CITY OF OAKLAND

AGENDA REPORT

TO:	Jestin D. Johnson City Administrator	**FROM:**	Erin Roseman Director of Finance
SUBJECT:	Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report	**DATE:**	November 8, 2024

City Administrator Approval Jestin Johnson (Nov 15, 2024 08:56 PST) Date: 11/15/2024

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2024-25 First Quarter (Q1) Results And Year-End Projections For The General Purpose Fund (GPF, 1010), And Select Funds.

EXECUTIVE SUMMARY

This report details the City of Oakland's (the City) preliminary FY 2024-25 projected year-end revenues and expenditures based on **First** Quarter **Q1** trends. The **First** Quarter reflects 11.7% of collected adjusted revenue budget and expenditures reflect 22% of the adopted expenditure budget.

FY 2024-25 collections of revenue through **Q1** are at $88.68 million or 11.7% of the Adjusted Budget of $758.22 million. The preliminary **Q1** FY 2024-25 GPF revenue forecast projects an overall overage of $0.30 million or 0.0% compared to the Adjusted Budget and is now estimated to end the year at $758.52 million. GPF expenditures through **Q1** are at $168.73 million or 22% of the Adjusted Budget. GPF expenditures are forecasted at $851.60 million, an increase of $93.38 million from the Adjusted Budget. The budget assumes a one-time use of fund balance in the amount of $13.75 million to support encumbrance carryforwards. **Table 1** below outlines the FY 2024-25 GPF revenue and expenditures Adjusted Budget, Q1 year-to-date actuals, and year-end estimates, with a current estimate of a $93.08 million year-end operating shortfall.

The projections in this report are made with limited information due to seasonality of certain revenue categories, and the volatility and unpredictability of the economy due to the ongoing inflationary trends, election outcome, and effects of federal monetary policy. The purpose of the quarterly revenue and expenditure (R&E) report is to guide the City in managing its ongoing budget in comparison to the Adopted Budget as more financial data becomes available.

Table 1: Summary of FY 2024-25 Q1 GPF Revenues & Expenditures Budget to Year-End Projections ($ in millions)

	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget	FY 2024-25 Q1 YTD Actuals	FY 2024-25 Q1 Year-End Estimate	Year-End $ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
FY 2024-25 Revenues	807.19	758.22	88.68	758.52	0.30	0.0— %
FY 2024-25 Expenditures	807.19	758.22	168.73	851.60	(93.38)	(12.3) %
Operating (Shortfall) / Surplus	—	—	**(120.26)**	**(93.08)**	**(93.08)**	**(12.3) %**

The results of this First Quarter show that immediate action is necessary to maintain the solvency of the General Purpose Fund. Revised estimates regarding the City's fiscal condition at the end of FY 2023-24 show the General Purpose Fund ended in a negative balance. The GPF negative balance has already obligated and intruded into its emergency reserve. **Following the conclusion of the Audit and publication of Annual Comprehensive Financial Report (ACFR), the City Council will be required to take immediate budgetary action to reduce the General Purpose Fund by at minimum the sum of $114.9 million (GPF Deficit) and an additional $27.55 million for a total reduction of $142.45 million to restore the Emergency Reserve OR declare a Fiscal Emergency**, per the Consolidated Fiscal Policy (CFP.) These values assume no additional GPF Carryfoward is approved. Dramatic and immediate actions to reduce expenditures are necessary to preserve the solvency of the General Purpose Fund.

BACKGROUND / LEGISLATIVE HISTORY

Below is a summary of the actions that have occurred from the beginning of the fiscal year through **Q1** that have modified the FY 2024-25 Budget:

Pursuant to the City's Consolidated Fiscal Policy - Part G. Criteria for Project Carryforwards and Encumbrances, the FY 2024-25 Adopted Budget has also been adjusted to include $13.75 million in prior year encumbrance carryforwards in the GPF which utilizes available fund balance to cover the cost.

In October 2024, administrative action was taken to initiate the implementation of the contingency budget, as authorized by [Resolution 90326 C.M.S.]

ANALYSIS AND POLICY ALTERNATIVES

This report supports the Citywide priority of a **responsive, trustworthy government** by providing timely and up-to-date financial information, enhancing transparency allowing residents, stakeholders, and decision-makers to be informed of the City's fiscal health, promoting a culture of responsible financial stewardship.

General Purpose Fund (GPF)

FY 2024-25 Q1 Revenues

The GPF revenues collected as of **Q1** FY 2024-25 are $88.68 million or 11.7% compared to the Adjusted Budget of $758.22 million, and are projected to end the year at $758.52 million or 0.0% over the Adjusted Budget. The Adjusted Budget accounts for the adopted contingency budget, which excludes funds from the Coliseum land sale, which had been expected but have faced delays. As such, year-end estimates do not assume any collections beyond the initial $5 million payment already received. The fiscal year (FY) 2023-24 closed with notable revenue shortfalls across several key areas in the General Purpose Fund (GPF). The FY 2024-25 revenue forecast indicates a mixed fiscal landscape for the city, with some tax categories recovering or exceeding expectations while others face ongoing challenges from market conditions.

