



CITY OF OAKLAND

**FY 2023-24 Second Quarter (Q2)
Revenue and Expenditure Report
and
FY 2024-25 Midcycle Budget Deficit**

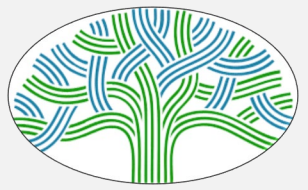
Presenter

Erin Roseman,
Director of Finance

March 26, 2024

Finance & Management Committee





General Purpose Fund Overview: FY 2023-24 Quarter 2 (Q2)



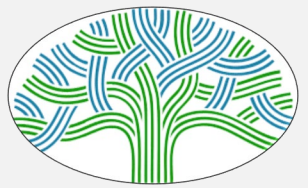
The current fiscal landscape of the City poses considerable challenges, notably characterized by:

- ✓ Sustained declines in key revenue categories
- ✓ Significant projected overspending on Police Services



Other Contributing Factors:

- \$30.12 million use of fund balance is assumed in the budget however this amount is not anticipated to be available at year-end.
- \$55.10 million in approved FY 2022-23 carryforwards: Despite the approval of these funds, current projections indicate the GPF will lack the actual funding support due to the anticipated deficit.



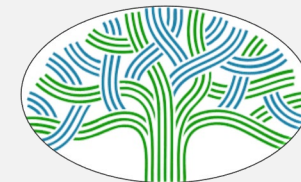
FY 2023-24 General Purpose Fund (GPF) Deficit

The GPF Operating Deficit of \$177 million is projected as of Q2

- **Revenues** are projected to end the year **\$169.10 million under** the Adjusted Budget
- **Expenditures** are projected to end the year **\$8.01 million over** the Adjusted Budget

FY 2023-24 General Purpose Fund Second Quarter (\$millions)

	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Year- End Projections	(Over) / Under
FY2023-24 Revenues	834.12	890.07	720.98	(169.10)
FY 2023-24 Expenditures	834.12	890.07	898.08	(8.01)
Operating (Shortfall) / Surplus	—	—	(177.10)	(177.10)



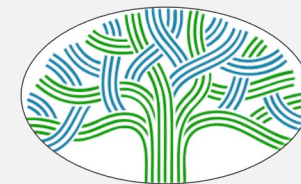
FY 2023-24 Second Quarter GPF Revenues

Overall trend for most of the City's revenue sources are trending **downward**, with the most significant impacted Revenue category being **Real Estate Transfer Tax**

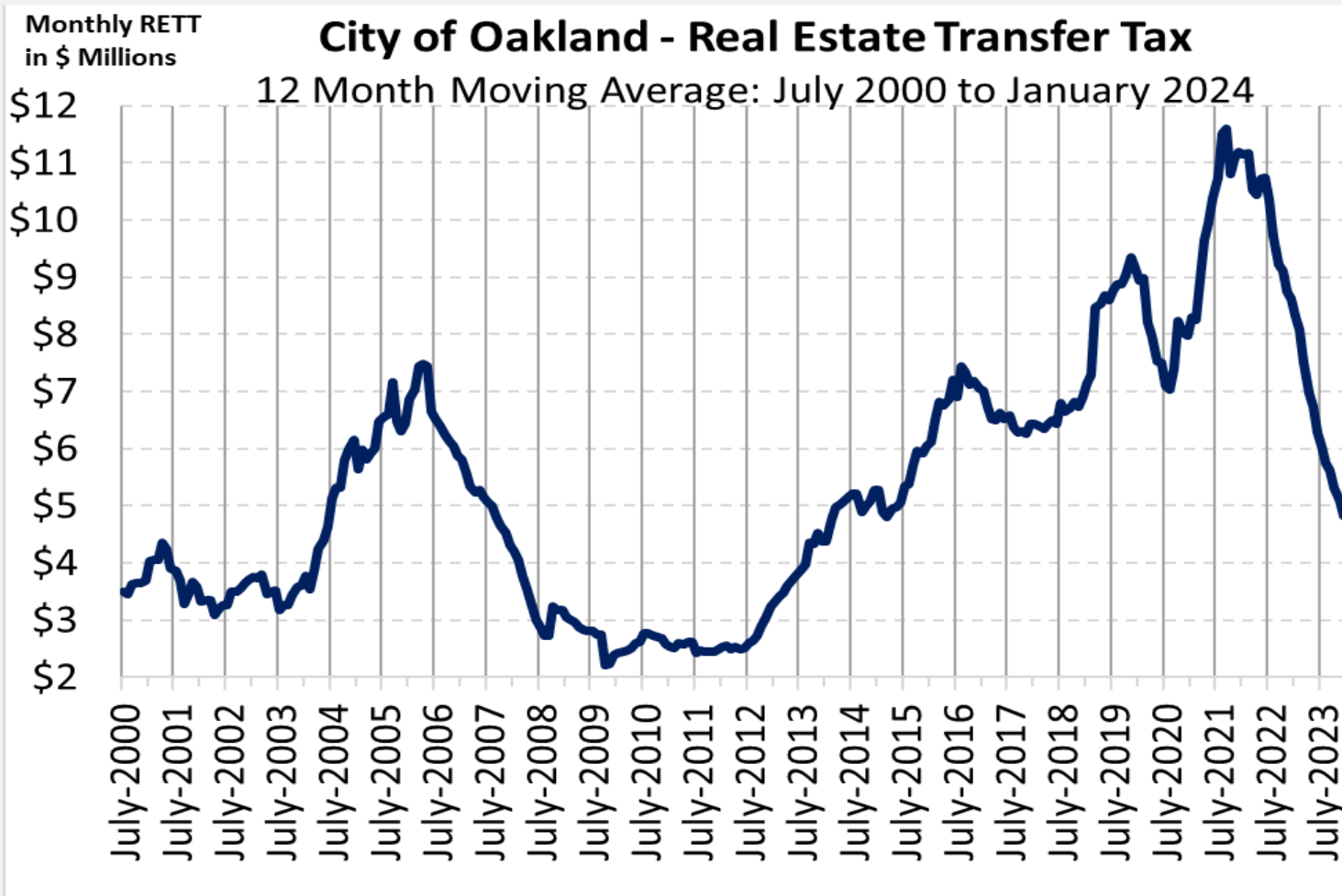
- Other notable declines:
- Business License Tax
 - Sales Tax

