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OFFICE OF THE CITY CLERK
OAKLAND

2014 MAR -6 PM 2:58 **AGENDA REPORT**

TO: FRED BLACKWELL
CITY ADMINISTRATOR

FROM: Donna Hom
Budget Director

SUBJECT: FY 2013-14 Budget Balancing
Supplemental Report

DATE: March 6, 2014

City Administrator
Approval

Date

3/6/14

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends that City Council adopt the attached Resolution Authorizing the balancing of the remaining Fiscal Year 2013-14 budget by instructing the City Administrator to: (1) increase the revenue projection in the General Purpose Fund by \$18,122,435; (2) appropriate additional expenditures in an amount not to exceed \$7,747,810; (3) increase General Purpose Fund reserve in an amount of \$637,017; (4) bring back cost containment strategies in May 2014 for the FY 2014-15 budget; and, bring a balanced budget by the mid-cycle budget process in June 2014 for FY 2014-2015.

REASON FOR SUPPLEMENTAL

This supplemental report clarifies that staff's recommended action only adjusts the FY 2013-14 Adopted Policy Budget, and does not make changes to the FY 2014-15 Adopted Policy Budget. Changes to the latter will be considered during the Mid-Cycle Balancing Process.

OUTCOME

Staff requests that the City Council adopt the resolution to balance the Fiscal Year 2013-14 budget and direct the City Administrator to further assess and confirm resources required to meet **projected** operational needs in FY 2014-15, bring cost containment strategies back in May 2014, and bring a **balanced** budget by the mid-cycle budget process in June 2014. The FY 2013-14 3rd Quarter R & E report (period ending March 31, 2014) will provide refined data to better project required actions to close FY 2013-14 and balance the FY 2014-15 budget. At this time, staff projects a revenue and expenditure shortfall in FY 2014-15 (see *Attachment A*) that is based on a rate of expenditure analysis and revenue projections built on the first two quarters of the current fiscal year.

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EXECUTIVE SUMMARY

This proposed action item pertains to FY 2013-14 only. The required Council action is limited to balancing the current year budget by recognizing new revenue in the amount of \$18.1 million (of which \$1.74 million is on-going) and additional expenditures in an amount of \$7,747,810 (See **Attachment A**, and the table on the subsequent page).

Expenditures Items	FY 2013-14 Balancing		
	One-time	On-going	Combined
City-wide over spending	6,030,000	-	6,030,000
Kid's First! Set Aside	370,000	-	370,000
NSA Monitor Contract	75,000	-	75,000
Compliance Director Request for Racial Profiling Mitigation	250,000	-	250,000
Safety and Services Measure Election costs	500,000	-	500,000
New Expenditures - Required SUB TOTAL	7,225,000	-	7,225,000
Animal Shelter Transfer & Add'l Resource	-	147,810	147,810
New Expenditures - Service Priority SUB TOTAL	-	147,810	147,810
OPD Wellness Program	-	200,000	200,000
Citywide Website	-	75,000	75,000
Civilian Fire Marshal	-	25,000	25,000
Grant Writing Assistant	-	75,000	75,000
New Expenditures - Needed SUB TOTAL	-	375,000	375,000
Expenditures Requested for Appropriation TOTAL	7,225,000	522,810	7,747,810

The information in this report pertaining to FY 2014-15 is provided for informational and planning purposes only and is intended to provide a fiscal outlook for FY 2014-15 that projects the fiscal impact of the City Council's current FY actions, by one-time and on-going expenditures, as well as projected resource needs to support Council initiatives or operations at current levels. It is important to keep in mind that for FY 2014-2015, projections for both revenue and expenditures are provided with the benefit of receipt of Q2 Revenue and Expenditure data; however, absent Q3 Revenue and Expenditure data which will be used to refine these projections for the City Council's consideration of the FY 2014-2015 budget.

Staff will report back with cost containment strategies in May 2014 for the FY 2014-15 Budget and bring a balanced budget by the mid-cycle budget process in June 2014, which has additional revenue and expenditure data that can only be obtained through Q3 data.

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BACKGROUND

The City Council established policy priorities for approving the FY 2013-2015 budget, which were consistent with Mayor Quan's policy priorities and reflected a "fair share" budget allocation where revenue growth was strategically invested in essential services that our community desires. The Mayor, City Council and Administration have worked jointly to strategically invest in areas that have already proven to effectively restore needed services, e.g., community center hours, library hours, graffiti and illegal dumping services, restoring one fire engine, police academies, augmented non-sworn staff throughout City departments, and significant increase of non-sworn staff in the Police Department.

It is important to recognize that after years of sacrifices and contributions made by City employees, the implementation of cost saving measures, service cuts or eliminations, and an improving economy, the proposed FY 2013-2015 Policy Budget ended the trend of layoffs and furloughs, which were staples of previous budgets, and allowed the Mayor and City Council to begin to restore essential services required by our residents.

While Oakland has made significant fiscal progress over the past 18-24 months, existing fiscal challenges exist that require close attention this current fiscal year to further stabilize future fiscal year budgets. This budget rebalancing proposal corrects the current fiscal year imbalance and establishes the foundation to begin to balance FY 2014-2015, with a goal of further stabilizing FYs 2015-2017, which are illustrated in the Five-Year Financial Forecast report. **The resolution accompanying this report as Attachment B amends only the FY 2013-2014 Budget.** The information presented in this report and in Attachment A regarding FY 2014-2015 are provided to give the City Council an outlook at future fiscal challenges and the June 2014 Mid-Cycle Budget process; however, additional data is forthcoming that can provide a clearer picture of next fiscal year, e.g., Q3 Revenue and Expenditure report.

The City's recent fiscal stabilization is due in part to rigorous financial management and due diligence by the Mayor and City Council. As noted in July 2013, the Administration stated that it would return in early 2014 to rebalance the current year budget. The purpose of this report and resolution is to achieve a balanced budget since the City Council adopted the FY 2013-2015 Policy Budget on June 27, 2013. This discussion is built upon numerous documents, which the City Administration has published in a continuing effort to pursue financial transparency:

- Adopted FY 2013-2015 Policy Budget (Resolution 84466 CMS);
- Subsequent Council approved resolutions, which include labor agreements and other appropriations as detailed in **Attachment A**;
- FY 2013-2014 through FY 2017-2018 Five-Year Financial Forecast (FYFF) revision released in December 2013;
- Pension and Unfunded Liabilities informational memo released on December 12, 2013;
- The Comprehensive Annual Financial Report (CAFR) released on December 13, 2013;
- FY 2013-14 2nd Quarter Revenue and Expenditure report released January 30, 2014; and
- Anticipated required expenditures in the near term.

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As stated on several occasions, Oakland has experienced steady economic growth since the end of 2011 and the trend continues in the first half of the fiscal year due mostly to an increase in Real Estate Transfer Tax (RETT). Per the City Council approved General Purpose Fund (GPF) Financial Policies (Ordinance 13170 C.M.S.), policy mandates that RETT revenues over \$40 million should be used for one-time expenditures, contributions to reserves, or payments to unfunded liabilities. Ordinance 13170 C.M.S. also requires that one-time revenues not be used to fund on-going expenditures. In addition, in the 2nd Quarter Revenue and Expenditure (R & E) report, staff provides information on revised revenue and expenditure projections for FY 2014-2015, which will be further updated after the 3rd Quarter R & E report is completed in May 2014. This information will then be utilized as part of the development of the Mid-Cycle Budget.

It should also be noted that the FY 2013-2014, the 2nd Quarter R & E report includes projections based on realized actuals through December 31, 2013, and that this information will be further refined upon receipt of 3rd Quarter R & E data. Additionally, staff foresees an additional need for about \$13.5 million of costs associated with anticipated required expenditures relative to investigations, settlements and litigation. The exact amount of which is unknown at this time and, while the City prefers multi-year payment plans for those investigations and/or settlements that allow that payment structure, those agreements have not been achieved in that form and therefore the total estimated cost is included. While multi-year payments are preferred, it should be stated that staff believes that roughly 80% of this category is not eligible for multi-year payment plans—more work continues in the area of achieving multi-year payment plans.

Based on 2nd Quarter R & E data, a summary of variances from the adopted budget to year-end projections is depicted in Table 1 on the subsequent page.