Increases compared to the FY 2024-25 Adjusted Budget are led by Property Tax which is predicted to be over budget by $4.12 million, with growth due to property value reassessments and new construction. Business Tax projects to exceed the adjusted budget by $3.42 million, based on maintaining FY 2023-24 levels. Utility Consumption Tax is anticipated to surpass the budget by $4.34 million due to rate increases that have been implemented following approval by the California Public Utilities Commission (CPUC). Fines & Penalties are projected to exceed the budget by $1.63 million, driven by parking citation rate increases. Miscellaneous Revenue significantly exceeds the budget by $11.51 million due to the initial payment from the Coliseum sale, in addition to legal settlements that also boosted Q1 miscellaneous revenues.

Notable categories not expected to exceed budget expectations include Real Estate Transfer Tax (RETT) Collections, which are expected to end the year at $66.03 million, which is $7.69 million or 10.4% under the Adjusted Budget. However, RETT is showing a recovery from the downturn in FY 2023-24. Early signs of market recovery are noted with a 7.4% increase in the volume of property sales in Q1 compared to the same period in the prior year, although the overall value of the sales have decreased. Sales Tax is expected to be just under the budget by $0.08 million. A decrease in operational hotels and lower room rates impacted collections from Transient Occupancy Tax (TOT) and is forecasted to be $2.23 million below budget. Meanwhile Parking Tax is estimated to fall short by 9.2% or $1.20 million, as it is expected to remain at but not exceed pre-COVID collection levels.

The GPF revenues by category are detailed below.

- **Property Tax:** FY 2024-25 collections of Property Tax through Q1 are at $10.94 million or 3.6% of the Adjusted Budget of $306.57 million, and are now projected to end the year at $310.69 million, which is $4.12 million or 1.3% over the Adjusted Budget. Property tax continues to be a reliable and significant source of revenue for the City. Based on Proposition 13, the annual increase in property assessments is limited to the lesser of 2% or the California Consumer Price Index (CPI), which was at 2% for FY 2023-24. This cap ensures a predictable, though modest, increase in property taxes. An additional growth of 2.96% in assessed values last fiscal year was due to changes in property ownership, which often leads to property reassessments at current market values. A further 0.95% increase was attributed in FY2023-24 to new construction within the City, contributing to the tax base expansion. The projection for FY 2024-25 resembles the actual results from FY 2023-24, which surpassed its budget. The FY 2024-25 forecast assumes a 3.86% growth from FY 2023-24, based on estimated increases in assessed property values for Oakland in FY 2023-24. For context, FY 2022-23 concluded with property tax collections at $281.28 million. The growth in revenue to $299.15 million observed in FY 2023-24, or 6.35% compared to FY 2022-23, mirrored the increase in the City's total assessed taxable value in FY 2022-23 of approximately 6.6%.

- **Business Tax (BT):** FY 2024-25 collections of BT through Q1 are at $5.53 million or 4.6% of the Adjusted Budget of $120.06 million, and are now projected to end the year at $123.48 million, which is $3.42 million or 2.9% over the Adjusted Budget. The bulk of BT is collected in the third quarter of the fiscal year since Business Tax renewals are due during that period. This estimate assumes that BT will perform at the same level of FY 2023-24. The implementation of Measure T, aimed at restructuring business taxes, has shown positive results. Sectors like Professional/Semi-Professional Services, Admin Headquarters, and Wholesale Sales have significantly contributed to the net revenue increase. The City of Oakland Business Tax (BT) projection for FY 2024-25 is cautiously optimistic that the overall trend in BT collection remains positive. Despite sector-specific declines, there was a modest increase in gross receipts from businesses renewing their tax filings in FY 2023-24 by 1.3% compared to the previous year. This growth, although below the four-year average of 2.7%, still indicates a resilient business environment. A strategic focus is being made in FY 2024-25 on improving compliance and collection efficiency while banking on the stability observed in previous fiscal years.

- **Utility Consumption Tax:** FY 2024-25 collections of Utility Consumption Tax through Q1 are at $16.99 million or 24.8% of the Adjusted Budget of $68.44 million, and are now projected to end the year at $72.77 million which is $4.34 million or 6.3% over the Adjusted Budget. The California Public Utilities Commission (CPUC) approved a 12.7% increase in consumer utility rates for 2024. PG&E which is the largest contributor to the City's UCT implemented rate hikes in phases in 2024 with a 6% increase that took effect in March, an additional 4% in June and implemented a further 2.7% adjustment in September. These incremental rate hikes directly impact the tax base, as utility consumption tax is a percentage of the utility bill, thus leading to higher tax revenue.

