$ 65,000	Varies
2020+	Brooklyn Basin	465	465	0	$ -	$ -	2020-29
2020+	Brooklyn Basin	1,935		1,935	$ 967,500,000	$ 2,515,500	2020-29
2020+	Broadway Valdez Tower	250		250	$ 125,000,000	$ 325,000	2020-29
2020+	International & 105th Avenue	300		300	$ 150,000,000	$ 390,000	2020-29
2020+	Camino 23	50	50	0	$ -	$ -	2020-29
2020+	Fruitvale Village	275	54	221	$ 110,500,000	$ 287,300	2020-29
2020+	Red Start Yeast Site	50		50	$ 25,000,000	$ 65,000	2020-29
2020+	Broadway Valdez - VW Site	273		273	$ 136,500,000	$ 354,900	2020-29
2020+	Telegraph Plaza	250	50	200	$ 100,000,000	$ 260,000	2020-29
2020+	Emerald Views	370		370	$ 185,000,000	$ 481,000	2020-29
2020+	Oak Knoll - Later Phases	700		700	$ 350,000,000	$ 910,000	2020-29
2020+	1331 Harrison	166		166	$ 83,000,000	$ 215,800	2020-29
2020+	1800 San Pablo	200	50	150	$ 75,000,000	$ 195,000	2020-29
2020+	Siena Hill	32		32	$ 16,000,000	$ 41,600	2020-29
GRAND TOTAL				**18,001**	**$9,000,500,000**	**$23,401,300**	

APPENDIX B-
Consolidated Fiscal Policy

CITY OF OAKLAND

CONSOLIDATED FISCAL POLICY

Section 1. Budgeting Practices

Part A. General Provisions

The City's Fiscal Year shall run from July 1st through June 30th of the subsequent year and the Budget shall be adopted by resolution as provided by the City charter.

The City shall adopt a two-year (biennial) policy budget by July 1st of odd-numbered calendar years. The City shall amend its biennial policy budget (Midcycle) by July 1st of even-numbered years.

Part B. Policy on Balanced Budgets

The City shall adopt balanced budgets, containing appropriated revenues equal to appropriated expenditures. This policy entails the following additional definitions and qualifications:

1. The budget must be balanced at an individual fund level.
2. City policies on reserve requirements for individual funds must be taken into account. The appropriated expenditures to be included in the balanced budget equation must include the appropriations necessary to achieve or maintain an individual fund's reserve target.
3. Appropriated revenues can include transfers from fund balance where such fund balance is reasonably expected to exist by the end of the fiscal year preceding the year of the adopted budget. Transfers from fund balance are not to be counted as revenue if the fund balance is not reasonably expected to exist by the end of the fiscal year proceeding the year of the adopted budget. (Note: The precise definition of 'fund balance' will vary from fund to fund, depending on the fund's characteristics and accounting treatment.)
4. Appropriated expenditures can include transfers to fund balance or to reserves.

The City Administrator shall be responsible for ensuring that the budget proposed to the City Council by the Mayor, adheres to the balanced budget policy.

From time to time the City Council may present changes in policy and consider additional appropriations that were not anticipated in the most recently adopted budget. Fiscal produced required that prior to Council approval of such actions the following occur:

1. Identification of a new or existing viable funding source whose time span reflects the timing of the expenditure or lasts until the approval of the next biennial budget.
2. The budget must be amended in such a way as to maintain a balanced budget where appropriated revenues are equal to appropriated expenditures.

Each fiscal year, once prior year information has been made available, the City Administrator shall report to the Council how actual year-end revenues and expenditures compared to budgeted revenues and expenditures in the General Purpose Fund and such other funds as may be deemed necessary.

Part C. Use of Excess Real Estate Transfer Tax (RETT) Revenues

To ensure adequate levels of the General Purpose Fund reserves and to provide necessary funding for municipal capital improvement projects and one-time expenses, 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: Any amounts of projected RETT revenues whose value exceeds 14% of corresponding General Purpose Fund Tax Revenues (inclusive of RETT).

