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CITY OF OAKLAND



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Office of the Mayor
Honorable Ronald V. Dellums
Mayor

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May 1, 2009

Honorable President and Members of the City Council
City of Oakland, California

Re: Presentation of the FY 2009-11 Proposed Budget at the May 5, 2009 Special Council meeting

Dear City Council President and members of the City Council –

At a special City Council meeting scheduled for 4:00pm on May 5, 2009, I will provide an overview of my budget proposal for Fiscal Years 2009-11. The complete budget document will be available on May 5 to the Council members and the public. Additional copies will be provided to key media outlets, and made available to the public in the City Clerk's Office and at City libraries. The online version will appear on the City's website. Additionally, a copy of the complete budget will be included in the packet for the May 13, 2009 special budget meeting.

May 5, 2009 presentation

My presentation on May 5, 2009 will focus on the following key components:

- *Fiscal issues addressed in this budget:* These include an \$83 million projected shortfall in the General Purpose Fund as well as serious financial problems in other funding sources.
- *Recommended balancing measures for the General Purpose Fund:* These will be comprised of both revenue increases and expenditure reductions, including potential layoffs of sworn police staff and civilian employees.
- *Balancing measures for other key funds,* particularly the Landscaping & Lighting Assessment District (LLAD) fund.

- Summary of FY 2009-11 budget recommendations for the *Capital Improvement Program*.
- Summary of FY 2009-11 budget recommendations for the *Oakland Redevelopment Agency*

Additional Budget Meetings

Several special City Council meetings have been scheduled to review, discuss and approve the FY 2009-11 budget. A schedule is attached for your reference.

Budget Summary

Attached is a copy of the “Budget Facts” publication prepared by the Budget Office. This summary document outlines key components of the City’s budget in easy to understand terms, and has been distributed at recent community budget meetings.

I look forward to a collaborative review and decision-making process on this upcoming budget.

Sincerely,

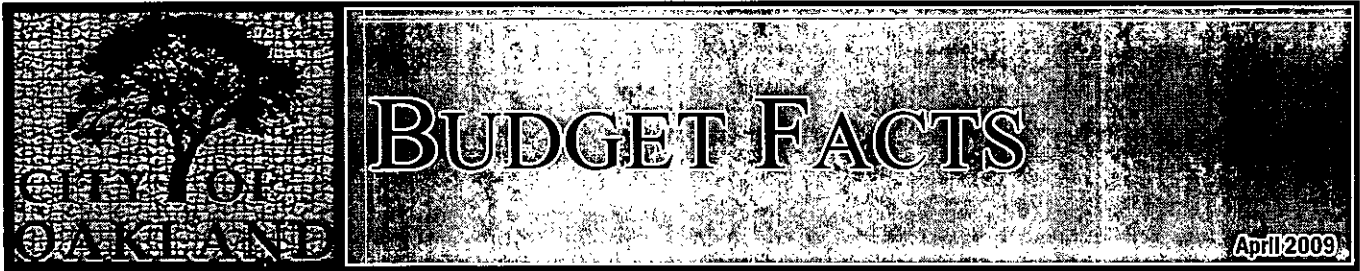


Ronald V. Dellums
Mayor of Oakland

Attachments: Schedule of budget meetings
 “Budget Facts” publication

SCHEDULE OF SPECIAL AND REGULAR MEETINGS OF MAYOR AND CITY COUNCIL ON THE FY 2009-11 BUDGET

<u>EVENT</u>	<u>DATE</u>	<u>TIME</u>
Mayor's Presentation of the FY 2009-11 Proposed Budget to the City Council	Tuesday, May 5 th	4:00 – 5:00pm
1ST Council Discussion of the Mayor's Proposed Budget for FY 2009-11	Wednesday, May 13 th	4:00 – 7:00pm
2nd Council Discussion (Budget workshop): special meeting of Mayor and City Council	Thursday, May 28 th	4:00 – 7:00pm
3rd Council Discussion (Budget workshop): special meeting of Mayor and City Council	Monday, June 1 st	4:00 – 7:00pm
Final budget adoption; 1 st reading of ordinances; public hearings as required – regular Council meeting	Tuesday, June 16 th	6:00pm
Second reading of ordinances – regular Council meeting	Tuesday, June 30 th	6:00pm



Budget Overview

The City's budget is a policy document that sets priorities and directs action. The City of Oakland prepares a two-year budget, which helps improve the City's long-term planning and enhances funding stability.

The budget process starts with the Mayor, who presents his budget proposal to the City Council, usually in May preceding the July 1st start of the fiscal year. The Mayor's FY 2009-11 Proposed Budget is scheduled for presentation on **Tuesday, May 5, 2009**.