Table 1: Summary of Projected Revenue and Expenditure (R & E) in FY 2013-14

General Purpose Fund FY 2013-14 Budget Mid-Year Review (in Millions)			
Revenues		Expenditures	
Description	Amount	Description	Amount
Adopted Budget (1)	\$455.29	Adopted Budget (1)	\$455.29
Adjusted Budget (2)	\$484.20	Adjusted Budget (2)	\$484.20
Projected by Year-End (3)	\$502.33	Projected by Year-End (3)	\$490.23
		Projected New Expenditures (4)	\$2.47
Sub-Total:	\$502.33	Sub-Total	\$492.70
Variance:	\$18.12		\$8.42
Add 7.5% GPF Reserved for additional Appropriations			(\$.64)
Projected Year-End Net after Reserved: (5)			\$8.99

Notes:

(1) Resolution 84466 C M S

(2) This is the Council approved Adjusted Budget which is the Adopted Budget with the addition of \$27.49 million in Project & Encumbrance Carryforward balances, \$1.42 million in new Council resolutions, and a \$170,000 misc technical adjustment (see **Attachment A**). Additional information is also detailed in the table listed in page two of the Second Quarter R & E report.

(3) The projected year-end revenue figure represents the Adjusted Budget of \$484.20 million plus \$18.12 million in projected new revenues. For revenue detail see **Attachment A**. The projected expenditure figure represents the Adjusted Budget of \$484.20 million plus \$6.03 million in projected departmental overspending as detailed in page two of the Second Quarter R & E report.

(4) Staff assessment but not including certain foreseeable expenditures, for details see **Attachment A**

While indicators signaled that revenues were trending upward, there have been a number of financial issues, some outside of the City's control, which puts pressure on the City's finances and required additional appropriations and continue to present challenges going forward. Examples of these issues include, but are not limited to:

- Federal funding cuts in essential services or funded flat amount of grants, City's cost continues to grow. To keep essential service level such as HeadStart, Community Development Block Grant (CDBG) reductions, City needs to subsidize the funding gap (sequestration requires constant monitoring of potential fiscal impacts);
- Rising health care costs that increase an average of 7-10% per year;
- CalPERS pension reform actions that require additional contributions over five years (\$14 million increase from FY 2012-13 to FY 2013-2014 alone, resulting from reform and the impact of more staff and restoration of employee contributions) and additional pension reforms that are on the near horizon and being closely monitored with respect to additional fiscal impacts, e.g., CalPERS assumptions with respect to mortality;

- Deferred equipment and facility maintenance need immediate replacement and upgrade (e.g., fleet, communications infrastructure and radio needs, and basic technology systems that fail (email, servers, etc.) or are projected to not function if not upgraded (Oracle payroll), etc.)
- Sun-setting of local tax measures (Measure Y and Wildfire Prevention Assessment district) that have fiscal impacts for FY 2015-2017;
- Expiring public safety grants worth millions of dollars and the City's requirement to absorb full costs upon their expiration (e.g., COPS fourth year and Fire's Staffing for Adequate Fire & Emergency Response (SAFER) grant);
- Dissolution of Redevelopment - the loss of operating funding (\$28.5M the prior FY), and continuing its operational impacts to sustain services, the return of \$35.2 million to the state, and the rigorous reporting and processes required by the State, etc.;
- Funding gap of approximately \$1 million for the Oakland Army Base due to revised budget assumptions, lack of tax increment revenue following the dissolution of redevelopment, under budgeting of legal costs to support this large scale project, and staffing needs;
- Unanticipated expenditures that includes Oakland Police Department (OPD) staffing for public demonstrations, overtime, and workforce wellness programs;
- Unfunded liabilities (e.g., operating, capital projects OPEB, CalPERS, PFRS, Negative Fund Balance, etc.), and
- Pending litigations, settlements, and labor agreements with firefighters' union.

On June 27, 2013, the City Council adopted a FY 2013-2015 Policy Budget (Resolution 84466 C.M.S.), which authorized General Purpose Fund expenditures of \$455,294,399 in FY 2013-2014 and \$459,872,466 in FY 2014-2015. While the adopted FY 2013-2015 Policy Budget accounted for and provided funding for a number of the issues detailed above, shortly thereafter, there was insufficient funds available to address all of the Council approved directives (some of which are multi-year fiscal on-going impacts) in addition to funding all of the service priorities. Even with these challenging issues, the adopted FY 2013-2015 Policy Budget was able to fully fund, or partially fund:

- Restoration of salaries at pre-concession levels;
- 2% and 1% Cost of Living Adjustments (COLA) and other economic items for civilian unions (partially funded with a one-time allocation of \$6 million);
- One-time funding for blight, graffiti, and illegal dumping (funding for FY 2013-14 only);
- Graduation of two police academies each fiscal year;
- An increase in budgeted sworn officers from 633 in FY 2012-2013 to 707 by June 2015, 10 of which are funded by the newly received COPS grant after the budget adoption;
- Graduation of at least two fire academies in FY 2014-2015;
- \$1.5 million in FY 2013-2014 to backfill the federal sequestration cut of the Headstart program;
- \$1.8 million starting in FY2014-2015 to backfill the affordable housing program cut due to both the dissolution of the redevelopment agency and the federal sequestration cuts;
- Increased civilian OPD personnel by 38 positions;

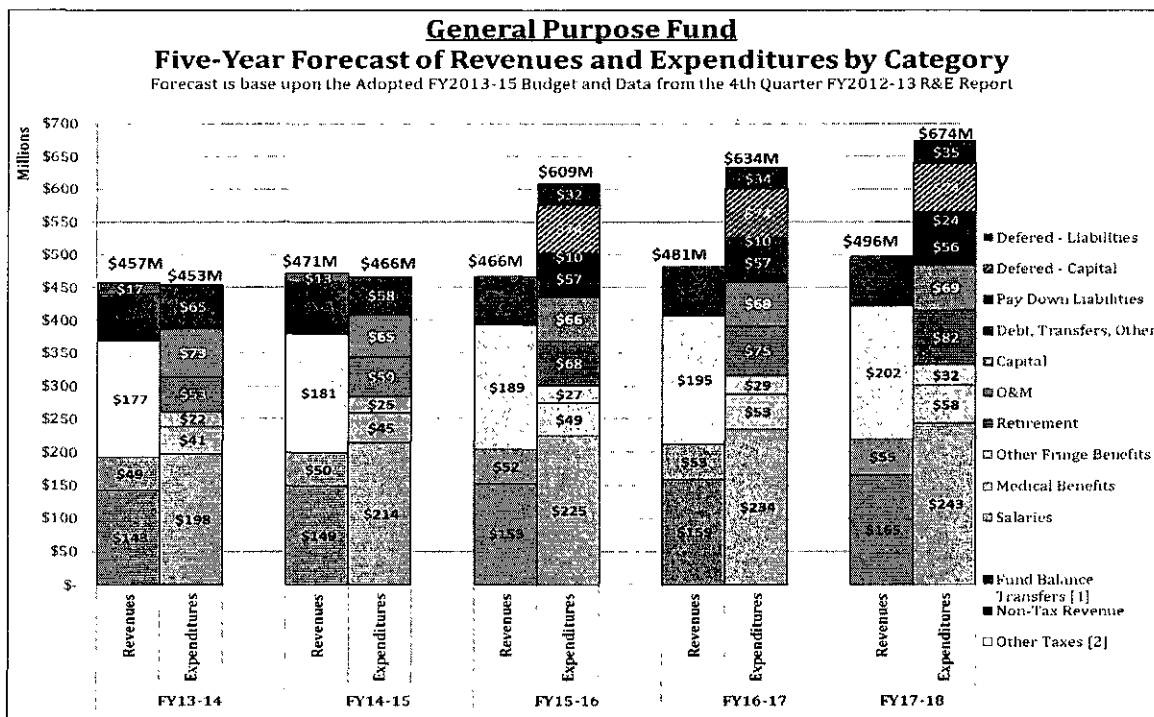
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- Increased civilian personnel citywide by 41.2 FTEs to partially restore services to keep Oakland clean and safe;
- Restoration of one brownout fire engine to the service;
- Funding for critical improvements at the City's Communications Dispatch Center;
- 185 new fleet apparatuses in various departments;
- Funding for Oakland Army Base existing staff, projection construction agreements and commitments, and increasing legal fees, etc. Staff anticipates that funding gap is approximately \$1 million; and
- Approximately \$30 million IT investment (mainframe, Internal Personnel Assessment System (iPAS), Computer Aided Dispatch, Records Management System, Oracle, etc.).