2. The excess Real Estate Transfer Tax collections, as described in this section, shall be used in the following manner and appropriated through the budget process.

   a. At least 25% shall be allocated to the Vital Services Stabilization Fund. Until the value in such fund is projected to equal to 15% of General Purpose Fund revenues over the coming fiscal year.

   b. At least 25% shall be used to fund accelerated debt retirement and unfunded long-term obligations: including negative funds balances, to fund the Police and Fire Retirement System (PFRS) liability, to fund other unfunded retirement and pension liabilities, unfunded paid leave liabilities, to fund Other Post-Employment Retirement Benefits (OPEB).

   c. The remainder shall be used to fund one-time expenses; augment the General Purpose Fund Emergency Reserve, and to augment the Capital Improvements Reserve Fund.

3. Use of the "excess" RETT revenue for purposes other than those established above may only be allowed by a super majority vote (6 out of 8) of the City Council through a separate resolution.

   a. The resolution shall be supported by a statement explaining the necessity for using excess RETT revenues for purposes other than those established above and;

   b. The resolution authorizing expenditures using excess RETT revenue for proposes other than those above shall include a finding of necessity by the City Council; and

   c. The resolution shall also include steps the City will take in order to return to utilizing one-time RETT revenues as described above.

4. Following the completion of the annual audit, audited revenues will be analyzed to determine whether the appropriate value was transferred to the Vital Services Stabilization Fund and to fund accelerated debt retirement and unfunded long-term obligations. If is found that insufficient funds were transferred then a true-up payment shall be made as a part of the next fiscal year's budget process. If the transfers exceeded the actual required amounts, then the amounts in excess may be credited against future allocations in the next fiscal year's budget process.

Part D. Use of One Time Revenues

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 "B" above.

2. Fiscal prudence and conservancy requires that one time revenues not be used for recurring expenses. Therefore, upon receipt of one time revenues, such revenues shall be used in the following manner, unless legally restricted to other purposes: to fund one time expenditures, to fund accelerated debt retirement and unfunded long-term obligations: including negative funds balances, to fund the Police and Fire Retirement System (PFRS) liability, to fund other unfunded retirement and pension liabilities, unfunded paid leave liabilities, to fund Other Post- Employment Retirement Benefits (OPEB);or shall remain as fund balance in the appropriate fund.

3. Use of the "one time revenues" for purposes other than those established above may only be allowed by a super majority vote (6 out of 8) of the City Council through a separate resolution

    a. The resolution shall be supported by a statement explaining the necessity for using one-time revenues for purposes other than those established above; and

    b. The resolution authorizing expenditures utilizing one-time revenue for proposes other than those above shall include a finding of necessity by the City Council; and

    c. The resolution shall also include steps the City will take in order to return to utilizing one-time revenues as described above.

Part E. Use of Unallocated General Purpose Fund Balance.

Any unallocated General Purpose Fund balance, as projected based upon the 3rd Quarter Revenues and Expenditures forecast, and not budgeted for other purposes, shall be used in accordance with Part D.

Part F. Analysis of Payments for Debt or Unfunded long-term obligations from certain revenues

When allocating funds to fund accelerated debt retirement and unfunded long-term obligations from excess Real Estate Transfer Tax and One Time Revenues the City Administrator shall present his or her analysis and recommendations to the Council based on the best long-term financial interest of the City. The term Unfunded long-term obligations shall be clearly defined, as part of the budget process.

Part G. Criteria for Project Carryforwards and Encumbrances in the General Purpose Fund.

Previously approved but unspent project appropriations ("carryforwards"), as well as funding reserved to fund 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 non-operating projects and purchases shall be restricted within 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 September 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 GPF carryforwards or encumbrances must be submitted in writing to the Budget Director within five (5) working days of receiving an advisory from the Budget Director 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 September 20, and all requesting departments should be so notified by September 30.

Part H. Grant Retention Clauses

Prior to the appropriation of revenues from any grant outside of the budget process, the City Council shall be informed of any retention clauses that require the City to retain grant-funded staff, services, programs, or operations beyond the term of the grant. The fiscal impacts of such retention clauses shall be disclosed. During the biennial budget process staff shall report to the Council the ongoing projected fiscal impacts of such retention clauses.

Part I. Alterations to the Budget

Substantial or material alterations to the adopted budget including shifting the allocation of funds between departments, substantial or material changes to funded service levels, shall be made by resolution of the City Council.