Although other categories are showing upward trends, these positive movements are not enough to counteract the projected declines.

FY 2023-24 GPF Budget to Projected Actuals Revenue (\$ in millions)						
Revenue Category	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q2 YTD Actuals	FY 2023-24 Q2 Year-End Estimate	Year-End \$ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Property Tax	294.17	294.17	122.53	298.35	4.18	1.4 %
Business License Tax	125.25	125.25	8.22	115.72	(9.52)	(7.6) %
Real Estate Transfer Tax	110.41	110.41	26.61	53.22	(57.19)	(51.8) %
Sales Tax	67.69	67.69	21.03	62.72	(4.97)	(7.3) %
Utility Consumption Tax	61.90	61.90	30.73	66.32	4.42	7.1 %
Service Charges	51.60	52.28	12.15	46.98	(5.30)	(10.1) %
Fines & Penalties	23.07	23.07	8.92	17.84	(5.23)	(22.7) %
Transient Occupancy Tax	22.48	22.48	9.95	19.61	(2.87)	(12.8) %
Miscellaneous Revenue	21.22	21.22	4.58	5.79	(15.43)	(72.7) %
Interfund Transfers	13.08	13.08	—	13.08	—	— %
Parking Tax	11.26	11.26	6.01	12.37	1.11	9.8 %
Licenses & Permits	1.39	1.39	0.59	1.39	—	— %
Interest Income	0.48	0.48	(0.26)	5.00	4.52	932.9 %
Grants & Subsidies	—	0.03	0.71	2.59	2.56	N / A
Subtotal	804.00	804.71	251.75	720.98	(83.73)	(10.4) %
Transfers from Fund Balance	30.12	30.12	—	—	(30.12)	(100.0) %
Project Offsets & Carryforwards	—	55.24	—	—	(55.24)	(100.0) %
Total Revenue	834.12	890.07	251.75	720.98	(169.10)	(19.0) %



Navigating Turbulence: Real Estate Transfer Tax (RETT)

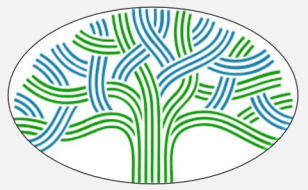


The current decline in RETT collections is akin to the downturn experienced during the Great Recession.

Factors that contribute to the current decline:

- High Interest Rates that reduce the sales value of properties
- A very low number of property sales (transactions)
- Particularly low number of high-value property transfers

Through Q2 only 11 properties have sold valued over \$5 Million, compared to 25 properties over the same period last year.