With the above actions, coupled with structural under budgeted operations in public safety services, the Administration anticipated that the budget would need to be rebalanced to cover expenditures that were not funded. Additionally, to continue the practice of strategic fiscal planning, on December 12, 2013, the Administration released memorandums with updates to the FY 2013-2014 through FY 2017-2018 Five-Year Financial Forecast (FYFF) and Unfunded Actuarial Accrued Liabilities, which incorporated data from the FY 2012-2013 4th Quarter R & E Report (Legistar File #: 13-0160-1).

As detailed in the updated FYFF, the General Purpose Fund is projected to experience modest revenue surpluses in Fiscal Years 2013-2014 and 2014-2015, but due to unfunded/deferred capital costs, escalating benefits costs, anticipated expenditures required to sustain essential services, and a number of other issues; the General Purpose Fund is projected to experience shortfalls of approximately \$142.7 million in FY 2015-2016, \$152.65 million in FY 2016-2017, and \$177.25 million in FY 2017-2018 (see graphic below). It is important to note that these projections include certain expenditures that the City Council can continue to defer, but the Administration believes that most of these expenditures require funding in the short term due to multiple years of deferrals that have already occurred. Such appears to be the case already, whereby deferred expenditures or the creation of funding plans are before the Council with very little time to deliberate, e.g., Oracle upgrade, RMS/CAD replacement, Email upgrades to sustain email operations, Radio replacement, etc. While these are normal operating costs to sustain services and operations, the absence of fiscal planning in earlier years results in the expenditures occurring at once and leaving very little time and options for the City Council to deliberate on. The complete memorandum can be retrieved from the following link:

<http://www2.oaklandnet.com/Government/o/CityAdministration/d/BudgetOffice/index.htm>



Staff has also been continuously assessing the operational needs and unfunded liabilities that will have impacts to future budgets. In a memorandum dated December 12, 2013, the unfunded liabilities for the City are approximately \$1.5 billion. When directed by the City Council and when funding becomes available, the City Administrator will use the existing accounting structure to set-aside funding to pay down the City unfunded liabilities. In addition, there are deferred capital needs, negative fund balances, and pending labor agreement negotiations, and litigations, which require significant amounts of resources to address. The full memorandum can be found in the following link:

<http://www2.oaklandnet.com/oakcal/groups/cityadministrator/documents/memorandum/oak044539.pdf>

ANALYSIS

Subsequent to the adoption of the FY 2013-2015 Policy Budget, staff completed the close of FY 2012-2013 and the City Council approved a number of appropriations (see **Attachment A** for a list of these items), which requires amendment to the adopted budget. In addition, while the need to fund certain items was identified as part of the development of the FY 2013-2015 Policy Budget (e.g. Full funding of current and future labor MOUs), staff has identified a number of recent funding priorities (e.g. Radio equipment replacement cost for immediate operational needs, Service and Safety Ballot Measure, etc.). As a result, staff recommends that the adopted FY 2013-14 Policy Budget be amended to recognize new revenues of \$18,122,435 and appropriations of \$7,747,810. Given that the majority of the new revenue is one-time and that there is an anticipated shortfall in FY 2014-2015, the Administration recommends that the fund balance be set-aside to resolve the projected shortfall next fiscal year.

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New Revenues

Based on FY 2013-2014 2nd quarter revenue figures, revenues are projected to exceed budgeted amounts by a net total of \$18,122,435, of which \$16.38 million are one-time funds (mainly due to RETT revenues in excess of \$40 million) and \$1.74 million are from on-going revenue sources, which are projected to continue through FY 2014-15. *Table 2* below provides a list of RETT generating “Major Real Estate Transactions since July 1, 2013” and *Table 3* provides detail on the “Total Projected Net On-Going Revenue by Category.”

It should be noted that per Ordinance 13170 C.M.S., all receipts of RETT in excess of \$40 million are considered to be one-time revenues (see section below titled “**Policy on One-time Funds**” for additional information). This policy was instituted as a prudent fiscal rule to insulate the City’s budget from the high volatility of RETT revenue receipts. While the Administration is bound to adhere to these City Council policy definitions when developing the budget, it is entirely within the City Council’s authority and role to determine whether the thresholds formerly set are still appropriate and/or to adjust accordingly.

As reported in the FY 2013-2014 2nd Quarter R & E report, higher than anticipated expenditures City-wide will be partially off-set by projected reduced expenditures of \$2.34 million by various Departments / Divisions. It should be noted that these savings are projected and will have to be further re-evaluated in 3rd Quarter R & E report.

Table 2: Major Real Estate Transactions since July 1, 2013

Current Owner	Address	Sale Date	Date of Knowledge	City Tax (mil)
Alta City Walk LLC	TBD	09/05/13	10/24/2013	\$1.55
OCC VENTURE LLC	1300 CLAY ST	09/19/13	10/24/2013	0.53
555 TWELFTH STREET VENTURE LLC	555 12TH ST	09/27/13	10/24/2013	2.00
OCC VENTURE LLC	500 12TH ST 110	11/18/13	12/ 21/2013	<u>2.33</u>
			TOTAL	\$6.41

Table 3: Total Projected Net On-Going Revenue by Category

Amount (mil)	Revenue Category
\$ 2.43	Property Tax
0.61	Business Tax
0.12	Grants and Subsidies
1.95	Transient Occupancy Tax
(0.87)	Utility Consumption Tax
(1.29)	Parking Tax
(0.95)	Miscellaneous revenue
(0.25)	Fines and Permits
\$1.74	Total Projected Net On-Going Revenue

Policy on One-time Funds

City Council approved Ordinance 13170 C.M.S. Section E. states that one-time revenues (other than one-time RETT which is treated separately) may only be used for one-time expenditures and paying off negative fund balances.

According to the City Council policy, any other use of these funds requires the declaration of a fiscal emergency in order to expend these funds whether there are other factors that determine a fiscal emergency or not. In order to avoid long-term structural imbalances, this policy is a sound fiscal management practice, but the reality is that actual one-time funding revenue occurs in each budget and the amount of which difficult to project each year. While it is not considered a best practice to use one-time funding for on-going expenditures, the Administration believes that the declaration of a fiscal emergency to expend these funds may be excessive and not appropriate in all cases to address its budgetary needs. There are other approaches that can preserve the Council's original goal of fiscal prudence without the extraordinary need to make declarations as required by the existing policy. Adherence to this and other financial policies have been instrumental in improving the City's financial condition and weather the recent economic downturn, and prudent changes to this financial policy would allow additional budgetary flexibility while maintaining the core goal. This existing policy is rooted in the common acknowledgement of the State of California's Department of Finance's definition for "one-time costs" for guidance (For the entire document, see the following link: <http://www.dof.ca.gov/fisa/bag/documents/GlossaryofBudgetTerms.pdf>):

“A proposed or actual expenditure that is non-recurring (usually only in one annual budget) and not permanently included in baseline expenditures. Departments make baseline adjustments to remove prior year one-time costs and appropriately reduce their expenditure authority in subsequent years' budgets.”

The City Council may want to consider amendments to the existing policy that are guided by the above definition and policy goals of the Council.

GPF Contribution to Supplement Measure Y Funded Officers

The adopted FY 2013-2015 Policy Budget included \$2 million that was set aside to supplement 63 Measure Y funded officers. This set-aside assumed that all 63 officers will be deployed to perform Measure Y specified duties, i.e., Problem Solving Officers. Due to the current shortage of sworn officers, officers are deployed on a priority basis with homicides and armed robberies identified as high priorities. If this trend continues through the end of FY 2013-2014, it is projected that the \$2 million will no longer be needed to supplement the Measure Y funded officers. As a result, these funds can be used for the re-balancing of the FY 2014-2015 Budget.

<u>Fiscal Year</u>	<u>Amount of Revenue</u>
FY 2013-14 (Year 1)	\$2,000,000
FY 2014-15 (Year 2)	TBD (contingent on use)

Expenditures

Staff has identified numerous items that call for resource allocation to meet immediate operation needs of the City (detailed in **Attachment A**). Staff has also projected additional expenditures which will need to be addressed during the Mid-Cycle budget process in June 2014, which are detailed in **Attachment A** as well, but are not for the purpose of the proposed Council action.

While some items require one-time funding, a number of items will require ongoing funding, which will need to be identified in future budget cycles. As detailed in **Attachment A** and in the table below, FY 2013-2014 will require an additional \$7,747,810 funding, of which \$7,225,000 is one-time and \$522,810 is on-going, not including the \$6.25 million ongoing funds needed for labor contracts in future budgets that were funded with \$6.0 million in of one-time funds.