Part J. Transfers of Funds between accounts.

The City Administrator shall have the authority to transfer fund between personnel accounts, and between non-personnel accounts within a department. The City Administrator shall have the authority to transfer funds allocated to personnel accounts to non-personnel accounts within a department provided that cumulative transfers within one fiscal year do not exceed 5% of the original personnel account allocation of that department. The City Administrator shall have the authority to transfer funds from non-personnel accounts to personnel accounts within a department. For the purposes of this section accounts for the provision of temporary personnel services shall be considered personnel accounts.

Part K. Pay-Go Account Expenditures & Grants and Priority Project Fund Expenditures & Grants

The City Council herby finds and determines that it is in the public interest to spend Pay-go account fund to facilitate and support programs & services of the City of Oakland, capital improvement projects of the City of Oakland, and programs & capital improvement projects of the public schools and other public entities within the City of Oakland. The Council authorizes Pay-Go account funds to be used for the following purposes:

Capital Improvements:

1. To pay for or augment funding for a City of Oakland capital improvement project including planning and pre-construction services for projects such as, but not limited to,

feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and decorative elements of the project; and

2. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or other public entity for use on capital improvement project within the City of Oakland, including planning and pre-construction services for projects such as, but not limited to, feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and decorative elements of the project; and

Furniture, Equipment:

3. To pay for or augment funding for purchase of furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the City of Oakland; and

4. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or another public entity to be used for furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the public school or public entity.

Pay-go purposes stated above shall operate as restrictions on Pay-go expenditures or Pay-go grants, regardless of the Pay-go account funding source.

Pay-go purposes stated above shall apply to any and all Pay-go expenditures or grants made by the Mayor and each City Councilmember.

All Pay-go expenditures and grants shall be administered by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

In accord with the City Council's motion approving the initial allocation of Councilmember Priority Project funds on June 8, 2006, the City Councilmembers must obtain City Council approval for all Priority Project expenditures.

All Priority Project fund grants approved by the City Council and shall be administered and executed by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

Section 2. Reserve Funds

Part A. General Purpose Fund Emergency 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 (7.5%) of the General Purpose Fund (Fund 1010) appropriations for such fiscal year (the "General Purpose Fund Emergency 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 Funds Emergency Reserve to the City Council and on the adequacy of the 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 Funds Emergency 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 Funds Emergency 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.

4. Prior to appropriating monies from the General Purpose Funds Emergency Reserve, the City Administrator shall prepare and 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.

Part B. Vital Services Stabilization Fund Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Vital Services Stabilization Fund.

2. In years when the city projects that total General Purpose Fund revenues for the upcoming fiscal year will be less than the current year's revenues, or anytime service reductions (such as layoffs or furloughs) are contemplated due to adverse financial conditions, use of this fund must be considered so as to maintain existing service levels as much as possible, and to minimize associated impacts; and the adopted budget may appropriate funds from the Vital Services Stabilization Fund to preserve city operations; however, the budget may not appropriate more than sixty percent of the reserve balance in any year.

The Mayor and City Administrator and/or their designees will meet and discuss the key features of the Mayor's proposed draft budget with the labor unions, which represent City employees as duly authorized representatives for their respective bargaining units, in accordance with applicable state labor law, provided the labor unions can respond within the timeline required.

The timeline may be restricted and may require short notice. Reasonable notice shall be provided to the labor unions. Further, information contained in the Mayor's budget prior to release is in draft form and subject to change before a final version is released to the City Council and the public.

3. Any deviations from this policy, including the need to address unusual and temporary increases in baseline expenditures, must be made by Resolution requiring a minimum of 6 votes. The Resolution must include (1) a statement explaining the necessity for the deviation and (2) a plan for replenishing the reserve.

Part C. Capital Improvements Reserve Fund

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a 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. Revenue received from one time activities, including the sale of Real Property, shall be deposited into the Capital Improvements Reserve Fund, unless 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 funds 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. If in any fiscal year the Capital Improvements Reserve Fund threshold of $6,000,000 is not met, the City Administrator shall present to Council a strategy to meet said threshold.

Section 3. Budget Process, Fiscal Planning, Transparency, and Public Participation

All Timelines apply only to budget development years, normally odd numbered years and not to mid-cycle revisions to an adopted two-year budget.

