# CITY OF OAKLAND
## AGENDA REPORT

OFFICE OF THE CITY CLERK

2004 NOV 18 PM 3:57

**To:** Office of the City Administrator
**Attn:** Deborah Edgerly
**From:** Budget Office
**Date:** November 29, 2004
**Re:** **REPORT ON ESTABLISHING FY 2005-07 MAYOR AND COUNCIL BUDGET PRIORITIES AND REQUESTING COUNCIL DIRECTION ON KEY BUDGET ISSUES**

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### SUMMARY


This report provides information that is intended to aid the Mayor and City Council with establishing their budget priorities for FY 2005-07. This report includes the following sections:

A. *Special Considerations on Establishing FY 2005-07 Mayor/ Council Budget Priorities:* This section discusses the existing City structure that links Mayor / Council priorities, Citywide objectives and departmental programs – for budgeting and performance reporting.

B. *City's Financial Outlook & Key Budget Issues:* This section provides an overview of a preliminary financial outlook for Fiscal Year (FY) 2005-07, and discusses major budget-related issues for FY 2005-07 and possible solutions.

C. *Landscaping and Lighting Assessment District (LLAD) Fund Issues:* In this section, the LLAD's structural revenue / expenditure gap is discussed, and possible solutions to address it are stated.

D. *Capital Improvement Program Status and Future Outlook:* In this section, an overview is provided of the key Capital Improvement Program (CIP) issues, for consideration during the FY 2005-07 budget cycle. Specific concerns related to capital maintenance and deferred maintenance are presented.

E. *Oakland Redevelopment Agency Financials and Major Projects:* This section provides an overview of preliminary FY 2005-07 financials for the Oakland Redevelopment Agency, including some of the key concerns that must be considered during the FY 2005-07 budget cycle.

A number of attachments are provided with this report. They are referenced in the following narrative, and listed at the end of the report.

Staff requests that the information presented in this report be considered as the Mayor and City Council determine their priorities for the FY 2005-07 budget cycle.


### FISCAL IMPACT

This report is informational and is intended to aid the Mayor and City Council with establishing their budget priorities for the FY 2005-07 cycle. While fiscal impacts are noted, they do not require an immediate City Council action, and will be reviewed and decided upon during the FY 2005-07 Proposed Budget presentation.

## DISCUSSION

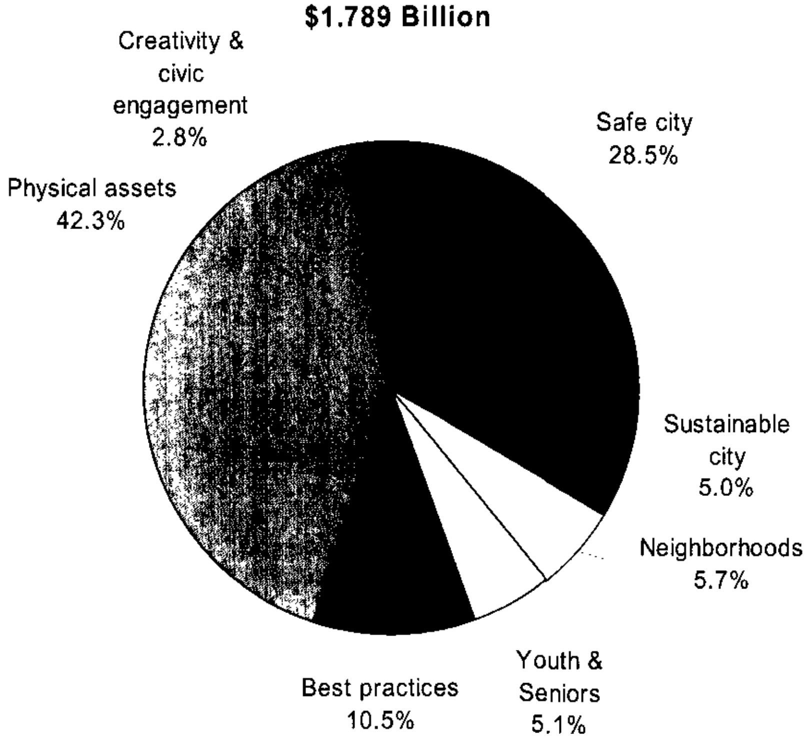
### *A. Special Considerations on Establishing FY 2005-07 Mayor/ Council Budget Priorities*

The City of Oakland has in place a structure that links Mayor / Council priorities, Citywide objectives and departmental programs. This existing system allows establishing a clear connection between and among the overarching priorities, more specific objectives, and departmental goals, programs and performance targets – for budgeting and performance reporting. *Attachment A1* to this report illustrates this structure.

In the last budget cycle (FY 2003-05), the City had seven Mayor and City Council goals, thirty Citywide objectives, and 164 departmental programs. The FY 2003-05 budget was established at a program level, with both budget allocations and performance (planned and actual) presented by program. Each program is linked to one Citywide objective and one Mayor/Council goal. *Attachment A2* to this report illustrates the current goals, objectives and programs, and reflects linkages between and among them.

Since departmental programs (where budget allocations are placed) are clearly connected with the Mayor and Council goals, it is easy to see how the City's budget is allocated among these seven overarching priorities. For FY 2003-05, the biannual budget allocation (across all funds) is reflected in the chart below.

**APPROPRIATIONS BY COUNCIL GOAL**
**FY 2003-05 Adopted Budget**
**$1.789 Billion**

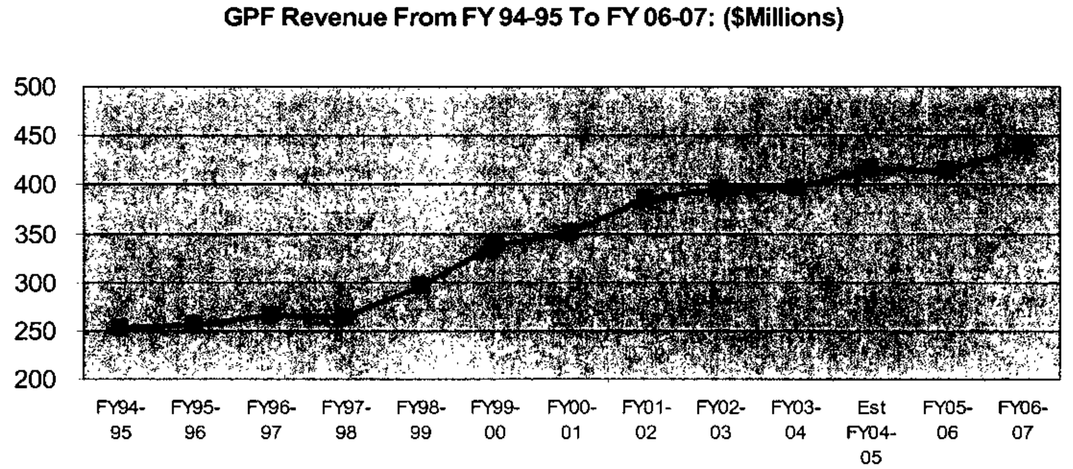


## *B. City's Financial Outlook & Key Budget Issues*

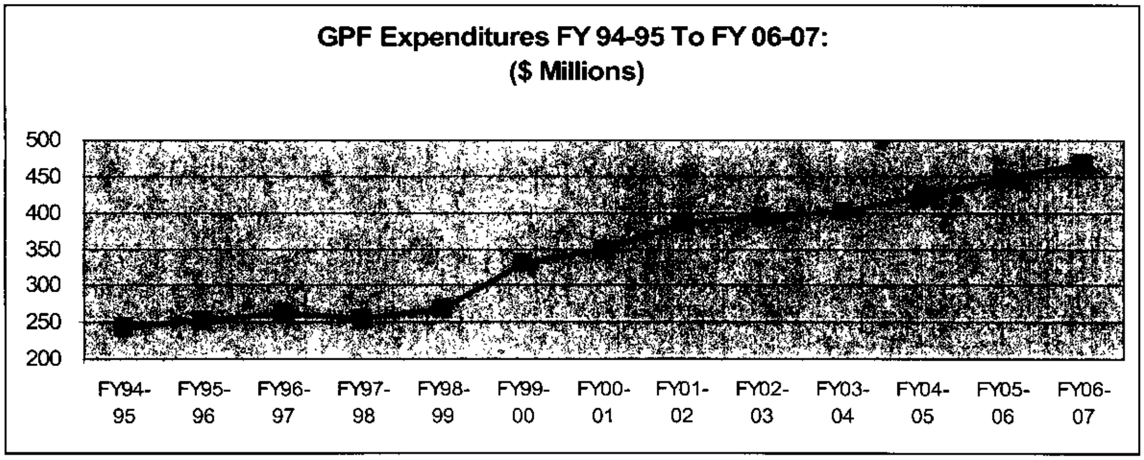
This section provides an overview of a preliminary financial outlook for Fiscal Year (FY) 2005-07, and discusses major budget-related issues for FY 2005-07 and possible solutions.

### ➢ FINANCIAL OUTLOOK FOR FY 2005-07

The chart below displays the General Purpose Fund (GPF) revenue since FY 1994-95, with projections through FY 2006-07. Over the last ten years, annual revenue growth has averaged 6.4 percent per year, growing from $253 million in FY 1994-95 to $398 million in FY 2003-04. However, revenue growth for FY 2005-06 is expected to decline by 0.4 percent – for reasons discussed further in this section. Growth in FY 2006-07 is forecast to return to a more normal 6.1 percent.




GPF expenditures, over the same ten-year period, have averaged 7.0 percent growth (see the chart below). In FY 2005-06, expenditures are forecast to grow by 9.5 percent above the FY 2004-05 Adopted Budget, and in FY 2006-07 by 3.6 percent. The details are discussed in the "Expenditure" portion of this section.



Revenue Analysis

*Please note that the revenue projections discussed in this section are* ***preliminary****, and will continue to be refined. The revised revenue projections will appear in the Mayor's / City Administrator's Proposed Budget for FY 2005-07 (due for presentation in May 2005).*

The table below displays budgeted revenue by category for FY 2004-05, and projections for the next two-year budget cycle: FY 2005-06 and FY 2006-07.

| | Estimated FY04-05 | Forecast FY05-06 | % Change | Forecast FY06-07 | % Change |
|---|---|---|---|---|---|
| New State Takeback | (6.9) | (6.9) | 0.0% | 0.0 | -100.0% |
| PROPERTY TAX w/out Takeback | 97.3 | 101.5 | 4.3% | 106.6 | 5.0% |
| SALES TAX | 41.8 | 42.1 | 0.9% | 43.5 | 3.2% |
| VEHICLE LICENSE FEE | 2.4 | 2.5 | 3.3% | 2.6 | 3.3% |
| REAL ESTATE TRANSFER TAX | 59.0 | 55.0 | -6.8% | 58.9 | 7.0% |
| BUSINESS LICENSE TAX | 44.7 | 46.0 | 3.1% | 47.9 | 4.0% |
| UTILITY CONSUMPTION TAX | 48.7 | 50.6 | 3.9% | 52.7 | 4.2% |
| TRANSIENT OCCUPANCY TAX | 9.3 | 9.4 | 1.0% | 9.7 | 3.0% |
| PARKING TAX | 9.0 | 9.3 | 3.6% | 9.8 | 5.0% |
| LICENSES & PERMITS | 15.2 | 16.1 | 6.0% | 17.0 | 6.0% |
| FINES & PENALTIES | 26.8 | 26.8 | 0.0% | 26.8 | 0.0% |
| INTEREST INCOME | 0.0 | 0.0 | N/A | 0.0 | N/A |
| SERVICE CHARGES | 52.9 | 53.6 | 1.2% | 57.0 | 6.3% |
| GRANTS & SUBSIDIES | 0.1 | 0.0 | N/A | 0.0 | N/A |
| MISCELLANEOUS | 9.1 | 1.7 | -81.8% | 0.5 | -68.7% |
| INTERFUND TRANSFERS | 6.9 | 6.9 | 0.0% | 6.9 | 0.0% |
| *SUBTOTAL* | *416.3* | *414.6* | *-0.4%* | *439.8* | *6.1%* |
| CARRYFORWARDS | 9.2 | 0.0 | N/A | 0.0 | N/A |
| **TOTAL** | **425.5** | **414.6** | **-2.6%** | **439.8** | **6.1%** |

Growth rates for most revenue categories are relatively equal for the two years, falling in the 3.0 to 7.0 percent range. However, total revenue (excluding prior year carryforwards) actually decreases by 0.4 percent in FY 2005-06, but increases by 6.1 percent in FY 2006-07. There are four categories that account for most of the growth disparity between the two years:

- In the current year (FY 2004-05), $9.1 million is included in the Miscellaneous revenue category. In FY 2005-06, this amount decreases by $7.4 million (to $1.7 million), due to a discontinuation of the following one-time revenues: (a) transfers from the Mandatory Garbage and Multi-purpose Reserve Funds ($5.4 million); (b) a loan repayment from the Redevelopment Agency ($0.9 million); and (c) partial proceeds from the Mortgage Revenue Bond refinancing ($0.9 million). The Miscellaneous revenue further decreases to $0.5 million in FY 2006-07 (a reduction of another $1.2 million from the prior year), due to a discontinuation of repayments from the Oakland Base Reuse Authority (OBRA).

- Another reduction in revenue that will affect FY 2005-06, but not FY 2006-07, is the "*New State Take-back*", estimated at $6.9 million. This take-back is the result of an agreement negotiated between the State and local governments and ratified by the voters' recent approval of Proposition 1A. The take-back will come from property tax revenue, but is shown here as a separate item for illustrative purposes.

- Additionally, the *Real Estate Transfer Tax* (RETT) is forecast to decrease in FY 2005-06 by approximately $4.0 million from its projected level for FY 2004-05, before rebounding in FY 2006-07 with $3.8 million in growth. The RETT grew by 36 percent during FY 2003-04, and is projected to grow by another 4.2 percent in FY 2004-05. Prior to FY 2004-05, the highest RETT revenue recorded in a single month was $6.1 million, which was collected in December 2003. The first four months of FY 2004-05 averaged $6.7 million, or 9.8 percent higher per month than the previous one-time record.

  Given that interest rates are on the rise, and consumers in general are heavily in debt (and won't be able to continue this buying spree for much longer), the recent growth in the RETT numbers is clearly not sustainable. Oakland is experiencing a real estate bubble, which will be due for correction in FY 2005-06, before resuming historical growth rates in FY 2006-07 and beyond. Therefore, we are projecting that FY 2005-06 revenue will return to the more sustainable, pre-FY 2003-04 levels (with adjustments for increases in average home prices since then), recording an estimated $55.0 million in year-end revenue. The following year (FY 2006-07), 7.0 percent growth is projected, in line with long-term historical experience.

- Finally, it is expected that *Sales Tax* growth will slow in FY 2005-06. The projected revenue growth for FY 2005-06 – taking into account historical experience as well as inflation, population increase, and major new retail establishments (such as WalMart, Infiniti and WholeFoods) – is nearly 3.9 percent. This growth would have resulted in FY 2005-06 revenue of $43.4 million. However, the City's agreement with United Airlines regarding the allocation of its fuel sales tax expires at the end of FY 2004-05. This will lead to the discontinuation of $1.31 million in annual revenue beginning FY 2005-06, therefore reducing the FY 2005-06 projection to only $42.1 million. In FY 2006-07, the Sales Tax revenue is projected to continue its growth at a strong 3.2 percent, which accounts for inflation, population growth, and additional major new retail outlets.