Expenditures Items	FY 2013-14 Balancing		
	One-time	On-going	Combined
City-wide over spending	6,030,000	-	6,030,000
Kid's First! Set Aside	370,000	-	370,000
NSA Monitor Contract	75,000	-	75,000
Compliance Director Request for Racial Profiling Mitigation	250,000	-	250,000
Safety and Services Measure Election costs	500,000	-	500,000
New Expenditures - Required SUB TOTAL	7,225,000	-	7,225,000
Animal Shelter Transfer & Add'l Resource	-	147,810	147,810
New Expenditures - Service Priority SUB TOTAL	-	147,810	147,810
OPD Wellness Program	-	200,000	200,000
Citywide Website	-	75,000	75,000
Civilian Fire Marshal	-	25,000	25,000
Grant Writing Assistant	-	75,000	75,000
New Expenditures - Needed SUB TOTAL	-	375,000	375,000
Expenditures Requested for Appropriation TOTAL	7,225,000	522,810	7,747,810

For FY 2014-2015, a total of \$33,017,698 in funding is required, of which \$ 13,815,000 is one-time and \$19,202,698 is ongoing (this does not include any one time fund balance to offset these expenditures). Staff also foresees additional expenditures of \$13.5 million for anticipated investigation, litigation and settlements during the two fiscal years.

Below are detailed descriptions of the expenditure items listed in **Attachment A**. The expenditures are sorted into one of four categories and the need for ongoing funding, one-time funding, or a combination of the two has also been identified. The funding amounts provided below are sorted into four expenditures categories, along with the Administration's projected funding levels, which is up to the City Council to confirm or adjust, and which are:

- **“Approved”** – Items which were previously approved by the City Council since July 1, 2013 but were not funded or were underfunded
- **“Required”** – Items which the City is legally required to fund (e.g. Kid's First! set aside) or where an immediate need to identify funding has arisen;
- **“Service Priority”** – Items which the City Council/staff have identified as priorities, have an immediate service impact, and could be funded, if funding becomes available;
- **“Needed”** – Items which could require funding pending an action by the City Council (e.g. City radio membership fee) or would increase the City's capacity to deliver services.

Since the adoption of the FY 2013-2015 Policy Budget, the City Council has approved \$745,753 in appropriations for the current Fiscal Year and an additional \$7,052,660 obligated for the next Fiscal Year. Since these amounts were already adopted by the City Council, they are identified in **Attachment A**, but are not included in the “Expenditures Requested for Appropriation” nor are

included in the calculation for the 7.5% GPF reserve for new expenditures requested for appropriation (Ordinance 13170 C.M.S.).

Civilian MOU Costs (approved, on-going)

The exact terms of the adopted civilian MOUs were unknown at the time of the adoption of the FY 2013-2015 Policy Budget and as a result, \$6.0 million of one-time funding was allocated for this purpose. With the finalization of a number of civilian MOUs, the two year fiscal impact of these contracts is \$12.25 million and there is a need for on-going funding of \$6.25 million for future budgets and must be realized through economic growth or budget modifications. This figure also includes the projected cost of the recently approved SEIU 1021 Temporary Part Time MOU, but does not take into account potential costs associated with the future negotiated MOU with IAFF Local 55, which will be addressed in future reports to the City Council as negotiations develop.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$6.00 million (funded w/one-time, on-going)
FY 2014-15 (Year 2)	\$6.25 million (unfunded, on-going, actual amount)

Community Oriented Policing Services (COPS) Grant Lateral Academy / GPF Match (approved, on-going)

On November 19, 2013, the City Council approved the acceptance and appropriation of a \$4.5 million grant from the U.S. Department of Justice, Office of COPS (Resolution 84713 C.M.S.) to hire new officers and help the City rebuild OPD's crime-fighting capabilities and enhance its community policing priorities. Funding for a grant match of \$568,753 in FY 2013-2014 and \$448,757 in FY 2014-2015 is also required. Funding for FY 2014-2015 will be addressed in the Mid-Cycle Budget (May 2014).

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$568,753 (Funded, on-going)
FY 2014-15 (Year 2)	\$448,757 (Unfunded, on-going, actual amount)

OPD Accelerated Hiring Program (approved, on-going)

On January 7, 2014, the City Council approved the OPD Accelerated Hiring Program, which funds an external OPD Academy to be held at the Alameda County Sheriff's Office Police Academy starting March 3, 2014 (Resolution 84792 C.M.S.). The cost of this program is \$177,000 in FY 2013-2014. Additionally, since there is no other funded academies for this two-year budget cycle, the Administration will be proposing an appropriation in the amount of \$350,000 in FY 2014-2015 to either continue to participate in county academies or to pursue a smaller OPD academy to address staffing reductions through attrition. The OPD will need to continue its due diligence to track county academies and secure the required slots to maximize filled staffing counts or offer its own academy.

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<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$177,000 (funded, one-time)
FY 2014-15 (Year 2)	\$350,000 (unfunded, one-time, projected amount)

City Wide Overspending (required, one-time / on-going)

For various reasons, normally related to personnel expenditures, departments may exceed their appropriations in the general purpose fund. Due to a number of factors that includes persistently under budgeted overtime and operations and maintenance expenditures: data over fourteen years show that OPD has traditionally required funding in excess of annual budget appropriation amounts with expenditures falling in overtime, operations, and maintenance costs—regardless of staffing levels. OPD expenditures for FY 2013-2014 are projected to exceed budgeted amounts by \$5.3 million. The largest driver of this overspending is overtime in excess of budget in the amount of \$13.95 million. This is off-set by current year salary savings resulting from sworn and non-sworn vacancies due to delays in the hiring process; these salary savings will not reoccur next year when vacancies are filled at a higher level.

The Administration continues to monitor closely department budgets and overspending and works with the departments to contain rate of expenditures. However, there are some significant events that have resulted in accelerated spending and the pace of spending can be slowed through the remainder of the fiscal year. It should also be noted that the overtime usage in the Police Department is under study by staff and City Auditor’s Office. Examples of OPD overtime usage:

- Overtime for police instructors involved in training sworn staff – the State Commission on Peace Officer Training and Standards (POST) mandate minimum instructor to student ratios for certain training exercises including driving, fire arms, and defensive tactics. With the number of academies, training costs on an overtime basis has increased.
- Overtime to provide continuous patrol operation in all beats – The City has 35 patrol beats to which it assigns officers during each shift, the low number of sworn officers coupled with unexpected leaves, injuries, and other unforeseen event often requires OPD to use additional overtime to provide service in each beat;
- Overtime for certain critical investigations or events – Overtime is often required for certain long term investigations that require significant staffing to deal with most violent gangs and extraordinary events;
- Overtime related to extensions of shift – When OPD officers are involved in certain active situations requiring continuous attention they must stay beyond their scheduled shift end time (shift extension), and thus incur overtime pay.

The amount of projected over expenditures are developed based on the timing of when staff are in academies and become “field ready” which is not fully anticipated until January 2015; therefore, the projection has been reduced to \$10 million, which is still high, but adjusted for the lack of salary savings available to offset these expenditures. In addition, other departments are

projected to overspend their budgets by \$0.73 million, in FY 2013-2014 due to a number of factors. Staff anticipates that this overspending is a one-time occurrence.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$6.03 million (unfunded, one-time, projected amount)
FY 2014-15 (Year 2)	\$10 million (unfunded, one-time, projected amount)

Oakland Police Department General Purpose Fund			
Fiscal Year	Adjusted Budget	Actual	Variance
FY 1999-00	115,362,000	121,542,000	(6,180,000)
FY 2000-01	119,896,000	133,729,000	(13,833,000)
FY 2001-02	136,247,000	146,649,000	(10,402,000)
FY 2002-03	145,111,000	157,745,000	(12,634,000)
FY 2003-04	150,842,000	160,114,000	(9,272,000)
FY 2004-05	159,356,000	171,639,000	(12,283,000)
FY 2005-08	175,269,000	179,201,000	(3,932,000)
FY 2006-07	190,526,000	195,206,000	(4,680,000)
FY 2007-08	191,242,565	201,712,905	(10,470,340)
FY 2008-09	207,208,000	210,292,000	(3,084,000)
FY2009-10	187,440,000	190,270,000	(2,830,000)
FY 2010-11	176,521,000	188,384,000	(11,863,000)
FY 2011-12	157,220,000	159,780,000	(2,560,000)
FY 2012-13	165,690,000	171,060,000	(5,370,000)
Source: 4th Quarter Reports in each fiscal year			
In May FY 2012-13, City Council appropriate \$5.29 million General Purpose Fund to the projected over expenditure resulted in minimum overspending			