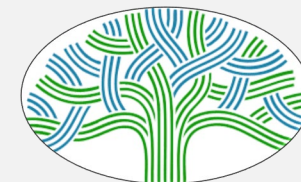
Navigating Turbulence: Real Estate Transfer Tax (RETT)

The City faces the implications of dwindling RETT Revenue:

- FY 2021-22 marked the record high collection of \$138 million in RETT
- FY 2023-25 Adopted Budget projects RETT to be 25% lower from FY 2021-22 just two fiscal years later
- As of Q2 in the current fiscal year, the City has collected only \$26.61 million in RETT for a period that normally accounts for more than 50% of the annual collection.

Based on this second quarter data and economic trends, the RETT projection has been revised to end the year at only \$53.22 million, which is \$57.19 million or **51.8% lower** than the initial Budget of \$110.41 million.

The anticipated shortfall in the RETT accounts for **68.3% of the overall projected GPF shortfall.**

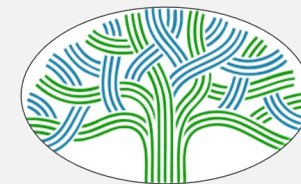


FY 2023-24 Second Quarter Sales Tax

- Sales tax is projected to come in below the FY 2023-24 Adjusted Budget of \$67.69 million by approximately by \$4.97 million and is now estimated to end the year at \$62.72 million.
- Sales Tax collection lags other categories. Data is available through the First Quarter (Q1) of FY 2023-24. Per data provided by the City's Sales Tax consultant HDL, **Oakland's receipts from July through September (Q1) were 6.0% below the Q1 period in 2022**. Excluding reporting aberrations, actual sales were down 6.1%.

Sales Tax Comparison by Major Categories FY2022-23 and FY 2023-24 (\$ in millions)

Category	Thru Q1 FY 2022-23	Thru Q1 FY 2023-24	Percentage Increase / (Decrease)
Autos & Transportation	\$2.65	\$2.54	-4.00%
Building & Construction	\$1.69	\$1.61	-4.50%
Business & Industry	\$1.45	\$1.32	-9.40%
Food & Drugs	\$1.38	\$1.21	-12.10%
Fuel & Service Stations	\$2.29	\$1.77	-22.90%
General Consumer Goods	\$1.40	\$1.25	-10.30%
Restaurants & Hotels	\$2.76	\$2.68	-2.90%
State/County Pools & Transfers	\$2.89	\$3.09	7.00%
Average	\$2.07	\$1.94	-6.20%



Business License Tax (BLT): Collection Trends and Measure T

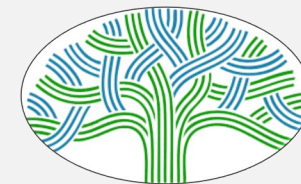
This is the second fiscal year that Business License Tax is operating under the new progressive tiered tax structure that was approved by the passage of Measure T. In FY 2022-23, the first year that Measure T took effect, an increase of \$17.64 million in BLT collected was attributed to Measure T.

As of Q2, BLT is expected to end the year at \$115.72 million, which is \$9.53 million or **7.6% under** compared to Adjusted Budget of \$125.25 million.

While the year-end estimate is comparable to the prior year total of \$115.38 million, **the collection of BLT has been declining in recent years, apart from Measure T:**

Fiscal Year	Base BLT Amount	Measure T Increase	Total BLT
FY 2020-21 Actual	104.23	NA	104.23
FY 2021-22 Actual	101.29	NA	101.29
FY 2022-23 Actual	97.73	17.64	115.37
FY 2023-24 Projected	98.08	17.84	115.92

Without the passage of Measure T, the FY 2023-24 BLT projection would have been just \$98.08 million, which would have effectively increased the GPF deficit by \$17.84 million.



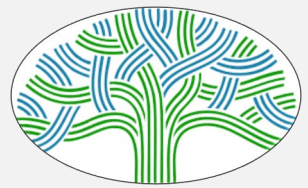
FY 2023-24 Second Quarter GPF Expenditures

Expenditures are projected to end the year \$8.01 million over the Adjusted Budget, however, most Departments are projected to end the fiscal year within budget.

