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CITY OF OAKLAND



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May 24, 2012

Honorable City Council
Oakland, California

RE: Proposed Amended Midcycle Policy Budget for Fiscal Year 2012-13

Council President Reid and Members of the City Council:

On behalf of the entire City administration, we are transmitting to you the City of Oakland's Proposed Amended Midcycle Policy Budget for the period of July 1, 2012 through June 30, 2013 that proposes:

- No layoffs, for the first time in more than four years;
- Modest revenue growth;
- Investment in essential services, such as an additional police academy, restoration of senior centers, economic development, funding for police evaluation and reforms, and street and parking meter repair; and
- Preservation of the reserve at a level not achieved in more than five years.

Like the State of California and many other local governments, Oakland continues to face some of the most difficult and daunting budget challenges in our history. After many consecutive years of budget shortfalls and service eliminations, the City of Oakland is stabilizing and has begun to see modest growth in revenues. In general, Oakland's long term economic forecast is beginning to look more positive than past years, with modest retail growth, increased travel-related taxes, and new businesses.

However, given the uncertainty in the State budget, legal issues in the dissolution of Redevelopment, and long-term structural issues, we remain fiscally cautious. The City is still assessing the impacts of the Governor's May Revise and we continue to monitor whether there will be additional impacts resulting from the steep increase of the State's shortfall of approximately \$9 billion to \$16 billion. As has been proven in the past, the State's budget balancing actions impact local government and our inventory of services provided. As part of this Midcycle proposal, we are recommending the establishment of an *Unanticipated Expenditures Fund*, should there be further budget impacts due to State or Federal

actions, unanticipated/unfunded expenditures, or should assumptions made in this budget not come to fruition in FY 2012-13.

As we continue to reel from the effects of the recession and the dissolution of redevelopment agencies in California, the City Administration proposes budget adjustments that facilitate the continued implementation of the significant budget amendments adopted by the City Council in January 2012, as well as to meet basic service delivery needs and make strategic investments in key areas of the City so that Oakland will be well positioned as the economy continues with its modest growth. While economists, such as Beacon Economics, one of the consultants the City employs for revenue forecast analysis, see no reason for a double-dip recession in the East Bay, they do not forecast revenue levels returning in the near-term to levels last seen at the peak of the housing bubble – the revenues included in this proposed FY 2012-13 budget are in line with the rate of East Bay income growth over the last decade.

The Proposed FY 2012-13 Midcycle Budget amendments reflect the administration's steadfast commitment to putting Oakland on long term, stable financial ground.

FY 2012-13 MIDCYCLE BUDGET BALANCING PRINCIPLES

During the development of the proposed midcycle budget adjustments, we have attempted to adhere to similar budgeting principles as during the FY 2011-13 development process:

Principle 1: *Achieve a long-term structurally balanced budget through efficiencies, permanent reductions to the expenditure base, and/or revenue enhancements. Minimize reliance on reserves or the use of one-time revenues for ongoing expenditures. Continue to implement the budget to ensure that the budget is balanced.*

Principle 2: *Give highest priority to protecting the most essential City services as reflected in the Amended Policy Budget for FYs 2011-2013.*

Principle 3: *Maintain an open and transparent process for City employees and the public. Public involvement shall be encouraged in the budget decision-making process through public hearings, public outreach, and information.*

Principle 4: *Minimize the negative impact on Oakland residents, businesses and employees.*

Principle 5: *Help strengthen the City's position in the financial and capital markets.*

Principle 6: *8. Ensure that budget balancing approaches have no negative impact, or minimal impact, on future budgets to ensure high standards of fiscal integrity and management in the interest of preserving the City's credit ratings.*

Principle 7: *General Fund revenues shall not be earmarked for any particular purpose, unless required by law or generally accepted accounting principles (GAAP).*

Principle 8: *All Enterprise Funds shall work to become fully self-supporting from revenues generated by rates, fees, and charges.*

Principle 9: *Defer any new program commitments and initiatives or program expansions, unless those programs stimulate the local economy, job creation, are cost neutral, generate new revenues, have a significant return on investment for the General Purpose Fund, and/or are funded through redeployment of existing resources.*

In addition, we ensured that all proposed changes were consistent with the adopted Mayor-Council Priorities as detailed in Attachment A:

- Public Safety;
- Sustainable & Healthy Environment;
- Economic Development;
- Community Involvement & Empowerment;
- Public-Private Partnerships; and
- Government Solvency & Transparency.

KEY FY 2012-13 MIDCYCLE BUDGET CONSIDERATIONS

In the context of continued budgetary uncertainties, the Administration approached the midcycle budget with three different scenarios: 1) considering information we have today; 2) considering the information we believe we will receive as its portion of residual property tax trust fund revenues (formerly from Tax Increment); and 3) considering the potential impacts of state action related to City's assumptions made on former Redevelopment Agency and future Successor Agency activities.

Proposed amendments are provided in Attachment B and fall within the following categories: 1) post-redevelopment & reorganization clean-up to maintain basic service delivery needs, which is in alignment with action City Council adopted in January; 2) an effort to maximize police services more efficiently; 3) strategic investments; or 4) other technical cleanup, such as cost-neutral management reclassifications in order to better reflect the new departmental structures and reorganized duties.

With very few exceptions, the balancing measures for FY 2012-13 that were adopted in June 2011 continue in the proposed Midcycle Budget. This includes all of the savings from employee concessions and the elimination of positions, among other amendments, which helped bridge the \$76 million shortfall that was closed in the Budget Adoption.

In addition, some of the modest GPF revenue increases projected by year-end of FY 2011-12, as described later in this Transmittal Letter, are projected to continue into FY 2012-13. These modest revenues will offset the proposed expenditure modifications and technical adjustments from the January 31st amendments. The proposed expenditures are largely concentrated in public safety and economic development, which the City Council has expressed frequently are its highest priorities.

GENERAL PURPOSE FUND	
	<u>\$ MILLIONS</u>
FY 2012-13 Adopted Revenues	\$ 397.53
Add Midcycle Projected Revenue Increase	\$ 6.14
FY 2012-13 Proposed Amended Revenues	\$ 403.67
Midcycle "Net" Projected Revenue Increase Surplus:	\$ 3.93
FY 2012-13 Amended Expenditures	(\$ 399.7)
FY 2012-13 Proposed Amended Expenditures	(\$ 403.6)
Midcycle Expenditure Adjustments (Attachment B)	(\$3.86)
ESTIMATED YEAR-END CHANGE IN FUND BALANCE	\$.07

A summary of proposed Midcycle changes is provided below and in Attachment B, with total proposed expenditures shown by department in Attachments C and D.

In addition to the GPF modifications proposed for the Midcycle, we also addressed any projected shortfalls in other funds for FY 2012-13 as part of this proposal. The most significant projected shortfalls are in the federal funds from HUD – the CDBG grant revenue has been reduced by \$324,799 and HOME has been reduced by \$2,355,822. The CDBG shortfall will be covered through project carryforwards from prior years. Both of these funds will need to resolve structural shortfalls in the next 2-year budget cycle. With the loss of Low-Mod funds due to the dissolution of the Redevelopment Agency, the program impact with the reduction of HOME funds is substantial as it now the only source of funding for Affordable Housing and the reduction reduces the amount of funds available for construction and preservation of affordable housing units in the City of Oakland.

In addition to the impact to the City from the federal budget reductions, the City may continue to be impacted negatively by the State budget shortfall. The Governor's May Revise has increased the projected state deficit from \$9.2 billion to \$15.7 billion, due to a reduced revenue outlook, higher costs to fund schools, and the disallowance of cuts by the courts and the federal government. Of note to local government, the May Revise proposes to transfer \$1.4 billion in redevelopment funds from local agencies to the State General Fund through a legislative framework. The potential impact to Oakland if this proposal is accepted by the Legislature ranges between \$10 million to \$30 million in lost low-mod housing funds, depending on the interpretation of the legislation. If the voters fail to pass the Governor's proposed tax measures in November 2012, the Governor proposes deep cuts to K-14 education. It is not known at this time whether the Legislature will accept the trigger cut proposal, or look at alternative reduction measures, such as the reallocation of other local government funds, in order to balance the State budget. Staff continues to monitor the activities in Sacramento to assess the potential impacts to the City of Oakland.

POST-REDEVELOPMENT & REORGANIZATION ADJUSTMENTS

As a result of the dissolution of Redevelopment and the subsequent action the City took on January 31st to balance the FY 2011-13 budget shortfalls, there are several clean-up items that the Administration is proposing for FY 2012-13 that will enable the full implementation of the Council-adopted amendments which stabilized the budget and set in place a solution to eliminate \$28 million annually of redevelopment funds used for eligible operating costs. All of the proposed changes in this category are aligned with Council direction provided in January 2012.

City Administrator's Office

- Stabilize funding for the Graphic Designer position. In-house capacity will be funding 50% by user departments' existing budgets (PWA, Library, OPR) and the other 50% is proposed to be added to the City Administrator's Office, in order to align with services provided.
- Stabilize funding for the PIO. Transfer 50% out of the Development Services Fund, as the funding source adopted by Council is not permissible.
- Fund adjustment of four Real Estate, Economic Development, and Army Base positions.
- Add/Delete of UEA III to a UEA IV to accurately reflect the level of work being performed, as a result of a desk audit.
- Add a UEA IV to accurately reflect the expertise needed to focus on economic development in the City's industrial areas. Recent projects have surfaced that require economic development expertise in the City's industrial areas (e.g., Cost Plus/Bed Bath and Beyond, etc.). Given the City's large industrial areas, it is prudent to have a staff person charged with economic development expertise on behalf of the City.
- Add/Delete of the Deputy Director in the Office of Neighborhood Investment to a Project Manager III, in order to better reflect the organization structure and reorganized duties.

Administrative Services Agency

- Unfreeze Administrative Services Agency Director as described in January 2012.

Department of Housing & Community Development

- Delete Deputy Director and add Director (cost-neutral) to better reflect the department structure and reorganized duties.

Department of Planning & Neighborhood Preservation

- Delete Deputy Director and add Director (cost-neutral) to better reflect the department structure and reorganized duties.
- Add Building Official, as inadvertently deleted in January action. After additional consideration, it has been determined that given the workload this position should be restored.

Public Works Agency

- Add Parking Meter Repair Supervisor

MAXIMIZATION OF POLICE SERVICES

The City Council has expressed many times over recent months that its number one priority is Public Safety. The increased crime rates, chronic low staffing of beats, and recent unprecedented events demonstrate that structural corrections are required to improve staffing and systems in place to support sound constitutional policing in Oakland. This proposal begins to fund the structural changes needed to continue to improve our Oakland Police Department resource levels and achieve a higher level of compliance with the Negotiated Settlement Agreement (NSA).

Sworn police staffing levels are approaching historically low levels (Attachment E). Currently, sworn staffing is at 651. A full academy is budgeted and is scheduled begin in August, 2012 which will result in 40 additional officers; however, the City continues to lose about 4 officers per month through normal attrition. The savings from the attrition was explicitly budgeted for in the Adopted FY 11-13 Budget by City Council, so those dollars have already been assumed (eliminated from the budget) for FY 2012-13. The strategy to maximize police services is based on:

- Adding civilians where sworn staff is doing civilian work. OPD has experienced a significant reduction in civilian employees which has resulted in the redeployment of sworn to support some of these duties. This has resulted in the City paying a premium cost to obtain these services and removes sworn from the duties that they are originally paid and trained to perform. The City can yield a higher number of sworn positions through a review of eligible positions that can be removed from performing civilian work and redeployment to sworn duties.
- Structural correction to obtain investigative services due to new state law
- Organizational assessment and systemic process review
- Workers' Compensation support to monitor programs and work toward safety returning employees back to work
- Civilianization of the Office of Inspector General
- Full Academy

OPD's authorized sworn strength, per the Adopted 2011-13 Budget is an average of 636 officers in FY 2011-12 and an average of 588 officers in FY 2012-13. Subsequent to budget adoption, the City received a multi-million dollar COPS Hiring Grant to hire an additional 25 officers, which brings the sworn strength to an average of 661 in FY 2011-12 and an average of 613 in FY 2012-13. The COPS Grant, however, restricts the use of these police officers to grant-related responsibilities which does not resolve the staffing shortages in patrol services.

As part of the FY 2012-13 Midcycle budget proposal, City Administration has tried to maximize existing police resources in order to deploy as many existing officers as possible within very tight budgetary constraints. As such, we have proposed the civilianization of the Office of Inspector General which will free up three sworn and is entirely related to advance compliance with the NSA. In fact, this concept has been discussed at length with the Federal Monitor and staff has researched models used in Detroit, San Jose and Los Angeles. Implementation of a civilian OIG is consistent with achieving the goals of the NSA and allow for the City to take a big-step toward demonstrating our continued commitment to achieving compliance. In addition, the Chief of Police is in process of completing an organizational review to determine which additional positions can be civilianized to yield a greater number of sworn officers to sworn duties. This process will require the addition of additional civilian positions, but will

result in a lesser cost to obtain current services from sworn positions and allows for them to perform work that only sworn can support.