Kids First! Set-Aside (required, one-time/on-going)

City Charter Section 1300 established the Oakland Fund for Children and Youth and requires that the fund receive revenues in an amount equal to three percent (3.0%) of the City of Oakland's annual actual unrestricted GPF revenues. After an internal audit of the City's unrestricted GPF revenues, staff has determined that an additional \$370,000 Kids First! contribution is due in FY 2013-2014. Based on revised FY 2013-2014 revenue estimates, an additional \$543,673 contribution is projected to be required in FY 2014-2015.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$370,000 (for prior year, unfunded, on-going)
FY 2014-15 (Year 2)	\$543,673 (unfunded, on-going, projected)

Negotiated Settlement Agreement (NSA) Monitor Contract (required, on-going)

In December 2013, City Council passed Resolution 84759 C.M.S. to authorize the extension of the Police Performance Solution, LLC contract from January 20, 2014 to January 20, 2015 to perform the independent monitoring services and technical assistance required by the court as part of the NSA. Staff projects that the services will be needed through June 2015 and as such, an anticipated amount of \$650,000 is required. Based on the February 12, 2014 Federal Court Order, the Court has allocated an additional \$150,000 to support the Monitor's new duties. For the Mid-Cycle Budget these cost may be offset by savings achieve from the closure of the Compliance Director. However, at this time, the City does not have any information regarding which cost the Monitor will maintain as ordered by the Compliance Director.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$75,000 (additional per Court Order, 2/12/14)
FY 2014-15 (Year 2)	\$650,000 (unfunded, one-time, projected)

Compliance Director/Monitor Request for Racial Profiling Mitigation (required, one-time)

The requested funding is required to meet the Compliance Director's directive to initiate Stop Data research, and specific technical assistance. This funding is to bring the Oakland Police Department into compliance with Task 34 (Racial Profiling Mitigation) of the Negotiated Settlement Agreement.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$250,000 (unfunded, one-time, projected)
FY 2014-15 (Year 1)	\$0 (no funding requested)

Payment Card Industry Compliance (PCI) Audit, Unfunded Debt Service for Council Approved Department of Information Technology (DIT) Projects and Additional Staff (required, one-time / on-going)

City departments accept payment cards as a form of payment for a number of City fees (parking meter fees, fire inspection fees, recreation center rental fees, building permit fees, etc.). As a requirement for accepting payment card transactions, the City is needs to adhere to PCI Data Security Standards. As a result, funding is needed in order to conduct an independent audit of City's compliance with PCI Data Security Standards. The funding will be used to perform a PCI gap analysis to review the City's security measures, remediation of issues identified during the gap analysis, and to complete a "Report on Compliance" that will validate whether the City is in compliance with PCI standards. The Department of Information Technology estimates this to require an additional \$525,000 in funding.

On July 20, 2013, the City Council approved a total of \$19.25 million for the financing of various IT infrastructure and system improvements (Microsoft 365 upgrade, Oracle release 12 upgrade, OPD iPAS, etc.). As part of this action, the City entered into agreements with IBM

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Credit LLC and Oracle for financing totaling \$10.83 million, which requires \$2.6 million in FY 2014-2015.

It is important to note that DIT has suffered staff reductions of approximately 40% over the past years. With current (Oracle upgrade, implementation of Microsoft 365, public safety system improvements, etc.) and future (radio system replacement/upgrade) DIT related projects totaling almost \$50 million, it is necessary to ensure that these funds are utilized efficiently. Project implementation, operations and implementation cannot be sustained without additional staff. DIT is currently conducting a staffing needs assessment, but an immediate need has been identified for assistance with project implementation and management. At this time, it is requested that \$800,000 be allocated to assist DIT in addressing immediate staffing needs. An additional \$500,000 has also been identified for temporary staff to assist with system implementation and other related tasks.

In addition, as part of a review of the City's internal financial controls in the FY 2012-2013 Comprehensive Annual Financial Report (CAFR), an independent financial auditor recommends improvements to the City's IT back-up processes. DIT is currently reviewing this recommendation and additional details on DIT staffing and identification of any additional unfunded DIT projects will be provided as part of the Mid-Cycle Budget process in June 2014.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$4.43 million (unfunded, one-time / on-going, projected)

Replacement of the City Radio System and Related Equipment (required, on-going)

The City is planning for the replacement of the City's radio equipment and some infrastructure improvements that are required regardless of which system the City uses to maintain communication services. The cost for this effort is estimated to total \$20 to \$25 million and is anticipated to be paid for by financing. On-going debt service for the cost of the radio system replacement and related equipment is estimated at \$5 million annually beginning in FY 2014-2015. The debt service amount and system costs are subject to change based on final financing terms and final selection of a radio system by the City Council.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$5 million (unfunded, on-going (5 FYs), projected)

OPD / Fire Department Fiscal Unit Consolidation (required, one-time)

The adopted FY 2013-2015 Policy Budget included \$500,000 in expenditure savings that would be realized from cost savings associated with the consolidation of the OPD and Fire Department fiscal units. After multiple meetings with OPD, Fire Department, CAO, and Controller staff to analyze the existing staff configuration and assignments, it was determined that the consolidation

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of the two fiscal units is infeasible at this time due to differing organizational critical vacancies that require filling and temporary assignments to sustain workload, and departmental policies/procedures. As a result, the estimated \$500,000 in savings included in the adopted FY 2013-2015 Policy Budget will not be realized, but continued efforts to improve processes will continue.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$500,000 (unfunded, on-going, actual, e.g., the saving projected in the adopted budget cannot be realized)

Safety and Services Measure Election Costs (required, one-time)

In November 2004, the City of Oakland voters approved the Violence Prevention and Public Safety Act of 2004 (Measure Y), which funds activities such as community and neighborhood policing, violence prevention services with an emphasis on youth, and fire services. Measure Y expires on December 31, 2014 and a projected \$500,000 will be required for various election costs associated with the pursuit of a new safety and services measure.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$500,000 (unfunded, one-time, projected)
FY 2014-15 (Year 2)	\$0 (no funding requested)

GPF Contribution to Supplement the HeadStart Program (service priority, on-going)

Due to the Federal budget sequestration and increased operational costs, the adopted FY 2013-2015 Policy Budget included a \$1.5 million subsidy from the GPF for the HeadStart program for FY 2013-2014. Congress recently approved a Federal Budget that is expected to restore the Head Start Program cut. As a result, the City is expected to receive approximately \$900,000 for the Head Start program. Due to increased operational costs and the lack of additional grant funding to account for this increase, an additional \$799,527 is anticipated to be needed in FY 2014-15 to maintain current service levels.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$799,527 (unfunded, on-going, projected)

Animal Shelter Transfer & Additional Resources (service priority, one-time/on-going)

Recently, the Public Safety Committee directed the City Administrator to provide a report evaluating the transfer of the City's Animal Shelter from OPD to the City Administrator's Office as a "stand alone" department. As part of that discussion, a staffing shortage was identified as the source of service deficiencies. In order to improve very low staffing levels and restore sworn officers to other law enforcement duties, the Animal Shelter requires additional staff to resolve

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the core problem that has surfaced recently. Moving the shelter out of OPD does not fix problems related to shelter staffing. In addition to those costs, some one-time funds are needed to support the evaluation of the potential transfer of the Animal Shelter out of OPD. As part of this rebalance, we propose the addition of on-going funding in the amount of \$147,810 in FY 2013-2014 for additional Animal Care Attendants and \$677,188 in FY 2014-15 for staff and operating and maintenance. These projected costs do not include the cost of an Animal Shelter Manager. Funds are requested in the current year for staffing to expeditiously begin hiring to address known staffing shortages that can directly improve services.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$147,810 (unfunded, on-going, actual)
FY 2014-15 (Year 2)	\$677,188 (unfunded, on-going, projected)

Department of Information Technology Allocation Plan (service priority, on-going)

During the development of the FY 2013-2015 Policy Budget, staff recommended that an internal service fund be established to fund information technology services. The Department of Information Technology, the Controller's Office and a number of departments, are working with a consultant to develop the Internal Service Fund (ISF) allocation plan. It is projected that even with the establishment of the Internal Service Fund; an additional \$1.35 million in funding will be required because Police and Fire Departments are the major users of information technology service and they are primarily funded by the GPF. The establishment of this ISF will help stabilize the City's ability to fund upgrades, replacement of systems, and other related expenditures that have not been funded in the past and that have resulted in very costly expenditures that the City Council has had to resolve over the past year and coming years.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$1.35 million (unfunded, on-going, projected)