The revenue projections above reflect a dollar-for-dollar 'swap' of Vehicle License Fee (VLF) Backfill revenue with Property Tax, which will begin in FY 2005-06. The value of the swap is estimated to be $21.6 million. This swap was also a part of the agreement between the State and local governments. This swap is beneficial to Oakland in the long run, since Oakland's property tax revenue tends to increase faster than the Vehicle License Fee revenue.

Expenditure Analysis

*Please note that the expenditure projections discussed in this section are* ***preliminary****, and will continue to be refined. The revised expenditure projections will appear in the Mayor's / City Administrator's Proposed Budget for FY 2005-07 (due for presentation in May 2005).*

The table on the following page displays FY 2004-05 budgeted expenditures, and baseline projections for the next two-year budget cycle: FY 2005-06 and FY 2006-07.

| | Adopted FY 2004-05* | FY 2005-06 Baseline | % Growth | FY 2006-07 Baseline | % Growth |
|---|---|---|---|---|---|
| Non-sworn Salaries | 78.5 | 83.4 | 6.2% | 86.7 | 4.0% |
| Non-sworn Retirement | 9.3 | 19.8 | 113.6% | 20.4 | 3.4% |
| Non-sworn Benefits | 20.2 | 21.3 | 5.4% | 23.6 | 11.1% |
| Sworn Salaries | 109.3 | 114.3 | 4.6% | 119.2 | 4.3% |
| Sworn Retirement | 35.7 | 40.2 | 12.6% | 42.1 | 4.6% |
| Sworn Benefits | 28.9 | 32.3 | 11.8% | 34.8 | 7.7% |
| Miscellaneous Personnel Costs | 22.0 | 31.0 | 41.0% | 32.1 | 3.6% |
| Internal Service Fund Charges | 15.0 | 15.0 | 0.0% | 15.0 | 0.0% |
| O&M - Other | 85.2 | 85.1 | 0.0% | 84.2 | -1.1% |
| **TOTAL GPF EXPENDITURES** | **404.0** | **442.3** | **9.5%** | **458.0** | **3.6%** |

*While FY 2004-05 year-end spending is projected at $425.3 million, the increase above budgeted level is primarily limited to Police overspending. Therefore, we are using FY 2004-05 Adopted Budget figures as a base for comparison against FY 2005-07 baseline projections.

About 75 percent of GPF expenditures are personnel-related, and the vast majority of projected expenditure increases are also tied to personnel. The increases come in the form of a higher 'price' the City pays for its employees, a price the City is largely unable to affect in the short term since it arises from: (a) pre-negotiated Memorandums of Understanding (MOUs) with our employee unions; (b) retirement rates driven by new, enhanced pension benefits, recent negative performance of the CalPERS investment portfolio and the discontinuation of temporary employee contributions to retirement; and (c) significant increases in medical costs, driven by a new regional pricing (that resulted in highest rates for the Bay Area) as well as a number of other overarching factors affecting the health field. These factors are discussed in more detail below.

*(a) Negotiated Salary Increases*

The City has negotiated salary increases for all of its labor representation groups. The table below reflects the negotiated salary increases for FY 2005-06 and FY 2006-07, by an employee labor group, along with the effective dates for each increase.

| Labor Groups | FY 2005-06 Increase | FY 2006-07 Increase |
|---|---|---|
| Local 790, Local 21, IBEW Local 1245, Attorneys & Special Counsel | **4%** (July 2005) | **4%** (July 2006) |
| Police Sworn (OPOA) | **5%** (January 2006) | **unknown** (contract ends June 30, 2006) |
| Fire Sworn (IAFF) | **4%** (July 2005) | **4%** (July 2006, contract ends June 30, 2007) |

These salary increases have been included in the FY 2005-07 preliminary financial projections above, along with corresponding increases to other salary-driven benefits such as benefits, premiums and overtime. A large unknown in the forecast is the cost-of-living adjustment for Police in January 2007, whose current contract expires at the end of FY 2005-06.

*(b) Retirement Costs*

The City provided improved retirement plans to its Public Safety (i.e. sworn) and Miscellaneous (i.e. non-sworn) employees during FY 2003-05. As a result, our required contributions to the CalPERS system will increase beginning FY 2005-06.

Following careful planning, the City was able to apply prior year employee retirement contributions (from non-sworn and Fire sworn employees) to offset most of the first year increase in implementing the improved retirement plan in July 2004. However, in FY 2005-07, these one-time, "banked" savings will have been exhausted, resulting in higher City contributions to CalPERS.

The following tables illustrate the resulting changes in retirement rates for FY 2005-07.

**MISCELLANEOUS PLAN - 2.7% @ 55**

| | FY 2004-05 Rate | FY 2005-06 Rate | FY 2006-07 Rate (Est.) |
|---|---|---|---|
| CalPERS Employer Rate | 15.105% | 18.550% | 18.400% |
| CalPERS Employee Rate | 8.640% | 8.640% | 8.640% |
| **Subtotal CalPERS Rate** | **23.745%** | **27.190%** | **27.040%** |
| Employee Retirement Pickup (set by MOU) | -3.000% | -3.000% | -3.000% |
| Temporary Retirement Pick-Up (negotiated for FY 03-05) | -3.000% | 0.000% | 0.000% |
| 'Banked' Retirement Contributions from Prior Years | -6.000% | 0.000% | 0.000% |
| **Subtotal City employee contribution** | **-12.000%** | **-3.000%** | **-3.000%** |
| **Net Miscellaneous Rate** | **11.745%** | **24.190%** | **24.040%** |

**SAFETY PLAN 3% @ 50 - POLICE SWORN, CORRECTIONAL OFFICERS, RANGERS**

| | FY 2004-05 Rate | FY 2005-06 Rate | FY 2006-07 Rate (Est.) |
|---|---|---|---|
| CalPERS Employer Rate | 29.811% | 29.290% | 29.380% |
| CalPERS Employee Rate | 9.810% | 9.810% | 9.810% |
| **Net Police Safety Rate** | **39.621%** | **39.100%** | **39.190%** |

**SAFETY PLAN 3% @ 50 - FIRE SWORN**

| | FY 2004-05 Rate | FY 2005-06 Rate | FY 2006-07 Rate (Est.) |
|---|---|---|---|
| CalPERS Employer Rate | 29.811% | 29.290% | 29.380% |
| CalPERS Employee Rate | 9.810% | 9.810% | 9.810% |
| **Subtotal CalPERS Rate** | **39.621%** | **39.100%** | **39.190%** |
| Pick-up of CalPERS Employee Rate by Employees | -9.810% | -9.810% | -9.810% |
| Employee Retirement Pickup (set by MOU) | -4.000% | -4.000% | -4.000% |
| 'Banked' Retirement Contributions from Prior Years | -4.000% | 0.000% | 0.000% |
| **Subtotal City employee contribution** | **-17.810%** | **-13.810%** | **-13.810%** |
| **Net Fire Safety Rate** | **21.811%** | **25.290%** | **25.380%** |

Note: FY 2005-06 retirement rates are final from CALPERS; FY 2006-07 rates are most recent projections from CALPERS.

The projected changes in the retirement rates have been factored in to the FY 2005-07 preliminary financial projections.

*(c) Health Premium Costs*

CalPERS health premium costs for basic plans increased for active employees in Calendar Year 2005. For the basic City Kaiser Family Plan, the increase from Calendar Year 2004 to 2005 is 16 percent. Part of the reason why the rates have gone up is the new regional pricing for health premiums implemented by CalPERS beginning 2005. This regional method resulted in the highest rates for the Bay Area region, compared to other areas of California. It is projected that health premium costs will continue to increase in FY 2005-07. The following table illustrates the rising costs of Kaiser Health Plan premiums from Calendar Year 2003 to 2005:

| Calendar Year | Single | Percent Increase | 2-Party | Percent Increase | Family | Percent Increase |
|---|---|---|---|---|---|---|
| 2005 | $354.69 | 16% | $709.38 | 16% | $922.19 | 16% |
| 2004 | $305.42 | 18% | $610.84 | 18% | $794.09 | 18% |
| 2003 | $259.21 | | $518.42 | | $673.95 | |

## ➢ MAJOR BUDGET-RELATED ISSUES FOR FY 2005-07

<u>Baseline Revenue / Expenditure Gap</u>

Based on the preliminary financial projections for FY 2005-07, a <u>$27.7 million gap</u> is projected between revenues and expenditures for FY 2005-06, and a <u>$18.2 million gap</u> is anticipated for FY 2006-07, as illustrated below. (Note that the gap amounts above are *not cumulative* – i.e., if the FY 2005-06 amount is bridged with ongoing savings, then the second year's gap would be reduced by that amount. In the case above, the FY 2005-06 gap of $18.2 million would turn into a surplus of $9.5 million.)

**FY 2005-07 Baseline Revenue / Expenditure Gap**

| | FY 2005-06 | FY 2006-07 |
|---|---|---|
| Projected GPF Revenues | $414.6 | $439.8 |
| Baseline GPF Expenditures | $442.3 | $458.0 |
| **Baseline Gap** | **($27.7)** | **($18.2)** |

<u>Other Budget Considerations</u>

*(a) Bridging Gaps in Non-GPF Negative Funds*

A number of the City's funds have carried negative balances for a number of years, technically using the General Purpose Fund's resources and "owing" it a repayment. The following funds have been identified as having chronic, and significant, fund balance issues:

1100 – Self-Insurance Liability
1730 – Kaiser Convention Center
1760 – Telecommunications / Cable Franchise Fund
1790 – Contract Compliance Fund
4100 – Equipment Fund
4400 – Facilities Fund

The City began to address the negative balances in the above funds during FY 2003-05 budget process, mainly reducing the expenditure side, and raising revenues where possible. However, further balancing measures are necessary. For the internal services funds (the last two), payments from departmental users for facility and equipment maintenance must be increased to align them with the true costs of providing these services. For all other funds, additional transfers from the GPF will be required.

Staff have discussed a *10-year repayment schedule* for all six of the above funds. Implementing this schedule would result in increased expenses to the City, mainly within the GPF. The table below shows the additional amounts that will be necessary in FY 2005-06 and FY 2006-07.

| Fund | Estimated Negative Fund Deficit | Current (FY 2004-05) Contribution from GPF | Additional GPF Contribution Required in FY 2005-06 (Increase from FY 2004-05) | Additional GPF Contribution Required in FY 2006-07 (Increase from FY 2004-05) |
|---|---|---|---|---|
| 1100 – Self-Insurance Liability | -$22.39 mill | $7.19 mill | $2.07 mill | $3.84 mill |
| 1730 – Kaiser Convention Center | -$4.99 mill | - | $0.34 mill | $0.63 mill |
| 1760 – Telecommunications | -$1.63 mill | - | $0.15 mill | $0.29 mill |
| 1790 – Contract Compliance | -$5.40 mill | - | $0.24 mill | $0.53 mill |
| 4100 – Equipment | -$5.56 mill | $6.91 mill | $0.36 mill | $1.30 mill |
| 4400 – Facilities | -$10.13 mill | $8.13 mill | $0.80 mill | $1.80 mill |
| | | | **$3.96 mill** | **$8.39 mill** |

Please note that the table above takes into account preliminary rates per the new rate structure that the Public Works Agency is proposing for implementation during FY 2005-06 (the details will be presented to the City Council as part of the FY 2005-07 budget proposal).

*(b) Two Percent "Stabilization Contingency" Requirement*

In June of 2003, the City Council approved a new financial policy requiring the City to have a "Stabilization Contingency" beginning FY 2005-07 (ordinance #12502, adopted on June 17, 2003). Specifically, the ordinance requires that:

> *"[o]n the first day of each two-year budget cycle, commencing with the 2005-07 budget cycle, Council shall appropriate two percent (2%) of the annual budgeted General Fund expenditures for said two-year budget cycle, minus debt service, inter-fund transfers and capital expenditures (the "Stabilization Contingency Requirement")...*
>
> *The Stabilization Contingency may be appropriated by Council only to fund unanticipated emergency expenditures or to provide monies to fund sudden or severe decreases in locally collected revenues or intergovernmental monies. The purpose of this account is to serve as a "rainy day" or revenue shortfall fund to address financial volatility and differs from the General Reserve Fund."*

Appropriating the required contingency beginning FY 2005-07 cycle would require setting aside $7.5 million in FY 2005-06 and $7.8 million in FY 2006-07. Staff are looking for Council direction on implementing the above 2.0 percent contingency requirement beginning FY 2005-07. Given the size of the baseline shortfall in the General Purpose Fund, *we recommend deferring the implementation to FY 2007-09.*

### ➤ POTENTIAL SOLUTIONS TO ADDRESS FY 2005-07 KEY BUDGET ISSUES

There are a number of potential solutions to the financial issues discussed above. The table below lists some of the key options for Council consideration. Combined, these solutions may result in savings / additional revenues of as high as $31.67 million for FY 2005-06, and $26.93 million for FY 2006-07 (if the once-per-month business shutdown is chosen over the five-day shutdown).

| Potential Solution | FY 2005-06 Savings / Additional Revenue | FY 2006-07 Savings / Additional Revenue |
|---|---|---|
| ***Expenditure Reductions*** | | |
| Increased employee retirement contributions – 3% from all employees (sworn and non-sworn) | $6.19 mill | $6.47 mill |
| Across-the-board cuts – 3% for all departments, with sworn personnel exempted | $7.17 mill | $7.51 mill |
| Five-Day mandatory shutdown (between Christmas and New Year) | $1.94 mill | $2.06 mill |
| Once-per-Month mandatory shutdown | $4.66 mill | $4.95 mill |
| ***Revenue Enhancements*** | | |
| Accelerating VLF loan repayment | $6.25 mill | - |
| Implementing 911 fee | $7.40 mill | $8.00 mill |

The expenditure reductions included above represent 'across-the-board cuts' – that is, they apply in equal proportion to all City agencies, departments and rep units. They could be turned into 'targeted' cuts by isolating their effect on certain departments or classifications, and leaving others unaffected.

The revenue enhancements presented above are further explained below.

<u>Accelerating a Vehicle License Fee (VLF) Loan Repayment</u>

There is a new financing program that would allow the City to accelerate the receipt of an estimated $6.8 million that the State owes us for the VLF "backfill" loan taken in FY 2003-04.

In FY 2003-04, the State of California failed to make $1.1 billion of VLF payments to local governments, and the State has agreed to repay these funds to cities and counties by August 15, 2006 (the "VLF gap loan"). Legislation enacted earlier this year gives local governments the authority to sell their VLF gap receivables to the California Statewide Communities Development Authority (CSCDA). CSCDA is the only entity permitted to purchase these receivables. CSCDA, in turn, plans to issue bonds, secured by VLF gap receivables, to fund the cost of purchasing the receivables. A local government's sale of its VLF receivable to CSCDA is irrevocable; investors will not have recourse to the local agency if the State does not appropriate the payment of the VLF gap loan.

It is expected that CSCDA will be able to pay local agencies approximately 90 to 96 percent of their receivables. The exact amount will depend on interest rates at the time of the bond sale and whether or not the agency uses the proceeds for tax-exempt purposes. In today's market, it is expected that the sale of a local agency's receivable (assuming the proceeds are not used for a tax-exempt purpose, such as capital expenditures) would yield about 92 perecent of the loan amount. This would mean an estimated $6.25 million in one-time revenue to the City as early as FY 2005-06.

Implementing a New, Emergency-Response Fee

The 911 Emergency Response/Dispatch Fee is a fee charged to telephone lines to access emergency response dispatch service or to recover the cost of providing such service. California statutes specifically authorize the charging of fees in Government Code, Section 39001 and the California Constitution, Article XIIIB, Section 8. The fee may be levied or increased only by ordinance or resolution and only after a public hearing is held as part of a regularly scheduled council meeting. The fee is collected on the telephone bill by the telephone company as a 911 user fee and remitted to the City. The telephone company receives a small portion of the fee to cover the cost of collection. Usage of the revenue from this fee is unrestricted, but the amount of the fee is limited to the cost of providing the service, including overhead.