We also propose additional dollars for Internal Affairs (IA) investigations to supplement existing resources and assist with case backlog resulting from a recent state law that prohibits the use of Annuitants to perform this work (the City recently released 7 Sergeants to perform this work) and the higher volume of complaints. The City's proposal to use contractual services for IA investigations has been approved by the Federal Monitor, consistent with the May Court Order, and contracts have already been issued to begin this urgent work. The City will maintain open contracts to obtain IA services so that we can structurally resolve the shortage of staffing resulting from the state law, supplement existing resources, and ensure the completion of timely investigations.

The addition of an administrative analyst that will be dedicated to Workers' Compensation issues in order to continue progress on program improvements with the goal of increased workplace safety and returning staff to work, as appropriate; and, the unfreezing of three equipment positions to enable faster public safety vehicle turnaround. The Chief's organizational assessment will allow for light-duty opportunities and inform the staffing opportunities that result from this risk management effort.

Last, the City is advancing an aggressive department-wide assessment by nationally recognized police experts on systemic processes that require significant correction and/or improvement to further advance compliance with the NSA, ensure proper training, improve police systems, and improved policing services and performance. This effort will inform both the OPD systems that require improvement, but also the Chief's effort to complete an assessment that yields areas where civilians can replace sworn staff, where appropriate.

Again, the full Academy continues to be funded for FY 2012-13, and further discussion of additional staffing and Academy options are discussed later in this Transmittal Letter.

City Administrator's Office

- Civilianization of the Office of Inspector General (OIG).

This concept is subject to MOU/Meet and Confer obligations, but is presented for purposes of illustrating the goal that the City seeks to advance over the next fiscal year. While this outlines a concept, it is subject to additional refinement following additional discussion and stakeholder engagement.

Currently, the Office of Inspector General (OIG) is housed within the Oakland Police Department and is part of the Office of the Chief of Police. The OIG is responsible for conducting audits and reviews and ensures compliance with the NSA. Within the OPD this division is overseen by a Captain of Police, and includes one Lieutenant, one Police Officer and six (6) civilians.

Based on sharing information in the past with the Federal Court, recent conversation with the Federal Monitor, and in recognition of national best practices it is suggested that this office be civilianized, placed outside of the OPD, and report directly to the Administration. Although, this is not a specific task of the NSA it has been suggested that implementation will begin to provide the much needed cultural change to ensure that the reforms of the NSA remain beyond the

terms of the settlement agreement. In addition to the cultural change it frees up three (3) sworn personnel and allows them to refocus their energy on patrol and other operational issues. This model is reflective of a national best practice and other cities achieving compliance with Consent Decrees or settlement agreements have adapted such model and achieved faster-paced compliance.

During the initial phase it is anticipated that the civilian IG will have the authority to audit all Internal Affairs (IA) investigations, conduct performance audits and reviews, and ensure compliance with the NSA. Due to this change the results of the audit will be shared with both the Chief of Police and the City Administrator on a regular basis.

The civilian IG will also have the authority to oversee and audit Investigations performed by the CPRB. Additionally, the CPRB will be the investigative wing of the OIG. As such, the CPRB will be overseen and report directly to the civilian IG. Further, the civilian IG position will report directly to the Administration. In the event that the recommendations of the civilian IG are not adopted by the Chief of Police, the matter will be presented to the City Administrator for resolution.

The responsibilities currently occupied by the Captain, Lieutenant, and Police Officer will be distributed to civilians, and additional staff is proposed as follows: Civilian Inspector General, Assistant Police Auditor, and a Deputy Police Auditor.

In June 2011, City Council appropriated FY 12-13 funds for the consolidation of complaint intake to CPRB. In January 2012, Council amended this action to delay implementation by 6-months for budget balancing. This consolidation will allow for an investigative unit within the office of the IG.

- Stabilization of Citizens' Police Review Board (CPRB) positions. Positions were previously funded by a JAG grant, and those funds will be exhausted early FY 2012-13. Proposed to add them back to the GPF.

Police Services Agency

- Addition of an Administrative Analyst for dedicated Workers Compensation assistance
- Addition of funds for Internal Affairs (IA) Investigations
- Delete 5 Police Communications Dispatchers/Add 5 Police Communications Operators. The proposed change will allow for additional support taking calls and will be an investment in improving call taking response times. It will also help retain trainees and maintain more consistent staffing levels and it will serve as an additional opportunity for advancement within the communications division.
- Delete Account Clerk III/Add Information Systems Supervisor to redeploy a Captain of Police that is currently overseeing OPD in-house technology issues.

Public Works Agency

- Unfreeze 2.0 Heavy Equipment Service Workers and reinstate 1.0 Heavy Equipment Supervisor, for faster public safety vehicle turnaround

OTHER STRATEGIC INVESTMENTS

While the City has experienced very large fiscal challenges in the last several years, it has still been able to realize some modest economic growth and, despite the global recession, the City continues to enjoy a renaissance with respect to restaurants, arts, and development opportunities. In order to continue to move things forward, we are also proposing some additional strategic investments FY 2012-13 that will provide tremendous return and keep us on the path towards economic stabilization.

City Administrator's Office

- Addition of a **Director of Economic & Workforce Development**. The dissolution of redevelopment has left very little staff to focus entirely on core traditional economic development opportunities. Former Redevelopment Agency staff is restricted to Successor Agency duties and redevelopment wind-down goals. There is a need to build capacity in this area to seize economic growth opportunities and build capacity between the efforts currently led by the Assistant City Administrator, with some direct assistance from the City Administrator. There is a desperate need to build capacity in this area as our economic growth opportunities and solutions rest on traditional economic development.
- Operating budget proposed for website maintenance & enhancement, as well as civic engagement online tools.

Fire Services Agency

- Add funding for citywide siren maintenance
- Add a civilian Fire **Marshal** to manage the Fire Prevention Bureau in order to allow sworn to concentrate their efforts on the management, support and services of fire suppression and emergency operations.

Community Services Agency

- Restoration of the Youth Commission staffing, Part-Time

Department of Planning & Neighborhood Preservation

- Changes to be incorporated related to recently Council-adopted foreclosure program

Public Works Agency

- Add O&M budget for Rainbow Teen Center and West Oakland Teen Center (Facilities Fund)

Other

- Add debt service (\$100k) payment for purchase of 1200 new Parking debit/credit meters, as part of plan to replace broken and missing single-space meters and upgrade all meters over 5-years to debit/credit card technology.
Fully fund Coliseum City EIR out of fund balance.

OTHER TECHNICAL ADJUSTMENTS

As with any budget cycle, there are several technical clean-up adjustments that are proposed as part of the Proposed Midcycle Budget:

City Administrator's Office

- Addition of a 0.5 FTE to manage the Arts Grants contract, which was not restored in the June 2011 budget adoption, despite restoration of the Art Grants. This position will be funded through the grant funds.
- Transfer of a Contract Compliance Office Assistant to GPF from exhausted ARRA funds

Mayor's Office

- Removal of 50% of an FTE from Measure Y funding, consistent with previously adopted Council action on Measure Y budget.

Administrative Services Agency

- Fully fund external audit services contract, per Council Resolution

Police Services Agency

- Delete Police Personnel Operations Specialist/Add Support Services Supervisor (cost-neutral).

Fire Services Agency

- Fully fund Emergency Services Manager. As part of the FY 2011-12 Adopted Budget, this position was anticipated to be funded 100% through grant funds in FY 12-13. At this point, only 25% of grant funds has been identified and the remainder is proposed to be funded out of the GPF.
- Remove savings for Fire Inspectors. As part of the FY 2011-12 Adopted Budget, 2.0 FTE Fire Investigators were to be eliminated in FY 12-13. However, this change was not discussed during the current MOU negotiation and therefore the assumed savings should be removed.
- Add Captain of Fire (.2 FTE In GPF) in order to implement the 52-hour work week conversion and handle mandatory training requirements. The Battalion Chief will be made available to manage other logistics areas such as information technology, fleet and equipment, facility, and to maintain necessary span-of-control.

Community Services Agency

- Move East Oakland Sports Center from the GPF to Fund 1820 (Self-Sustaining Fund)

RESIDUAL PROPERTY TAX TRUST FUND REVENUES AND POLICE STAFFING

As part of the dissolution of Redevelopment, former Tax Increment dollars will now be dispersed as follows:

- 1) AB 1290 Pass-through payments to taxing entities. The City will continue to receive its portion as before dissolution.
- 2) Recognized Enforceable Obligation payments, including debt service
- 3) Successor Agency Administrative Costs
- 4) Remainder to the Residual Property Tax Trust (RPTT), to be allocated to all taxing entities

Based off of the City's Recognized Obligation Payment Schedule (ROPS) and preliminary calculation estimates, we estimate the City will receive at least approximately \$3.7 million in RPTT for FY 2012-13.

Importantly, this figure remains an estimate, but we anticipate receiving confirmed numbers from the County for the first six-month period around June 1st, before City Council will need to adopt the FY 2012-13 Midcycle Amended Budget.

The Administration proposes utilizing these on-going dollars as follows, but contingent upon receipt of confirmation from the County of the actual amount of RPTT funds that will be distributed:

1. Add another full (50 POTs) Academy starting in January 2013. The City will realize some savings from the recruitment process it recently completed for the Summer 2012 Academy, so the estimated cost of the January 2013 Academy is approximately \$3.5 million, slightly less than previous estimates. Approximately \$1.9 million of those costs will occur in FY 2012-13, while the remainder will roll over into FY 2013-14. Additional funds are also proposed for a department-wide assessment by nationally recognized police experts on systemic processes that require significant correction and/or improvement to further advance compliance with the NSA, ensure proper training, and improved policing services.
2. Funds to fully restore Senior Center operation hours back to the FY 2009-10 levels, M-F 8:30-5:00.
3. Funds for street repair, consisting of labor, equipment and materials.
4. Add additional staff for strategic economic development activities within the Office of Economic and Workforce Development.

Proposed Use of Residual Property Tax Trust Revenues (RPTT)	<u>\$ MILLIONS</u>
ESTIMATED REVENUE:	\$ 3.7
PROPOSED EXPENDITURES:	
Additional Police Academy and Department Assessment	(\$ 2.4)
Fully Restore Senior Center Hours	(\$.3)
Additional Street Repair Funds	(\$.4)
Additional Economic Development staff	(.3)
TOTAL ADDITIONAL EXPENDITURES:	(\$ 3.4)
NET CHANGE	\$ 0.3

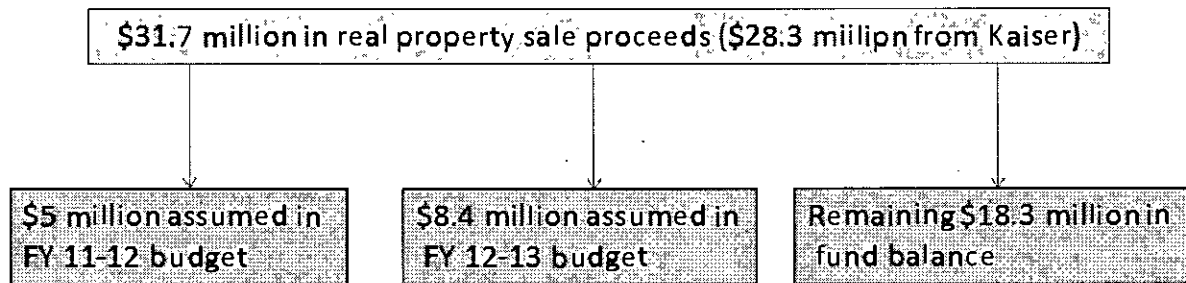
POTENTIAL IMPACT OF STATE CONTROLLER "CLAWBACK"

On April 24, 2012, the City and other California local government agencies received from the State Controller an order under Section 34167.5 of the dissolution statute to return assets transferred to them by their former redevelopment agencies after January 1, 2011. Certain transactions between the City and its former Redevelopment Agency during the relevant time period are potentially subject to the order. These transactions include, among others, the sale of certain real property by the City to its

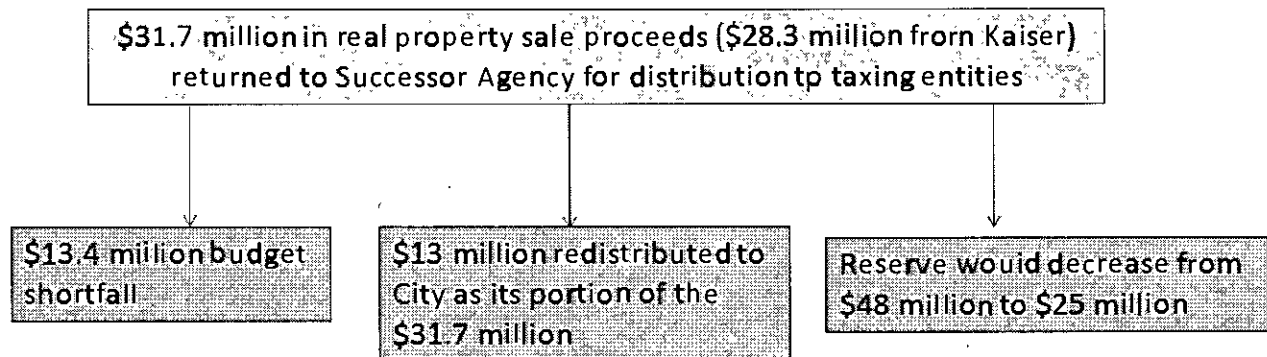
redevelopment agency for an approximate amount of \$35,400,000. A portion of these one-time revenues in the approximate aggregate amount of \$17,400,000 were included in the City's budget for Fiscal Years 2010-2011, 2011-2012 and 2012-2013, with the excess included as unencumbered fund balances. In the event of a return of these revenues to the successor agency, these one-time revenues may be offset by redistribution of ongoing property tax revenues, which would mitigate to some extent the fiscal impact on the City's budget.