Following the Mayor's release of the budget proposal, the Mayor and City Council will engage in a series of public meetings to deliberate on the upcoming budget. These meetings have been scheduled for **May 13, May 28 and June 1**; all will take place from 4:00 pm until 7:00 pm in

the City Council Chambers of the Oakland City Hall. Budget adoption is scheduled to take place during regular City Council meetings on **June 16 and June 30, 2009**.

The severity of the fiscal issues that the Mayor and City Council must address in the upcoming budget is truly unprecedented. The budget shortfall projected for the City's key funding source -the General Purpose Fund - is \$83 million annually. This is a significant revision from the preliminary estimate of \$56 million released in February 2009.

Dramatic revenue decreases have led to the shortfall increase of \$27 million.

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Mayor / City Council Priorities

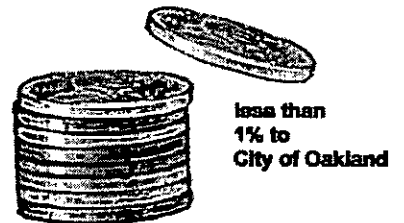
The City's budget continues to be built upon the following priorities of the Mayor and City Council:

- ✓ Public Safety
- ✓ Youth and Seniors
- ✓ Economic Development
- ✓ Sustainable City
- ✓ Healthcare
- ✓ Infrastructure
- ✓ Efficiency and Responsiveness to Residents

How much of my tax dollars does the City get?

It is important to note that when you pay your property tax or sales tax, not all of the money paid comes to the City. For every dollar you pay in **property tax**, the City receives less than 28 cents, while the rest goes to other local government entities and to the state to fund public education. Additionally, cities are unable to increase the property tax rate as the result of the passage of Proposition 13, which caps property taxes at one percent (1%).

9.75% SALES TAX



less than 1% to City of Oakland

1% PROPERTY TAX

28% City of Oakland



72% other government entities

Similarly, when you pay the local sales tax on purchases, for every \$100 that you spend, the sales tax paid is \$9.75 and the City receives less than \$1.00 of this amount.

Finally, the City is not a recipient of any portion of the State Income Tax.

Budget Overview

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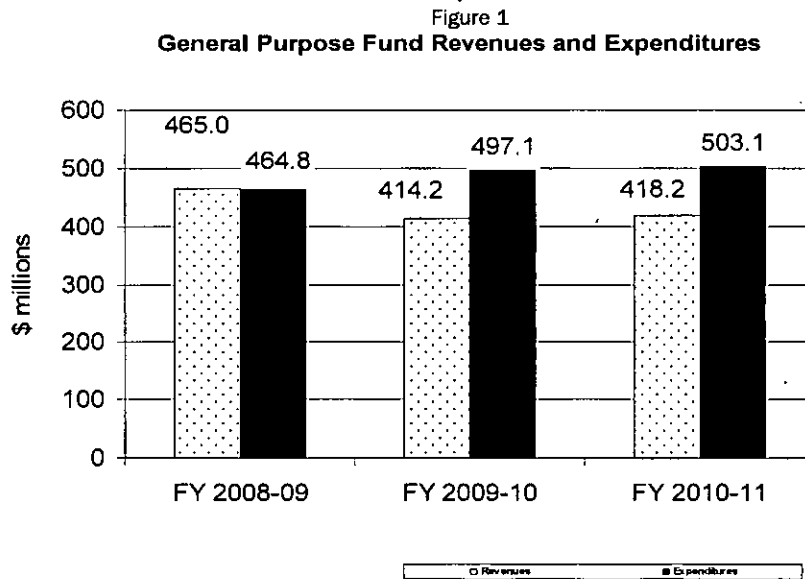
The key drivers of this significant revenue decline are the sharp decreases in Property Tax, Real Estate Transfer Tax, Sales Tax, and Fines and Penalties (primarily Parking Citations).

The most recent (April 2009) estimate of the City's current fiscal year revenue is based on staff's analysis for January and February 2009. March 2009 actuals will be available by the end of April 2009 and at that time the shortfall may be adjusted. However, it appears very unlikely that the shortfall estimate of \$83 million will decrease.

How much is the City's budget?

The City's annual budget (across all funds) for FY 2009-11 is approximately \$1.1 billion. More than half of those funds are restricted for specific purposes, with only 43% defined as "general purpose." The remainder of the budget is restricted for special purposes, such as housing development, park maintenance, transportation improvements, and sewer system maintenance. The General Purpose Fund is the City's operating budget that pays for basic programs and services such as libraries, senior centers, recreation programs, police and fire protection, as well as elected offices and municipal business functions.