The fee may be levied to offset (fully or partially) the cost of providing the emergency response / dispatch (911) services. Eligible costs would include salaries of dispatchers and their supervisors, acquisition and construction of equipment, software, service, and facilities, and maintenance of facilities.

The revenue potential for the City, if such a new fee is implemented, is significant and worth considering:

- In FY 2003-04, the OPD Emergency Communications unit alone expended $8.60 million, predominantly for personnel services, with some operating costs.
- The cost for Public Works to run the 911 Dispatch Facility (utilities, maintenance, etc.) was $0.1 million, for a total expense of $8.70 million.
- Assuming the revenue non-collection rate of 15 percent, the City could recover at least $7.40 million in ongoing costs annually by implementing this fee.[1] The exact fee amount would need to be calculated once the estimated cost figure is finalized, and would depend on the types customers and number of lines included.

Other cities collecting a 911 fee include Watsonville, Union City, Santa Cruz City and County, Stockton and San Leandro. San Francisco has been collecting the fee since 1993, but recently redrafted it, and Sacramento is in the process of implementing the fee.

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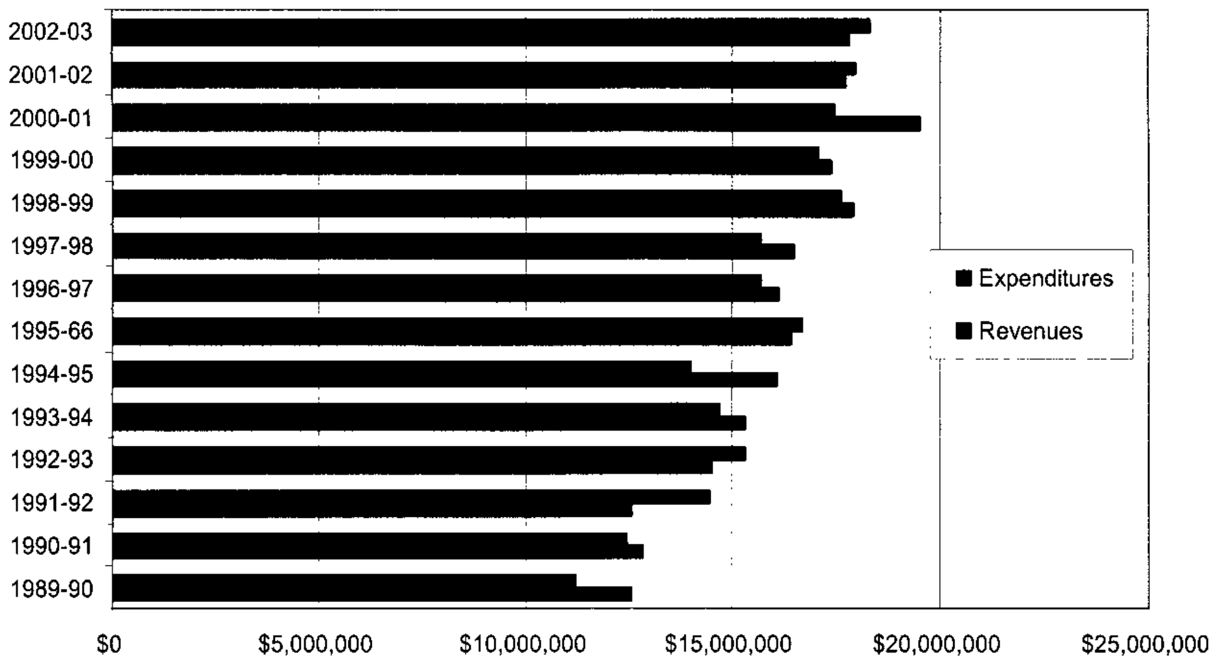
[1] This figure does not include the cost of the purchase, construction, maintenance and amortization of the new CAD system, which could yield an additional $0.29 million annually. If annual maintenance and upgrade fees for the entire IPSS project (including CAD) is taken into account, the cost would be approximately $0.97 million.

## *C. Landscaping and Lighting Assessment District (LLAD) Fund Issues*

The City's Landscaping and Lighting Assessment District (LLAD) was initially formed in 1989, and overcame a ballot challenge in 1994. For the past ten years, the current assessment rate structure for the LLAD has provided the City with revenues of $13 million to $18 million.

The LLAD revenue growth has been almost non-existent in the past few years, due to the flat assessment structure. Expenditures, on the other hand, have risen over this same period, due to inflationary pressures such as increasing personnel costs, operating and maintenance expenses, and electrical costs (streetlight electrical costs accounted for approximately 20 percent of the LLAD budget in the last several years). The chart below illustrates changes in the LLAD revenues and expenditures since the fund inception in 1989.

**LLAD Revenues and Expenditures - FY 1989-90 through FY 2003-04**




The trend of flat revenues and increasing costs will ultimately result in a negative fund balance in LLAD. The table below illustrates that by the end of FY 2005-06, the LLAD fund would be running negative – and drawing resources from the City's GPF – unless measures are put in place to address the structural revenue / expenditure gap in the LLAD.

**LLAD Revenues & Expenditures in $$ Millions**

| | FY 04-05 Estimated Actuals | FY 05-06 Baseline | FY 06-07 Baseline |
|---|---|---|---|
| Revenues | 17.72 | 17.72 | 17.72 |
| Expenditures | 19.22 | 20.26 | 20.81 |
| Borrowing from Fund Balance | 1.50 | 2.54 | 3.09 |
| **Estimated Ending Fund Balance** | **1.04** | **-1.49** | **-4.58** |

The City can address the structural shortfall in the LLAD fund – and prevent the negative fund balance – in two ways:

Reducing Expenditures: Expenditure reductions can be achieved by either transferring some of the costs that are currently borne by LLAD into other funding sources, or by cutting the services that are provided through LLAD. The transfers would be extremely difficult – if not impossible – to achieve, and cuts in LLAD costs – and reduction in services – would be most likely.

Increasing Revenues: In order to increase revenues, the City would either need to increase the current LLAD assessment rate, or establish a new LLAD (either complementing or replacing the existing LLAD); either of these options would require voter approval. These revenue-increasing alternatives would need to be put on the ballot (regular or mail-in) within the next year in order to prevent a fund deficit from developing in LLAD.

Staff will continue studying both alternatives, and will present a proposal to the Council as part of the FY 2005-07 Proposed Budget.

## *D. Capital Improvement Program Status and Future Outlook*

### ➢ KEY CAPITAL IMPROVEMENT NEEDS AND ISSUES

In July 2004, Council adopted a resolution establishing prioritization methods for the City's infrastructure in the categories of Facilities and Structures, Parks and Open Space, Sewers, Storm Drains, Streets, Sidewalks, and Traffic Improvements. (See *Attachment B*). Development of these prioritization criteria was a major first step in identifying and cataloguing the City's pressing capital improvement needs. As part of the FY 2005-10 Proposed Capital Improvement Program Budget, staff will present projects that continue and complete existing capital improvements and add new ones, according to the criteria approved by the full Council.

A critical ingredient of the FY 2005-10 Proposed Capital Improvement Project Budget is identification of current and future resources to support capital projects. In the FY 2003-05 two-year budget cycle, a total of $87 million was approved as part of the program. Funds come from a variety of sources, including the Sewer Service, Municipal Improvement Capital, Measure DD, Measure B–Alameda County Transportation Improvement Authority (ACTIA), and other funds. The following highlights key issues that warrant Council attention in the upcoming budget cycle:

- *Municipal Improvement Capital fund (#5500):* The available balance of the Municipal Improvement Capital fund has been fully appropriated – and, in fact, over-appropriated, in anticipation that some projects may be completed under budget or not happen. To address this issue, no new appropriation will be made from this fund starting FY 2005-06, except for the required transfers to the General Purpose Fund to support debt payments on the Oakland Museum of California and Henry J. Kaiser Convention Center. Moreover, some of the existing appropriations in this fund will need to be transferred to other funding sources. Staff will present a complete proposal to ensure a financial balance in this fund, as part of the FY 2005-07 Proposed Budget.

  Currently, the Mayor and City Council Pay-Go allocations are supported by this fund. Alternative funding sources must be identified to support this program beginning FY

2005-07. Measure B and Gas Tax, which currently fund the Council's "transportation" pay-go allocations (set aside for the first time in FY 2003-05) are considered as possible source by some. Please see below for a brief discussion of these sources.

- *Sewer Service fund (#3100):* The Finance and Management Agency expects to complete the $70 million sewer bond issuance by December 2004. Proceeds from these bonds will be used to fund needed capital improvements in the City's aged sanitary sewer system. The specific project list will be presented for Council approval in the FY 2005-10 Proposed Capital Improvement Program Budget.
- *Storm Drains:* The Storm Drain Master Plan has identified needed projects at an estimated cost of $200 million. Through FY 2002-03, $350,000 was allocated for storm drainage projects from the Municipal Improvement Capital fund. There is no funding in the FY 2003-05 budget for capital improvements to the storm drainage system.
- *Measure B (ACTIA):* Measure B is the Alameda County ½ cent Sales Tax that is restricted to transportation activities. During the last budget cycle (FY 2003-05), about 55 percent of the estimated annual revenue of $7 million was approved for capital projects, including traffic signals and the Neighborhood Traffic Safety Program. The remaining 45 percent was used to support the operating budget. Specifically, staff that work on traffic signal maintenance, transportation services, and traffic signage and striping are supported by this fund.
- *State Gas Tax (#2230)*: The State Gas Tax is a restricted funding source limited to transportation and street-related activities. During the last budget cycle (FY 2003-05), no appropriation was made from the State Gas Tax for capital projects. The estimated annual revenue of $8 million was used to support the operating budget. Specifically, the fund supports maintenance crews that do work on the city's streets – overlay, crack sealing, slurry sealing, and pothole repair.
- *Capital Improvements Contingency Fund:* In June of 2003, the City Council approved a new financial policy requiring the City to have a "Capital Improvements Contingency Fund" beginning FY 2003-05 (ordinance #12502, adopted on June 17, 2003). Specifically, the ordinance requires that:

  *"On the first day of each two-year budget cycle, commencing with the 2003-05 budget, an amount equal to $6,000,000 shall be deposited into the Capital Contingency Fund (the "Capital Improvements Reserve Requirement"). Revenues received from one-time activities, including the sale of real property, may be deposited into the Capital Improvements Reserve Fund. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein...*

  *"Monies on deposit in the Capital Improvements Reserve Fund may be appropriated by Council only to fund unexpected emergency or major capital maintenance or repair costs to City-owned facilities and to fund capital improvement projects that have not been included in the annual operating budget or the City's Capital Improvement Program...*

> *"On the last day of each two-year budget cycle, the amounts on deposit in the Capital Improvements Reserve Fund shall be applied to the Capital Improvements Fund Requirement for the succeeding two-year budget cycle. If there is an excess balance above the Capital Reserve Fund Requirement, such excess shall be maintained within said fund. If the balance is less than the Capital Improvements Reserve Fund Requirement, an additional amount sufficient to meet said requirement shall be appropriated and deposited into said fund on the first day of such two-year budget cycle.".*

The above fund currently has in excess of the required $6 million balance, and no additional appropriation needs are foreseen for FY 2005-06.

## ➢ OPERATIONS AND MAINTENANCE NEEDS FOR THE CITY'S INFRASTRUCTURE

The City's infrastructure is deteriorating because sufficient resources have not been invested into on-going operations and maintenance. This issue affects almost every category of infrastructure – facilities and structures; parks and open space; sanitary sewers; storm drains; streets; sidewalks; traffic maintenance; and equipment. In the categories of parks, open space, recreational and cultural facilities, local taxpayers have provided significant resources to the City of Oakland in the past 10 – 15 years for land acquisition and capital improvements, including the following:

| Source | Amount | Date Approved |
|---|---|---|
| **Measure AA** – Regional Open Space, Wildlife, Shoreline and Park Bond Act | $10.2 million | 1988 |
| **Measure K** – Open Space, Expansion, Development, and Rehabilitation of Park and Recreational Facilities | $60 million | November 1990 |
| **Measure I** – Enhancement of Libraries, Museums, and Other Cultural and Recreation Facilities | $45.4 million | November 1996 |
| **Measure G** – Oakland's Zoo, Museum, and Chabot Space and Science Center Improvements | $59 million | March 2002 |
| **Measure DD** - Oakland Trust for Clean Water and Safe Parks | $198 million | November 2002 |
| **Total** | **$372.6 million** | |

In addition, the City of Oakland has benefited from significant grant funding sponsored at the federal and state levels, including the following:

- *State Proposition 12* – Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000
- *State Proposition 40* – California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002
- *California Integrated Waste Management Board* – Recycled Rubber Tire Grants
- *Federal Urban Park and Recreation Recovery Program* (UPARR)
- *Federal Land and Water Conservation Fund*

During a comparable time period, staff resources for parks, open space, recreational and cultural facilities maintenance has decreased, rather than increasing to keep up with the additional land and infrastructure, aging infrastructure, as well as increased vandalism and littering.

For purposes of discussion, the following illustrates the key needs in selected infrastructure categories:

Facilities and Structures

The City's public facilities require *preventive maintenance* and *capital maintenance and replacement.*

Preventive maintenance refers to tasks that protect the structure from deterioration from forces of nature, wood-eating pests, and normal wear and tear.

Capital maintenance/replacement refers to those medium and larger size projects that are unavoidable at one point in time or another even with proper preventive maintenance. For example, carpeting, refrigerators, stoves, water heaters, and roofs require repairs; and eventually need to be replaced.

**Lafayette Square Park Restroom Facility**

During a cleaning shift, a custodian reported that the ceiling was falling down. An inspection by Building Maintenance required that staff climb onto the roof. It was discovered that used needles, shoes, and clothing had clogged up the gutters. Standing water accumulated and damaged the roof/ceiling. Staff was able to remove the debris before the water level rose to flashing, which could have caused additional damage if left unchecked. Routine inspections and maintenance could have prevented this problem.

Routine preventive maintenance performed on a defined schedule provides optimum longevity and helps prevent potential breakdowns and malfunctions. The following is a list of typical preventive tasks:

- Check gutters and downspouts for debris
- Check paint on exterior and interior for peeling, cracking, or discoloration
- Check for proper drainage around exterior
- Check roof flashing, missing shingles or cracks that could contribute to leaks
- Look in attic for signs of roof leaks
- Trim trees and bushes that are touching the roof or siding
- Inspect exterior of building for mold, mildew, dry-rot, termites and other pests (caulk and patch all exterior cracks and openings)
- Repair cracked windows and damaged door screens (caulk doors and windows as needed)
- Adjust doors and windows when sticking
- Inspect, adjust, test the auto reverse feature and lubricate garage doors
- Inspect and patch driveways, patios, and sidewalks
- Check, clean and repair wood fences and decks
- Test furnace, change filters, lubricate, inspect heat exchangers, blowers, belts, wire connections, burners, clean vents and check amp draw
- Test and service air conditioner
- Clean and check heat ducts and water pipe insulation
- Caulk showers and grout when needed
- Clean lint from dryer ducts and filters
- Check and clean hot water heaters, tank and flue
- Check and replace flexible gas lines to appliances
- Vacuum refrigerator condenser coils and clean door gaskets
- Inspect appliances for filters, lights and lubrication per manufacturer
- Change smoke alarms batteries and clean units
- Test Carbon monoxide detectors
- Check and replace water purification and water softener filters

**Fire Station #27**

Lack of resources to perform preventive maintenance led to two separate problems at the station's showers. In one instance, ceramic tiles had fallen off a shower wall. When Building Maintenance staff started to repair it, they discovered moisture that had spread in the wall causing dry rot and mold to develop. Due to health concerns, the City hired a mold abatement firm to mitigate the mold and once the mold was cleared, it took two weeks to repair the damage. Routine caulking and sealing could have prevented this problem.