- Savings are primarily attributable to high vacancies across departments
- Adopted budget assumes a vacancy factor of 8.0% across most departments
- The actual vacancy rate as of Q2 in the GPF is significantly higher at 16.6%

FY 2023-24 GPF Budget to Projected Actuals Expenditures (\$ in millions)

Department	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q2 YTD Actuals	FY 2023-24 Q2 Year-End Estimate	Year-End \$ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Capital Improvement Projects	0.55	1.96	0.07	1.96	—	— %
City Administrator	9.81	10.89	3.97	10.43	0.46	4.30%
City Attorney	21.75	23.4	8.98	22.98	0.42	1.80%
City Auditor	3.31	3.6	1.26	3.17	0.43	11.80%
City Clerk	7.85	10.8	1.42	10.58	0.22	2.10%
City Council	7.12	7.68	3.26	7.37	0.31	4.10%
Department of Transportation	20.54	23.01	7.41	21.9	1.11	4.80%
Department of Violence Prevention	10.79	13.08	2.5	12.41	0.66	5.10%
Department of Workplace and Employment Standard	4.31	5.67	2.49	5.44	0.23	4.00%
Economic and Workforce Development Department	11.19	17.01	5.7	16.87	0.15	0.90%
Finance Department	30	33.33	11.78	31.55	1.78	5.30%
Fire Department	199.87	212.29	91.46	205.26	7.03	3.30%
Housing and Community Development Department	0.24	2.91	1.05	2.91	—	— %
Human Resources Management Department	9.5	9.79	4.31	9.63	0.16	1.60%



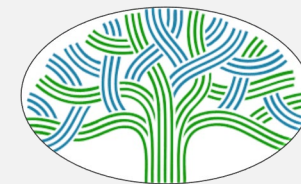
FY 2023-24 Second Quarter GPF Expenditures (continued)

The Police Department is projected to **overspend by \$25.64 million, or 8%** of their budget, due to overtime overspending.

Top five areas of OPD overtime spending:

- Special Operations Division
- Training Unit
- Area 1
- Area 3
- Area 5

FY 2023-24 GPF Budget to Projected Actuals Expenditures (\$ in millions)						
Department	FY 2023-24 Adopted Budget	FY 2023-24 Adjusted Budget	FY 2023-24 Q2 YTD Actuals	FY 2023-24 Q2 Year-End Estimate	Year-End \$ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Human Services Department	44.76	44.32	9.23	44.32	—	— %
Information Technology Department	16.97	18.63	6.78	17.92	0.71	3.80%
Mayor	4.6	4.66	2.07	4.39	0.27	5.80%
Non-Departmental and Port	55.6	60.8	9.35	59.1	1.7	2.80%
Oakland Animal Services	6.49	6.54	2.83	6.25	0.29	4.40%
Oakland Parks and Recreation Department	18.3	19.23	10.47	18.57	0.65	3.40%
Oakland Public Library Department	12.31	12.32	7.91	12.32	—	— %
Oakland Public Works Department	1.36	2.06	1.22	2.05	—	0.10%
Planning and Building Department	—	—	—	—	—	N / A
Police Commission	7.96	8.94	2.53	8.12	0.81	9.10%
Police Department	325.39	333.34	174.2	358.98	(25.64)	(7.70) %
Public Ethics Commission	2.25	2.35	0.73	2.16	0.18	7.90%
Race and Equity Department	1.29	1.48	0.53	1.43	0.05	3.40%
Total	834.12	890.07	373.53	898.08	(8.01)	(0.90) %

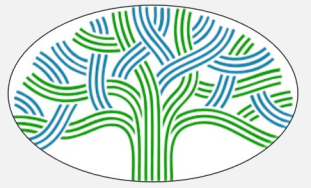


FY 2023-24 Second Quarter GPF Fund Balance

The City's projected estimated available fund balance in the GPF at the end of FY 2023-24 is **negative \$117.66 million.**

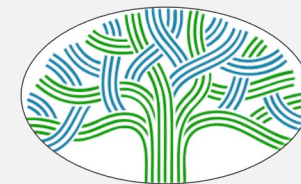
FY 2023-24 General Purpose Fund Projected Fiscal Year-End (\$ in millions)

GENERAL PURPOSE FUND (1010)	FY 2023-24 Q2 Projected FYE
FY 2023-24 Beginning Audited Fund Balance	93.28
FY2023-24 Q2 Performance	
Revenue	720.98
Expenditures	898.08
FY 2023-24 Projected Operating Surplus / Deficit	(177.10)
Unaudited Projected Ending Fund Balance	(83.82)
Obligations Against Ending Fund Balance	
Use of Fund Balance in FY 2024-25	(33.84)
Estimated FY 2023-24 Ending Available Fund Balance	(117.66)