1. Council Initial Budget Briefing and Priorities Discussion

Timeline: January.

Requirements: The Mayor and City Council will hold a bi-annual budget workshop soon after the commencement of the Council term. The workshop will include briefings on estimated baseline expenditures, revenue projections and an overview of the City's budgeting process. The workshop will provide the Mayor and Council with the opportunity to begin discussing priorities for the next budget year based on preliminary projected increases or decreases in the next budget.

2.Five-Year Forecast

Timeline: Produced and heard by the Council's Finance & Management Committee in February. Forecast Fact Sheets should be distributed to City community centers and Forecast data should be available on Open Data Portal within two weeks of the Committee hearing.

Requirements: Each Budget Cycle, the City Administrator must prepare a Five-Year Forecast.

The Five-Year Financial Forecast ("Forecast") is a planning tool that estimates the City's likely revenues and expenditures over a future period of at least five-years, based on appropriate financial, economic, and demographic data. The purpose of the Forecast is to surface all major financial issues and estimate future financial conditions to support informed long-term planning and decision making regarding issues such as expenditures, labor negotiations, economic development policies, and revenue policies. Such planning provides for greater financial stability, signals a prudent approach to financial management, and brings the City into compliance with current best practices of other governmental entities.

The Forecast shall contain the two-year baseline budget for the forthcoming two-year budget period, clearly reflecting projected expenditures to maintain existing service levels and obligations, plus at least an additional three- year forecast of revenues and expenditures. The Baseline Budget shall consist of projected expenditures necessary to maintain existing staffing and service levels, plus an estimate of anticipated revenues for the two-year period.

The Forecast shall also contain information on the variance between prior forecasts and actual amounts, including the factors that influenced these variances. Revenue estimates shall be based on the most current data available; minimally revenue projections shall take into account projected revenue for the current fiscal year, as reflected in the 2nd quarter Revenue and

Expenditure Report, with appropriate trending into future years and an explanation as to how such revenue projections were derived.

The report shall include a Five-year Forecast "Fact Sheet" document, which summarizes the Forecast's key findings with simplified text and graphics so as to make this important budgetary information more accessible to the general public. Within two weeks after the Forecast is accepted by the City Council, the City Administrator shall print and distribute the Forecast Fact Sheet to all City libraries, recreation centers and senior centers, including in languages required by Oakland's Equal Access Ordinance. The full Forecast shall also be posted on the City of Oakland's website. Forecast data shall be available in open data format on Oakland's data portal.

3.Assessment of Stakeholder Needs, Concerns and Priorities

Timeline: Budget Advisory Committee review prior to survey release. Survey completion by February 15th. Results publicly available within two weeks of survey's close.

Requirements: During the prior to Budget Adoption of a budget adoption year, the City Administrator should develop or secure a statistically valid survey for assessing the public's concerns, needs and priorities. Whenever feasible, the City should conduct a professional poll administered to a statistically relevant and valid sample of residents that is representative of Oakland's population in terms of race, income, neighborhood, age, profession, family size, homeownership/renter-ship, etc. If that's not possible, then demographic information should be collected and reported out with the survey results.

Prior to release, the survey questions shall be submitted to the Budget Advisory Committee for review of bias, relevance, consistency in administration, inclusion of benchmark questions, and ability to assess concerns, needs and priorities. The survey instrument, method of dissemination, and any instructions for administration shall be publicly available.

If the City cannot afford a professional survey, an informal survey shall be made available for broad dissemination by the Mayor and Councilmembers through community list serves and other communication channels. A list of those dissemination channels should be publicly available along with survey results. Survey results should be publicly available within two weeks of the survey closes.

In the event that City's statistically valid survey has been completed, the Mayor and City Administrator shall include in their proposed budget a summary of the survey data and a statement regarding how the data was or was not incorporated into the final proposed budget. Informal surveys and their results shall be made public but not included in their proposed budget document.

The City Administrator shall also create an email address, a phone number with voicemail service, and a web-based engagement platform to collect resident input prior to budget development. Furthermore, the City Administrator shall take steps to promote participation, such as issuing a Flyer promoting participation in the survey and methods of participation (survey internet link, email, phone number) and posting such Fliers near publicly available computers in all City libraries, Recreation Centers, and Senior Centers.