In a different shower at the same station, mold was also discovered behind the ceramic tile and floorboards. This damage took over four weeks to repair. The source of the problem was caused by cracks in the exterior siding. Routine inspection and painting of the exterior could have avoided this problem.

The City's recreation centers, senior centers, libraries, fire stations, Police Department facilities, Civic Center Complex facilities are used ten, twenty, or one hundred times more intensively than a typical single-family home. Vandalism is a major problem. City facilities have more complex and larger machinery. For example, our fire stations have large overhead doors, which must open in order for fire equipment to responds to emergency calls. Fire truck exhaust systems are OSHA mandated and must be inspected and maintained. Some facilities have boilers, building coolers, kilns, and emergency generators.

Approximately 80 percent of the City's facilities are 30 years or older. This means that many of the major facility systems (heating, ventilation, electrical, plumbing) are functioning beyond their expected lifespan. Much of the existing resources are spent repairing these old systems that need to be replaced. These types of repairs are unscheduled, unplanned, expensive, and short term.

*New and Enhanced Facilities*

The following are some of the new and enhanced facilities that have come on line recently or expected to come on line within the next two years:

- Union Point Park Restroom (new)
- Carmen Flores Recreation Center (enhanced – the facility doubled in size)

Parks and Open Space

*(Includes parks, open space, landscaped medians, streetscapes, and building grounds)*

Staff maintains over 2,500 acres of parks and open space. One acre is about the size of a football field. In addition, there are over 100 landscaped medians, streetscapes, medians under BART tracks, grounds at City facilities (e.g., senior centers, libraries, parking lots, Frank H. Ogawa Plaza), and areas around five swimming pools to maintain.

**Lakeside Park**

Lakeside Park surrounds a unique fresh and salt-water Lake Merritt. It covers 155 acres of land and houses the Bonsai Garden, Children's Fairyland, Garden Center, Lake Merritt Boating Center, Lakeside Show Gardens, Rotary Nature Center, Camron-Stanford House, Edoff Memorial Bandstand, and Lawn Bowling Greens. Lakeside Park is host to walkers, runners, and a wide variety of events and activities. At one point in time, Lakeside Park was nationally recognized and featured in various publications like Sunset Magazine. Twelve gardeners were dedicated to the park then; there are only four now.

Staffing resources for parks and open space have declined 11 percent over the past 12 years while the number and acreage to maintain have increased, environmental compliance has changed the methods used to perform landscape maintenance, and littering has increased. Additional utility expenses, equipment, and other costs have not been fully funded. Specifically, since the Open Space Conservation and Recreation (OSCAR) element of the Oakland General Plan was adopted in 1996, staff estimates that the amount of parks and open space has increased

**Splash Pad Park**

The grand opening of Splash Pad Park in October 2003 was the culmination of a community-driven effort to revitalize an outdated and underutilized park. The usable park space was increased by the closure of one street in order to create a more comfortable pedestrian corridor. It's a beautiful park for which the community has taken on a high level of on-going ownership. However, the resources were not put in place to maintain the park. Specifically, there is a fountain that requires maintenance as a chlorinated pool – regular testing and application of Health Department required chemicals. Soon after the opening of the park and without proper maintenance, algae build up in the fountain caused it to malfunction, barely letting water trickle from its openings. To worsen matters, recent staff reductions impacted the service level at this location. The on-going routine needs for litter control, fountain testing, and chemical application are items that are very difficult to decrease due to high use of the park, community expectations, and regulatory requirements.

by 70 acres. Around 1996, the City adopted an Integrated Pest Management Plan (IPM) that mandated that spraying for weeds be eliminated. This resulted in significant amounts of additional manual labor to achieve a comparable level of weed control. Lastly, litter removal now consumes about 60 percent of an average gardener's workday, leaving less time to perform traditional park maintenance (e.g., planting, weeding, mowing, and trimming).

*New and Enhanced Parks, Open Space, Medians, and Grounds*

The following are some of the new and enhanced parks and grounds that have come on line recently or are expected within the next two years.

- Castle Canyon (new)
- Eastlake Streetscape (new)
- Mandela Parkway Median (new)
- Fruitvale Transit Streetscape (new)
- High Street Median (42nd Avenue) (new)
- Joaquin Miller Cascade landscaping (new)
- Joaquin Miller Playground (new)
- Martin Luther King Jr. Plaza (Dover Street) (new)
- MacArthur/International Streetscape (new)
- Splash Pad Park
- Union Point Park
- Bella Vista Park
- Broadway Median between MacArthur and College Avenue
- Caesar Chavez Creek bridge
- Clinton Park Tot Lot
- Coliseum Gardens
- Greenman Field
- Park Boulevard Median (1 mile)
- Measure DD-funded projects

**Citywide Mowing and Equipment Maintenance Needs**

Park maintenance includes mowing turf at larger parks and ball fields. The ball fields include 31 softball, 12 hardball, 4 soccer, and 1 football field. Staff uses either a large (16' width) mower or small (6' width) mower. Staff schedules and coordinates turf mowing with the gardeners who must remove litter, bottles, and other objects ahead of the mowers.

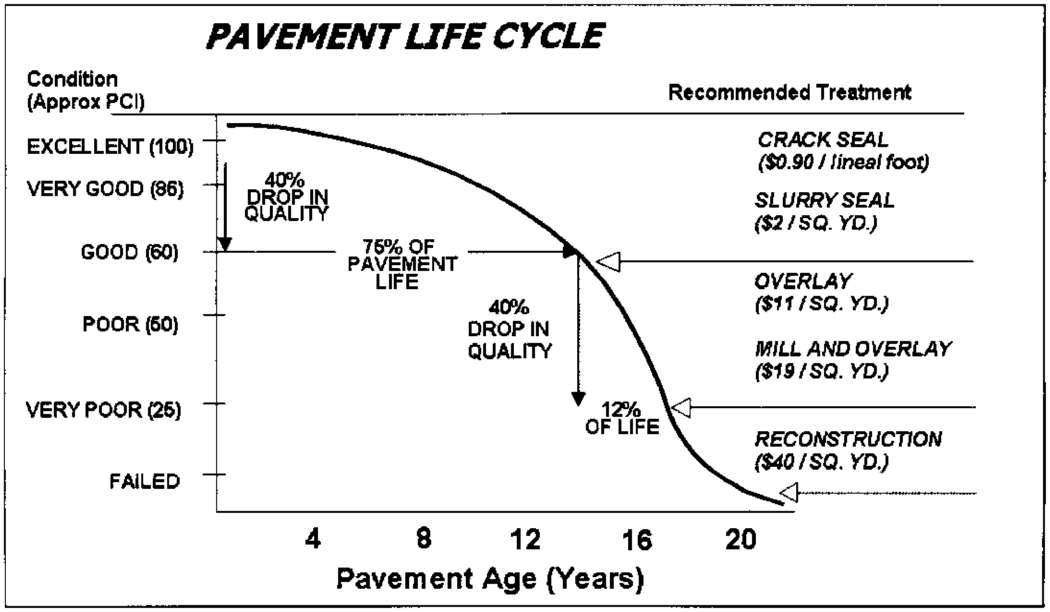
Turf mowing is performed to meet the needs of the softball, baseball, soccer, and football patrons, as well as park patrons who picnic on the turf. During spring and summer months, weekly mowing is ideal due to the rapid growth conditions. The sports patrons prefer a uniform and shorter cut because their balls roll more consistently on short turf.

Mowers require maintenance like any other piece of equipment. Tune-up, oil change, belt-tightening and blade sharpening are common maintenance tasks. The Equipment Services Division performs these tasks. Staff reductions in the Equipment Services Division affect turf mowing since there are longer delays in performing service or repairs on mowers. This causes delays in the mowing schedule and poorer quality (tall grass) conditions. When the turf grows too tall and is then mowed, it generates lots of grass blade clippings and the freshly cut surface is prone to sunburn. The clippings must be raked, which is another time-consuming task.

Streets

The City's street network of 836 centerline miles is on an 85-year paving cycle. The industry standard is a 25-year cycle. High incidence of deteriorating streets is the result of years of deferred maintenance and crew reductions. The City currently has one heavy-paving crew, while in the mid-1980's, there were five crews. An under-funded street resurfacing program and deferred maintenance have resulted in a significant amount of base repair on current street resurfacing contracts (as much as half of the contracted amount). The result is that significantly fewer streets are being resurfaced annually.

Preventive maintenance (e.g., crack sealing and slurry sealing), if done properly, can extend the life of a street as much as rehabilitation, at approximately half the cost. The graphic below illustrates the benefits of an aggressive preventive maintenance program as opposed to following a "worst first" scenario. The overall program is dynamic in that each strategy consists of a cyclic series of actions that simulates the pavement's anticipated life cycle. A typical pavement section will deteriorate approximately 40 percent in the first 75 percent of its lifespan. However, that same pavement section, if untreated, will experience another 40 percent reduction in overall quality in only the next 12 percent of lifespan. As a result of this continued deterioration, the quantity and cost of the maintenance activities needed to rehabilitate the pavement will increase in both scope and costs. The cost of reconstructing a poor street is four times more expensive than the cost of overlaying a good street.




Sidewalks

The City's sidewalk network of approximately 30 million square feet (1,100 miles) is currently on a 50-year repair cycle. However, tree related damage recurs every three to five years. To effectively manage the City's sidewalk damage, the repair cycle should be every five years.

The City is responsible for sidewalk repairs damaged by official city trees. Property owners are responsible for repairing all other damaged sidewalks.

*Liability / Claims:* The total claims paid last calendar year for trip and fall injuries related to damaged sidewalks was $619,849.

*ADA Requirements (Barden v. City of Sacramento):* The Americans with Disabilities Act (ADA), Title II, Section 35.133, provides that a public entity shall maintain, in operable working condition, those features that are required to be readily accessible to and usable by persons with disabilities. In Barden et. al. v. City of Sacramento, the United States Court of Appeals for the Ninth Circuit issued a ruling that broadened the scope of ADA program access requirements for public sidewalks, essentially requiring public entities to invest significant resources to repair public sidewalks and maintain them free of barriers, physical defects and other conditions that may deny access to pedestrians with disabilities. In this report, the discussion of the impact of the Barden decision on the City's sidewalk repair program is limited to tree removal criteria.

It is important to note that, while the Barden decision places a higher burden on public entities to remove barriers in the pedestrian right of way, it is not certain at this time what the specific impacts on City's sidewalk repair program will be.

At present, staff estimates that there is $100 million of existing tree-related sidewalk damage. A better estimate will be known once the pending sidewalk condition and tree inventory is completed. The award of this contract is expected to be completed this fiscal year.

Storm Drains

The City storm drain system consists of small and scattered networks of pipes and drainage structures that interconnect with creeks, watercourses, Lake Merritt, and the San Francisco Bay. In the Oakland Hills, the network is primarily an unimproved system of street-swales, natural watercourses and creeks. The improved and unimproved system, with existing assets valued at $1.1 billion, consists of the following:

- 370 miles of closed pipe system
- 40 miles of open creeks and watercourses
- 14,000 structures such as inlets and manholes
- 15 watersheds
- 15 main creeks and 30 tributaries

The City Council authorized the Storm Drain Master Plan in 1997. The current draft identifies the capital project need by category at a preliminary estimated cost of $200 million as follows:

- *Rehabilitation/Replacement Projects:* Approximately 30,000 linear feet of pipe have been identified for rehabilitation/replacement due to deteriorated pipe conditions at an estimated cost of $32 million.
- *Capacity Correction Projects:* Approximately 100,000 linear feet of pipe have been identified for capacity enhancement due to lack of hydraulic capacity at an estimated cost of $155 million. Of these, approximately $18 million has been identified as high priority to prevent flooding.
- *System Expansion:* New facilities are needed in under-served areas or where storm drainage system is non-existent at an estimated cost of $11 million.

In addition, the draft Storm Drain Master Plan finds the need for an increased maintenance program, including inspection and preventive maintenance. The overall annual (FY 2003-04 estimated) need to maintain the storm drain program is as follows:

| Activity | Est Annual Cost |
|---|---|
| System maintenance | $2,885,000 |
| Creek and watershed protection and enhancement | 275,000 |
| Water quality resources protection and pollution prevention | 700,000 |
| Payment to Alameda County, Clean Water Program fees | 500,000 |
| Community watershed improvement education and assistance | 225,000 |
| Development compliance | 460,000 |
| **Total** | **$5,045,000** |

## *E. Oakland Redevelopment Agency Financials and Major Projects*

The Oakland Redevelopment Agency is continuing to experience rapid changes – both in terms of revenue generation and project activity. Overall, gross tax increment revenues for the Agency's nine active project areas are expected to increase during FY 2005-07. Strong property values and brisk redevelopment activity across most project areas are projected to yield between two and five percent tax increment revenue growth.

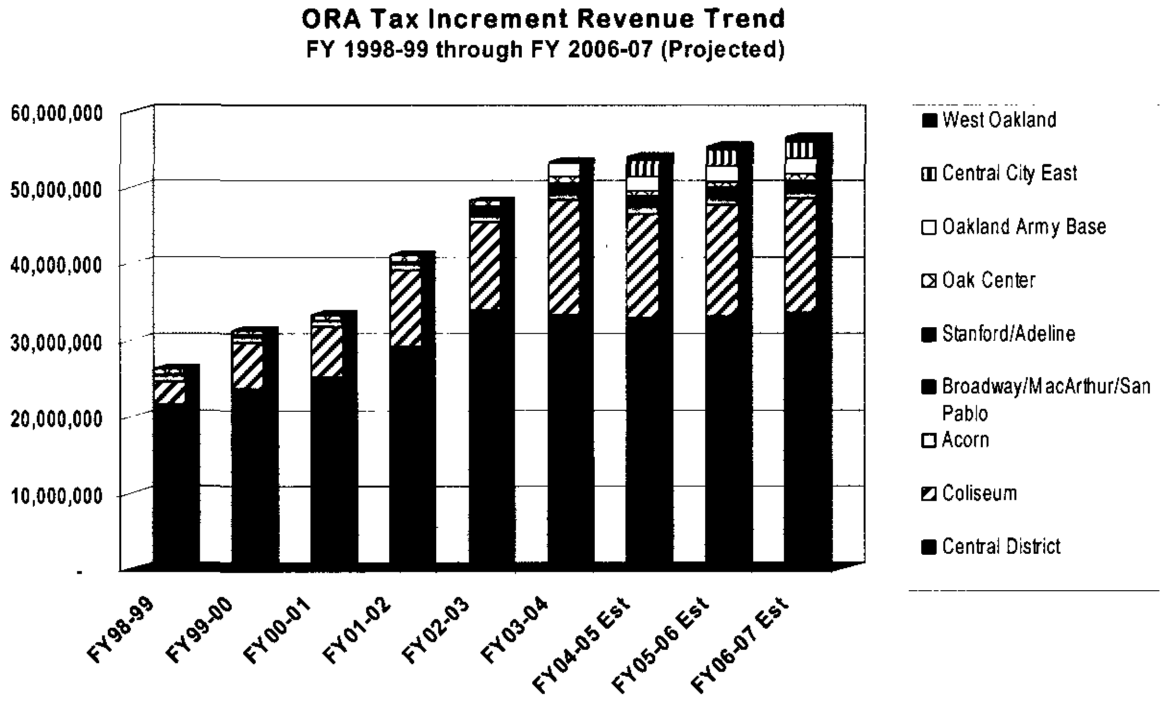
However, the mix of this growth differs from that seen in prior years due to a few key factors:

- Leveling off of Central District tax increment (TI) revenues
- Increasing revenues from newer project areas as a percentage of total TI revenue collection

### Tax Increment Revenues

The Central District, one of the three oldest redevelopment areas and the strongest tax increment revenue generators, has had a virtually flat revenue growth and is projected to continue the trend into FY 2005-07. Over its past 35 years of existence, the Central District project area has generated the greatest proportion of the ORA's overall tax increment. The majority of the City of Oakland's reimbursable personnel costs have been historically supported by the Central District. During the FY 2004-05 Midcycle Budget Review, Central District tax increment revenue projections were revised downward to reflect lower than anticipated FY 2004-05 actual revenues and slightly increased costs brought about by the elimination of the debt incurrence time limit. This action triggered the establishment of a new base year and the requirement to set-aside 20 percent of incremental tax growth over this base year.