- **Fines & Penalties:** FY 2024-25 collections of Fines and Penalties through Q1 are at $5.84 million or 30.2% of the Adjusted Budget of $19.34 million, and are now projected to end the year at $20.97 million, which is $1.63 million or 8.4% over the Adjusted Budget. Parking citations continue to form the bulk of fines and penalties revenue. Despite expectations of increased revenue due to a 5% rate increase in fines for FY 2023-24 and an additional 5% rate increase for FY 2024-25 to adjust for inflation, the actual revenue from parking citations in FY 2023-24 was $16.77 million, a slight decrease of $0.10 million from the previous year's $16.87 million. The collection rate of parking citations for FY 2023-24 was about 10% lower than in previous fiscal years. The FY 2024-25 Midcycle Budget was revised downwards from the initial FY24-25 Biennial Budget due to trends observed in FY 2023-24. This adjustment reflects a more conservative revenue expectation given the ongoing issues with Scofflaw enforcement, where the City is unable to boot vehicles or effectively collect from accounts with five or more unpaid citations. Another contributing factor recently reducing the effectiveness of parking regulation enforcement is that the Parking Enforcement Unit has been understaffed. The unit aims to be fully staffed by the second half of FY 2024-25.

In FY 2023-24 the volume of parking citations issued saw an unexpected decline of 8% from FY 2022-23. In contrast, the first quarter of FY 2024-25 has shown a promising uptick with an 8% increase in citations issued over the first quarter of FY 2022-23. Using the revenue collected in FY 2022-23 as a baseline, given its closer alignment with the citation issuance rate seen in the first quarter of FY 2024-25, the FY 2024-25 projection assumes that with improved staffing levels and the return to more typical citation issuance levels, the revenue from parking citations in FY 2024-25 could see an increase matching the fine rate increases over the last two fiscal years, which have been increased by 10% in total, assuming this adjustment fully translates into a corresponding increase in revenue.

- **Miscellaneous Revenue:** FY 2024-25 collections of Miscellaneous Revenues through Q1 are at $12.74 million, and are projected to end at $12.74 million which is $11.51 million or 939.2% over the Adjusted Budget of $1.23 million. A sum of $5 million was received as an initial payment for the sale of the Coliseum site. This amount was not fully anticipated in the Adjusted Budget due to the delay in the completion of the sale. The FY 2024-

25 Adopted Budget initially included $63.10 million from the sale of the Coliseum land, classified under Miscellaneous Revenues. However, due to delays in the transaction, the expected $63.10 million was removed from the budget as it was stipulated as part of the FY 2024-25 Midcycle Budget adoption. Projections for the remainder of FY 2024-25 do not account for additional payments from the Coliseum land sale within this fiscal year. **Staff strongly recommends that decision makers do not include the Coliseum sale proceeds in any future budget balancing action until after that cash has been received and title of the property transferred, as recommended by our external financial auditor.** In addition, legal settlements have significantly contributed to the actual miscellaneous revenues realized in Q1 as well. However, the $6.18 million revenue resulting from these legal settlements is restricted to specific reimbursements bound by settlement agreements and cannot be accounted for in the overall balancing of the General Purpose Fund.

- **Service Charges:** FY 2024-25 collections of Service Charges through Q1 are at $7.21 million or 13.9% of the Adjusted Budget of $51.84 million, and are now projected to end the year at the Adjusted Budget. In FY 2023-24, parking meter collections underperformed significantly, with revenues totaling $10.24 million against an estimated budget of $16.60 million, resulting in a shortfall of $6.36 million. Excluding this shortfall, service charges would have exceeded the FY 2023-24 Adjusted Budget by $1.66 million. In contrast, actual collection from parking meters was only 61.7% of the budgeted amount in FY 2024-23. Parking fees were notably raised by 50% from $2 to $3 per hour effective FY 2024-25. If all other factors remain constant, this should theoretically increase revenue by $5.12 million, countering the shortfall experienced in FY 2023-24. Early data from the first two months of FY 2024-25 show an average 30% increase in parking fees collected compared to the same period in the previous fiscal year.

- **Sales Tax:** FY 2024-25 collections of Sales Tax through Q1 are at $5.34 million or 8.4% of the Adjusted Budget of $63.73 million, and are now projected to end the year at $63.65 million, which is $0.08 million or 0.1% under the Adjusted Budget. The $5.34 million in actual revenues reported for the first quarter do not correspond with the Sales Tax receipts for that period. This is because the collections and reporting of these receipts lag due to external management by the State and then remitted in bulk to the City. Over the last five years, the average Sales Tax captured through the first quarter in Oracle has been approximately $5.37 million. Data available for the fourth quarter of FY2023-24 (Q4) (Sales Tax is collected by the State and the corresponding detailed data becomes available to the City in the subsequent quarter) shows that FY 2023-24 closed the year with continuing signs of contraction, with sales receipts dropping by 11.7% in the Q4 compared to the same period in FY 2022-23. This decline was influenced by several factors, including audit recoveries from the previous year that skewed cash flow comparisons. When these anomalies are excluded, the real sales decline stood at 5.9%.