4.Statement of Councilmember Priorities

Timeline: Written submission due by March 15th.

Requirements: City Council Members will have the opportunity to advise the Mayor and City Administrator publicly of their priorities. Each Councilmember shall be invited to submit up to seven expenditure priorities in ranked and/or weighted order for changes to the baseline budget as presented in the Five-year Forecast. Councilmember priority statements may either be submitted as part of a report to be heard by the City Council and/or in a publicly available writing to the Mayor and City Administrator. In addition to the priorities, Councilmembers may also submit other suggestions, including revenue suggestions.

5.Administrator's Budget Outlook Message & Calendar Report

Timeline: Heard by City Council before April 15th.

Requirements: The City Administrator shall bring as a report to the City Council a Budget Outlook Message & Calendar no later than April 15th that provides an overview of the budget development process and lists all key dates and estimated dates of key budget events, including, but not limited to the release of the Mayor and Administrator's Proposed Budget, Community Budget Forums, Council meetings, and formal budget passage dates. This publication shall be posted on the City's website and by other means determined by the City Administrator.

6.Release of Mayor & Administrator's Proposed Budget& Fact Sheet

Timeline: Published and publicly available by May 1st. Heard by City Council and Fact Sheet distributed by May 15th.

Requirements: The Proposed Budget must be released by May 1st and shall clearly indicate any substantive changes from the current baseline budget, including all changes to service levels from the current budget. The Proposed Budget shall indicate staffing by listing the number of positions in each classification for each Department, including a listing of each position proposed for addition or deletion. The Council shall hold a public meeting to present the Proposed Budget no later than May 15th in budget adoption years. The full proposed budget document shall be made available online from the City's website, and printed copies shall be available in all City libraries. Additionally, the proposed budget data shall be available in open data format on the City's open data portal by May 1st. Every effort should be made to thoroughly respond to any public request for departmental budget details, such as line item budgets. The requested information shall also be made available on the City's website and open data portal within a reasonable time period following the request.

The Proposed Budget must include a Budget Fact Sheet with easy-to-understand graphics and text explaining the City's overall finances, the Proposed Budget and that year's Budget Calendar. The Fact Sheet shall be published in languages required by Oakland's Equal Access Ordinance. The Fact Sheet shall be printed and made available in all City Recreation Centers and Senior Centers as well as all City libraries by May 15th or the presentation to the Council, whichever is sooner.

7.Community Budget Forums

Timeline: Between May 1st and June 10th

Requirements: The Administration and Council shall hold at least three (3) Community Budget Forums at varied times in different neighborhoods away from City Hall. These meetings, organized by the City Administrator's Office shall be scheduled so as to maximize residents' access. These meetings must include sufficient time for question and answer period as well as a presentation of budget facts by City staff. One or more of the meetings must be scheduled in the evening. Another must be scheduled on the weekend. These meetings shall also be scheduled so that Councilmembers have sufficient opportunity to attend a meeting close to their council district. Every member of the City Council shall make their best effort to attend at least one Community Budget Forum. In addition, members of the Budget Advisory Commission shall be requested to attend at least one Community Budget Forum. Translators will be provided by request with forty- eight hours advance notice, per Oakland's Equal Access Ordinance. Sufficient Fact Sheets in all available languages shall be available at all Forums.

Meetings shall be held in ADA accessible facilities served by public transit (BART stop, frequently running bus line, etc.). Every effort shall be made to record the meeting via video or audio. The City Administrator shall prepare an Informational Report summarizing the Community Forum process, to be heard by the City Council at its the next available budget discussion following the final Forum. The summary memo shall attempt to identify key areas of public agreement and disagreement, as well as respond to the most commonly asked questions.

8.Budget Advisory Commission's Report

Timeline: June 1st

Requirements: The Budget Advisory Committee (BAC) shall be requested to submit published, written report to the full City Council regarding the proposed budget with any suggested amendments no later than June 1 in budget adoption years. If submitted, the statement shall be published as part of the next budget report to the City Council. The BAC is encouraged to provide similar statements during the mid-cycle budget revise and any other significant budget actions.