Beginning in FY 2004-05, a greater portion of General Government personnel costs was shifted from the Central District to other redevelopment project areas. General Government personnel costs include partial funding for the Mayor, City Council, City Administrator, City Attorney, City Clerk and City Auditor. This was done in recognition of the increasing project activity of the new project areas that required attention/oversight by the above-named offices. It also reflects the newer project areas' increasing ability to support the City's reimbursable personnel costs through tax increment revenues. In FY 2004-05, approximately 30 percent of the City Council's staff costs that were supported solely by Central District tax increment revenues were shifted to the Coliseum project area. For FY 2005-07, these costs will be spread proportionally across nine active redevelopment areas.




Bond Issuances and Capital Projects

The Uptown Development will continue to be the Central District's primary capital project. By the end of FY 2004-05, the Agency expects to issue between $40 and $45 million in bonds to finance projects including the following:

- Uptown Project developments
- Fox Theatre improvements and related affordable housing subsidy
- Broadway to Jack London streetscape improvements
- 21st Garage Expansion (design and other soft costs)
- 10K Downtown Project – site assembly
- Retail Façade and Tenant Improvements

This bond issuance is expected to fund projects through FY 2006-07.

State- and Locally-Mandated Expenditures

The Redevelopment Agency is generally eligible to collect all tax increment revenue above base year values for each project area. Nonetheless, state and local mandates constrain the uses of these revenues. Redevelopment Agency tax increment revenues will continue to be subject to the set-asides and pass-throughs described below.

- **Housing Set-Aside** of 20 of gross tax increment for all project areas, with an additional 5 percent set aside when the Central District debt coverage ratio reaches 125 percent. No changes in the set aside percentage are anticipated in FY 2005-07.
- **AB-1290 Pass-Through** of 20 percent of gross tax increment for all project areas adopted or amended after 1993. Pass-throughs increase as the project area ages. In years 11 through 30 of a redevelopment area's project activity lifespan, the AB-1290 pass-through increases to 36.8 percent of a portion of tax increment revenues. In years 31 through 45, this percentage increases to 48 percent of a portion of tax increment revenues. FY 2006-07 will be the Coliseum project area's $11^{th}$ year of activity, thus triggering the 36.8 percent pass through of a portion of the RDA tax increment revenues. No other project areas will be subject to an $11^{th}$ or $31^{st}$ year trigger during FY 2005-07.
- **School Set-Aside** of 10 percent of Coliseum Project Area tax increment revenues, net of all mandatory state pass-throughs and set-asides. Since inception, revenues set-aside for school development in the Coliseum RDA have accumulated in fund balance. By the end of FY 2004-05, this fund balance is expected to reach $3.8 million. Up to $3.5 million of this fund balance will be used as a local match to fund the construction of a public library that will be adjacent to an Oakland public school (Resolution 2003-80 C.M.S.).
- The **Educational Revenue Augmentation Fund (ERAF) Shift** returns a portion of tax increment revenue from cities and counties back to the State of California, enabling the Governor to fulfill the State' obligation to public education as mandated by Proposition 98. As part of Governor Schwarzenegger's May Revise in 2004, redevelopment agencies' obligations to shift a portion of tax increments to this state fund continued for two more fiscal years and will end at the close of FY 2005-06.
- In exchange for their ERAF payments, municipalities negotiated with Governor Schwarzenegger to allow for **extensions of redevelopment plan activity and tax increment revenue collection life spans**. These time limits would increase by one year for each year a project area paid into the ERAF. At the November 16, 2004 City Council meeting, staff presented an ordinance to amend the Acorn, Central District, Coliseum, Oakland Army Base, Oak Center, Oak Knoll and Stanford/Adeline redevelopment plans to extend the time limits on the plan activity and receipt of tax increment revenues by up to two years. This extension will not affect tax increment collection limits for Central District, Oak Center, Stanford/Adeline, or the Oakland Army Base.

## SUSTAINABLE OPPORTUNITIES

There are no direct economic, environmental, or social equity opportunities or impacts associated with the City Council discussion of this report.

**DISABILITY AND SENIOR ACCESS**

There are no direct disability and senior access opportunities or impacts associated with the City Council discussion of this report.

**RECOMMENDATION**

Staff recommends that the City Council consider the information presented in this report as the Mayor and Councilmembers set their FY 2005-07 budget priorities, and provide overall guidance on key priorities for the FY 2005-07 budget development and budget balancing.

Respectfully submitted,

MARIANNA MARYSHEVA
Budget Director

Prepared by:

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Budget Office

APPROVED AND FORWARDED TO THE CITY COUNCIL

Office of the City Administrator

**Attachments**:
- A1 – City's Structure Linking Priorities, Budget and Performance
- A2 – Mayor / Council Priorities, Citywide Objective and Departmental Programs Established in FY 2003-05
- B – Resolution Establishing CIP Prioritization Methods

## ATTACHMENT A1. City's Structure Linking Priorities, Budget and Performance

**Seven Mayor & Council Goals (Priorities)**

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|
| Make Oakland a Safe City | Develop a Sustainable City | Improve Oakland Neighborhoods | Ensure that all Oakland youth & senior have the opportunity to be successful | Model best practices to improve customer services and to be a fiscally sound an efficiently run city | Maintain and Enhance Oakland's Physical Assets | Inspire Creativity and Civic Engagement |

↓

**Thirty Citywide Objectives (Linked to Goals/Priorities)**

1A. Reduce crime by implementing a comprehensive crime prevention/reduction strategy

.............

7D. Provide voter education and encourage participation

↓

**Departmental Business Goals (Linked to City's Mission, Departmental Mission and Mayor/Council Goals)**

↓

**164 Departmental Programs (Linked to Mayor/Council Goals, Citywide Objectives)**

↓

**Departmental Budget Allocations (Linked to Mayor/Council Goals, Citywide Objectives, Departmental Business Goals) – At Program Level**

↓

**Departmental Performance Measures, Targets (Linked to Mayor/Council Goals, Citywide Objectives, Departmental Business Goals) – At Program Level**

**ATTACHMENT A2**. **Mayor / Council Priorities, Citywide Objective and Departmental Programs Established in FY 2003-05**

# Citywide Program Structure

**Goal**

- **Make Oakland A Safe City**

**Objectives** / **Programs**

- Reduce crime by implementing a comprehensive crime prevention/reduction strategy
  - Agency-wide Administration (PSA)
  - Criminal Investigations (PSA)
  - Criminalistics (PSA)
  - Internal Affairs (PSA)
  - Jail (PSA)
  - Patrol Area 1 (PSA)
  - Patrol Area II (PSA)
  - Patrol Area III (PSA)
  - Project Choice (DHS)
  - Records (PSA)
  - Research & Planning and Crime Analysis (PSA)
  - Special Operations (PSA)
  - Training (PSA)
  - Vice/Narcotics (PSA)
  - Youth & Community Services (PSA)
- Improve perception of safety
  - Citizens Police Review Board (CAO)
  - Development Permit Inspections (CEDA)
  - Engineering & Architectural Plan Approval (CEDA)
  - False Alarm Program (PSA)
  - Full Service Development Permit Services (CEDA)
  - Port Security (PSA)
- Improve emergency response, prevention and preparedness
  - 911-Dispatch Communication (Fire)
  - Communications (PSA)
  - Emergency Medical Services (Fire)
  - Emergency Response Support Services (Fire)
  - Fire Department Administration (Fire)
  - Fire Department Safety, Education & Training (Fire)
  - Fire Prevention Bureau (Fire)
  - Fire Suppression/ Field Operations (Fire)
  - Human Resource Management (Fire)
  - Office of Emergency Services/Homeland Security (Fire)
  - Special Operations-Emergency Response (Fire)

**ORGANIZATIONAL LEGEND:**

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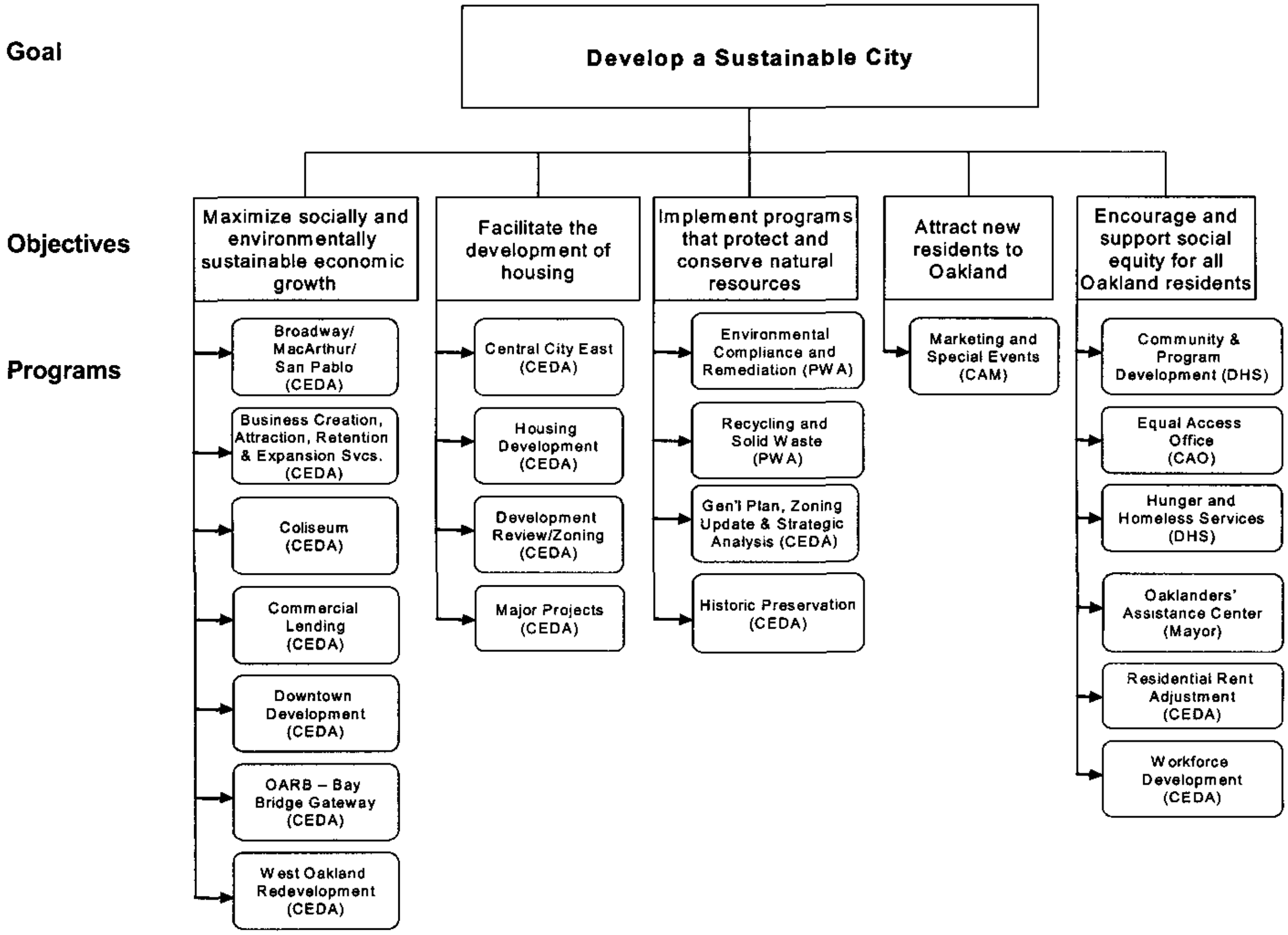
CAM-Cultural Arts and Marketing
CEDA – Community and Economic Development Agency
CIP – Capital Improvement Program
CAO – City Administrator's Office
DHS – Department of Human Services
FMA – Finance & Management Agency
N-D – Non-Departmental
OPR – Office of Parks and Recreation
OPL – Oakland Public Library
PSA – Police Services Agency
PWA – Public Works Agency

**Item # ________**
**City Council Retreat**
**November 29, 2004**

ATTACHMENT A2. Mayor / Council Priorities, Citywide Objective and Departmental Programs Established in FY 2003-05

# Citywide Program Structure

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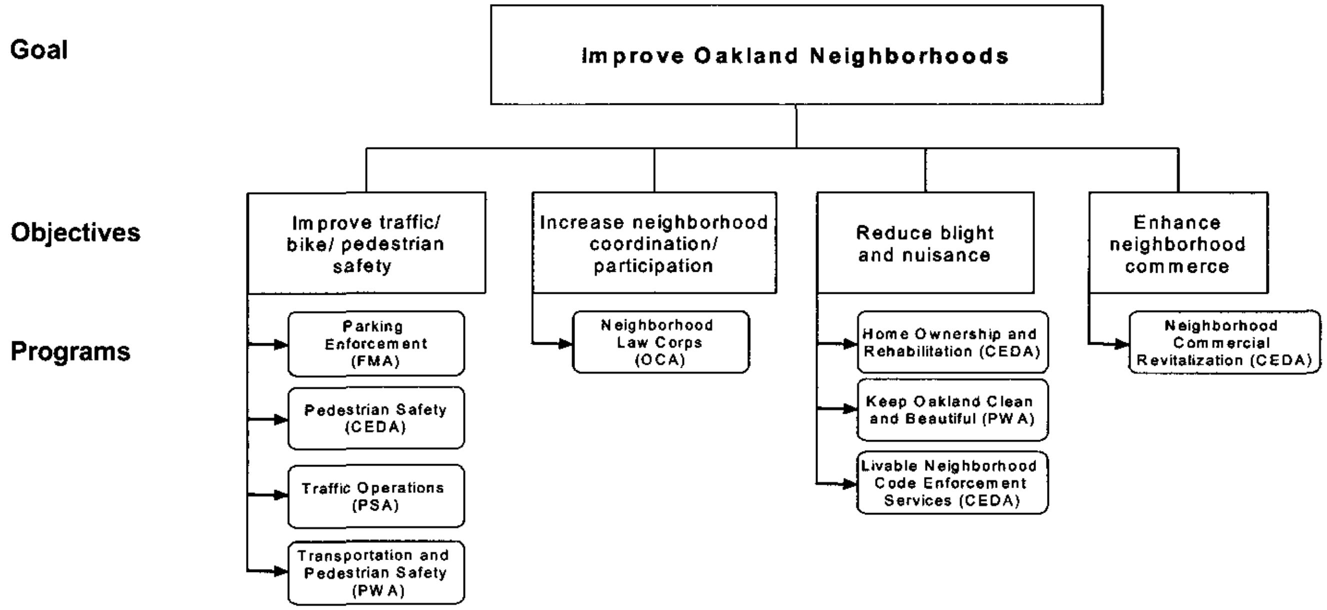