In the final quarter of FY 2023-24 the automotive industry in Oakland saw a downturn similar to state-wide trends, with a particular decline in sales of luxury vehicle brands. This shift was largely due to higher interest rates and pricing concerns, which deterred potential buyers from making large purchases. Restaurants and hotels experienced a 6% drop in revenue. This sector faced challenges from the closure of several establishments over the past year and a shift in consumer behavior towards seeking value amid rising menu prices. The Business and Industry sector contracted by approximately $0.32 million. The decline was marked by a reduced demand for food-related equipment and IT support services, which had seen a surge in the fourth quarter of FY 2022-23 due to one-time medical and biotech sales. The cannabis market struggled with market saturation leading to reduced activity. Meanwhile, grocery sales, also part of the food-drugs group, decreased by 2.0% compared to the same period in the prior year, aligning with a broader trend of cautious consumer spending focused on essentials. Specialty outlets, electronics, appliances, and home furnishings all reported fewer sales. The closure of several retailers since the fall of the previous year further contributed to this sector's downturn. When compared to broader regional trends, Alameda County as a whole experienced a 3.2% decline in taxable sales in Q4, while the entire Bay Area saw a decrease of 1.7%. Moving on to FY 2024-25 a minor anticipated increase from the previous fiscal year indicates a slow recovery or stabilization rather than robust growth. The gradual anticipated increase suggests growth could bring a slow rise in Sales Tax revenues over the next couple years.

- **Real Estate Transfer Tax (RETT):** FY 2024-25 collections of Real Estate Transfer Tax through Q1 are at $16.51 million or 22.4% of the Adjusted Budget of $73.72 million, and are projected to end the year at $66.03 million, which is $7.69 million or 10.4% under the Adjusted Budget. The City's Real Estate Transfer Tax (RETT) collections are forecasted to increase by 16.5% by the end of this fiscal year compared to last year. This growth aligns with the increase observed in the first quarter (Q1) of this year over the same period last year. This forecast comes after a significant shortfall in FY 2023-24, where collections amounted to $57.61 million, falling $52.80 million or 47.8% short of the adjusted budget of $110.41 million. The real estate market in FY 2023-24 experienced a notable downturn influenced by macroeconomic policies. Elevated federal funds rates increased mortgage rates, which in turn made home buying less affordable, cooling the demand for real estate. This resulted in fewer transactions, particularly in the high-value property segment, which is crucial for RETT revenue as these sales yield higher tax amounts due to the tax being a percentage of the sale price. The market saw a year-over-year reduction in property sales by 10.1% in FY 2023-24, with an even more significant drop of 19.6% when considering sales prices.

Despite the decrease in sales in FY 2023-24, FY 2024-25 had higher number of properties listed for sale in Q1 compared to the same period in the prior year. The first quarter of FY 2024-25 showed a 7.4% increase in the volume of properties sold compared to the same period in the prior fiscal year, indicating initial signs of recovery. Moreover, the Federal Open Market Committee (FOMC) reduced interest rates for the first time in Q1 since it started increasing rates in March of 2022. The FOMC's interest rate reduction in rates could rekindle buyer interest moving forward. Potential stabilization in interest rates could lead to market adjustments where buyers might begin to adapt to the new rate environment, leading for sales volume to improve gradually.

- **Transient Occupancy Tax ("TOT"):** FY 2024-25 collections of TOT through Q1 are at $4.59 million or 23.3% of the Adjusted Budget of $19.74 million, and are now projected to end the year at $17.50 million, which is $2.23 million or 11.3% under the Adjusted Budget. FY 2023-24, concluded with TOT collections at $18.39 million, slightly under the current year's budget. This year's budget was strategically adjusted to reflect these realities, yet the first quarter saw an 8% decrease in collections compared to the same period in FY 2023-24, signaling ongoing recovery challenges. Over the past year there has been a reduction in the number of accounts contributing to TOT, dropping from 70 to 68 accounts, with a specific decrease in hotels and motels from 58 to 55. The closure of major establishments like the Hilton, which contributed significantly to TOT, represents a major revenue loss coupled with the potential for more closures. Furthermore, the national decrease in hotel room rates has had a trickle-down effect, reducing the TOT yield as each room generates less revenue.