The diagram below illustrates how the City used the proceeds from its sale to the former Redevelopment Agency from both the Kaiser Convention Center and several other properties, and what the potential impact could be on the GPF budget, should those transactions be reversed. It is important to note that the City's FY 2011-13 Adopted Budget **did not** utilize all of these proceeds for budget balancing, as the Mayor had proposed to use as little one-time dollars to bridge the budget deficit in June 2011. If these transactions are reversed, it would create a GPF deficit of \$13.4 million, but this shortfall would be covered entirely by the City's portion of the redistribution of these dollars to the taxing entities, or \$13 million. The City's GPF reserve would decrease from \$48 million to \$25 million.

FY 2011-13 Adopted Real Property Transfers From City to Agency:



If transactions are reversed:



In addition, the City and its redevelopment agency entered into a Funding Agreement providing for the City to undertake a variety of development projects with funds provided by its redevelopment agency.

Pursuant to the Funding Agreement, the redevelopment agency transferred \$107.5 million to the City as an advance for these undertakings, of which approximately \$5 million has been spent to date. Approximately \$85 million of such funds are subject to contracts with third parties. Approximately \$22 million is uncommitted. In the event the City is required to transfer such funds to the successor agency, the City does not believe there will be a significant impact on the general fund because the contracts and the obligations thereunder would revert to the successor agency, as the funds that are returned to the successor agency would be offset by the redistribution to the City of its proportionate share of property tax revenues based on the amounts of uncommitted funds and funds remaining following satisfaction of the obligations under such contracts; however, there would be a service impact from the loss of the projects, should these actions take place. The largest dollar impact could be to streetscapes throughout the redevelopment areas. Other projects that could potentially be impacted include façade and tenant improvement grants, BART Plaza and Coliseum Transit Village infrastructure improvements, Neighborhood Project Initiative (NPI) grants, graffiti abatement, demolition projects, and other public facility projects.

The City is evaluating its legal options in response to the State Controller's order. The ultimate financial impact of the state action cannot yet be determined.

FY 2012-13 UNALLOCATED FUNDS: UNANTICIPATED EXPENDITURES FUND

Based on the projections and proposals outlined in this document, should the RPTT revenues be realized at the level assumed above, there would be a very slight estimated surplus of approximately \$.37 million in FY 2012-13. City Administration is recommending that any surplus dollars be allocated to a newly established *Unanticipated Expenditures Fund*, should transactions be clawed-back or other assumptions made in this budget not come to fruition in FY 2012-13. This allows for the City to begin putting aside funds for any unanticipated expenditures that may develop over the next fiscal year, so that the City can mitigate any additional staffing or service eliminations.

However, should Council decide to allocate any surplus to other programmatic needs, listed below is the costing of some examples of policy decisions City Council could choose to make in order to appropriate these dollars:

- Restore the City Auditor's budget by \$550,000 to accurately reflect spending
- Increase City Council budget by \$200,000 to accurately reflect spending
- Allocate funds to support City Council Pay-Go accounts that have negative cash balances (\$3 million)
- Restore the Youth Commission at Full Time level (additional \$37,955)
- Set-aside \$200,000 for debt service for Oracle upgrade that the City is required to complete by 2014.
- Set-aside \$200,000 for debt service for Public Safety critical technology needs, such as IPAS (NSA related), Computer-Aided Dispatch and department tech refresh.

SUMMARY OF JANUARY 31, 2012 AMENDMENTS

Upon receipt of the California Supreme Court's decision on December 29, 2011, the City took swift action to address three significant events during the month of January: the dissolution of redevelopment activities and Agency; establishment of a Successor Agency that would report to an Oversight Board; and, a rebalancing of the budget to remove redevelopment funds from budgeted operations. On January 31, 2012, the City Council adopted an amended policy budget for both FY 2011-12 and 2012-13, which resolved projected General Purpose Fund deficits of approximately \$12.4 million and \$28 million in FY 11-12 and 12-13, respectively, as a result of the dissolution of the Redevelopment Agency.

As background, on December 29, 2011, the California Supreme Court held that ABx1 26, eliminating redevelopment agencies, was legal, but that ABx1 27, which would have allowed redevelopment agencies to be exempt from ABx1 26 if they paid their proportionate share of \$1.7 billion, was invalid. Oakland was disproportionately affected by this decision, as Oakland has used redevelopment to advance development activity and transform economically depressed areas, with approximately 40% of the City in a redevelopment area. The City used a hybrid model to support redevelopment activities, with some staff 100% dedicated to redevelopment activities with others only partially funded by redevelopment. In the Adopted FY 11-13 Budget, Redevelopment funds provided support for approximately 159 PTEs, and 228 actual positions throughout the City. The Supreme Court decision required the City to take rapid action to rebalance the FY 2011-13 Policy Budget before February 1, 2012. The City Council addressed the \$12.4 million shortfall for FY 2011-12 (pro-rated for the period February-June 2012) and \$28 million shortfall estimated for FY 2012-13 through a combination of the elimination of almost 100 positions, substantial reorganizations and consolidations of departments, use of non-GPF funds (including Successor Agency resources), and the downgrading of high-level manager positions, all while focusing on preserving core government services like public safety, infrastructure investment and protecting our social safety net. A summary of the reorganizations is included in Attachment F. Some of the actions adopted in January 2012 are summarized below:

- Library services were preserved in whole;
- Human Services were preserved in whole, with the exception of the elimination of the Youth Commission staffing, and reduction in administrative support;
- Public Safety services, for both Police and Fire, were preserved in whole for sworn and largely for non-sworn staff, with the exception of the consolidation of administrative services;
- The Neighborhood Services Division was transferred to the Community Services Agency, effective July 1, 2012;
- Internal Service Departments are to be consolidated for FY 2012-2013 into an Administrative Services Agency;
- Departments of Human Services and Parks & Recreation are consolidated for FY 2012-2013 to create a Community Services Agency;
- Adjustment of some Recreation Center operational hours to close on Mondays, but extended on other days;
- Reduction in Illegal Dumping services;
- City Administrator's Office was reorganized to assume the administrative responsibilities of the Successor Agency;

- Planning and Building Services were consolidated into the Department of Planning & Neighborhood Preservation;
- Housing Services were converted into the Department of Housing & Community Development, which also provides primary staff support for Housing Successor Agency activities;
- An Office of Economic & Workforce Development was created in the City Administrator's Office to ensure that the City's economic develop priority has adequate resources and focused on business relations, retention, attraction and development;
- Parking was decentralized to the Police Department, Public Works and Revenue;
- Risk Management and Benefits were consolidated under the Department of Human Resources Management;
- Retirement was transferred to Treasury and Equal Access transferred to Human Resources; and
- Employee Relations was transferred to the City Administrator's Office.

While the City was able to achieve a balanced budget in January for both FY 2011-12 and FY 2012-13 through the departure of only approximately 20 employees, it required very complex budgetary transactions in order to achieve the necessary savings, which resulted in more than 600 positions that were ultimately affected in this major overhaul of the City's budget – changes that many suggest on an order-of-magnitude the City has not implemented since Proposition 13 in the 1970's. As a result of these changes, there are several clean-up items related to the reorganizations that were identified as necessary to complete the January 2012 budget implementation, were not anticipated at that time, or were inadvertently omitted from the January amendments – many of which are included in this Mid-cycle proposal.

Since passage of the Amended FY 11-13 Policy Budget in January, several developments have occurred related to the key assumptions made in that balancing exercise, which has the potential to impact the City's FY 12-13 budget, as well as its Fund Balance ("Reserve"). These potential impacts were discussed in greater detail earlier in this Transmittal Letter.

FISCAL YEAR 2011-12 THIRD QUARTER RESULTS AND YEAR-END PROJECTION

In June 2011, the City Council passed the FY 2011-13 Biennial Policy Budget, resolving a projected \$58 million shortfall in the GPF for FY 11-12 and \$76 million in FY 12-13. The shortfalls were eliminated through generous employee contributions by ALL City employees (including furloughs, pension contributions, and salary reductions), departmental reductions including the elimination of approximately 170 FTEs, and the use of minimal one-time revenues. The budget also made several organizational changes to reduce expenditures and administrative layers, and in an effort to improve the effectiveness of individual programs and services by aligning them closely with other related functions. The table below illustrates the total FY GPF shortfalls that have had to be resolved for this two year budget cycle:

	FY 11-12 Shortfall	FY 12-13 Shortfall
June 2011	\$ 58,000,000	\$ 76,000,000
January 2012	12,400,000	28,000,000
TOTAL	70,400,000	104,000,000

As a result of the adopted balancing measures in both June 2011 and January 2012, in addition to projected increased revenues, the City is still projected to achieve a balanced GPF budget by year-end. Attachment G provides details of actual revenues and expenditures through the third quarter, as well as detailed year-end projections by revenue category and departmental expenditures. Despite recent actions on the part of the State Controllers' Office, at this time, the City is also projected to maintain its Council-mandated reserve of at least 7.5% of its GPF budget by Year-End. The required reserve is equal to approximately \$30 million, and the City is projected to end the year with \$48 million in fund balance—albeit this may be subject to additional adjustments that are not entirely known at this time and, therefore, caution is recommended on the use of a great portion of these funds.

FY 2011-12 GPF Projected Results:

	<u>\$ MILLIONS</u>
GPF REVENUES	
FY 2011-12 Adopted Total	\$ 414.7
Projected Revenue Surplus	\$ 10.8
FY 2011-12 Projected Year-End Revenue	\$ 425.5
Less Contribution to Fund Balance from remainder of proceeds from Kaiser sale	(\$ 23.1)
FY 2011-12 Projected Operating Revenue	\$ 402.4
GPF EXPENDITURES	
FY 2011-12 Amended Total	(\$ 390.9)
Projected Expenditure Overage	(\$ 9.0)
FY 11-12 Projected Year-End Expenditures	(\$399.9)
CURRENT ESTIMATED GPF YEAR-END OPERATING SURPLUS	\$ 2.5
SET-ASIDE FOR PARKING TAX SETTLEMENT CONTINGENCY	(\$ 1.4)
ESTIMATED YEAR-END SURPLUS	\$1.1
ESTIMATED YEAR-END FUND BALANCE	\$48.7 million

FISCAL IMPACT OF PROTESTS AND DEMONSTRATION ACTIVITIES

This year, the City has experienced an extraordinary number of protests and demonstrations, largely resulting from Occupy Oakland activity. While the City of Oakland prides itself on its history and practice of demonstrations and social advocacy, some of these recent events have required a high number of public services that are unbudgeted and have been absorbed through overtime staffing and through existing operating practices.

As part of the totals above, there are expenditures associated with Occupy Oakland, weekly anti-police demonstrations, General Strikes/Port protests and closures, and other demonstration activities this fiscal year, which are estimated to reach approximately \$6 million by year-end. The City will balance these unanticipated expenses through the use of grant funds and other one-time revenues, and is again projected to achieve a balanced GPF budget at year-end without the need to use its reserve.