9.Council President's Proposed Budget

Timeline: June 17th

Requirements: The City Council President, on behalf of the City Council, shall prepare a proposed budget for Council consideration to be heard at a Special City Council Budget Hearing occurring before June 17th. The Council President may delegate the duty to prepare a budget proposal to another member of the Council. A costing analysis request for any proposed amendments must have been submitted to the City Administrator at least five working days prior to the Special City Council Budget Hearing. The City Council may schedule additional Special City Council Budget Hearings or Workshops as needed.

10.Council Budget Amendments

Timeline: No later than up to three days prior to final budget adoption

Requirements: In addition to the Council President's proposed budget, any Councilmember or group of Councilmembers may submit proposed budget amendments at any time during the budget process. However, the adopted budget shall not contain substantive amendments made on the floor by Councilmembers at the final meeting when the budget is adopted. All substantive amendments must have been published in the City Council agenda packet for at least three days prior to the budget's final adoption. This three-day noticing requirement may be waived by a vote of at least six Councilmembers upon a finding that (1) new information impacting the budget by at least $1 million dollars came to the attention of the body after the publication deadline making it not reasonably possible to meet the additional notice requirement and (2) the need to take immediate action on the item is required to avoid a substantial adverse impact that would occur if the action were deferred to a subsequent special or regular meeting, such as employee layoffs.

Additionally, a costing analysis request for the proposed budget amendment must have been submitted to the City Administrator at least five working days prior to the budget's final adoption.

11.Process Feedback & Continual Improvement

Timeline: September 30th following budget adoption

Requirements: The Budget Advisory Commission (BAC) shall be requested to submit an Informational Report to the Council's Finance and Management Committee containing their analysis of the budget adoption process including, but not limited to: 1) the informational quality of the Proposed Budget; 2) the City Administration's and City Council's attention to engaging the public and its impacts on the budget process and product; 3) the level of transparency and open dialogue in all public meetings dedicated to the budget; and 4) opportunities for improving the process in future years. In assessing opportunities for continually improving public participation in the budget process, the Administration, City Council and BAC shall be requested to consider the following guiding principles:

•Inclusive Design: The design of a public participation process includes input from appropriate local officials as well as from members of intended participant communities. Public participation is an early and integral part of issue and opportunity identification, concept development, design, and implementation of city policies, programs, and projects.

•Authentic Intent: A primary purpose of the public participation process is to generate public views and ideas to help shape local government action or policy.

•Transparency: Public participation processes are open, honest, and understandable. There is clarity and transparency about public participation process sponsorship, purpose, design, and how decision makers will use the process results.

•Inclusiveness and Equity: Public participation processes identify, reach out to, and encourage participation of the community in its full diversity. Processes respect a range of values and interests and the knowledge of those involved. Historically excluded individuals and groups are included authentically in processes, activities, and decision and policymaking. Impacts, including costs and benefits, are identified and distributed fairly.

•Informed Participation: Participants in the process have information and/or access to expertise consistent with the work that sponsors and conveners ask them to do. Members of the public receive the information they need, and with enough lead time, to participate effectively.

•Accessible Participation: Public participation processes are broadly accessible in terms of location, time, and language, and support the engagement of community members with disabilities.

•Appropriate Process: The public participation process uses one or more engagement formats that are responsive to the needs of identified participant groups; and encourage full, authentic, effective and equitable participation consistent with process purposes. Participation processes and techniques are well- designed to appropriately fit the scope, character, and impact of a policy or project. Processes adapt to changing needs and issues as they move forward.

•Use of Information: The ideas, preferences, and/or recommendations contributed by community members are documented and given consideration by decision-makers. Local officials communicate decisions back to process participants and the broader public, with a description of how the public input was considered and used.

•Building Relationships and Community Capacity: Public participation processes invest in and develop long-term, collaborative working relationships and learning opportunities with community partners and stakeholders. This may include relationships with other temporary or ongoing community participation venues.

•Evaluation: Sponsors and participants evaluate each public participation process with the collected feedback and learning shared broadly and applied to future public participation efforts.

Contact Information

Email

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Website

www2.oaklandnet.com/Government/o/CityAdministration/d/BudgetOffice/index.htm