Radio one-time membership/Usage Fee (Tentative expenditure) (needed, tentative, one-time/on-going)

If the City transfers to the East Bay Regional Communications System (EBRCS), an additional estimated \$540,000 one-time radio system membership fee (non-financeable) and an annual usage fee of \$1 million will be required. Additional radio maintenance agreement costs with our current vendor (estimated \$300,000 for the current fiscal year and \$500,000 to \$600,000 for twelve months) will be funded from the Radio Fund (Fund 4200) while we negotiate with EBRCS and a policy decision is ultimately made.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$1.544 million (unfunded, one-time and on-going, projected)

OPD Wellness Program for Sworn Personnel (needed, on-going)

The OPD has suffered tragic losses over the past year and the City has worked diligently with the mental health subject matter experts and the OPOA to improve officer workplace wellness. Resulting from these discussions, an interest in establishing a wellness program within OPD has emerged and together there has been benchmarking against other large law enforcement agencies to identify the various options for wellness programs.

The mental health subject matter expert and OPD management recommend a robust mental health program to be established for sworn personnel to ensure the timely assessment of risk, prevention of mental health hazards, and provide wellbeing support to sworn personnel. A preliminary assessment by staff anticipates that \$200,000 will be required in FY 2013-14 and an estimated additional \$400,000 will be necessary starting on July 1, 2015. OPD is still refining these figures, which is driven by the use of subject matter experts, non-sworn staffing, potential use of 3rd party contractors for select wellness services, and some sworn staffing to support this effort. A detailed plan will be brought to the City Council in the Mid-Cycle process in June 2014, and funding can be delayed until that time to allow for more complete program design.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$200,000 (unfunded, on-going, projected)
FY 2014-15 (Year 2)	\$400,000 (un-funded, on-going, projected)

Ceasefire FY 2014-15 (needed, on-going)

In October 2012, the City re-launched the Ceasefire Strategy in October 2012 with the goals of: reducing shootings and homicides through respectful direct communication with those at highest risk of violence; decrease recidivism and incarceration rates of individuals participating in the intervention; and strengthen police-community relations. Due to an increase in cases, additional funding in the amount of \$340,000 in FY 2014-2015 is needed to hire two case managers and related costs.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$340,000 (unfunded, on-going, projected)

Citywide Website (needed, on-going)

The City's web site is the primary way citizens access City government. The web site receives about 100,000 unique visits per month. Yet the last investment we made in the development of the City's web site was nearly a decade ago, and that was the only major upgrade since the web site was created about 16 years ago. With substantially less staff than we had 10 years ago, delivering services online through our web site, web-based applications and our open data platform is a more efficient use of limited staff resources. This is an initial investment in the redesign of the City's web site and new web-based applications, which are the prevailing

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approach to enhancing online service delivery. We will seek to stretch this initial investment through strategic partnerships, and this on-going expense is likely to grow over time as we shift more focus to digital service delivery. Staff estimates this to cost \$75,000 in FY 2013-14 and \$150,000 in FY2014-15.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$75,000 (unfunded, on-going, projected)
FY 2014-15 (Year 2)	\$150,000 (unfunded, on-going projected)

Civilian Fire Marshal (needed, on-going)

In the FY 2012-2013 mid-cycle budget process, City Council authorized the creation of a civilian Fire Marshal position, but directed staff to utilize existing funding within the Fire Department. To date, the Fire Department has identified approximately \$150,000 that is eligible for the position but an additional \$100,000 per year is required to fully fund the position. Given the latest Grand Jury findings on the fire inspection program, which found the deficiency of the vegetation management inspection function, it is critical to fill the civilian Fire Marshal Position. Staff recommends the position to be funded to ensure appropriate management of the fire inspection program.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$25,000 (unfunded, on-going, projected)
FY 2014-15 (Year 2)	\$100,000 (unfunded, on-going, projected)

Grant Writer (needed, on-going)

A grant writer to pursue additional grant resources will help the City maximize the City's current efforts to secure additional financial resources. Due to the budget reduction, the grant writers in the City Administrator's Budget Office were cut in the early 2000s. Staff recommends one position to be funded to pursue state, federal, and other grants when possible. This position will cost approximately \$150,000 per year.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$75,000 (unfunded, on-going, projected)
FY 2014-15 (Year 2)	\$150,000 (unfunded, on-going, projected)

OPD "Grow Our Own" Cadet Program Expansion (needed, on-going)

Expand the OPD "Grow Our Own" Cadet program from 18 part time positions to 38 part-time positions (19 FTE in-total), in order to bolster the pipeline for recruiting Oakland residents into jobs within OPD. The Cadet Program is open to college students and high school seniors, and offers these students exposure to law enforcement and police work while they are pursuing college education. The cadets will be used to provide additional presence and walking customer

service in the downtown area. Great outreach tool for Oakland youth. The additional 10 FTE will allow 20 additional students to participate in this program.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$335,250 (unfunded, on-going, projected)

Oakland Army Base Fund Gap (needed, one-time)

In July 2011 and April 2012, the Oakland City Council approved a total City match commitment of \$54.5 million in order to secure a \$176 million State Trade Corridor Improvement Fund grant for necessary infrastructure for the redevelopment of the former Oakland Army Base. The improvements would support an approximately \$270 million private investment for vertical development of the property. The original funding sources for the City's match included projected tax increment revenues in the amount of \$10 million, which was not fully realized due to the dissolution of the redevelopment agency in 2012.

Staff has projected that there is a potential funding gap of approximately \$1 million for the Oakland Army Base within the next three years. The potential funding need results from lack of tax increment revenue following the dissolution of redevelopment; under budgeted legal costs to support this large scale project; and staffing needs beyond what was assumed at an earlier time. Details on this will be brought to the City Council during the Mid-Cycle Budget process in June 2014.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$0 (no funding requested)
FY 2014-15 (Year 2)	\$1 million (unfunded, one-time (for up to 3 FYs), projected)

7.5% General Fund Reserve Increase

The City Council adopted a financial policy to establish a GPF Reserve Policy (Ordinance 13170 C.M.S.) that states that:

"...the City of Oakland to provide in each fiscal year a reserve of undesignated fund balance equal to seven and one-half percent (7.5%) of the General Fund 1010 appropriations for such fiscal year (the "General Fund Reserve Policy")."

On June 27, 2013, the City Council adopted the FY 2013-15 Policy Budget with a FY 2013-14 GPF appropriations of \$455.29 million which translates into a 7.5% reserve amount of \$34.15 million. FY 2013-14 GPF appropriations are projected to be further increased by \$8,493,563 due to the adoption of various City Council resolutions, overspending, and proposed expenditure items. As a result, the GPF reserve needs to be increased by an additional \$637,017 in FY 2013-2014. If appropriations are increased by an additional \$33,017,698 million in FY 2014-2015, additional \$2,476,327 will be

required to be set-aside.

<u>Fiscal Year</u>	<u>Amount of Funding</u>
FY 2013-14 (Year 1)	\$637,017 (unfunded, one-time, projected)
FY 2014-15 (Year 2)	\$2,476,327 (unfunded, one-time, projected)

Anticipated Investigations, Litigations & Settlements (required, one-time)

The City is currently involved in a number of investigations, litigation and settlement matters. While the cost to resolve all the matters is unknown at this time, staff requests that \$13.5 million be set-aside as a reserve for the resolution of these confidential matters which have been reported in Closed Session or have been covered as part of the approval of FY 2013-2015 budget process.

As a reminder, the Self-Insurance Fund balance was negative \$21 million as of June 30, 2013 and some recent settlements have been authorized that will cause the negative fund balance to increase in an approximate amount of \$11.3 million. For example, as of February 7, 2014, \$6,321,499 was paid out for legal settlements and an additional \$4,963,750 is pending to be settled (totaling \$11.3 million of authorized expenditures for this Fund). Additionally, the City Council has authorized for up to six additional full-time equivalents be funded for the City Attorney's Office out of this negative fund which will cause for the fund to go further negative (estimated annual cost of \$1,342,619 for 6 FTE), unless outside legal contracts are reduced at the appropriate time to curb spending.