	<u>\$ MILLIONS</u>
Demonstration-Related Expenditures	
Police overtime and other operations & maintenance	(\$ 6.0)
Demonstration Balancing Measures	
One-time Sales Tax Audit	\$ 1.3
Business License Tax One-Time Audits	\$ 2.7
Use of OPD grants and other fund balances	\$ 2.0
TOTAL BALANCING MEASURES	\$ 6.0
ESTIMATED YEAR-END IMPACT ON FUND BALANCE	\$ -0-

FY 2011-12 GENERAL PURPOSE FUND REVENUE HIGHLIGHTS

Through the third quarter of FY 2011-12, the City received revenue of \$275.3 million or 70 percent of the budget. Revenue collections are on track to exceed budget targets by \$10.7 million, including one-time revenues of approximately \$6 million. Revenue results and year-end projections are provided and discussed below.

Property Tax: \$125.2 million

Property Tax, the largest source of revenue to the City's General Purpose Fund, is projected to reach the budget of \$125.2 million by year end. Property tax revenue is projected to remain flat in FY 12-13, in accordance with preliminary Assessed Value estimates received from the County.

Soles Tax: \$44.9 million (includes \$1.3 million one-time adjustment)

Revenue from Sales Tax is expected to exceed the budget of \$38.8 million by year end by \$6 million. This total includes a one-time positive adjustment of \$1.3 million resulting from a misallocation of sales tax into the Alameda County pool. Strong sales tax receipts are consistent with results across California. Jet fuel & gasoline sales make up a large component of Oakland's sales tax base, as shown in Figure 1

below, and the City has benefited this year from higher fuel prices in both categories. The City has also benefited from the opening of new high sales tax producing businesses including Target, One Source, and new car dealerships.

City of Oakland Sales and Use Tax by Industry Group
Calendar Year 2011

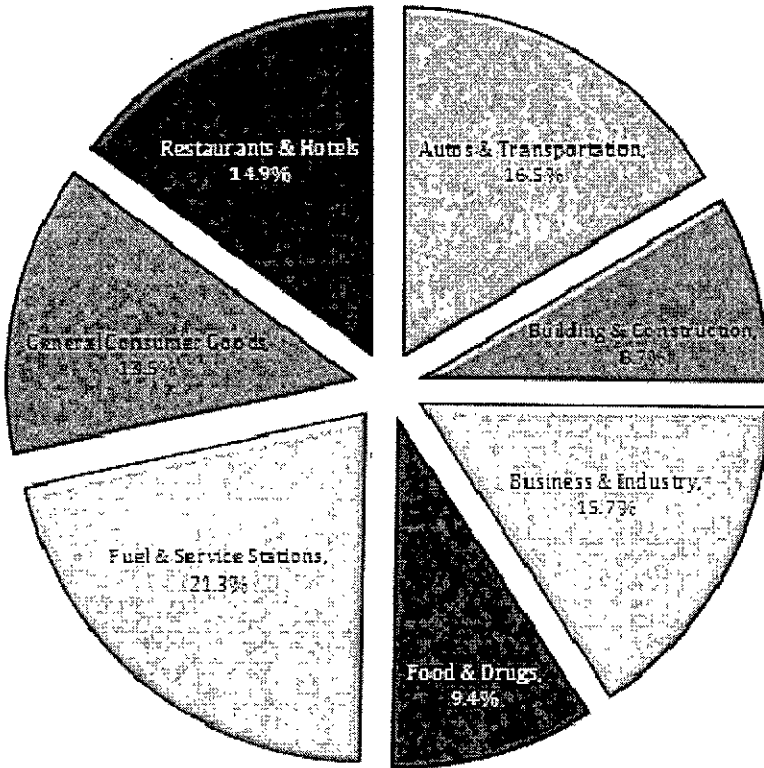


Figure 1: Source - HdL Companies

Business License Tax (BLT): \$54 million

Business License Tax revenue is projected to exceed the budget of \$50.9 million by \$3.1 million, which includes one-time revenues of \$1.6 million from the Landlord Audit Project Phase III. The Landlord Audit project identified 1,200 in new residential rental business tax accounts. Business License Tax is driven by gross recipients in Oakland which generally resembles taxable sales; thus, BLT is also benefiting from the opening of new businesses in the City. New medical and transportation construction projects have added to this year's BLT revenues as well.

Utility Consumption Tax (UCT): \$51.2 million

Utility Consumption Tax revenue is projected to reach the budget of \$51.2 million. Year-to-date through March 31st, \$34.6 million has been collected, which is consistent with the year-end projection. However, we anticipate a reduction of revenues of approximately \$.7 million in FY 2012-13 resulting from the AT&T data plan national lawsuit.

Real Estate Transfer Tax (RETT): \$28.5 million

Real Estate Transfer Tax revenue is projected to end the year at the budget of \$28.5 million. Year-to-date through March 31st, \$18.8 million has been collected. The value of real estate transfers through the third quarter of the fiscal year has grown by 7% over the prior fiscal year. However, the number of transfers has decline by 13% over the same period. Additionally, the City has not experienced to-date any single large transfers compared to those seen in prior years. The Proposed FY 2012-13 Midcycle Budget assumes RETT revenues remain flat next year as well.

Figure 2 below shows the value and volume of RETT over the last 5 years:

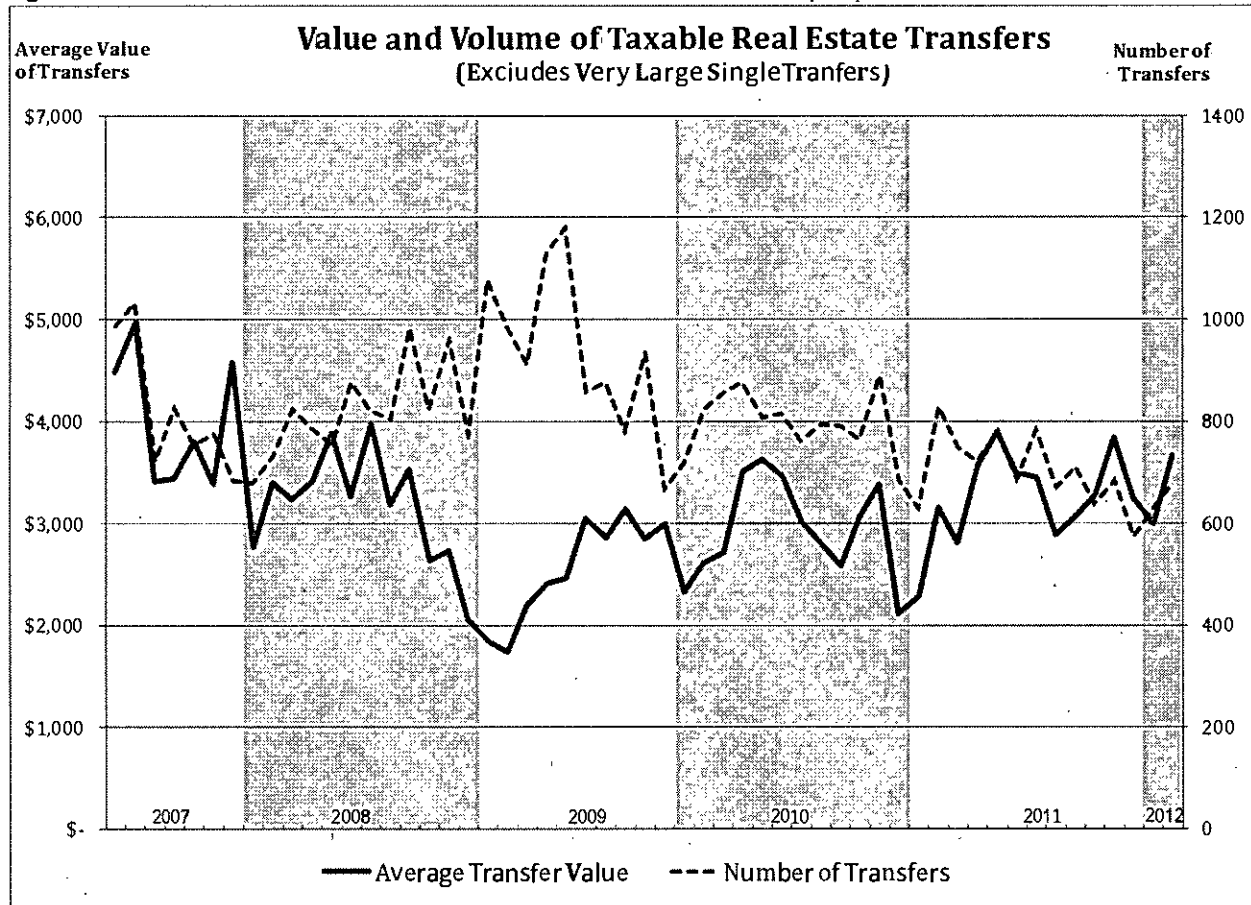


Figure 2: Source - RETT Remittances

Transient Occupancy Tax (TOT): \$10.8 million

Transient Occupancy Tax revenue is projected to exceed the adjusted budget of \$8.7 million, an increase of \$2.1 million from the original budget. Year-to-date through March 31st, \$7 million has been collected, which is consistent with the year-end projection. The regional hotel market has experienced resurgence during the fiscal year; Oakland's increased hotel occupancy and rental rates are consistent with regional trends. This increased demand is largely due to growth in business travel.

Parking Tax: \$8.5 million

Parking tax revenue is projected to exceed the budget of \$7.7 million by \$.8 million. Year-to-date through March 31st, \$5.3 million has been collected, which is consistent with the year-end projection. A large percentage of parking tax is associated with travel through the Oakland International Airport; thus higher business travel is yielding higher revenues.

Parking Meter Collections: \$11.4 million

Parking Meter revenue is projected to fall short of its \$11.7 million budget by \$.3 million. This is largely due to a decrease in available spaces at the Lake Park lot, delays in implementation of the installation of new parking meters in the in the East Lake neighborhood, and the "Parking Holiday" policy. Year-to-date through March 31st, \$8.6 million has been collected.

Parking Citations \$24.4 million

Parking citation revenue is projected to exceed budget of \$22.6 million by \$1.8 million. Year-to-date through March 31st, \$15.9 million has been collected, which is consistent with the projection. The growth in revenue is consistent with increased activity in Oakland's commercial districts. It is also influenced by improved operational practices including stabilization in the usage of hand held devices, and improved collections of delinquent payments. However, citation revenue continues to remain significantly below the FY 2010-11 budgeted value of \$29.6 million.

Interest Income: \$.8 million

Interest income is projected to reach the budget of \$.8 million and is anticipated to remain flat in FY 2012-13 due to low interest rates.

Service Charges (Excluding Parking Meters) \$31.2 million

Service Charges excluding parking meter revenue are projected to fall short of the budget of \$32.7 million. The \$1.5 million shortfall is largely due to \$.6 million in unrealized revenues for the East Oakland Sports Center, and \$.4 million in unrealized fire inspection revenue. Year-to-date through March 31st, \$16.3 million has been collected.

Miscellaneous Revenue \$29.9 million

Miscellaneous Revenue is projected to reach \$29.9 million, or \$1.3 million below the adopted budget of \$32.6 million. This shortfall is largely due to the lower collection of revenue from the sale of billboard advertising which will be delayed until next fiscal year.

FY 2011-12 GENERAL PURPOSE FUND EXPENDITURES

The majority of Departments are expected to spend within their GPF appropriation. As outlined in Attachment G, the General Purpose Fund (GPF) expenditure projection through June 30, 2012 is expected to be \$399.9 million or \$9 million over budget, which are primarily Protest/Demonstration-related expenditures. Projected year-end under spending in the Non-Departmental Unit, City Administrator's Office, Mayor, and Clerk's Office is offset by forecasted over-runs in Police, Auditor, City Council, Information Technology, and Finance & Management. For those departments in which there is a significant variance between their third quarter projection and the adopted budget, a brief explanation is provided below.

Police Services (OPD)

Police Services is expected to exceed its adopted budget by year-end. The 3rd Quarter projected deficit of \$8.6 million includes anticipated overages of \$3 million for non-protest/demonstration overtime, and \$6.6 million for Protest/Demonstration-related events. Of these spending increases, \$2 million will be offset by transfers to other OPD grant and other one-time funds.

City Council

The City Council is projected to end the year over budget by approximately \$0.2 million, due to adopted budget reductions not being fully implemented.

Office of the City Auditor

The Office of the City Auditor is projected to exceed its budget by approximately \$0.55 million. The over-expenditure is due to budget reductions not implemented. According to a legal opinion from the Office of the City Attorney, budgeted reductions would prevent the City Auditor's Office from carrying out its charter-mandated duties. The City Administrator has had separate discussions with both the City Attorney and the City Auditor about revisiting this legal opinion and, at this time, more work is needed. The City Administrator has implemented greater administrative controls, as directed by the City Council in January 2012, to reduce the rate of expenditures.