- **Parking Tax ("PT"):** FY 2024-25 collections of Parking Tax through Q1 are at $2.32 million or 17.8% of the Adjusted Budget of $13.07 million, and are now projected to end the year at $11.87 million which is $1.20 million or 9.2% under the Adjusted Budget. The Parking Tax has shown a stabilization trend, aligning with pre-COVID-19 levels after several years of fluctuation due to the global health crisis. The projection assumes no significant deviation from the collection levels observed in FY 2023-24, reflecting a stable but not growing market for parking services. The Parking Tax appears to be plateauing, with the highest collection over the past seven fiscal years reaching $12.01 million in FY 2022-23, suggesting that the market might have reached its peak capacity under current conditions.

The FY 2024-25 Adjusted Revenue Budget also assumes $13.75 million in use of fund balance to support prior year encumbered carryforwards. Net of these, actual revenues are estimated to end the year at $758.52 million, compared to the Adjusted Budget of $744.47 million, representing a net surplus of $14.05 million or 1.9%. **Table 2** below highlights revenue categories with year-end projections changes when compared to the FY 2024-25 Adjusted Budget.

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Table 2: FY 2024-25 Q1 GPF Revenues Budget to Actuals ($ in millions) Summary

Revenue Category	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget	FY 2024-25 Q1 YTD Actuals	FY 2024-25 Q1 Year-End Estimate	Year-End $ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Property Tax	306.57	306.57	10.94	310.69	4.12	1.3 %
Sales Tax	63.73	63.73	5.34	63.65	(0.08)	(0.1) %
Business License Tax	120.06	120.06	5.53	123.48	3.42	2.9 %
Utility Consumption Tax	68.44	68.44	16.99	72.77	4.34	6.3 %
Real Estate Transfer Tax	73.72	73.72	16.51	66.03	(7.69)	(10.4) %
Transient Occupancy Tax	19.74	19.74	4.59	17.50	(2.23)	(11.3) %
Parking Tax	13.07	13.07	2.32	11.87	(1.20)	(9.2) %
Licenses & Permits	1.16	1.16	0.27	1.16	—	— %
Fines & Penalties	19.34	19.34	5.84	20.97	1.63	8.4 %
Interest Income	2.50	2.50	0.18	2.50	—	— %
Service Charges	51.84	51.84	7.21	51.84	—	— %
Grants & Subsidies	—	—	0.21	0.21	0.21	— %
Miscellaneous Revenue	64.32	1.23	12.74	12.74	11.51	939.2 %
Interfund Transfers	2.70	3.08	—	3.08	—	— %
Subtotal	**807.19**	**744.47**	**88.68**	**758.52**	**14.05**	**1.9 %**
Transfers from Fund Balance	—	—	—	—	—	—
Project Offsets & Carryforwards	—	13.75	—	—	**(13.75)**	**(100.0) %**
Total Revenue	**807.19**	**758.22**	**88.68**	**758.52**	**0.30**	**0.0 %**

As shown in **Table 3** below, GPF revenues also show a decline compared to the FY 2023-24 Adopted Budget, excluding the use of fund balance. The FY 2024-25 Q1 Adjusted Budget, which reflects the contingency budget, sets GPF revenues at $744 million, compared to $804 million in the FY 2023-24 Adopted Budget. **This represents a significant decrease of $60 million, indicating that a Severe Financial Event has occurred. See Table 3 below.**

Table 3: FY 2023-24 Adopted Budget compared to FY 2024-25 Adopted Midcycle Contingency Budget.

General Purpose Fund Revenues*	FY23-24 Adopted Biennial Budget	FY24-25 Adopted Midcycle Contingency Budget
Property Tax	294,168,232	306,570,383
Sales Tax	67,689,746	63,728,691
Business License Tax	125,248,004	120,056,728
Utility Consumption Tax	61,898,792	68,435,265
Real Estate Transfer Tax	110,412,094	73,719,319
Transient Occupancy Tax	22,482,510	19,737,017
Parking Tax	11,262,935	13,067,219
Licenses & Permits	1,388,483	1,161,090
Fines & Penalties	23,071,854	19,344,486
Interest Income	484,097	2,500,000
Service Charges	51,602,846	51,843,139
Miscellaneous Revenue	21,216,000	1,226,000
Interfund Transfers	13,075,123	2,703,023
Grand Total	**804,000,716**	**744,092,360**

* *Excludes use of Fund Balance*

FY 2024-25 Q1 Expenditures

At the end of Q1 for FY 2024-25, expenditures are projected to end the fiscal year at $851.60 million, or $93.38 million over the Adjusted Budget of $758.22 million. Most of the City's departments are projected to overspend by the end of FY 2024-25, however, Public Safety departments account for over 90% of the City's projected overspending.

The FY 2024-25 Adjusted Budget amounts below include budget adjustments that reflect the contingency budget, which reduced the GPF budget across several City departments. However, the specifics of the reductions for the OPD and OFD are still being determined and have yet to be implemented, which is why projected spending for those two departments is notably high.