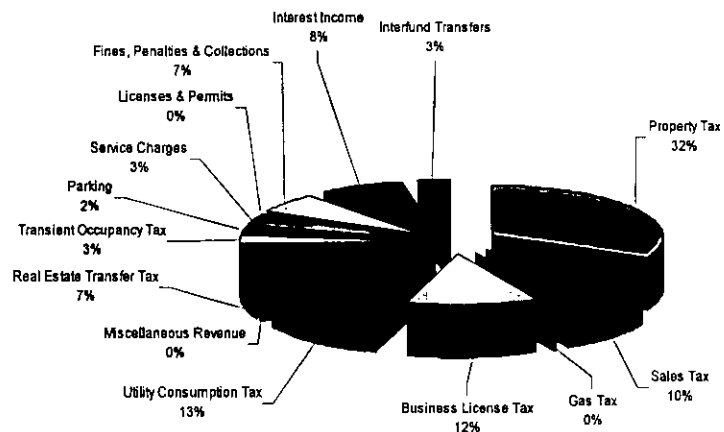
The General Purpose Fund budget is approximately \$500 million per year. This is the fund where an \$83 million shortfall is anticipated, as a result of a steep drop in revenues (\$51 million), along with a \$32 million increase in expenditures. See figure 1 below.



What are the key sources of revenue to the General Purpose Fund?

Although property tax is the General Purpose Fund's largest single source of revenue, it produces only 32% of total revenues (See Figure 2). Other significant revenue sources include the utility consumption tax on gas, electricity, cable and telephone usage; business license tax which businesses pay annually; sales tax paid on purchases within the City; and real estate transfer tax, which property owners pay when they sell or transfer property. Service charges, transient occupancy tax, parking tax, and fines and penalties are additional sources of income for the General Purpose Fund.

Figure 2. FY 2009-11 General Purpose Fund Revenue by Type

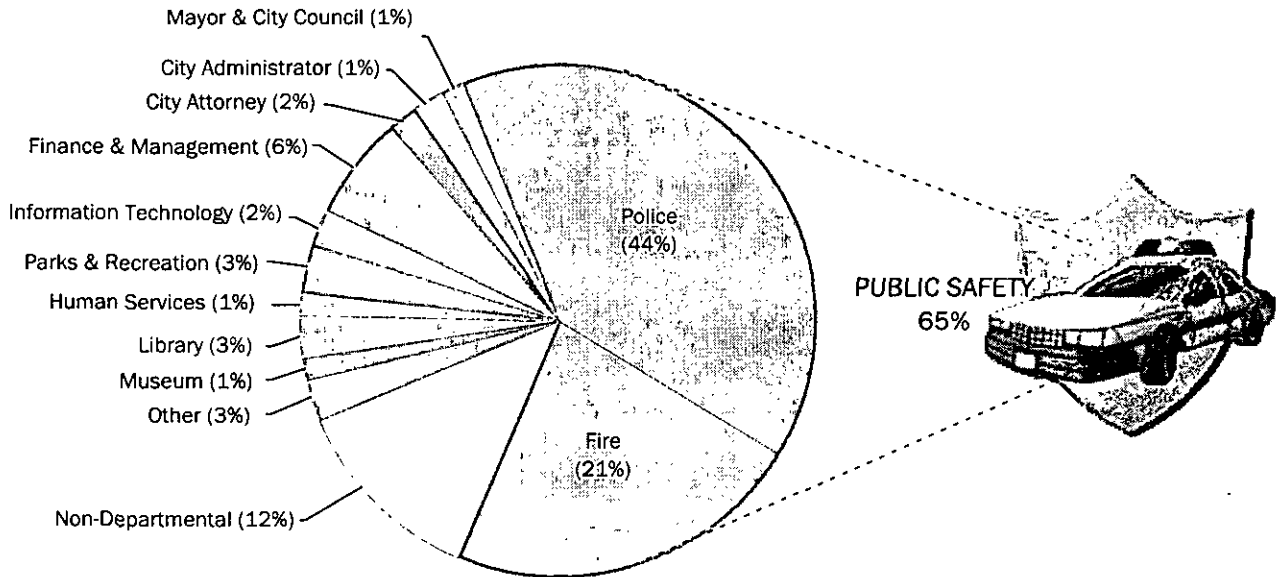


How are the General Purpose Fund revenues spent?

The General Purpose Fund is where many of the City's operating programs are funded (see Figure 3). In keeping with the public's priorities on public safety, a major portion of the General Purpose Fund pays for Public Safety, i.e. Police and Fire services. Programs and services in Parks & Recreation, Library, Museum, Human Services, and elected offices are also funded by the General Purpose Fund.

In addition, most of the City's business functions, such as financial management, contracting, information technology and personnel management are supported by the General Purpose Fund. Lastly, Citywide obligations such as debt service on the convention center, the Museum and the Coliseum, and support for arts, parades, festivals and community organizations are also paid for by the General Purpose Fund.