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ATTACHMENT A2. Mayor / Council Priorities, Citywide Objective and Departmental Programs Established in FY 2003-05

# Citywide Program Structure

**Goal**

- Ensure that all Oakland youth & seniors have the opportunity to be successful

**Objectives** / **Programs**

- Provide effective community programs for seniors, youth and people with disabilities
  - Americans with Disabilities Act Programs (CAO)
  - Branch Library Services (OPL)
  - Care Mgmt & Support for Frail Senior & Adults w/ Disabilities (DHS)
  - Children and Youth Services (DHS)
  - Early Childhood Education (DHS)
  - Family Literacy (DHS)
  - Literacy Programs (OPL)
  - Museum Education Services (CAM)
  - Older Workers Employment & Training - ASSETS (DHS)
  - Senior Centers and Community Services (DHS)
- Leverage new resources for seniors, youth and people with disabilities
  - Community Development-CDBG (CEDA)
  - Oakland Fund for Children and Youth (DHS)
- Improve access and mobility for seniors, youth and people with disabilities
  - Paratransit for Seniors and Adults w/Disabilities (DHS)

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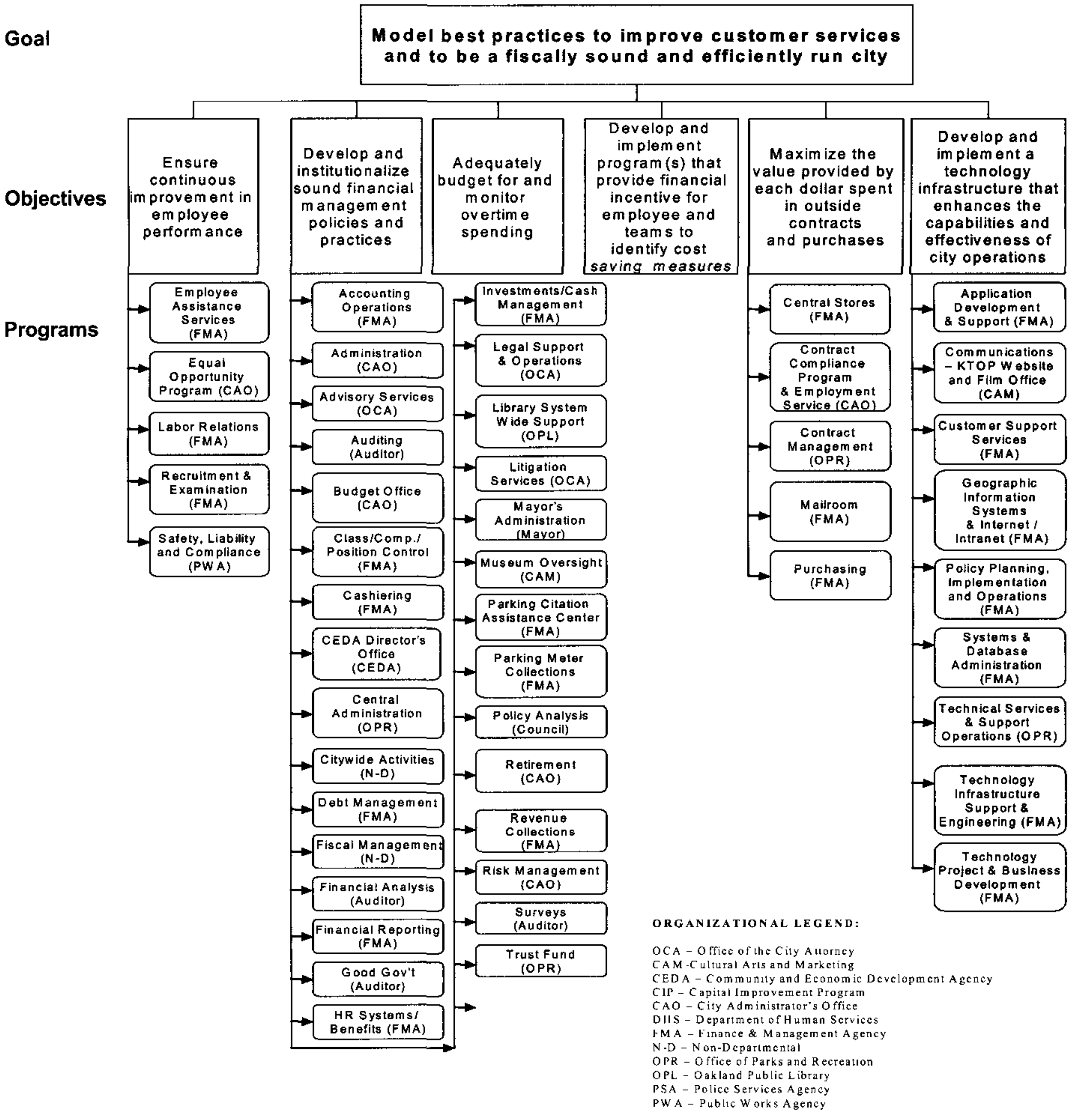

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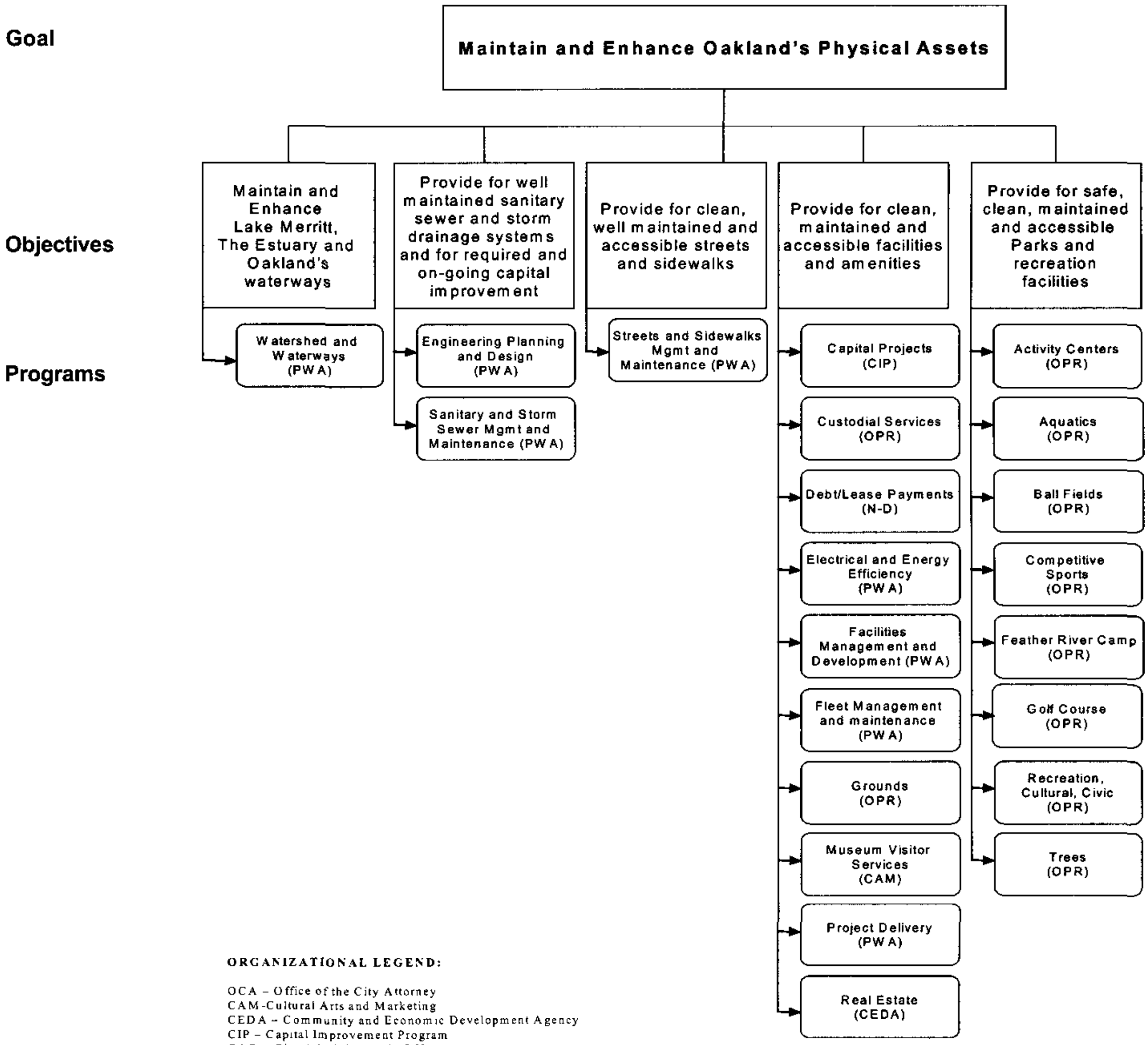
# Citywide Program Structure

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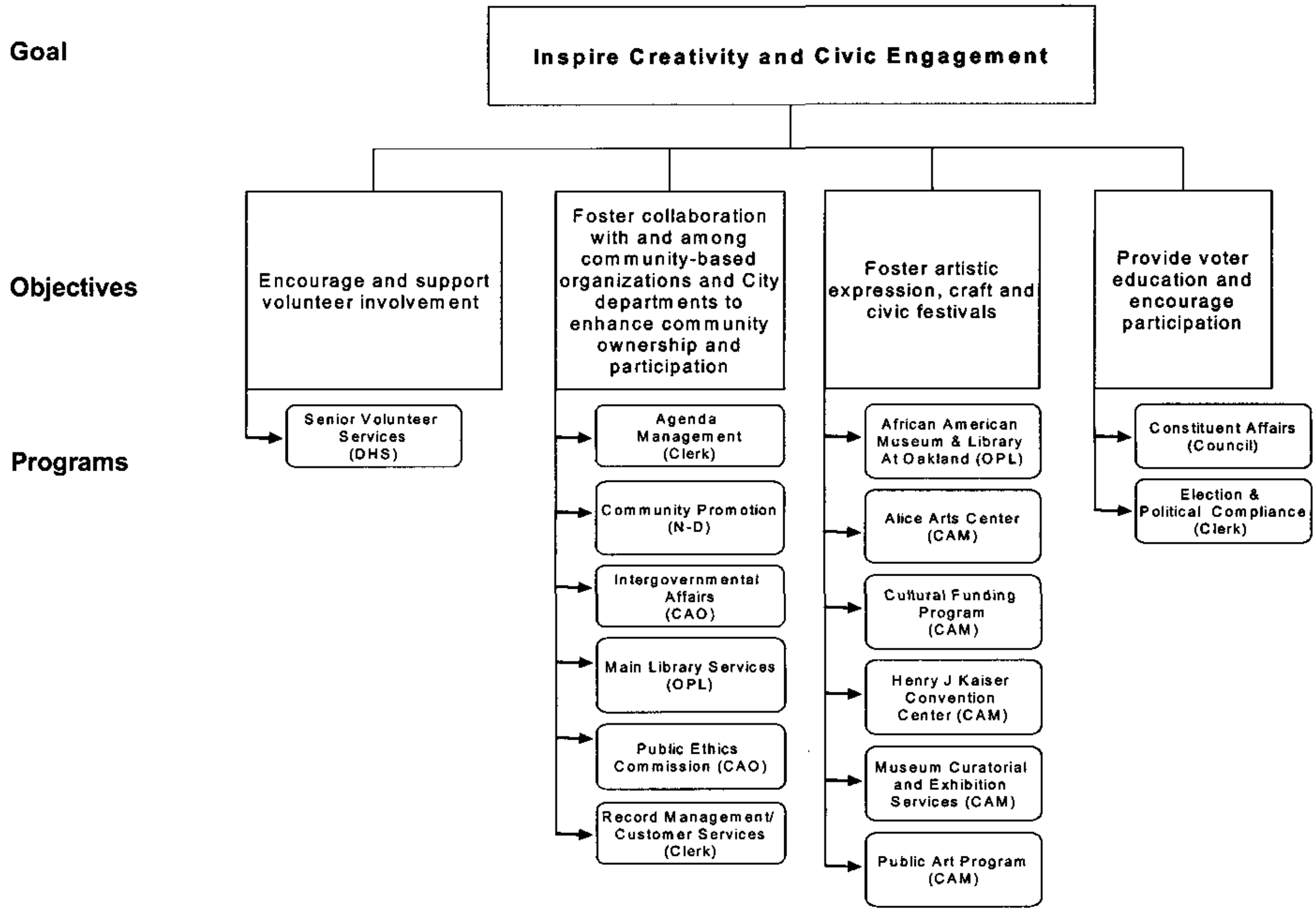
# Citywide Program Structure

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**Item # ________**
**City Council Retreat**
**November 29, 2004**

REVISED

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2004 JUL 15 PM 3:36

# OAKLAND CITY COUNCIL

RESOLUTION NO. 78747 C.M.S.

Roc V. Cimr

## RESOLUTION ESTABLISHING PRIORITIZATION METHODS FOR THE CITY OF OAKLAND'S FACILITIES AND STRUCTURES, PARKS AND OPEN SPACE, SEWERS, STORM DRAINS, STREETS, SIDEWALKS, AND TRAFFIC IMPROVEMENT INFRASTRUCTURE NEEDS

**WHEREAS**, a policy for establishing priorities for the City of Oakland's various infrastructure needs does not currently exist; and

**WHEREAS**, a Public Improvement Project, also referred to as a Capital Improvement Project, is any defined location, specified public facility, building, utility, street, or any other City right-of-way improvement, capital improvement, park, recreational facility, trail, or environmental improvement that requires the City of Oakland's involvement in its design, site or building acquisition, site preparation, utilities emplacement, installation, construction, or reconstruction; and

**WHEREAS**, a Capital Maintenance Project is a minor project that does not significantly affect the level of service provided to the public, including the repair, renovation, or maintenance of existing public buildings or facilities such as roofing, HVAC improvements, carpeting, or other similar work; and

**WHEREAS**, On-Going Operations and Maintenance refers to the long-term, continuing costs associated with any location, specified public facility, building, utility, street, City right-of-way, park, recreational facility, trail, or leased space, including expenditures required to provide a specified level of service to the public (program functions, utilities, custodial) and expenditures required to support the scheduled maintenance needs of the infrastructure; and

**WHEREAS**, the City of Oakland has limited financial resources to fund its infrastructure needs, including capital and on-going operations and maintenance; and

**WHEREAS**, the City of Oakland's infrastructure, including facilities and structures, parks and open space, sewers, storm drains, streets, sidewalks, and traffic improvements, are considered significant assets to the City and impact the quality of life for those who live, work, and play in the City; and

**WHEREAS**, in 2002, the City of Oakland government initiative called "Moving Oakland Forward!" made several recommendations, including (1) that the City Council deliberate on the Capital Improvement Program budget prior to engaging in the operating budget to ensure that incremental operations and maintenance costs resulting from capital projects are incorporated into the operating budget, and (2) that all projects proposed to the City Council for consideration contain a comprehensive financial timeline for the first five years, including prospective incremental allocations for On-Going Operations and Maintenance and that approval of the project should be considered a City Council mandate to include the incremental operating and maintenance costs in the budget, now, therefore be it

**RESOLVED**: That the City Council establishes that the criteria used to prioritize the City of Oakland's Public Infrastructure Projects by type shall be as follows:

| Infrastructure Type | Prioritization Method |
|---|---|
| Facilities and Structures (Capital Maintenance Projects) | Prioritize calls for service from high to low using the following factors:<br>***High***<br>o Life safety issues, including liability exposure<br>o Mandated service<br>o Hazardous situations<br>o Security breaches<br>o Preventive maintenance of emergency response systems<br>***Medium***<br>o Scheduled preventive maintenance projects<br>***Low***<br>o Deferred maintenance projects |
| Parks (Park Facilities) and Open Space | Apply the Open Space Conservation and Recreation (OSCAR) Element of the Oakland General Plan. OSCAR states that in order to reduce deficiencies in parks and recreational facilities resulting from decline and deferred maintenance, outdated facilities, and factors such as vandalism and safety, the focus should be on maintenance, rehabilitation and safety improvements. This is cited as currently the highest priority since it protects public investment and maximizes the effective delivery of park services. (Objective REC-3.)<br><br>Criteria to prioritize future infrastructure needs related to parks and open space are:<br>o Projects that resolve existing health and safety issues, including liability exposure.<br>o Projects that replace existing deteriorated facilities, fields, tot lots, etc.<br>o Projects that leverage existing improvements that are already funded, or in design or construction, particularly those that are approved by Citywide vote.<br>o Projects that are partially funded and suitable for grant-funding opportunities.<br>o Projects that increase access to existing parks for school children.<br><br>As funding is available, there will be an equitable distribution of these funds for both maintenance and repair of existing facilities, as well as for new construction. |
| Sanitary Sewers | Use the Infiltration and Inflow (I/I) Correction Program that has established a 25-year program to rehabilitate 30% of the sewer system sub-basins based on greatest to least infiltration and inflow of rainwater problems. The program includes a year-by-year prioritization of projects and is expected to be completed |

by 2013.