City Administrator

The City Administrator's Office is projected to end the year under budget by approximately \$0.25 million due to partial year salary savings from vacancies in the Public Ethics and Budget Offices. At this time, the vacant Public Ethics position has been filled and the Budget Office is actively in process of filling the vacancies.

City Clerk

The City Clerk's Office is projected to end the year approximately \$.2 million under budget due to salary savings from a partial-year vacancy.

Information Technology

The Department of Information Technology is expected to exceed its budget by approximately \$.18 million. The projected overage is attributed to unrealized retirement and vacancy savings and insufficient leave-taking.

Finance & Management (Former)

The former Finance & Management Agency (Controller's Office and Treasury) is expected to exceed its budget by approximately \$.34 million. The projected overage is attributed to unrealized retirement and vacancy savings and insufficient leave-taking.

Non-Departmental

The Non-Departmental unit is projected to have unspent appropriation of \$.45 million. The variance is primarily due to unexpectedly high recoveries of the central services overhead into the General Purpose Fund from other funds, which are offset by approximately \$.8 million of protest/demonstration operations costs.

OTHER BUDGET CHALLENGES AND BUDGETING FOR THE FUTURE

The City of Oakland, not unlike other states and municipalities, is grappling with other large structural fiscal issues. This includes the growing cost of retiree pensions and medical plans, which Oakland will need to further address in the near future, especially in light of increased CalPERS rates forecasted in the next 2-year budget cycle. For Other Post-Employment Benefits (OPEB), the retiree healthcare benefit plan, the City has opted to employ a pay-as-you go strategy, and as of the June 30, 2011 actuarial study, the accrued liability is over \$520 million.

The Police and Fire Retirement System ("PFRS") provides pension, disability and beneficiary payments to retired Police and Fire sworn members who were hired prior to 1976 (since that time all retired sworn staff has been covered under the PERS retirement system). Under Article XXVI of the City's Charter, the City is obligated to fully fund these retirement benefits by 2026. PFRS is currently funded at only 37.6% (actuarial value of assets/actuarial liabilities) or unfunded by \$494 million. Given the low funding level, a one-time or ongoing investment into the system has become a matter of fiscal urgency. Moreover, the pre-payment that the City negotiated with PFRS expired July 2011, and the City has been required to deposit to PFRS an annual contribution of approximately \$45.6 million, or about \$3.7 million per month. Continued annual contributions of this magnitude to PFRS will ultimately place extreme pressure on the City's General Fund, and the City is planning on issuing Pension Obligation Bonds in July 2012 in order to prefund the system for another 5-year period, thereby bringing the funding level back up to around 70%. There are very little options within our current budget condition that offer an immediate fix, but staff has developed a long-term plan that achieves multiple goals at once (see Information Memo on PFRS Bonds released during the week of May 21, 2012 – Attachment H).

In addition to the above, the estimated total capital improvement need for Oakland is over \$1.5 billion. The resources required to improve, repair and maintain the City's streets, facilities, storm drains, sidewalks and parks far exceeds available funds. Given the budget constraints, there are tradeoffs to be considered between capital projects and operational demands. Nevertheless, strategic investment and financial planning for capital improvements is fundamental to the well-being of the City. Residents, businesses and employees rely on access to safe, usable infrastructure. Continued deferred maintenance and investment ratchets up costs and increases the City's exposure to financial and accidental risk.

The City also requires an estimated annual amount of \$8.4 million in equipment replacement. This includes ladder trucks, fire pumper trucks, fire support vehicles, heavy duty equipment, marked patrol

cars, unmarked police cars, motorcycles, staff pooled vehicles, and light-to-medium duty trucks. On average, city vehicles, including those used by police, fire and public works, are approximately 10 years old, much older than industry standards. Most cars and trucks are no longer covered under the manufacturer's warranty and major repairs are costly. Additionally, because of the age of the fleet, replacement parts are difficult to find or are no longer available. The delays associated with locating parts cause inefficiencies such as extended times out of service, thereby affecting service delivery across all agencies.

Unfunded Liabilities:

CalPERS	TBD
OPEB	\$520 million
PFRS	\$494 million
Capital Improvements	\$1.5 billion
Equipment Replacement	\$8.4 million
Estimated Total	\$2.5 billion+

By Council Resolution, the Administration is required to produce a 5-year financial plan by October every two years. Therefore, the next 5-year plan is required by October 2012; however, our goal to produce the document before that deadline. The 5-year plan will help inform the FY 2013-15 budget process, during which discussion and action will need to take place regarding expiring revenue sources, such as ballot measures and grant funds; increasing employee costs and the expiration of some of the MOU cost-saving provisions; aging infrastructure and other capital needs; as well as other unfunded liabilities and expenditures.

CONCLUSION

The City of Oakland is at a critical crossroads. Despite the worst financial crisis since the Great Depression, key investments by our city have primed Oakland for the economic recovery and have put us in a strong position to fulfill our promise as a great city. Our goal has been to be fiscally and socially responsible in our budget practices while maintaining the infrastructure essential for sustainable growth. The City has moved steadily over the last 18-months to build a sustainable budget through reductions and reorganizations, repaying internal debt, and building a more accurate baseline budget accounting for all major costs. In comparison to many other cities, this year's Proposed Midcycle Budget amendments are without additional position and service eliminations, as Council took action in both June 2011 and again in January 2012 to resolve budget shortfalls for FY 2012-13 of \$76 million and \$28 million, respectively. The year-end forecast for FY 2011-12 projects a balanced budget, despite the increased costs due to frequent protests/demonstrations and other police overtime overages.

The City also showed great discipline in minimizing its use of one-time funds for on-going expenditures, in its decision to keep most of the proceeds from the Kaiser Convention Center in the reserve. As a result, the estimated impact of potential State Controller clawback of these funds will have a minimal impact on the GPF, as the budget shortfall that might be created would be covered by the City's portion of the cash returned from the reversal of the transactions.

To: HONORABLE CITY COUNCIL

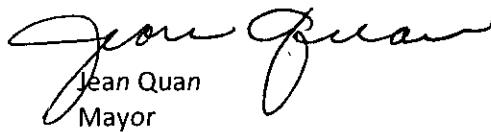
Subject: Proposed Amended Midcycle Policy Budget, Fiscal Year 2012-2013

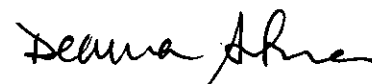
Date: May 24, 2012

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The evidence of our city's recovery and renaissance is everywhere, and there is tremendous work still to be done to further strengthen our financial situation, but we transmit to you this Proposed Amended Midcycle Policy Budget for Fiscal Year 2012-13 that will continue to keep Oakland moving forward for the long term.

Respectively submitted,


Jean Quan
Mayor


Deanna J. Santana
City Administrator

ATTACHMENTS:

Attachment A: FY 2011-13 Mayor-Council Adopted Priorities

Attachment B: Summary of Proposed Changes for FY 12-13

Attachment C: Proposed FY 2012-13 Proposed Amended Expenditures, By Department (GPF)

Attachment D: Proposed FY 2012-13 Proposed Amended Expenditures, By Department (All Funds)

Attachment E: Comparison Table of OPD Staffing, Sworn & Civilian

Attachment F: Information Memorandum Re: Budget Implementation Timeline

Attachment G-1: FY 11-12 3rd Q. Projected and FY 12-13 Proposed Amendment Revenues

Attachment G-2: FY 11-12 3rd Q. Projected and Expenditures

Attachment H: Information Memorandum Re: PFRS Pension Obligation Bonds

ATTACHMENT A

MAYOR/COUNCIL PRIORITIES

FY 2011-13

CITY OF OAKLAND PRIORITIES

The Mayor and the City Council each set priorities for the City. All City activities are structured to support these priorities; and the City's FY 2011-13 Budget provides the framework through which the City's goals and objectives are achieved.

Public Safety: Provide an adequate and uncompromised level of public safety services to Oakland residents and businesses; reduce crime and violence; engage youth in programs and services that prevent violence; and provide reentry opportunities for ex-offenders.

- Reduce crime and ensure public safety for every Oakland neighborhood by implementing a comprehensive crime prevention/reduction strategy.

Sustainable and Healthy Environment: Invest and encourage private investment in clean and renewable energy; protect and support clean environment; and give Oakland residents an opportunity to lead a healthy life, have healthy life options and make healthy choices.

- **Infrastructure:** Provide clean, well-maintained and accessible streets, sidewalks, facilities, amenities, parks, recreational facilities and trees.
- **Sustainable City:** Maximize socially and environmentally sustainable economic growth, including conserving natural resources.
- **Healthcare:** Provide ample programs to support the mental, physical and spiritual health of Oakland residents.

Economic Development: Foster sustainable economic growth and development for the benefit of Oakland residents and businesses.

- Develop comprehensive business attraction, retention and growth initiatives to attract green, biotech and other businesses that will result in more jobs for Oakland residents.
- Continue to develop retail space and other attractions that will draw visitors to the City of Oakland.

Community Involvement and Empowerment: Create sense of hope and empowerment among Oaklanders, especially the youth; provide Oaklanders with educational choices through the City Museum and libraries, and partnerships with the School District and other educational establishments.

- **Social Equity:** Encourage and support social equity for all Oakland residents.
- **Youth & Seniors:** Provide effective programs that will allow youth, seniors and people with disabilities to thrive in their communities.

Public-Private Partnerships: Engage private companies and other governmental agencies in forming public-private partnerships, to raise funds and deliver needed programs and services in an effective, efficient and all-inclusive manner.

Government Solvency and Transparency: Deliver City services in an open, transparent, effective and efficient manner; and protect and manage City's resources in a fiscally responsible and prudent manner.

- **Efficiency & Responsiveness to Residents:** Ensure that City staff responds to residents in a timely and effective manner by establishing minimum standards of service.
- **Fiscally Responsible City:** Develop and institutionalize sound financial management policies and practices.

ATTACHMENT B

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

		FY 2012-13
MAYOR'S OFFICE		
<u>Description</u>		<u>Expenditures</u>
Delete Mayors PSE 51 / Add Special Assistant to the Mayor (cost-neutral)		
Transfer 50% Special Assistant to the Mayor from Measure Y to GPF, consistent with previously adopted Council action on Measure Y budget.		100,000
Mayor's Office 1010 subtotal		\$ 100,000
CITY COUNCIL		
<u>Description</u>		<u>Expenditures</u>
No changes		
City Council 1010 subtotal		\$ 0
CITY ADMINISTRATOR'S OFFICE		
<u>Fund 1010 (GPF):</u>		<u>Expenditures</u>
Civilianize Office of Inspector General. Add IG, Asst Police Auditor, Deputy Police Auditor (new classifications)		608,000
Transfer previously-grant funded CPRB positions to 1010		410,000
Transfer Contract Compliance Office Assistant from ARRA to 1010		99,500
Add/Delete Office Assistant II to Receptionist (Contract Compliance)		-
Fully fund Graphic Designer; Add Website Maintenance & Enhancement; Civic Engagement Online Tools		125,000
<u>Other Funds:</u>		
Fully fund Granicus (legistar) contract in KTOP (Fund 1760)		30,000
Transfer 50% PIO from Fund 2415 to Fund 1760		63,000
OFFICE OF NEIGHBORHOOD INVESTMENT (ONI)		
<u>Fund 1010 (GPF):</u>		
Add Cultural Center JOA and Insurance assessments to GPF (Formerly paid by Redevelopment)		58,000
<u>Other Funds:</u>		
Shift Real Estate Agent to Fund 1610 (Successor Agency)		66,500

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

	FY 2012-13
Shift Program Analyst III to Army Base (Fund 5671)	66,500
Delete Deputy Director / Add Project Mgr III	-
Shift 30% of Administrative Analyst II from Fund 2415 to Fund 1770 to support Real Estate	-
Delete Real Estate Supervisor / Add Real Estate Manager (Fund 1770)	-
OFFICE OF ECONOMIC & WORKFORCE DEVELOPMENT	
<i>Fund 1010 (GPF):</i>	
Add Director of Economic & Workforce Development	256,000
Delete UEA III / Add UEA IV	20,000
Add UEA IV	133,000
Shift 50% UEA I to Enterprise Zone Program budget	(36,146)
Add 0.5 Program Analyst III for Cultural Arts Grants (cost-neutral)	-
City Administrator's Office 1010 subtotal	\$ 1,773,354
CITY ATTORNEY'S OFFICE	
<u>Description</u>	<u>Expenditures</u>
No proposed changes	-
City Attorney's Office 1010 subtotal	\$ 0
CITY AUDITOR'S OFFICE	
<u>Description</u>	<u>Expenditures</u>
City Auditor's Office to remain within budgeted appropriation; City Administrator directed to continue to use administrative controls to implement, as were employed in FY 2011-12	-
City Auditor's Office 1010 subtotal	\$ 0
CITY CLERK	
<u>Description</u>	<u>Expenditures</u>
Transfer Closed Captioning contract to KTOP	-
Clerk 1010 subtotal	\$ 0