The recommendation to set aside the reserve for anticipated settlements of \$13.5 million will prevent the fund from going more negative given the awareness of these anticipated costs and, while staff prefers payment plans over multiple fiscal years, such agreements are entirely dependent on negotiated settlement and not all expenditures in this category are eligible for a multi-year payment plan (staff estimates that 80% of the \$13.5 million is not eligible). Some expenditures will be paid out in FY 2013-2014 and FY 2014-2015.

The goal of setting aside \$13.5 million is to prevent the fund from reaching a negative fund balance beyond a \$30 million threshold, given that there are identified expenditures of roughly \$25 million, and a pre-existing \$21 million, negative fund balance. To manage the City's fiscal ratings, this fund needs to be managed. On the following page is the multi-year history of the Self-Liability Fund:

Eleven-Year Fund Balance of The Self-Liability Fund (Fund #1100)	
Fiscal Year	Fund Balance
FY2002-03	(\$22,365,705)
FY2003-04	(\$22,694,002)
FY2004-05	(\$22,239,833)
FY2005-06	(\$26,909,265)
FY2006-07	(\$27,376,207)
FY2007-08	(\$22,592,288)
FY2008-09	(\$21,510,420)
FY2009-10	(\$23,482,665)
FY2010-11	(\$28,885,586)
FY2011-12	(\$22,980,339)
FY 2012-13	(\$21,000,000)

<u>Fiscal Year</u>	<u>Amount of Funding</u>
Depending on settlement timeline	\$13.5 million (projected, unfunded)

Additional Issues beyond the Current Budget Cycle

In addition to the item listed above, there are a number of other issues that will need to be addressed / accounted for in future budgets. A list of these items includes, but is not limited to:

Operations

- A number of one-time Department of Public Works projects (illegal dumping, littering, graffiti, park maintenance & cultural art programs) are not funded in the second year;
- Unknown voter approval for reauthorization for “Services and Public Safety Measure” (currently known as Measure Y) in Y3 (\$20 million)—planning is underway to establish a future measure;
- Wildfire Prevention Assessment District sunset on Jan. 20, 2014, renewal failed in Nov. 2013 (\$1.9 million impact);
- The likely termination of the SAFER grant in FY 2015-17 (\$3.9M/year on-going impact);

Labor

- OPOA and all Civilian unions MOU will expire on June 30, 2015 and funding needs to be assembled by FY 2015-2017 budget, but first unfunded on-going bargaining costs need to be addressed;

Capital Improvement and others

- Deferred capital maintenance/expenditures (Fleet, IT, backlog on streets needing work is approx. \$435 million and growing); and,
- Unknown economic recovery level and speed of attaining additional on-going revenue to correct the structural issue of one-time funds in the existing budget that cover on-going expenditures.

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Increased net new revenues alone will not be sufficient enough to address these issues and operational savings will be needed in order to generate additional funding.

PUBLIC OUTREACH/INTEREST

Not applicable.

COORDINATION

This report was prepared in coordination with the Controller's Office, Revenue Division, and various departments.

COST SUMMARY/IMPLICATIONS

Staff anticipates \$18,122,435 revenue growth in the General Purpose Fund in the Fiscal Year 2013-2014 Budget, of which \$16.4 million is one-time and \$1.74 million is on-going. Staff also projects expenditures of \$7,747,810 in FY 2013-2014 beyond the adopted FY 2013-2015 Policy Budget. Staff also estimates \$33,017,698 in projected expenditures during FY 2014-2015 which will be addressed in a May 2014 report back on cost containment strategies. It is important to note that this is an estimate based on the projected rate of expenditures, revenue growth, and anticipated expenditures outlined in this report. These expenditure projections ***do not*** include anticipated investigations, litigation, and settlements as discussed in this report. However staff expects that some portion of the anticipated investigations, litigation and settlement amounts will require resources during FY 2013-2014. The total two-year operational shortfall is projected to be \$14,784,262. Please see details in **Attachment A**.

Additionally there is a need for \$13.5 million to be set aside for the anticipated investigations, litigation and settlements. The shortfall between projected available revenue and proposed expenditure for two fiscal years, including proposed expenditures, anticipated investigations, litigation and settlements, other costs and the 7.5% GPF reserve for the proposed appropriations, is estimated to be \$28,284,262. The immediate action requested is to appropriate funds needed for the current fiscal year's operation as discussed in this report. City Administrator will provide expenditure containment plans to the City Council in May 2014. Additional resources needed for FY 2014-2015 operations will be proposed in the mid-cycle budget process in June 2014 after the 3rd Q R and E becomes available.

SUSTAINABLE OPPORTUNITIES

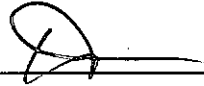
Economic: None.

Environmental: None.

Social Equity: None.

For questions regarding this report, please contact Donna Hom, Budget Director / Deputy City Administrator, at (510) 238-2038.

Respectfully submitted,



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Attachments:

- A – FY 2013-2014 Mid-Year Budget Review
- B – Resolution

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Attachment A

FY 2013-14 Mid-Year Budget Amendment and FY 2014-15 Budget Outlook

No.	Item	FY 2013-14 Balancing			FY 2014-15 Outlook			
		One-time	On-going	Combined	One-Time	On-going	Combined	
REVENUES	R1	Adopted Revenue Budget	20,960,277	434,334,122	455,294,399	17,977,044	441,895,422	459,872,466
	R2	Adjustments & Project Carryforward	28,910,000	-	28,910,000	-	-	-
	R3	Adjusted Revenue Budget	49,870,277	434,334,122	484,204,399	17,977,044	441,895,422	459,872,466
	R4	Revised Revenue Projection (Q2 R & E)	16,384,527	1,737,908	18,122,435	11,980,000	1,737,908	13,717,908
	R5	Asset Management Revenue	-	-	-	(2,000,000)	-	(2,000,000)
	R6	Changes to Revenues:	16,384,527	1,737,908	18,122,435	9,980,000	1,737,908	11,717,908
	R7	TOTAL Revenues:	66,254,804	436,072,030	502,326,834	27,957,044	443,633,330	471,590,374
BASE	EB1	Adopted Expenditure Budget	22,199,671	433,094,728	455,294,399	12,936,570	446,935,896	459,872,466
	EB2	Adjustments & Project Carryforward	28,910,000	-	28,910,000	-	-	-
	EB3	Adjusted Expenditure Budget	51,109,671	433,094,728	484,204,399	12,936,570	446,935,896	459,872,466
APPROVED	EA1	Civilians MOU beyond \$6M Adopted	-	-	-	-	5,453,234	5,453,234
	EA2	TPT MOU	-	-	-	-	800,669	800,669
	EA3	COPS Grant Match 2013	-	568,753	568,753	-	448,757	448,757
	EA4	OPD Accelerated Hiring Program	-	177,000	177,000	-	350,000	350,000
	EA5	Expenditures - Approved SUB TOTAL		745,753	745,753		7,052,660	7,052,660
REQUIRED	ER1	City-wide over spending	6,030,000	-	6,030,000	10,000,000	-	10,000,000
	ER2	Kid's First! Set Aside	370,000	-	370,000	-	543,673	543,673
	ER3	NSA Monitor Contract	75,000	-	75,000	650,000	-	650,000
	ER4	Compliance Director Request for Racial Profiling Mitigation	250,000	-	250,000	-	-	-
	ER5	IT Projects and Staffing *	-	-	-	3,625,000	800,000	4,425,000
	ER6	Payment for Financing Radios	-	-	-	-	5,000,000	5,000,000
	ER7	OPD & OFD Fiscal Unit Merge	-	-	-	-	500,000	500,000
	ER8	Safety and Services Measure Election costs	500,000	-	500,000	-	-	-
	ER9	New Expenditures - Required SUB TOTAL	7,225,000	-	7,225,000	14,275,000	6,843,673	21,118,673
SERVICE PRIORITY	EP1	GPF Headstart Subsidy	-	-	-	-	799,527	799,527
	EP2	Animal Shelter Transfer & Add'l Resource	-	147,810	147,810	-	677,188	677,188
	EP3	IT Allocation Plan	-	-	-	-	1,350,000	1,350,000
	EP4	GPF Subsidy to Measure Y	-	-	-	(2,000,000)	-	(2,000,000)
	EP5	New Expenditures - Service Priority SUB TOTAL		147,810	147,810	(2,000,000)	2,826,715	826,715
NEEDED	EN1	Radio membership/Usage Fee (Tentative)	-	-	-	540,000	1,004,400	1,544,400
	EN2	OPD Wellness Program	-	200,000	200,000	-	400,000	400,000
	EN3	Ceasefire FY 2014-15	-	-	-	-	340,000	340,000
	EN4	Citywide Website	-	75,000	75,000	-	150,000	150,000
	EN5	Civilian Fire Marshal	-	25,000	25,000	-	100,000	100,000
	EN6	Grant Writing Assistant	-	75,000	75,000	-	150,000	150,000
	EN7	OPD "Grow Our Own" Cadet Program	-	-	-	-	335,250	335,250
	EN8	Oakland Army Base Funding Gap (Tentative)**	-	-	-	1,000,000	-	1,000,000
	EN9	New Expenditures - Needed SUB TOTAL		375,000	375,000	1,540,000	2,479,650	4,019,650
SUB TOTAL	S1	Expenditures Requested for Appropriation	7,225,000	522,810	7,747,810	13,815,000	12,150,038	25,965,038
	S2	Changes to Expenditures from Adjusted Budget	7,225,000	1,268,563	8,493,563	13,815,000	19,202,698	33,017,698
	S3	SUB TOTAL Expenditures	58,334,671	434,363,291	492,697,962	26,751,570	466,138,594	492,890,164
	S4	7.5% GPF Reserve for new expenditures	637,017	-	637,017	2,476,327	-	2,476,327
	S5	SUB TOTAL Surplus/(Shortfall)	7,283,116	1,708,739	8,991,855	(1,270,853)	(22,505,264)	(23,776,117)
TOTAL	T1	Two-Year Total			(14,784,262)			
	T2	Anticipated Investigations, Litigation & Settlements			(13,500,000)			
	T3	TWO-YEAR GRAND TOTAL			(28,284,262)			