FY 2023-24 Second Quarter Reserve Balances

FY 2023-24 Reserve Balances (\$ in millions)				
Description	FY 2023-24 Beginning Balances	FYE Estimated 2023-2024 Balances	Balance Assumed in FY 2023-24 Adopted Budget	FYE 2023-2024 Balances
Mandated Emergency Reserves FY 2022-23	65.41	65.41	—	65.41
Vital Services Stabilization Fund	10.27	—	10.27	—
OMERS Reserves (Reso. No. 85098 C.M.S.)	2.36	2.36	—	2.36



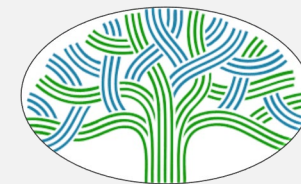
FY 2023-24 Second Quarter Select Non-GPF Funds

Two funds out of the select Non-GPF Funds are projected to end the year in deficit:

- **False Alarm Fund (2411)** – Program revenue is insufficient to cover expenses.
- **Facilities Fund (4400)** – Overspending is anticipated due to increased security costs.

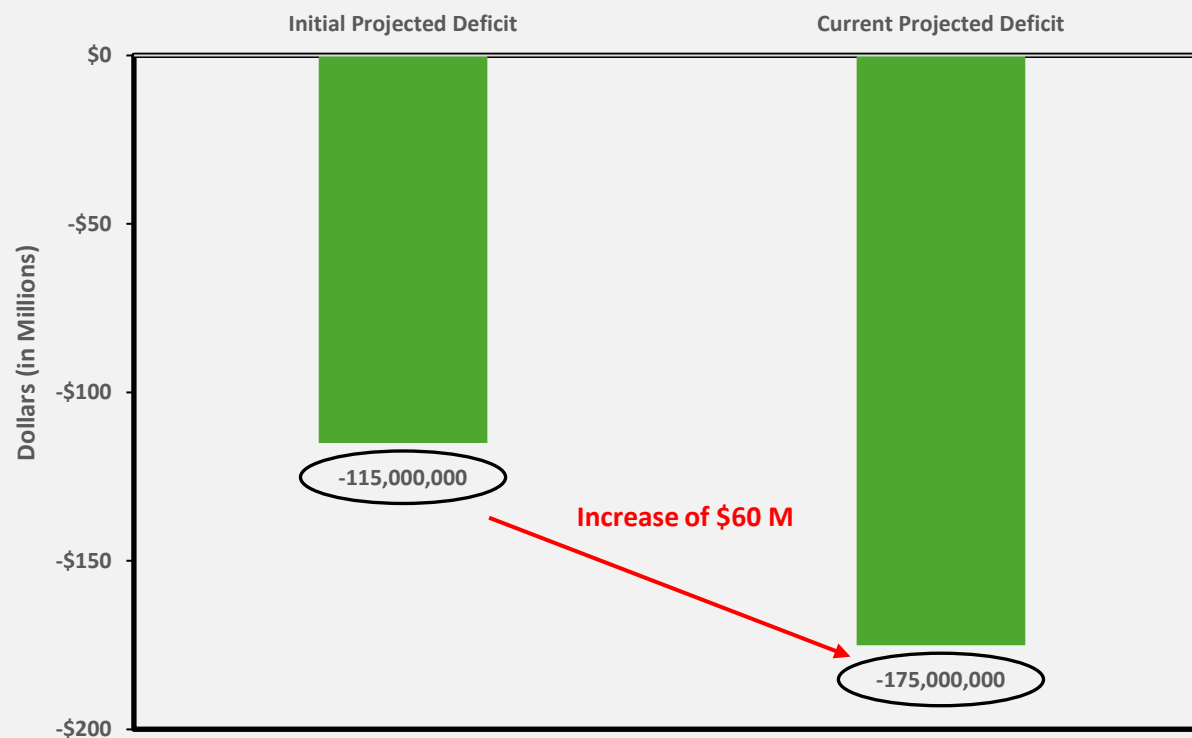
FY 2023-24 Available Fund Balance and Appropriations for Select Non-GPF Funds				
FUND	FY 2023-24 Audited Beginning Balance	FY 2023-24 Revenue Year-End Projections	FY 2023-24 Expenditure Year-End Projections	FY 2023-24 Estimated Available Ending Balance
Measure HH - Sugar Sweetened Beverage Distribution Tax (SSBT) Fund (1030)	10.76	7.12	14.35	3.52
Measure BB and Measure F Funds (2215, 2216, 2217, 2218, 2219, 2220)	54.39	38.48	69.45	23.41
State Transportation (Gas Tax) Funds (2230, 2232)	11.56	24.17	27.02	8.72
Measure Q - OPR Preservation, Litter Reduction, Homelessness Support Act Fund (2244)	21.13	31.27	40.32	12.09
Vacant Property Tax Fund (2270)	1.01	6.08	6.01	1.08
Landscaping & Lighting Assess. District Fund (LLAD) (2310)	—	19.45	19.35	0.09
False Alarm Reduction Program Fund (2411)	(3.66)	1.11	1.2	(3.75)
Development Service Fund (2415)	122.38	46.47	108.3	60.55
Measure C - Transient Occupancy Tax (TOT) Surcharge Fund (2419)	1.32	6	6.49	0.82
City Facilities Fund (4400)*	1.02	50.01	54.66	(3.64)