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

		FY 2012-13
ADMINISTRATIVE SERVICES AGENCY		
<u>Description</u>		<u>Expenditures</u>
<u>Fund 1010 (GPF):</u>		
Unfreeze Administrative Services Agency Director		298,000
Fully fund audit services contract, per Council Resolution		110,000
Administrative Services Agency 1010 subtotal		\$ 408,000
POLICE SERVICES		
<u>Description</u>		<u>Expenditures</u>
<u>Fund 1010 (GPF):</u>		
Cost-neutral Add/Deletes: Delete Police Personnel Operations Specialist/Add Support Services Supervisor; Delete 5 Police Communications Dispatchers/Add 5 Police Communications Operators; Delete Account Clerk III/Add Information Systems Supervisor		-
Add appropriation for IA investigation contracts		750,000
<u>Other Funds:</u>		
Add Administrative Analyst for dedicated Workers Comp assistance (Fund 1150)		90,176
Police Services 1010 subtotal		\$ 750,000
FIRE SERVICES		
<u>Description</u>		<u>Expenditures</u>
Fully fund Emergency Services Manager		166,000
Remove savings for Fire Inspectors		400,000
Replace sirens		60,000
Add Captain of Fire (.2 FTE GPF); Add Civilian Fire Marshal		144,000
Fire Services 1010 subtotal		\$ 770,000

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

	FY 2012-13
LIBRARY SERVICES	
<u>Description</u>	<u>Expenditures</u>
No Changes	-
Library 1010 subtotal	\$ 0
COMMUNITY SERVICES AGENCY	
<u>Description</u>	<u>Expenditures</u>
Move East Oakland Sports Center to Self-Sustaining Fund (Fund 1820)	(200,000)
Restore Youth Commission staffing (part-time)	38,000
Community Services Agency 1010 subtotal	\$ (162,000)
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT AGENCY	
<u>Description</u>	<u>Expenditures</u>
Delete Deputy Director / Add Director (cost-neutral)	-
Shift Program Analyst I from Rent Adjustment Program Fund (2413) to CDBG (2108); Add Program Analyst III to Fund 2413	140,000
Department of Housing & Community Development 1010 subtotal	\$ 140,000
DEPARTMENT OF PLANNING & NEIGHBORHOOD PRESERVATION	
<u>Description</u>	<u>Expenditures</u>
<u>Development Services Fund (2415):</u>	
Add Deputy Director Building/Building Official	200,000
Incorporate adopted changes related to foreclosure program: Add Development/Redevelopment Program Manager and Program Analyst	300,000
Delete Deputy Director / Add Director (cost-neutral)	-
Department of Planning & Neighborhood Preservation 1010 subtotal	\$ 500,000

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

	FY 2012-13
PUBLIC WORKS AGENCY	
<u>Description</u>	<u>Expenditures</u>
<i>Fund 1010 (GPF):</i>	
Add Parking Meter Repair Supervisor	119,000
<i>Other Funds:</i>	
Unfreeze 2.00 Heavy Equipment Service Workers; addback 1.00 Heavy Equipment Supervisor in Equipment Fund (Fund 4100)	367,500
Add O&M in Watershed Program and Program Analyst II to Sewer Services Fund (Fund 3100)	329,000
Delete Program Analyst / Add Management Intern in Equipment Fund (Fund 4400)	(13,000)
Add O&M for maintaining Rainbow Teen Center & West Oakland Teen Center (Fund 4400)	40,000
Add Pump Station Upgrades in Sewer Service Fund (Fund 3100)	3,200,000
Add root foaming contract for sewer rehabilitation projects (Fund 3100)	4,000,000
Public Works Agency 1010 Subtotal	\$ 119,000
NON-DEPARTMENTAL	
<u>Description</u>	<u>Expenditures</u>
Set-aside for parking meter debt service (1200 new meters)	100,000
Non-Departmental subtotal	\$ 100,000
Proposed 1010 expenditure changes:	3,858,354
Net Revenue Surplus:	(3,927,724)
PROPOSED NET (SURPLUS)/DEFICIT:	\$ (69,370)
Additional Proposed Changes from Residual Property Tax Trust Revenues (RPTT):	
Projected Residual Property Tax Trust Revenues from ROPS	(3,700,000)
Add OPD Full Academy #2 (January 2013) and Independent OPD Department-wide Assessment	2,400,000
Restore Senior Center Hours	300,000
Add Street Repair Funding	400,000
Additional Economic Development Staff	300,000
PROPOSED NET (SURPLUS)/DEFICIT:	\$ (369,370)

ATTACHMENT C

ATTACHMENT C

**Proposed FY 2012-13 Proposed Amended Expenditures
General Purpose Fund (1010)**

Department	FY 2012-13 AMENDED (Feb 1)	FY 2012-13 Proposed Amended	Proposed FY 2012-13 Mid- Cycle Changes
Administrative Services Agency	\$ 16,788,434	\$ 17,196,434	\$ 408,000
Capital Improvement Projects	\$ 252,000	\$ 252,000	\$ -
City Administrator	\$ 23,303,009	\$ 25,076,363	\$ 1,773,354
City Attorney	\$ 4,177,498	\$ 4,177,498	\$ -
City Auditor	\$ 900,535	\$ 900,535	\$ -
City Clerk	\$ 1,930,089	\$ 1,930,089	\$ -
City Council	\$ 2,898,046	\$ 2,898,046	\$ -
Community Services Department	\$ 16,690,031	\$ 16,584,281	\$ (162,000)
Fire Services Agency	\$ 94,479,901	\$ 95,249,901	\$ 770,000
Library	\$ 8,829,585	\$ 8,829,585	\$ -
Mayor	\$ 1,281,236	\$ 1,381,236	\$ 100,000
Non Departmental and Port	\$ 63,035,232	\$ 63,135,232	\$ 100,000
Police Services Agency	\$ 164,375,172	\$ 165,125,172	\$ 750,000
Public Works	\$ 742,435	\$ 861,435	\$ 119,000
TOTAL	\$ 399,683,203	\$ 403,597,807	\$ 3,858,354

ATTACHMENT D

ATTACHMENT D

**Proposed FY 2012-13 Proposed Amended Expenditures
All Funds**

Department	FY 2012-13 AMENDED (Feb 1)	FY 2012-13 Proposed Amended	FY 2012-13 Proposed Changes
Administrative Services Agency	\$ 32,832,211	\$ 33,240,211	\$ 408,000
Capital Improvement Projects	\$ 35,872,000	\$ 35,872,000	\$ -
City Administrator	\$ 49,031,921	\$ 50,931,275	\$ 1,899,354
City Attorney	\$ 11,924,669	\$ 11,924,669	\$ -
City Auditor	\$ 900,535	\$ 900,535	\$ -
City Clerk	\$ 2,108,852	\$ 2,108,852	\$ -
City Council	\$ 3,403,533	\$ 3,403,533	\$ -
Community Services Department	\$ 73,883,668	\$ 73,721,668	\$ (162,000)
Fire Services Agency	\$ 107,873,517	\$ 108,643,517	\$ 770,000
Housing & Community Development	\$ 9,051,462	\$ 9,191,462	\$ 140,000
Library	\$ 24,369,101	\$ 24,369,101	\$ -
Mayor	\$ 1,428,496	\$ 1,528,496	\$ 100,000
Non Departmental and Port	\$ 288,753,259	\$ 288,853,259	\$ 100,000
Planning, Building & Neighborhood Preservation	\$ 19,678,795	\$ 20,178,795	\$ 500,000
Police Services Agency	\$ 190,386,372	\$ 191,226,548	\$ 840,176
Public Works	\$ 119,908,490	\$ 120,750,990	\$ 842,500
TOTAL	\$ 971,406,881	\$ 976,844,911	\$ 5,438,030

ATTACHMENT E

COMPARATIVE DATA

Police Department Size Comparisons* California Cities - 2010

City	Population	Sworn Officers	Civilian LE FTE	Sworn per 1,000 population
Fresno	484,734	793	214	1.64
Long Beach	462,267	889	363	1.92
Los Angeles	3,841,707	9,858	2,896	2.57
Oakland	409,723	674	261	1.64
Sacramento	472,469	696	323	1.47
San Diego	1,313,433	1,863	653	1.42
San Francisco	818,594	2,250	379	2.75
San Jose	970,252	1,259	365	1.30

OPD Staffing and Violent Crime*

YEAR	TOTAL LE PERSONNEL**	SWORN STRENGTH	CIVILIAN STAFF FTE	UCR REPORTED VIOLENT CRIME***
2000	1131	737	394	5,038
2005	1019	730	289	5,692
2010	935	674	261	6,297

*Data extracted from FBI Uniform Crime Reports (UCR)

** Total strength is sworn plus PD civilian personnel

*** UCR defines "Violent Crime" as including Murder, Forcible Rape, Robbery, and Aggravated Assault

OPD Percent of personnel changes 2000 – 2010:

Total Personnel (1131 to 935): - 17%

Sworn Personnel (737 to 674): - 9%

Civilian Staff (394 to 261): - 34%

Oakland UCR Violent Crime reported 2000 – 2010: 5,038 to 6,297: + 25%

ATTACHMENT F



CITY OF OAKLAND

DISTRIBUTION DATE: 3/8/12

MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Sabrina Landreth
Budget Director

SUBJECT: Budget Implementation Timeline

DATE: March 6, 2012

City Administrator
Approval

Sabrina Landreth

Date

3/7/12

INFORMATION

The purpose of this Information Memorandum is to provide the implementation timeline of recently adopted budget amendments. Given the short time frame to implement Revised FY 2011-2013 Policy Budget, staff has embarked on a prioritized process for achieving implementation over the next months.

The level of reorganization is vast and significant for the organization: it must concurrently accomplish the budget/fiscal goals in the Revised FY 2011-2013 Policy Budget and service delivery. In order to accomplish these efforts, consistent with the City Administrator's comments during the January 31, 2012 City Council meeting, this will be our main priority and we will need to pace our workload to ensure that the City's fiscal reality is matched by the necessary action to stabilize the organization and service to the City.

It is fully anticipated that these efforts will span over time and that issues will surface that need to be addressed when discovered. It is acknowledged that not all issues can be anticipated before implementation begins, but we have established processes to guide and support these reorganization efforts, as issues arise we will address them responsibly. Below are the authorized reorganizations and scheduled dates when these efforts will begin:

Decentralize Community Economic Development Agency	2/23/12
Transfer ADA to the Public Works Agency	2/23/12
Transfer Equal Access to the Department of Human Resources	2/23/12
Consolidation of some administrative functions in the Offices of the Chiefs in OPD and OFD	2/27/12
Decentralize Parking Division	3/5/12

HONORABLE MAYOR & CITY COUNCIL

SUBJECT: Budget Implementation Timeline

March 7, 2012

Page 2

Consolidate Risk Management and Benefits	3/5/12
Transfer Retirement to Treasury	3/5/12
Consolidate the Equal Opportunity Programs Division & Employee Relations	3/5/12
Temporary Supervision of Treasury / Controller to Assistant City Administrator	3/5/12
Transfer the Revenue Division to Budget (CAO)	3/5/12
Consolidate Office of Parks & Recreation, Department of Human Services & Neighborhood Services Division into the Community Services Department	7/1/12
Consolidate Finance & Management Agency, Department of Information Technology, Department of Human Resources into the Administrative Services Agency	7/1/12

In addition to the above reorganizations, the City is in the process of implementing all other changes as adopted by the City Council. While many of these changes are internal service modifications, some of the budget balancing measures directly impacting the community include the closure of select Recreation Centers on Mondays (eff. March 5th), the reprogramming of the San Antonio Recreation Center (eff. March 1st), and the elimination of Illegal Dumping services on Sundays (eff. February 26th).


There are several referrals that were included in the Council's adopted motion that staff will be bringing forward later this spring either as separate legislation or as part of the FY 12-13 Midcycle Budget process. This includes: ensuring each Council district has at minimum of one permanent NSC assigned; redesigning Neighborhood Services to integrate support of NCPCs and Neighborhood Watch and to provide more equitable support of both; setting contracting limits for the City Auditor at \$5,000 and at \$25,000 for the City Attorney. In addition, staff will be bringing a staff report in April addressing the options to continue administrative support to the Youth Commission.

Last, the efforts relative to establishing the Administrative Services Agency and Community Services Agency require engagement with residents and community groups. Staff is preparing to engage in these efforts in the May/June timeframe when preliminary work is in place and the City staff are prepared to receive input.