Apply the same criteria to plan and prioritize the rehabilitation and replacement of the remaining 70% of the system.

| | |
|---|---|
| Storm Drainage | Use the Storm Drain Master Plan that prioritizes projects using the following factors:<br>o Type of problem (flooding, erosion, etc.)<br>o Location of impact (commercial, public street, private property, etc.)<br>o Type of system (City-owned culvert, open channel, etc.) |
| Streets | Prioritize streets proposed for rehabilitation using the Pavement Management System based on the Pavement Condition Index (PCI), visual inspection, and cost effectiveness. Streets are ranked on scale of 1 – 100 with 100 being best. |
| Sidewalks | Prioritize sidewalks using a Sidewalk Management System based on the Sidewalk Condition Index (SCI) and a completed survey of damaged sidewalks throughout the City.<br><br>*The Sidewalk Management System* uses a combination of factors including distress type and severity and pedestrian usage and location to index the damage locations. Priorities are determined by those damaged locations having the lowest ranking first. |
| Traffic Improvements | Prioritize traffic signal needs based on criteria established by the State of California, Department of Transportation (Caltrans) as follows:<br>o Vehicular volumes<br>o Interruption of continuous traffic<br>o Pedestrian volumes<br>o Accident data (pedestrian and vehicular accidents)<br>o Other, site specific special condition<br><br>In addition, to address pedestrian safety issues, staff maintains a second, parallel priority list for pedestrian traffic improvements based upon pedestrian safety criteria. Pedestrian safety improvements include striping and signage, bulbouts and sidewalk improvements, medians and islands, as well as traffic signals. The programming of pedestrian priority intersection locations is prioritized based on the following factors:<br>o Intersection Pedestrian Accident Historical Data<br>o Other site specific conditions<br><br>Prioritize Neighborhood Traffic Safety Program needs through input from the community and City Council offices, and an |

engineering assessment. Requests are prioritized using criteria as follows:

- Documented accident history (pedestrian and vehicular accidents)
- Field evaluation
- Assessment of non-standard or changed conditions
- Citizen complaints
- Other, site specific factors

Prioritize Bicycle Program needs using the 1999 Bicycle Master Plan. The plan's criteria for designating priority bikeways are:

- Eliminate gaps in existing bikeways
- Overcome significant obstacles and barriers such as bridges, tunnels, and freeways
- Facilitate regional connections with bikeways in neighboring cities
- Target improvements in corridors with identified safety concerns
- Provide facilities in service districts that have no existing bikeways
- Provide direct connection to BART, ferry, or other transit station
- Provide direct connection to a major employment center

IN COUNCIL, OAKLAND, CALIFORNIA, JUL 2 0 2004, 2004

PASSED BY THE FOLLOWING VOTE: BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN, DE LA FUENTE - 8

AYES---

NOES--- Ø

ABSENT--- Ø

ABSTENTION--- Ø

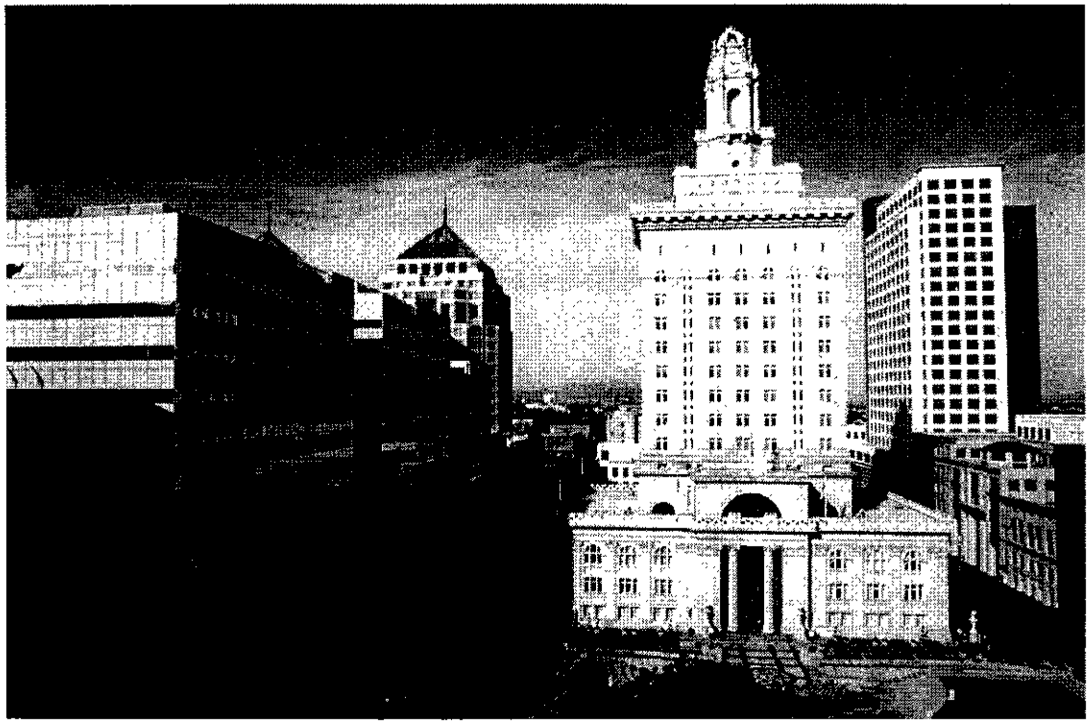
ATTEST: Ceda Floyd

CEDA FLOYD
City Clerk and Clerk of the Council
of the City of Oakland, California

Item # ________
City Council Retreat
November 29, 2004

City of Oakland

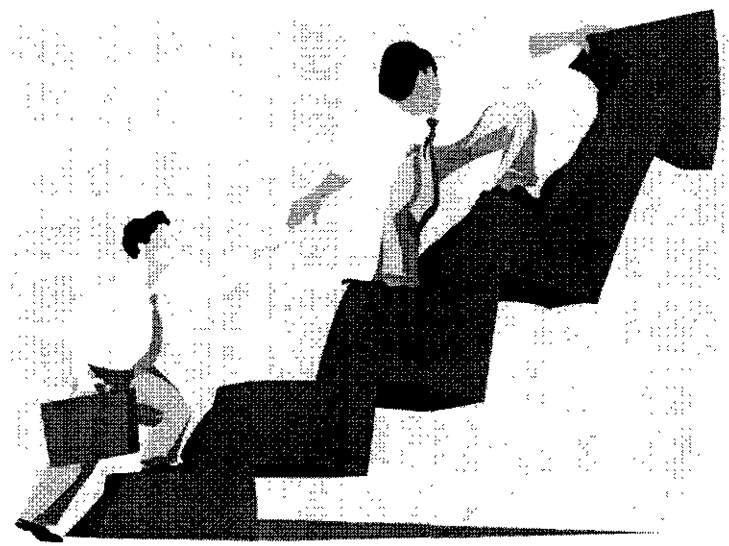
# Mayor / City Council Retreat



## Setting Goals & Priorities for FY 2005-07 Budget Cycle

# Agenda Items

- Agenda report
- Questions
- Mayor / Council Discussion; Setting of Goals for FY 2005-07



# Agenda Report Summary

- *Special Considerations on Establishing FY 2005-07 Mayor/ Council Budget Priorities:* review existing City structure that links Mayor / Council priorities, Citywide objectives and departmental programs
- *City's Financial Outlook & Key Budget Issues:* discuss preliminary financial outlook for FY 2005-07, major budget-related issues and possible solutions
- *Landscaping and Lighting Assessment District (LLAD) Fund Issues:* review LLAD's structural revenue / expenditure gap, possible solutions to address it
- *Capital Improvement Program (CIP) Status and Future Outlook:* discuss key CIP issues, concerns related to capital maintenance and deferred maintenance
- *Oakland Redevelopment Agency (ORA) Financials and Major Projects:* review preliminary FY 2005-07 financials for the ORA, key concerns

**Consider this information in setting Mayor and City Council priorities for the FY 2005-07 budget cycle**

# Considerations for Establishing Mayor/ Council Budget Priorities

- City's existing structure that links Mayor / Council priorities, Citywide objectives and departmental programs (Att. A1)

**Seven Mayor & Council Goals (Priorities)**

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|
| Make Oakland a Safe City | Develop a Sustainable City | Improve Oakland Neighborhoods | Ensure that all Oakland youth & senior have the opportunity to be successful | Model best practices to improve customer services and to be a fiscally sound an efficiently run city | Maintain and Enhance Oakland's Physical Assets | Inspire Creativity and Civic Engagement |

**Thirty Citywide Objectives (Linked to Goals/Priorities)**

1A. Reduce crime by implementing a comprehensive crime prevention/reduction strategy

............

7D. Provide voter education and encourage participation

**Departmental Business Goals (Linked to City's Mission, Departmental Mission and Mayor/Council Goals)**

**164 Departmental Programs (Linked to Mayor/Council Goals, Citywide Objectives)**

**Departmental Budget Allocations (Linked to Mayor/Council Goals, Citywide Objectives, Departmental Business Goals) – At Program Level**

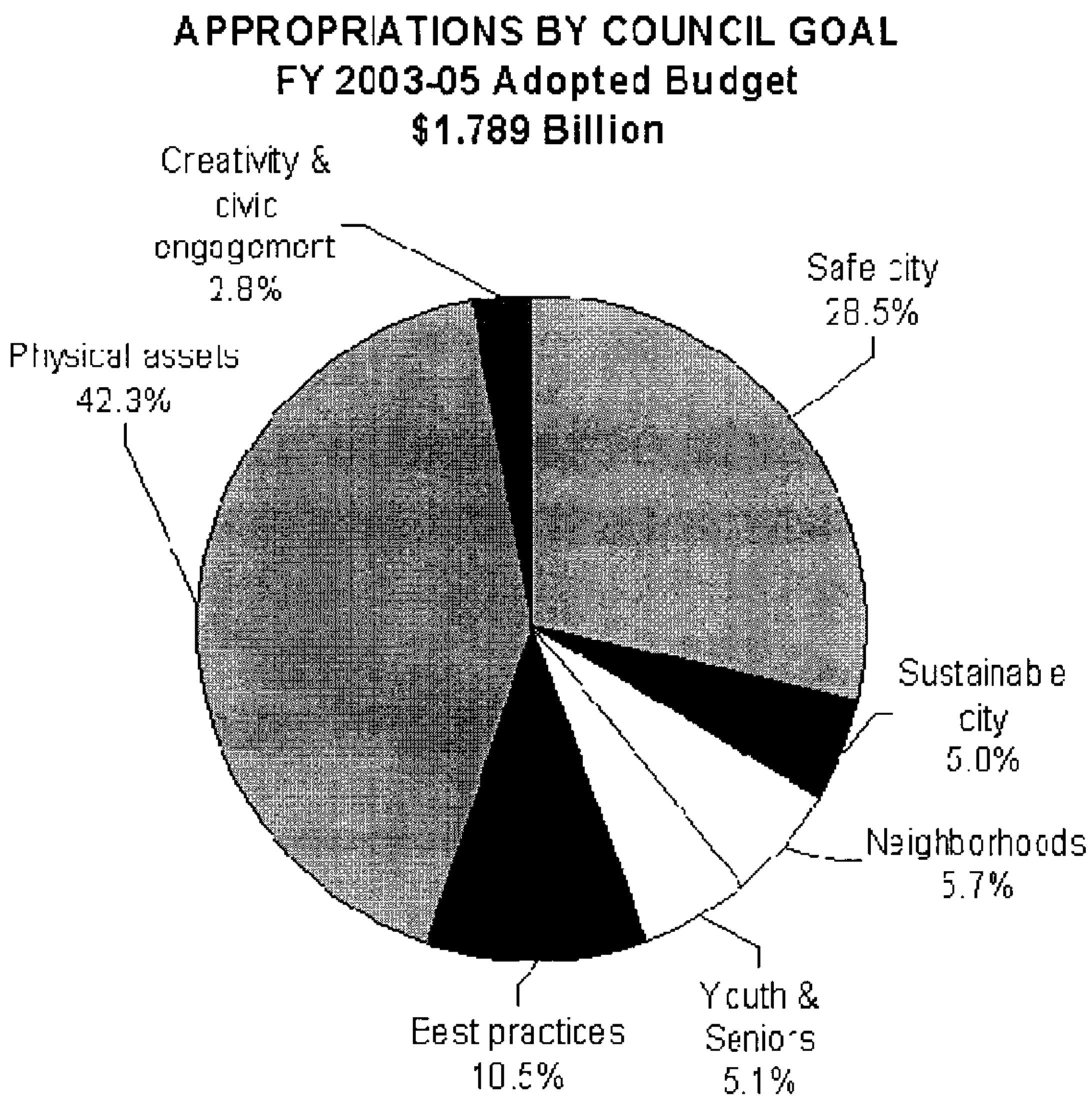
**Departmental Performance Measures, Targets (Linked to Mayor/Council Goals, Citywide Objectives, Departmental Business Goals) – At Program Level**

# Considerations for Establishing Mayor/ Council Budget Priorities

- Currently in place (Att. A2):
  - *7 Mayor / Council goals,*
  - *30 Citywide objectives*
  - *164 departmental programs*
- FY 2003-05 budget established at program level, with budget allocations and performance (planned and actual) presented by program
- Each program linked to Citywide objective and Mayor/Council goal