Expenditure monitoring is heightened as citywide hiring is a large focus, and current inflationary trends and federal monetary policy are likely to continue throughout the fiscal year and have an impact on spending trends by year-end.

Table 4 below breaks down the FY 2024-25 Expenditures by Department.

Table 4: FY 2024-25 Q1 GPF Expenditures Budget to Actuals ($ in millions)

Department	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget	FY 2024-25 Q1 YTD Actuals	FY 2024-25 Q1 Year-End Estimate	Year-End $ Over / Under Adjusted Budget	Year-End % (Over) / Under Adjusted Budget
Capital Improvement Projects	0.56	0.94	0.01	0.94	—	— %
City Administrator	5.99	4.87	1.19	5.58	(0.72)	(14.7) %
City Attorney	21.71	21.95	4.43	21.23	0.72	3.3 %
City Auditor	3.73	3.90	0.49	2.65	1.25	32.0 %
City Clerk	8.00	7.94	0.73	8.00	(0.06)	(0.8) %
City Council	7.87	7.91	1.54	7.35	0.56	7.1 %
Department of Transportation	21.72	21.59	4.28	23.41	(1.82)	(8.4) %
Department of Violence Prevention	7.49	8.10	1.25	6.50	1.60	19.8 %
Department of Workplace and Employment Standard	2.39	2.15	0.40	2.30	(0.15)	(7.2) %
Economic and Workforce Development Department	15.24	13.54	6.52	13.79	(0.25)	(1.9) %
Finance Department	29.13	27.34	4.79	28.04	(0.70)	(2.6) %
Fire Department	180.45	163.26	44.62	197.70	(34.44)	(21.1) %
Housing and Community Development Department	—	—	—	—	—	— %
Human Resources Management Department	0.33	0.53	0.26	0.19	0.33	63.3 %

Human Services Department	43.08	43.36	2.42	43.99	(0.62)	(1.4) %
Information Technology Department	6.55	6.95	1.79	8.35	(1.39)	(20.0) %
Mayor	5.59	5.60	0.97	4.64	0.96	17.1%
Non Departmental and Port	53.80	51.41	(3.06)	60.41	(9.00)	(17.5) %
Oakland Animal Services	6.84	6.57	1.20	6.12	0.46	6.9 %
Oakland Parks and Recreation Department	11.80	12.01	2.88	12.01	—	— %
Oakland Public Library Department	12.40	11.40	1.20	12.92	(1.53)	(13.4) %
Oakland Public Works Department	2.73	4.48	0.54	3.85	0.63	14.2 %
Planning and Building Department	—	—	—	—	—	— %
Police Commission	8.78	9.48	1.37	7.19	2.29	24.2 %
Police Department	347.21	318.88	88.13	370.77	(51.89)	(16.3) %
Public Ethics Commission	2.52	2.71	0.51	2.37	0.34	12.4%
Race and Equity Department	1.27	1.35	0.28	1.29	0.05	4.0 %
Total	**807.19**	**758.22**	**168.73**	**851.60**	**(93.38)**	**(12.3) %**

The budgeted vacancy factor assumed in the FY 2024-25 Midcycle Budget is 10.00% across most City Departments. The actual vacancy rate as of Q1 in the GPF is 22.0% as shown in **Table 5 below**, which is more than twice of that assumed in the budget. Although the current vacancy rate is higher than the assumed budgeted rate, there is no anticipated vacancy savings due to the projected public safety over-expenditure.

Table 5: FY 2024-25 Q1 GPF Filled and Vacant Positions (Percent %)

Status as of Q1 FY 2024-25	Percent (%)
Filled or Encumbered	**78.0 %**
Vacant	**22.0 %**

FY 2024-25 Fund Balance

The City's GPF Fund Balance, net obligations, is projected to have an operating shortfall of $88.08 million, ending FY 2024-25 at negative $99.91 million. Obligations are reserves required by City Ordinances and the City Charter (mandated emergency reserves). **Table 6** below shows additional adjustments totaling negative $15 million, decreasing the estimated FY 2024-25 year-end available fund balance from negative $99.91 million to negative $114.90 million. The estimated FY 2024-25 available Fund Balance is the amount of unobligated funding available to the City in the GPF.

The City's GPF Emergency Reserve was budgeted at 7.5% of the FY 2022-23 GPF Adopted Budget of $872.07 million. As of June 30, 2024, the balance in this reserve was $70.16 million, or approximately 8.1% of the FY 2023-24 GPF Adopted Budget of $863.68 million. However, unassigned fund balance in the GPF was negative $32.93 million at year end. In combination of these two source, reserves totaled $37.23 million, or 57% of the reserve requirement of $64.78 million. Given that the financial outcome of the GPF, a portion of the emergency reserve has been obligated and intruded upon its emergency reserve, and given there is no possibility of replenishing the reserve this Fiscal Year, the City **will be required to declare a Fiscal Emergency** per the Consolidated Fiscal Policy (CFP), following the conclusion of the Audit and publication of Annual Comprehensive Financial Report.