HONORABLE MAYOR & CITY COUNCIL
SUBJECT: Budget Implementation Timeline
March 7, 2012
Page 3

City Administration will continue to provide regular updates on the status of the FY 2011-12 Budget Implementation to the Finance & Management Committee. In addition, the 3rd Quarter Revenue & Expenditure Report will be presented to the City Council this spring, which will also provide a detailed update of the City's revenues and estimated year-end fund balances.

Respectfully submitted,



Sabrina Landreth
Budget Director

For questions please contact Sabrina Landreth, Budget Director, at 510-238-4936.

ATTACHMENT G

**Third Quarter FY 2011-12 Revenue & Expenditure Report
And FY 2012-13 Forecast Revenues
For the General Purpose Fund (1010)**

Revenue Category	Budget FY 10-11	Actuals FY 10-11	Budget FY 11-12	YE Projection FY 11-12	Over(Under) Budget FY 11-12	Original Adopted Budget FY 12-13	New Proposed Budget FY 12-13	Budget Amendment FY 12-13
Property Tax	\$ 125,154,720	\$ 126,682,293	\$ 125,166,501	\$ 125,166,501	\$ -	\$ 125,166,501	\$ 125,166,501	\$ -
Sales Tax	\$ 36,142,420	\$ 41,235,072	\$ 38,794,400	\$ 44,856,222	\$ 6,061,822	\$ 39,524,477	\$ 43,556,223	\$ 4,031,746
Vehicle License Fee	\$ 1,111,310	\$ 2,168,209	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business License Tax	\$ 50,813,310	\$ 53,138,616	\$ 50,869,280	\$ 54,000,000	\$ 3,130,720	\$ 51,365,918	\$ 51,800,000	\$ 434,082
Utility Consumption Tax	\$ 50,800,000	\$ 53,440,475	\$ 51,176,611	\$ 51,176,611	\$ -	\$ 51,199,282	\$ 50,500,000	\$ (699,282)
Real Estate Transfer Tax	\$ 33,490,000	\$ 31,607,438	\$ 28,490,000	\$ 28,490,000	\$ -	\$ 28,774,900	\$ 28,490,000	\$ (284,900)
Transient Occupancy Tax	\$ 8,641,950	\$ 9,544,822	\$ 8,728,370	\$ 10,864,502	\$ 2,136,132	\$ 8,902,937	\$ 10,864,502	\$ 1,961,565
Parking Tax	\$ 7,518,970	\$ 8,512,868	\$ 7,669,349	\$ 8,503,857	\$ 834,508	\$ 7,822,736	\$ 8,103,857	\$ 281,121
Licenses & Permits	\$ 685,027	\$ 888,147	\$ 939,660	\$ 1,141,967	\$ 202,307	\$ 939,660	\$ 925,571	\$ (14,090)
Fines & Penalties	\$ 31,956,210	\$ 24,288,276	\$ 24,067,590	\$ 25,382,263	\$ 1,314,673	\$ 24,067,590	\$ 25,425,535	\$ 1,357,945
Interest Income	\$ 1,640,000	\$ 1,041,723	\$ 800,000	\$ 800,000	\$ -	\$ 800,000	\$ 800,000	\$ -
Service Charges	\$ 48,096,516	\$ 44,646,815	\$ 44,404,804	\$ 42,621,956	\$ (1,782,848)	\$ 44,759,576	\$ 43,226,782	\$ (1,532,794)
Grants & Subsidies	\$ 157,901	\$ 82,346	\$ 10,000	\$ 132,979	\$ 122,979	\$ -	\$ 92,686	\$ 92,686
Internal Service Funds	\$ -	\$ (932)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Miscellaneous Revenue	\$ 9,465,199	\$ 6,477,660	\$ 31,128,540	\$ 29,865,370	\$ (1,263,170)	\$ 5,928,540	\$ 2,733,000	\$ (3,195,540)
Fund Transfers	\$ 12,724,215	\$ 17,091,732	\$ 2,500,000	\$ 2,500,000	\$ -	\$ 8,282,521	\$ 11,982,521	\$ 3,700,000
Grand Total	\$ 418,397,748	\$ 420,845,561	\$ 414,745,105	\$ 425,502,228	\$ 10,757,123	\$ 397,534,638	\$ 403,667,177	\$ 6,132,539

FY 11-12 Revenues of a one-time nature used to offset one-time costs (included in totals above)

Sales Tax: Audit identified errors in county pool use tax	\$ 1,300,000
Business License Tax: Landlord Audit Project Phase III	\$ 1,642,512
Business License Tax: Other Business Tax Audits	\$ 1,136,800
Total FY 11-12 Un-Budgeted One Time Revenues	\$ 4,079,312

ATTACHMENT G

**Third Quarter FY 2011-12 Actual and Projected Expenditures
General Purpose Fund (1010)**

DEPARTMENT / DIVISION	FY 2011-12 Q3 Adjusted Budget	FY 2011-12 Q4 PROJECTIONS	Q4 (OVER) / UNDER BUDGET
City Administrator	\$ 13,285,076	\$ 13,033,200	\$ 251,876
City Attorney	\$ 4,097,826	\$ 4,097,826	\$ -
City Auditor	\$ 885,773	\$ 1,435,061	\$ (549,288)
City Clerk	\$ 1,475,882	\$ 1,271,022	\$ 204,860
City Council	\$ 2,278,520	\$ 2,492,205	\$ (213,685)
Community & Economic Development Agency	\$ 228,196	\$ 228,196	\$ -
Department of Human Services	\$ 5,069,389	\$ 5,069,389	\$ -
Department of Info Technology	\$ 7,272,764	\$ 7,455,152	\$ (182,388)
Dept of Human Resource Management	\$ 3,873,294	\$ 3,873,294	\$ -
Finance & Management Agency	\$ 14,125,246	\$ 14,464,255	\$ (339,009)
Fire Department	\$ 91,556,728	\$ 91,556,728	\$ -
Library	\$ 9,057,224	\$ 9,057,224	\$ -
Mayor	\$ 1,176,539	\$ 1,150,309	\$ 26,230
Non-Departmental and Port	\$ 65,991,047	\$ 65,540,417	\$ 450,629
Office of Parks and Recreation	\$ 12,292,433	\$ 12,292,433	\$ -
Police Services Agency	\$ 157,552,193	\$ 166,155,194	\$ (8,603,001)
Public Works	\$ 341,383	\$ 341,383	\$ -
CIP Projects	\$ 348,167	\$ 348,167	\$ -
Grand Total	\$ 390,907,679	\$ 399,861,455	(\$8,953,775)

ATTACHMENT H

DISTRIBUTION DATE: May 21, 2012



CITY OF OAKLAND

MEMORANDUM

TO: CITY COUNCIL

FROM: Mayor Jean Quan
City Administrator Deanna Santana

SUBJECT: PFRS Pension Obligation Bonds

DATE: May 21, 2012

INFORMATION

The purpose of this informational report is to provide the City Council with information to respond to recent questions on why it is in the best interest of the City to issue Pension Obligation Bonds (“POB’s”) to finance the City’s contributions for the City’s closed Police and Fire Retirement System (“PFRS”) and answer the question “*Why issue POBs and what is the benefit?*”

The City cannot afford to continue funding PFRS on a pay as you go basis without a long-term strategy and without putting financial measures in place to help mitigate risk. For the past few years the Council has acknowledged that the PFRS funding levels are inadequate and have been exploring options to mitigate the impact to the City. There are insufficient funds to pay annual PFRS obligations in the short term, which would result in significant general fund shortfalls (over \$29 million in 2012-13), requiring drastic cuts in service to the community. We need a long-term strategy with responsible fiscal measures. Implementing staff’s long-term strategy would bridge the gap by matching available revenue resources to the obligations, bringing the City through otherwise very tough budget challenges.

We are recommending a fiscally responsible, long-term funding approach to fund the City’s Police and Fire Retirement System. The recommendation seeks the City Council’s approval of the following; (1) authorization to issue and sell pension obligation bonds (POBs) for the purpose of pre-funding the City of Oakland’s Police and Fire Retirement System (PFRS) over the next five years (which reduces the overall cost/debt), (2) establishing a reserve of no less than \$25 million from the existing balance in the tax override fund for the purpose of funding PFRS in the event of predetermined risks, (3) developing predetermined triggers for possible additional City action to mitigate market and funding risk, and (4) designating, for the sole purpose to fund PFRS, if needed, from resources that will become available beginning in FY 2015-16 due to declining general fund and tax override fund debt service payments due to retiring debt (debt that will be paid off).

History of PFRS Problems

The challenges facing PFRS are not new nor have they developed in recent years, but over a long period of time. The long-term strategy we support as outlined in the staff report to the May 22nd Finance Committee is a plan to mitigate some of the challenges we have been facing and to mitigate the risk to the General Fund.

Following is a detailed analysis on why the City should issue pension obligation bonds and approve a long-term funding strategy, and how it is in the City's best interest to do so.

Mitigating Budget Impacts to General Fund

If the City did not issue POB's, funding would be required from the City's general fund, ranging from \$13 million to \$29 million per year, beginning in fiscal year 2012-13. Since the last "suspension period" ended in July 2011 as a result of the previous prefunding to PFRS, the City has paid the System approximately \$3.8 million per month. These funds have accumulated in the tax override fund from tax override and annuity revenues in past years. However, it should be noted that the current balance in the tax override fund is decreasing since the City's annual contributions to PFRS combined with the existing annual debt obligations for PFRS is greater than the dedicated annual revenues the City receives (tax override revenues and annuity proceeds). Any shortfall would require funding to be paid from the general fund. Absent issuing the proposed 2012 POBs, as presented in a staff report to the Finance and Management Committee on May 8, 2012, the general fund support required for fiscal year ended June 30, 2013 would be approximately \$29.6 million. Similar general fund requirements would be needed in future years as well, ranging from \$13 million to \$29 million per year between FY 2013-14 to FY 2022-23, totaling almost \$235 million from the general fund. Therefore, issuing the POBs to finance the contribution to PFRS will mitigate risk to the City's general fund, alleviating the general fund support for a period of five years at a time in which the City has been faced with multiple year deficits and the fiscal impact of the dissolution of its Redevelopment Agency. By implementing a long-term strategy, as described below, and issuing the POB's, the City would bridge this funding gap for in the next several years and avoid the extreme measures that would otherwise be required to fund this obligation from the General Fund.

Long-Term Responsible Funding Solution – Designate and Commit PFRS Funding

It should be noted that we do not view this plan as short sighted, and we do Not suggest that we "kick the can down the road." On the contrary, instead, we are recommending a responsible long-term funding solution by securitizing available tax override funds to facilitate a POB issue in 2012 supported by the tax override revenues, thus allowing a prepayment into the system in which annual contributions would be suspended for five years. During the suspension period, the annual payments on the 2012 POBs debt service would be lower than the annual required PFRS contributions that the City would otherwise be required to pay to fund PFRS.

We are also supporting a long term funding strategy that aligns the City's funding of PFRS at times when the general fund and the tax override fund will be in a better position to support the PFRS obligations. Beginning in FY 2015-16 general fund related debt will mature (i.e., Convention Center and Master Leases). In addition, one of the PFRS POB related debt obligations will mature in 2017-18 (i.e., 2008 JPFA Refunding Bonds). As a result, the City will

realize a total annual savings of approximately \$35.5 million from these debt maturities (2015 to 2018). Therefore, after the prepayment period ends for this POB, either the annual ARC payments can resume or the City can explore other options when the City can support additional general fund contributions due to the declining debt service starting no earlier than FY 2015-16. We are recommending that the Council designate and commit these funds, at the time they become available, for the sole purpose to fund PFRS.

An additional funding aspect that is important to note is that the City can access the tax override revenue that will become unencumbered from 2024 to 2026 to secure additional bonding. The new pension bond will be paid by the tax override revenues which are pledged to PFRS obligation through 2026. We are not recommending an extension of the deadline of PFRS pension debt; staff has developed a bond structure that spreads the tax override revenues over the remaining years until 2026.

Establishing a Reserve to Mitigate Market Risk

We also recommend the establishment of a reserve of approximately \$25 million to be funded from the current balance of the tax override fund for the purpose of mitigating market risk to the PFRS funds from the deposit of the POB proceeds and/or if the funding ratio reaches a level below a predetermined benchmark during the suspension period. In addition, we recommend that any excess tax override funds received during any given year above the Proposition XIII 2% property tax growth rate (after all other debt obligations are satisfied) be deposited into the reserve of the tax override fund. The purpose of this reserve is to set aside funds that could become available to fund PFRS as a mitigation of market risk and funding ratio risk. A predetermined benchmark level would be established that would be monitored during the duration of the suspension period.