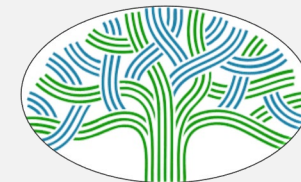
*Reported on a cash basis



FY 2024-25 Midcycle Budget GPF Deficit

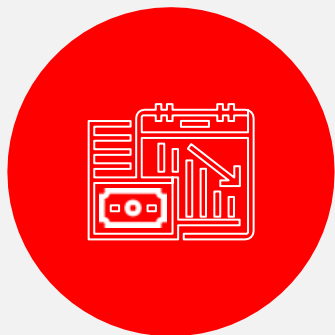
- Initially when budget instructions were sent out in Mid-February, the Finance Department had projected a GPF deficit of **\$115,000,000** for FY 2024-25.
- With the most recent updates to revenues and expenditures, the Finance Department is now projecting a GPF deficit of **\$175,000,000** for FY 2024-25.





FY 2024-25 Midcycle Budget GPF Deficit

The primary drivers for the larger deficit number:



Reduced Ongoing Revenues
(Primarily RETT)



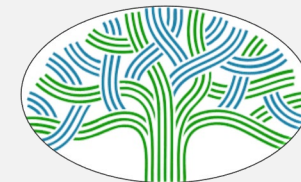
Lack of Fund Balance



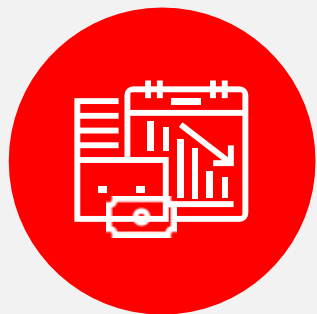
Increased Internal Service Costs
(i.e. utilities & security)



Increased Insurance Costs



Q2 R&E & FY 2024-25 Midcycle Report Concluding Points



Staff projects a GPF operating shortfall of **\$177 million** for FY 2023-24.



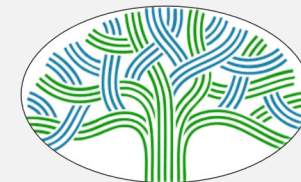
GPF available Fund Balance is projected to end FY 2023-24 at **negative \$118 million**.



For FY 2024-25 staff projects a GPF deficit of **\$175 million** and restricted funds deficit of **\$45 million**.



The City's structural budget issues will continue into future years unless corrective action is taken in the coming months.



Q2 R&E & FY 2024-25 Midcycle Report Next Steps

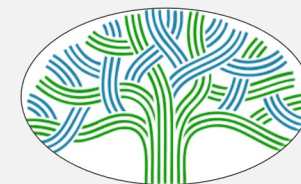
Current Year Next Steps

- Monitoring Revenues
- Hiring Freeze
- Slowing/Reducing Expenditures



Mid-Cycle Budget Next Steps

- Consolidation of Budget Proposals from Departments
- Providing Recommendations to Mayor
- Centering on Key Principles
 - ❖ Delivering Services for a Clean and Safe City
 - ❖ Revenue Generation and Enhanced Collections
 - ❖ Creating Efficiencies for Cost Savings
 - ❖ Focus on Basic/Critical Services of City Government
 - Divesting from expanded federal services during COVID –19 Pandemic
 - Engaging County Partners to Provide County Government Services
 - ❖ Engaging Labor Partners for Collaboration on Savings/Reductions
- Balanced Proposed Budget Presented to City Council



Questions?