Figure 3— Breakdown of FY 2009-11 General Purpose Fund Expenditures by Department



Budget Issues

The budget is constrained by economic uncertainties, rising costs, and limited resources. As discussed earlier, without significant reductions citywide, the current deficit projected in the General Purpose Fund is \$83 million annually.

Complicating issues is **very limited fiscal discretion** that actually exists in the General Purpose Fund: of the \$500 million in annual funding, only \$103 million of the General Purpose Fund is considered "discretionary." The remainder is restricted due to Federally-mandated expenses such as ADA programs; State mandates such as Brown Act compliance and public safety record-keeping; local mandates imposed by measures OO (Kids First), Q (Libraries) and Y (Public Safety); grant match requirements; debt service for the Museum, convention centers and the Coliseum; existing contractual obligations; and cost-covered services.

Balancing a budget gap of \$83 million in an environment that is restricted by the above mandates will require painful choices.

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Budget Issues

Continued from page 3

The City's budget has already been reduced substantially just in the past few months:

- ◆ To close the nearly \$15 million gap in July 2008, 39 positions were eliminated and a business shutdown between Christmas and New Year was approved.
- ◆ October 2008 budget revisions addressed a \$42 million budget deficit, eliminating 152 positions, freezing vacancies and imposing additional business shutdown. Rates were increased for parking meters, parking citations, and street sweeping citations, one-time revenues of \$10 million were used for limited-duration expenses, and \$8 million was saved through transfers of costs to non-General funds, reductions in non-personnel discretionary expenses, and reductions in subsidies.
- ◆ In March 2009, to avoid a year-end deficit of over \$8 million (stemming mainly from overspending), vacant positions were frozen, fees were raised, police expenses were transferred to other funds, and a \$0.5 million in insurance claim was submitted to seek reimbursement for police costs following the recent BART police shooting.

Further reductions in the **General Purpose Fund** will im-

pact services across the board.

- ◆ Across-the-board cuts of 10-20% are sought from all City departments. These reductions will impact essential services such as libraries, senior centers and recreation centers.
- ◆ To the extent possible, reductions in public safety services will be minimized. The City is applying for \$19 million in annual funding from the COPS federal grant (for a three-year period). If this money is not received, severe cuts to public safety may be necessary.

In addition to the General Purpose Fund problem of \$83 million, there are other significant and urgent issues that must be addressed in the next budget cycle. For example, the Landscaping & Lighting Assessment District (LLAD) fund, has an operating deficit. To avoid increasing the fund's deficit, there will be significant impacts to services at park facilities, park and open space maintenance, tree services, ballfield maintenance, and street light repairs. Several smaller parks may need to be closed. Other funds have similar deficits and could result in further deferral of facility and equipment maintenance and repair.

We encourage you to attend the community budget meetings and participate in the discussions.

Budget Schedule

Community meetings in advance of Mayor's budget release

- ◆ Tuesday, April 14, 6:30 pm at East Oakland Senior Center, 9255 Edes Avenue
- ◆ Monday, April 20, 6:30 pm at Edna Brewer Middle School, 3745 13th Avenue
- ◆ Monday, April 27, 6:30 pm at the Lakeside Garden Center, 666 Bellevue Avenue

Mayor's Release of the Proposed Budget

- ◆ Tuesday, May 5, 2009, location and time to be determined

Joint Public Meetings of the Mayor and City Council to discuss and adopt the FY 2009-11 Budget

- ◆ May 13, May 28 and June 1. All meetings will take place from 4:00 pm until 7:00 pm in the City Council Chambers of the Oakland City Hall.
- ◆ Budget adoption is scheduled to take place during regular City Council meetings on June 16 and June 30, 2009

Televised Budget Townhall on KTOP — viewers call in with questions, suggestions and concerns to be answered on air

- ◆ Wednesday, May 27, 6:30 pm

If you have questions about the City's budget or budget process, please contact the City's Budget Office at 238-2130 or budgetoffice@oaklandnet.com, or one of the elected offices listed below.

You may also send comments and suggestions online to budgetsuggestions@oaklandnet.com.

Mayor Ron Dellums: 238-3141

Council members:
President Jane Brunner (Dist 1): 238-7001
Pat Kernighan (Dist 2): 238-7002
Nancy Nadel (Dist 3): 238-7003
Jean Quan (Dist 4): 238-7004
Vice-Mayor Ignacio De La Fuente (Dist 5): 238-7005
Desley Brooks (Dist 6): 238-7006
Larry Reid (Dist 7): 238-7007
Rebecca Kaplan (At-Large): 238-7008

Go to this blog to understand and participate in the budget adoption process: <http://oaklandbudget.blogspot.com/>

Use this interactive tool to decide how to balance the budget: <http://www.oaklandbudgetchallenge.com>