Lower Cost of Debt

Issuing POBs at this time would be beneficial to the City given the current historical low interest rate environment. Based on the current market trends, the POB's would be issued at an estimated rate of interest of approximately 4.75%. Therefore, issuing POB's in the current market is the cheapest way to finance a portion of the City's PFRS obligation, while mitigating an immediate impact on the City's General Fund as the City addresses the PFRS obligation as a responsible long-term funding strategy.

Increase the Funding Ratio of the PFRS System

PFRS is currently severely underfunded at 37.5%, and requires annual contributions of \$38.5 million in FY 2012-13. The recommended POB would bring the funding ratio up to 68.3% according to the PFRS Actuary.

The City previously issued pension obligation bonds in February 1997 in which the bond proceeds were deposited into the PFRS system to prefund the annual contributions through June 2011. Since July 2011 the City has been making monthly payments of approximately \$3.8 million on a pay-as-you-go method for FY 2011-12 from the excess tax override revenues. Based on the current balance in the tax override fund, the City can only use the excess tax override revenues to offset these monthly payments for only a short period of time. It would not

be in the City's best interest to deplete these revenues for pay-as-you go payments. Instead, as discussed below, we are recommending using most of the available remaining balance to establish a reserve. Furthermore, as the plan assets, currently valued at \$256.4 million, continues to be depleted, without an infusion of cash to strengthen the funding level, annual costs would increase, putting additional pressure on potential funding support by the General Fund.

Market Risk

The primary potential risk associated with a POB program is investment risk in which investment returns need to meet or exceed the interest rate paid on the bonds for the life that the POB debt is outstanding. A primary factor that plays into the investment returns is market volatility, the market upturns and downturns can affect the ultimate financial gains and losses of issuing POBs. Therefore, POBs can only be viewed as a success or failure once the bonds are retired, not over a short-term period. Other associated risks involved in issuing pension obligation bonds which must be taken into consideration are:

- Actuarial assumptions that are not realistic or incorrect can result in increases in future contributions to the System.
- Future decline in Assessed Values of property within the City which could cause the primary funding source, Tax Override Revenues, to decline.
- Further benefit increases which would cause the projected liabilities to increase.

It should be noted that the Board recently adjusted some actuarial assumptions to reflect actual historical trends. Some of the changes resulted in an increase to the unfunded actuarial liability while other changes resulted in a positive impact by lowering the liability.

While past performance of the System's investment returns cannot reflect how future investment returns will perform, according to PCA, PFRS independent investment advisor, PFRS' portfolio has outperformed its policy benchmark over extended time periods through the oversight of the Board, its investment managers, investment advisors and City staff that provide oversight and support of PFRS.

Summary

Finally, after evaluating all available options to fund the PFRS system, by issuing the 2012 POBs to fund PFRS for the next five years, implementing the long-term strategy outlined above and putting the other measures noted above in place, the City would be in a much stronger long-term financial position. We support this strategy as the best option for the City as it improves the funded ratio of the PFRS, mitigates risk to the general fund (averting otherwise significant cuts in service to the community) and stabilizes the long-term funding of the System for the benefit of PFRS' beneficiaries.

Respectfully submitted,

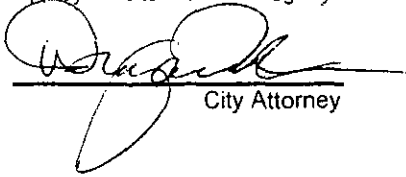
_____/s/
JEAN QUAN
Mayor

_____/s/
DEANNA J. SANTANA
City Administrator

For questions please contact Scott P. Johnson, Assistant City Administrator, at (510) 238-6906.

FILED
OFFICE OF THE CITY CLERK
OAKLAND

OAKLAND CITY COUNCIL


City Attorney

2012 MAY 24 PM 2:02 RESOLUTION NO. _____ C.M.S.

RESOLUTION AMENDING THE CITY OF OAKLAND'S FY 2011-13 BIENNIAL BUDGET, WHICH WAS ADOPTED PURSUANT TO RESOLUTION NO. 83444 C.M.S. ON JUNE 30, 2011 AND AMENDED BY RESOLUTION NO. 83693 C.M.S. ON JANUARY 31, 2012

WHEREAS, the City Council adopted Resolution No. 83444 C.M.S. on June 30, 2011 adopting the FY 2011-13 biennial budget, and appropriating certain funds to provide for the expenditures proposed by the said budget; and

WHEREAS, the City Council amended the FY 2011-13 biennial budget on January 31, 2012, as required in light of the California Supreme Court ruling in which the Court upheld ABx1 26 (the redevelopment elimination bill), but struck down ABx1 27, thereby eliminating redevelopment effective February 1, 2012; and

WHEREAS, the City Council has reviewed proposed variances in FY 2012-13 revenues and expenditures as part of the Midcycle budget review; now, therefore be it

RESOLVED: That the City's FY 2012-13 Midcycle Policy Budget is hereby amended to include adjustments presented by the City Administrator in Exhibit A, subject to additional amendments that may be presented and adopted on the floor, which amendments will be incorporated into Exhibit A; and be it

FURTHER RESOLVED: That Exhibit A is hereby amended to include adjustments adopted by the City Council on June ____, 2012.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 20__

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, BRUNNER, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, SCHAAF, and PRESIDENT REID

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

EXHIBIT A

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

		FY 2012-13
MAYOR'S OFFICE		
<u>Description</u>		<u>Expenditures</u>
Delete Mayors PSE 51 / Add Special Assistant to the Mayor (cost-neutral)		
Transfer 50% Special Assistant to the Mayor from Measure Y to GPF, consistent with previously adopted Council action on Measure Y budget.		100,000
Mayor's Office, 1010, subtotal		\$ 100,000
CITY COUNCIL		
<u>Description</u>		<u>Expenditures</u>
No changes		
City Council 1010, subtotal		\$ 0
CITY ADMINISTRATOR'S OFFICE		
<u>Fund 1010 (GPF):</u>		<u>Expenditures</u>
Civilianize Office of Inspector General. Add IG, Asst Police Auditor, Deputy Police Auditor (new classifications)		608,000
Transfer previously-grant funded CPRB positions to 1010		410,000
Transfer Contract Compliance Office Assistant from ARRA to 1010		99,500
Add/Delete Office Assistant II to Receptionist (Contract Compliance)		-
Fully fund Graphic Designer; Add Website Maintenance & Enhancement; Civic Engagement Online Tools		125,000
<u>Other Funds:</u>		
Fully fund Granicus (legistar) contract in KTOP (Fund 1760)		30,000
Transfer 50% PIO from Fund 2415 to Fund 1760		63,000
OFFICE OF NEIGHBORHOOD INVESTMENT (ONI)		
<u>Fund 1010 (GPF):</u>		
Add Cultural Center JOA and Insurance assessments to GPF (Formerly paid by Redevelopment)		58,000
<u>Other Funds:</u>		
Shift Real Estate Agent to Fund 1610 (Successor Agency)		66,500

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

	FY 2012-13
Shift Program Analyst III to Army Base (Fund 5671)	66,500
Delete Deputy Director / Add Project Mgr III	-
Shift 30% of Administrative Analyst II from Fund 2415 to Fund 1770 to support Real Estate	-
Delete Real Estate Supervisor / Add Real Estate Manager (Fund 1770)	-
OFFICE OF ECONOMIC & WORKFORCE DEVELOPMENT	
Fund 1010 (GPF):	
Add Director of Economic & Workforce Development	256,000
Delete UEA III / Add UEA IV	20,000
Add UEA IV	133,000
Shift 50% UEA I to Enterprise Zone Program budget	(36,146)
Add 0.5 Program Analyst III for Cultural Arts Grants (cost-neutral)	-
City Administrator's Office 1010 subtotal	\$ 1,773,354
CITY ATTORNEY'S OFFICE	
<u>Description</u>	<u>Expenditures</u>
No proposed changes	-
City Attorney's Office 1010 subtotal	\$ 0
CITY AUDITOR'S OFFICE	
<u>Description</u>	<u>Expenditures</u>
City Auditor's Office to remain within budgeted appropriation; City Administrator directed to continue to use administrative controls to implement, as were employed in FY 2011-12	-
City Auditor's Office 1010 subtotal	\$ 0
CITY CLERK	
<u>Description</u>	<u>Expenditures</u>
Transfer Closed Captioning contract to KTOP	-
Clerk 1010 subtotal	\$ 0

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS

	FY 2012-13
ADMINISTRATIVE SERVICES AGENCY	
<u>Description</u>	<u>Expenditures</u>
<u>Fund 1010 (GPF):</u>	
Unfreeze Administrative Services Agency Director	298,000
Fully fund audit services contract, per Council Resolution	110,000
Administrative Services Agency 1010 subtotal	\$ 408,000
POLICE SERVICES	
<u>Description</u>	<u>Expenditures</u>
<u>Fund 1010 (GPF):</u>	
Cost-neutral Add/Deletes: Delete Police Personnel Operations Specialist/Add Support Services Supervisor; Delete 5 Police Communications Dispatchers/Add 5 Police Communications Operators; Delete Account Clerk III/Add Information Systems Supervisor	-
Add appropriation for IA investigation contracts	750,000
<u>Other Funds:</u>	
Add Administrative Analyst for dedicated Workers Comp assistance (Fund 1150)	90,176
Police Services 1010 subtotal	\$ 750,000
FIRE SERVICES	
<u>Description</u>	<u>Expenditures</u>
Fully fund Emergency Services Manager	166,000
Remove savings for Fire Inspectors	400,000
Replace sirens	60,000
Add Captain of Fire (.2 FTE GPF); Add Civilian Fire Marshal	144,000
Fire Services 1010 subtotal	\$ 770,000

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS		FY 2012-13
LIBRARY SERVICES		
Description		Expenditures
No Changes		-
Library 1010 subtotal		\$ 0
COMMUNITY SERVICES AGENCY		
Description		Expenditures
Move East Oakland Sports Center to Self-Sustaining Fund (Fund 1820)		(200,000)
Restore Youth Commission staffing (part-time)		38,000
Community Services Agency 1010 subtotal		\$ (162,000)
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT AGENCY		
Description		Expenditures
Delete Deputy Director / Add Director (cost-neutral)		-
Shift Program Analyst I from Rent Adjustment Program Fund (2413) to CDBG (2108); Add Program Analyst III to Fund 2413		140,000
Department of Housing & Community Development 1010 subtotal		\$ 0
DEPARTMENT OF PLANNING & NEIGHBORHOOD PRESERVATION		
Description		Expenditures
<u>Development Services Fund (2415):</u>		
Add Deputy Director Building/Building Official		200,000
Incorporate adopted changes related to foreclosure program: Add Development/Redevelopment Program Manager and Program Analyst		300,000
Delete Deputy Director / Add Director (cost-neutral)		-
Department of Planning & Neighborhood Preservation 1010 subtotal		\$ 0

FY 2012-13 PROPOSED MIDCYCLE BUDGET AMENDMENTS	
	FY 2012-13
PUBLIC WORKS AGENCY	
<u>Description</u>	<u>Expenditures</u>
<i>Fund 1010 (GPF):</i>	
Add Parking Meter Repair Supervisor	119,000
<i>Other Funds:</i>	
Unfreeze 2.00 Heavy Equipment Service Workers; addback 1.00 Heavy Equipment Supervisor in Equipment Fund (Fund 4100)	367,500
Add O&M in Watershed Program and Program Analyst II to Sewer Services Fund (Fund 3100)	329,000
Delete Program Analyst / Add Management Intern in Equipment Fund (Fund 4400)	(13,000)
Add O&M for maintaining Rainbow Teen Center & West Oakland Teen Center (Fund 4400)	40,000
Add Pump Station Upgrades in Sewer Service Fund (Fund 3100)	3,200,000
Add root foaming contract for sewer rehabilitation projects (Fund 3100)	4,000,000
Public Works Agency 1010 Subtotal	\$ 119,000
NON-DEPARTMENTAL	
<u>Description</u>	<u>Expenditures</u>
Set-aside for parking meter debt service (1200 new meters)	100,000
Non-Departmental subtotal	\$ 100,000
Proposed 1010 expenditure changes:	3,858,354
Net Revenue Surplus:	(3,927,724)
PROPOSED NET (SURPLUS)/DEFICIT:	\$ (69,370)
Additional Proposed Changes from Residual Property Tax Trust Revenues (RPTT):	
Projected Residual Property Tax Trust Revenues from ROPS	(3,700,000)
Add OPD Full Academy #2 (January 2013) and Independent OPD Department-wide Assessment	2,400,000
Restore Senior Center Hours	300,000
Add Street Repair Funding	400,000
Additional Economic Development Staff	300,000
PROPOSED NET (SURPLUS)/DEFICIT:	\$ (369,370)