Legend: R = Revenue, EA = Expenditure Approved ER = Required Expenditures, EP = Service Priority Expenditure, EN = Needed Expenditure, S = Sub-Total, T = Total

* Items listed in this document are for FY 2014-15 only

** Anticipated up to \$1M funding gap for legal fees on negotiation for the amendments to existing Lease Disposition and Development Agreements

ATTACHMENT B

FY 2013-14 Budget Amendment Appropriation					
No.	Item	One-time	On-going	Combined	
REVENUES	R1	Adopted Revenue Budget	20,960,277	434,334,122	455,294,399
	R2	Adjustments & Project Carryforward	28,910,000	-	28,910,000
	R3	Adjusted Revenue Budget	49,870,277	434,334,122	484,204,399
	R4	Revised Revenue Projection (Q2 R & E)	16,384,527	1,737,908	18,122,435
	R5	Asset Management Revenue	-	-	-
	R6	Changes to Revenues:	16,384,527	1,737,908	18,122,435
	R7	TOTAL Revenues:	66,254,804	436,072,030	502,326,834
BASE	EB1	Adopted Expenditure Budget	22,199,671	433,094,728	455,294,399
	EB2	Adjustments & Project Carryforward	28,910,000	-	28,910,000
	EB3	Adjusted Expenditure Budget	51,109,671	433,094,728	484,204,399
APPROVED	EA3	COPS Grant Match 2013	-	568,753	568,753
	EA4	OPD Accelerated Hiring Program	-	177,000	177,000
	EA5	Expenditures - Approved SUB TOTAL	-	745,753	745,753
REQUIRED	ER1	City-wide over spending	6,030,000	-	6,030,000
	ER2	Kid's First! Set Aside	370,000	-	370,000
	ER3	NSA Monitor Contract	75,000	-	75,000
	ER4	Compliance Director Request for Racial Profiling Mitigation	250,000	-	250,000
	ER8	Safety and Services Measure Election costs	500,000	-	500,000
	ER9	New Expenditures - Required SUB TOTAL	7,225,000	-	7,225,000
PRIORITY	EP2	Animal Shelter Transfer & Add'l Resource	-	147,810	147,810
	EP5	New Expenditures - Service Priority SUB TOTAL	-	147,810	147,810
NEEDED	EN2	OPD Wellness Program	-	200,000	200,000
	EN4	Citywide Website	-	75,000	75,000
	EN5	Civilian Fire Marshal	-	25,000	25,000
	EN6	Grant Writing Assistant	-	75,000	75,000
	EN9	New Expenditures - Needed SUB TOTAL	-	375,000	375,000
TOTAL	S1	Expenditures Requested for Appropriation	7,225,000	522,810	7,747,810
	S2	Changes to Expenditures from Adjusted Budget	7,225,000	1,268,563	8,493,563
	S3	SUB TOTAL Expenditures	58,334,671	434,363,291	492,697,962
	S4	7.5% GPF Reserve for new expenditures	637,017	-	637,017
	S5	TOTAL Surplus/(Shortfall)	7,283,116	1,708,739	8,991,855

Legend: R = Revenue, EA = Expenditure Approved ER = Required Expenditures, EP = Service Priority Expenditure, EN = Needed Expenditure, S = Total

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 Finance & Management Committee
 March 11, 2014

REVISED
3-6-14

FILED
OFFICE OF THE CITY CLERK
OAKLAND

OAKLAND CITY COUNCIL

Approved as to Form and Legality

DRAFT

City Attorney

2014 MAR -6 PM 2: 59 RESOLUTION NO. _____ C.M.S.

Introduced by Councilmember _____

RESOLUTION AUTHORIZING THE BALANCING OF THE REMAINING FISCAL YEAR 2013-14 BUDGET BY INSTRUCTING THE CITY ADMINISTRATOR TO: (1) INCREASE THE REVENUE PROJECTION IN THE GENERAL PURPOSE FUND BY \$18,122,435; (2) APPROPRIATE ADDITIONAL EXPENDITURES IN AN AMOUNT NOT TO EXCEED \$7,747,810; (3) INCREASE GENERAL PURPOSE FUND RESERVE IN AN AMOUNT OF \$637,017; (4) REPORT BACK WITH COST CONTAINMENT STRATEGIES IN MAY 2014 FOR THE FY 2014-15 BUDGET; AND, BRING A BALANCED BUDGET BY THE MID-CYCLE BUDGET PROCESS IN JUNE 2014 FOR FY 2014-2015.

WHEREAS, WHEREAS, on June 27, 2013, the City Council adopted the FY 2013-15 Policy Budget (Resolution 84466 C.M.S.), which authorized expenditures of \$455,294,399 in FY 2013-14 and \$459,872,466 in FY 2014-15; and

WHEREAS, subsequent to the adoption of the FY 2013-15 Policy Budget, staff completed the close of FY 2012-13 and the City Council approved a number of appropriations, which requires an amendment to the FY 2013-15 adopted Policy Budget; and

WHEREAS, while the need to fund certain items was identified as part of the development of the FY 2013-15 Policy Budget (e.g. Full funding of current and future MOUs), staff has identified a number of recent funding priorities (e.g. Radio equipment replacement cost for immediate operational needs, Measure Y renewal, etc.); and

WHEREAS, the FY 2013-14 second quarter Revenue and Expenditure report identified that revenues are projected to exceed budgeted amounts by a net total of \$18,122,435 for FY 2013-14; and

WHEREAS, the adopted FY 2013-15 Policy Budget needs to be amended in order to adjust new revenues of \$18,122,435 and appropriations of \$7,747,810; and

WHEREAS, 7.5% of \$8,493,563, which is the sum of the additional items approved by the City Council since July 1, 2013 (\$745,753) and the proposed expenditures items (\$7,747,810), or \$637,017 is to be put in the General Purpose Fund reserved per the Ordinance 13170 C.M.S; now, therefore be

RESOLVED: That the Oakland City Council, hereby authorizes the City Administrator to balance the remaining Fiscal Year 2013-14 budget, increase revenue in the General Purpose Fund projection by \$18,122,435 and appropriate additional expenditures in an amount not to exceed \$7,747,810; and

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FURTHER RESOLVED: That 7.5% of additional proposed expenditure of \$8,493,563 in FY 2013-14, or \$637,017 is to be reserved in the General Purpose fund; and

FURTHER RESOLVED: That the Oakland City Council instructs the City Administrator to report back with cost containment strategies in May 2014 for the FY 2014-15 budget; and bring a balanced budget by the Mid-Cycle budget process in June 2014.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GIBSON MCELHANEY, KALB, KAPLAN, REID, SCHAAF and PRESIDENT KERNIGHAN

NOES -

ABSENT -

ABSTENTION -

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