It is important to note that the projected ending fund balances across all other funds and that the funds that are available to spend in FY 2024-25. Policy makers should not seek to appropriate fund balances in any non-GPF funds for purposes other than resolving the GPF shortfall provided that such an action is legal. Staff strongly recommends against any additional expenditure commitments against fund balance.

The unaudited fund balance in the Self-Insurance Fund (1100) should not be appropriated. The current year's budget includes $30.89 million appropriated for Insurance Costs, and $28.15 million appropriated for Legal Settlements, with $20.00 million in projected Fund Balance remaining, which is the fiscally-responsible outcome. Estimates show that insurance costs are projected to grow by an additional $15 million within the next eight (8) months and the independent actuarial study of our self-insured liability program states that the estimated value of our outstanding losses is $95.40 million. The fund balance is needed to account for the present value of the City's near-term litigation exposure and

provides an important reserve that can be appropriated in years when actual litigation costs exceed the budget estimate. Given there is no ability for the GPF to backstop this fund, any unanticipated large settlements could immediately compromise the City fiscal stability. The balance of Equipment Service Fund (4100) has already been incorporated, see Table 6 Below.

Table 6: Summary of FY 2024-25 Fiscal Situation with GPF Fund Balance ($ in millions)

GENERAL PURPOSE FUND (1010)	FY 2024-25 Q1 Year-End Estimate
Beginning Unassigned Fund Balance - Unaudited	**(6.83)**
Revenue	758.52
Expenditures	851.60
Estimated Current Year Surplus/(Shortfall)	**(88.08)**
Estimated Ending Fund Balance	**(99.91)**
Use of Fund Balance in FY 2024-25	
Return of Excess Fund Balance in Equipment Fund	**8.32**
Legal Settlements	**(10.58)**
Required Carryforwards from FY 2023-24	**(12.74)**
Estimated Ending Fund Balance	**(114.90)**

Conclusion

With updated data, the GPF Fund Balance started in a negative position and is projected to end in a substantial deficit, worsened by delays in receiving funds that were budgeted from the Coliseum sale and leading to necessary reductions in City services to compensate for the shortfall. **Given the severity of the City's financial situation, it would be fiscally irresponsible to rely on funds any property sale (including the Coliseum) until after the sale is completed, cash is received by the City and title is transferred. Further, the agreed value of the Coliseum Sale is insufficient to resolve the current year deficit. Reliance on any unrealized revenue to balance the GPF projected deficit will further compromise the City's fiscal condition and directly necessitate much deeper reductions to services and expenditures the**

near and long term. Should any land sale complete with funds received that are immediately available, should other efforts to reduce costs, including labor negotiations, prove fruitful, or should any other circumstances that materially improve the City's fiscal condition occur, staff will immediately return to Council with options to restore staffing and services.

Overspending is particularly pronounced in public safety, where personnel costs, driven by overtime and other factors, are expected to surpass allocated budgets. On the revenue side, while several key income sources show promising trends, not all are aligning with budget expectations. Property Taxes are anticipated to slightly increase due to rising property values, and Business Taxes are expected to maintain last year's collection levels. Utility Consumption Tax is set to rise following rate increases approved by the California Public Utilities Commission. However, Real Estate Transfer Tax, despite showing signs of market recovery, is expected to fall short of budget projections. Overall, the financial state for Oakland indicates a need for dramatic adjustments to manage expenditures to prevent insolvency and to stabilize the city's finances.

The FY 2024-25 budget was developed with the assumption of a $175 million General Purpose Fund deficit, with public safety costs comprising approximately 65% of GPF spending. Although expenditures were reduced across all departments in order to balance the budget, it was insufficient to maintain minimum staffing levels for both Fire and Police. In order to maintain staffing levels, the budget assumed the receipt of one-time revenues of $63 million from the Coliseum Site to support the GPF expenses.

In response to these challenges, the following steps were taken by the City to avoid the need to temporarily suspend the minimum staffing provisions in the Police and Fire Departments. The contingency provisions included as part of the FY 2024-25 Midcycle Budget Amendments include the following reductions and actions:

- Freezes the hiring of new positions
- Delays the beginning of new sworn trainee academies
- Halts the execution of unfinalized contracts and grant agreements funded from the General Purpose Fund and any Restricted Funds with structural imbalances
- Halts the approval of unapproved discretionary travel
- Freezes 11.0 FTE positions in the Finance Department
- Reduces $350,000 in O&M for Strategic & Crisis Communications
- Reduces $1,000,000 in O&M for Performance Management and Strategic Budget Planning
- Freezes five Fire Engine Companies (60 FTE Sworn Fire Personnel)
- Freezes two Police Academies and 78.0 FTE Sworn Police Officers
- Freezes 4.0 FTE non-sworn Police positions
- Reduces $2,319,768 for Public Safety vehicle replacements
- Freezes 2.0 FTE positions and transfers 1.0 FTE position to Fund 2218 in Department of Transportation

- Reduces $1,125,000 in O&M for IT cyber security and CAD/RMS support
- Freezes 3.5 FTE positions in Oakland Animal Services
- Freezes 1.0 FTE position in Oakland Parks, Recreation and Youth Development
- Freezes 5.0 FTE positions in Human Services Department
- Freezes 1.5 FTE positions in Department of Workplace and Employment Services
- Reduces $1,596,606 in O&M for Department of Economic and Workforce Development initiatives, including the Film Attraction Initiative, workforce development grants, cultural grant funding, capacity building funds, and Scotlan Convention Center subsidies
- Eliminates “Five After Five” parking program
- Allows the City Administrator to take any other measures that they deem necessary to preserve the fiscal health of the City
- And return to the City Council a plan to rebalance the City’s budget with as expeditiously as reasonably possible

In addition, administrative actions aimed at reducing citywide GPF spending were implemented in March 2024 and remain in effect. A hiring freeze continues for all non-sworn positions funded by the GPF and other funds under fiscal pressure. Additionally, a citywide moratorium on professional training and conferences funded by the GPF continues unless mandated by employment or regulatory requirements. Heightened scrutiny is being applied to all GPF spending.

Despite these steps, reductions in the OPD and OFD budget are now unavoidable to effectively address the current year shortfall. Avoiding cuts to public safety would require drastic reductions across all GPF services, effectively eliminating 83% of non-police and non-fire expenses – an approach that is neither practical or likely compliant with legal or charter requirements.

While immediate reductions are necessary to balance the current year’s budget, the City will be taking the following steps:

- If passed, a voter approved measure on the ballot for November may raise additional revenue for Public Safety which may minorly mitigate this; the City will explore future revenue measures to support Public Safety services, including restoring fire engine companies and police services.
- The City will explore options to reduce costs in negotiations with **ALL** of its bargaining units at the legal and appropriate times through the legal and appropriate processes
- The City will engage in a process to more tightly budget for all contract services to ensure that all funded contracts are necessary to provide services
- The City will be evaluating the services provided by all programs and staff to ensure that these services are properly prioritized and to facilitate

reductions to non-priority services which may free resources for fire engine companies and police services.

- The City will explore more efficient mechanisms of service delivery which may free additional resources to support fire engine companies and police services.

Additional steps by City officials will be required to augment the above actions.

These efforts will be part of the FY 2025-27 biennial budget process, though the process of returning to a structurally balanced budget that includes funding to meet the maintenance of effort requirements in the City's voter measures, and minimum staffing requirements in the labor MOU's, will be a multi-year effort.

Immediate action is necessary to maintain the solvency of the General Purpose Fund. Revised estimates regarding the City's fiscal condition at the end of FY 2023-24 show the City has already tapped into its emergency reserve. Given there is no possibility of replenishing the reserve this Fiscal Year, following the conclusion of the Audit and publication of Annual Comprehensive Financial Report, the City Council **will be required to declare a Fiscal Emergency** per the Consolidated Fiscal Policy (CFP.)

All City policy makers, staff, residents and other stakeholders must seriously grapple with the current financial circumstances. Finance staff implore all decision makers to immediately and urgently begin the task of reducing expenditures in order to avoid insolvency.

PUBLIC OUTREACH / INTEREST

No outreach was deemed necessary for this informational report beyond the standard City Council agenda noticing procedures.

COORDINATION

This report was prepared in coordination between the Finance Department, the City Administrator's Office and various departments.

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental*:* No direct environmental impacts have been identified.

Race & Equity*:* No direct Race & Equity opportunities have been identified in this informational report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That City Council Receive An Informational Report On Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue And Expenditures (R&E) Results And Year-End Projections For The General Purpose Fund (GPF, 1010), And Select Funds.

For questions regarding this report, please contact Bradley Johnson, Budget Administrator, at (510) 238-6119.

Respectfully submitted,

Erin Roseman (Nov 15, 2024 08:55 PST)

Erin Roseman
Director of Finance, Finance Department

Reviewed by:
Bradley Johnson, Budget Administrator

Sherry Jackson
Revenue & Tax Administrator

Prepared by Budget & Revenue Management Bureau(s):
Rogers Agaba
Huey Dang
Daniel Mariano
Chuck Maurer
Jose Segura
Michelle Soares
Rina Stabler
Kristin Urrutia

Attachments: (2)
A: FY 2024-25 **Q1** *Detailed Report*
B: *Project Carryforwards*