# Considerations for Establishing Mayor/ Council Budget Priorities

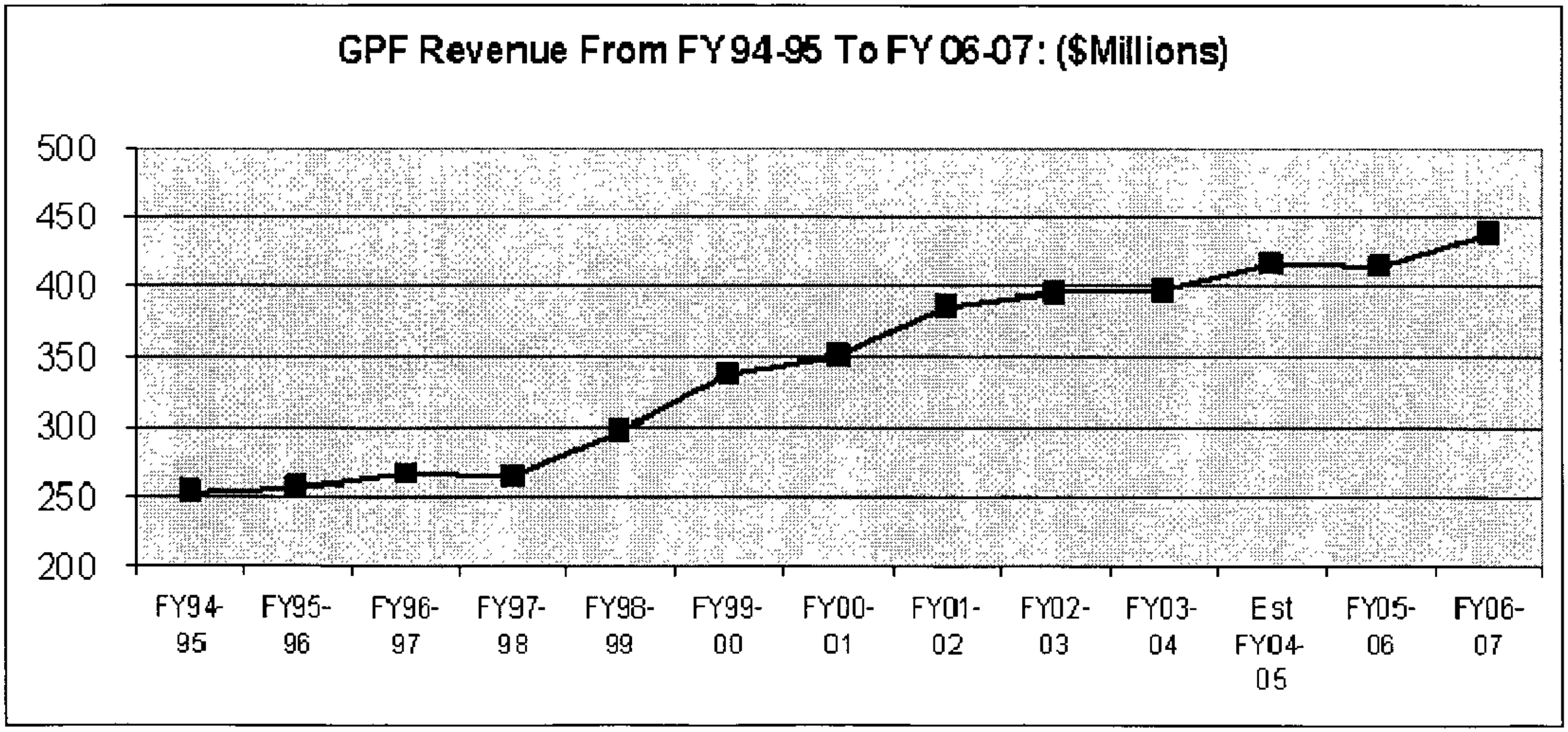
- City's budget is allocated among 7 Mayor / Council goals
- See FY 2003-05 biannual budget allocation (across all funds)



# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Revenues

- *Over last ten years, growth averaged 6.4%*
- *FY 2005-06 – slight decline (mainly due to loss of one-time revenue)*
- *FY 2006-07 – return to more normal 6.1%*



# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Revenues by Category

| | Estimated FY04-05 | Forecast FY05-06 | % Change | Forecast FY06-07 | % Change |
|---|---|---|---|---|---|
| New State Takeback | (6.9) | (6.9) | 0.0% | 0.0 | -100.0% |
| PROPERTY TAX w/out Takeback | 97.3 | 101.5 | 4.3% | 106.6 | 5.0% |
| SALES TAX | 41.8 | 42.1 | 0.9% | 43.5 | 3.2% |
| VEHICLE LICENSE FEE | 2.4 | 2.5 | 3.3% | 2.6 | 3.3% |
| REAL ESTATE TRANSFER TAX | 59.0 | 55.0 | -6.8% | 58.9 | 7.0% |
| BUSINESS LICENSE TAX | 44.7 | 46.0 | 3.1% | 47.9 | 4.0% |
| UTILITY CONSUMPTION TAX | 48.7 | 50.6 | 3.9% | 52.7 | 4.2% |
| TRANSIENT OCCUPANCY TAX | 9.3 | 9.4 | 1.0% | 9.7 | 3.0% |
| PARKING TAX | 9.0 | 9.3 | 3.6% | 9.8 | 5.0% |
| LICENSES & PERMITS | 15.2 | 16.1 | 6.0% | 17.0 | 6.0% |
| FINES & PENALTIES | 26.8 | 26.8 | 0.0% | 26.8 | 0.0% |
| INTEREST INCOME | 0.0 | 0.0 | N/A | 0.0 | N/A |
| SERVICE CHARGES | 52.9 | 53.6 | 1.2% | 57.0 | 6.3% |
| GRANTS & SUBSIDIES | 0.1 | 0.0 | N/A | 0.0 | N/A |
| MISCELLANEOUS | 9.1 | 1.7 | -81.8% | 0.5 | -68.7% |
| INTERFUND TRANSFERS | 6.9 | 6.9 | 0.0% | 6.9 | 0.0% |
| *SUBTOTAL* | *416.3* | *414.6* | *-0.4%* | *439.8* | *6.1%* |
| CARRYFORWARDS | 9.2 | 0.0 | N/A | 0.0 | N/A |
| **TOTAL** | **425.5** | **414.6** | **-2.6%** | **439.8** | **6.1%** |

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

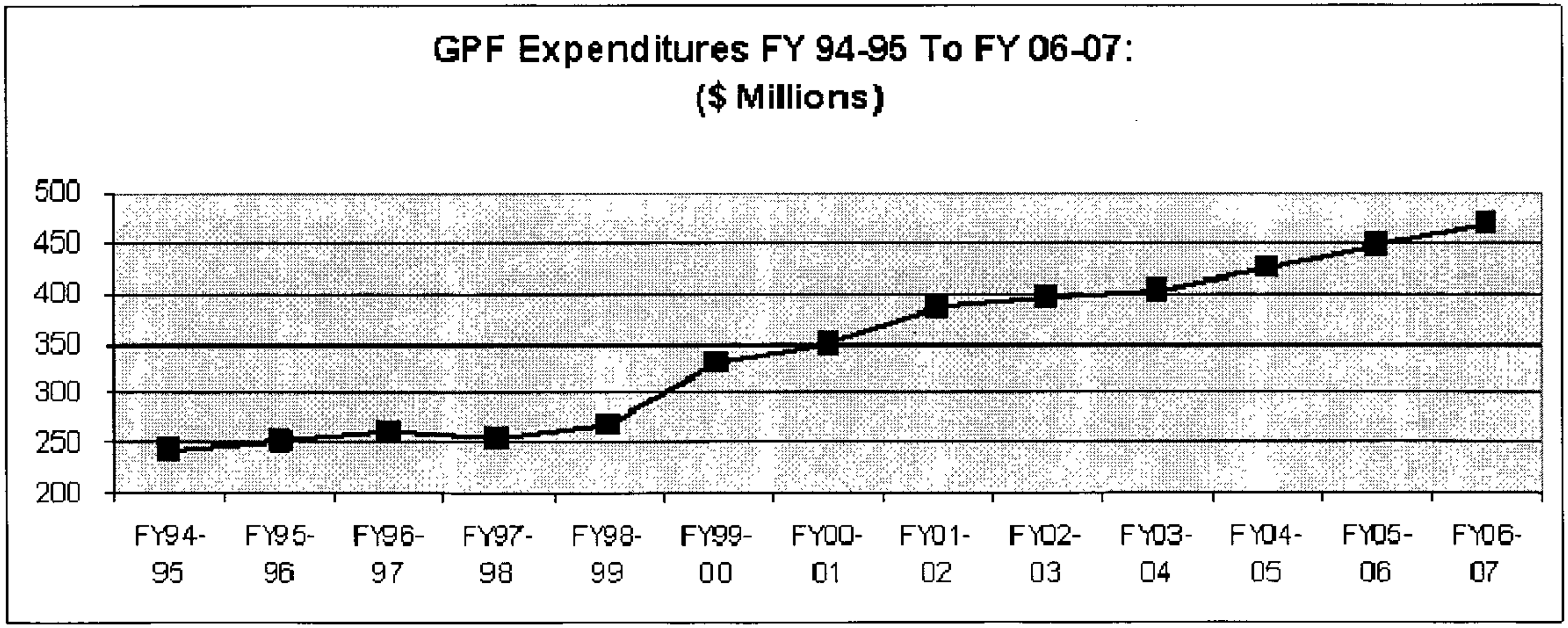
## GPF Revenues

- For most categories, growth from 3% to 7%
- Total revenue (excluding carryforwards) decreases by 0.4% in FY 2005-06, increases by 6.1% in FY 2006-07. Reasons for FY 05-06 decrease:
  1. Reductions in *Miscellaneous* revenue category ($7.4 million), due to loss of 3 one-time items
  2. *Real Estate Transfer Tax* decreases in FY 2005-06 by $4.0 million from FY 2004-05, to return to more sustainable, pre-FY 2003-04 level
  3. *Sales Tax* growth slows in FY 2005-06: 3.9% growth assumed, but $1.31 million loss in annual revenue due to discontinuation of fuel sales tax contract with United Airlines

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Expenditures

- *Over last ten years, growth averaged 7%*
- *FY 2005-06 – 9.5% growth*
- *FY 2006-07 – 3.6% increase*



# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Expenditures by Category

| | Adopted FY 2004-05* | FY 2005-06 Baseline | % Growth | FY 2006-07 Baseline | % Growth |
|---|---|---|---|---|---|
| Non-sworn Salaries | 78.5 | 83.4 | 6.2% | 86.7 | 4.0% |
| Non-sworn Retirement | 9.3 | 19.8 | 113.6% | 20.4 | 3.4% |
| Non-sworn Benefits | 20.2 | 21.3 | 5.4% | 23.6 | 11.1% |
| Sworn Salaries | 109.3 | 114.3 | 4.6% | 119.2 | 4.3% |
| Sworn Retirement | 35.7 | 40.2 | 12.6% | 42.1 | 4.6% |
| Sworn Benefits | 28.9 | 32.3 | 11.8% | 34.8 | 7.7% |
| Miscellaneous Personnel Costs | 22.0 | 31.0 | 41.0% | 32.1 | 3.6% |
| Internal Service Fund Charges | 15.0 | 15.0 | 0.0% | 15.0 | 0.0% |
| O&M - Other | 85.2 | 85.1 | 0.0% | 84.2 | -1.1% |
| **TOTAL GPF EXPENDITURES** | **404.0** | **442.3** | **9.5%** | **458.0** | **3.6%** |

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Expenditures

- Significant expenditure growth in FY 2005-06, somewhat slower in FY 2006-07. Main factors:
  1. pre-negotiated salary increases
  2. retirement rates driven by new, enhanced pension benefits, recent negative performance of the CalPERS investment portfolio, and the discontinuation of temporary employee contributions to retirement
  3. significant increases in medical costs, driven by a new regional pricing and other overarching factors affecting the health field

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Expenditures

- Pre-negotiated salary increases

| Labor Groups | FY 2005-06 Increase | FY 2006-07 Increase |
|---|---|---|
| Local 790, Local 21, IBEW Local 1245, Attorneys & Special Counsel | **4%** (July 2005) | **4%** (July 2006) |
| Police Sworn (OPOA) | **5%** (January 2006) | **unknown** (contract ends June 30, 2006) |
| Fire Sworn (IAFF) | **4%** (July 2005) | **4%** (July 2006, contract ends June 30, 2007) |

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Expenditures

- Retirement rate increases

**MISCELLANEOUS PLAN - 2.7% @ 55**

| | FY 2004-05 Rate | FY 2005-06 Rate | FY 2006-07 Rate (Est.) |
|---|---|---|---|
| CalPERS Employer Rate | 15.105% | 18.550% | 18.400% |
| CalPERS Employee Rate | 8.640% | 8.640% | 8.640% |
| **Subtotal CalPERS Rate** | **23.745%** | **27.190%** | **27.040%** |
| Employee Retirement Pickup (set by MOU) | -3.000% | -3.000% | -3.000% |
| Temporary Retirement Pick-Up (negotiated for FY 03-05) | -3.000% | 0.000% | 0.000% |
| 'Banked' Retirement Contributions from Prior Years | -6.000% | 0.000% | 0.000% |
| **Subtotal City employee contribution** | **-12.000%** | **-3.000%** | **-3.000%** |
| **Net Miscellaneous Rate** | **11.745%** | **24.190%** | **24.040%** |

**SAFETY PLAN 3% @ 50 - POLICE SWORN, CORRECTIONAL OFFICERS, RANGERS**

| | FY 2004-05 Rate | FY 2005-06 Rate | FY 2006-07 Rate (Est.) |
|---|---|---|---|
| CalPERS Employer Rate | 29.811% | 29.290% | 29.380% |
| CalPERS Employee Rate | 9.810% | 9.810% | 9.810% |
| **Net Police Safety Rate** | **39.621%** | **39.100%** | **39.190%** |

**SAFETY PLAN 3% @ 50 - FIRE SWORN**

| | FY 2004-05 Rate | FY 2005-06 Rate | FY 2006-07 Rate (Est.) |
|---|---|---|---|
| CalPERS Employer Rate | 29.811% | 29.290% | 29.380% |
| CalPERS Employee Rate | 9.810% | 9.810% | 9.810% |
| **Subtotal CalPERS Rate** | **39.621%** | **39.100%** | **39.190%** |
| Pick-up of CalPERS Employee Rate by Employees | -9.810% | -9.810% | -9.810% |
| Employee Retirement Pickup (set by MOU) | -4.000% | -4.000% | -4.000% |
| 'Banked' Retirement Contributions from Prior Years | -4.000% | 0.000% | 0.000% |
| **Subtotal City employee contribution** | **-17.810%** | **-13.810%** | **-13.810%** |
| **Net Fire Safety Rate** | **21.811%** | **25.290%** | **25.380%** |

Note: FY 2005-06 retirement rates are final from CALPERS; FY 2006-07 rates are most recent projections from CALPERS.

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## GPF Expenditures

- Increases in medical costs

| Calendar Year | Single | Percent Increase | 2-Party | Percent Increase | Family | Percent Increase |
|---|---|---|---|---|---|---|
| 2005 | $354.69 | 16% | $709.38 | 16% | $922.19 | 16% |
| 2004 | $305.42 | 18% | $610.84 | 18% | $794.09 | 18% |
| 2003 | $259.21 | | $518.42 | | $673.95 | |

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## Major Budget-Related Issues

- Baseline Revenue / Expenditure Gap

**FY 2005-07 Baseline Revenue / Expenditure Gap**

| | FY 2005-06 | FY 2006-07 |
|---|---|---|
| Projected GPF Revenues | $414.6 | $439.8 |
| Baseline GPF Expenditures | $442.3 | $458.0 |
| **Baseline Gap** | **($27.7)** | **($18.2)** |

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

## Major Budget-Related Issues

- Bridging Gaps in Non-GPF Negative Funds: 10-year repayment schedule

| Fund | Estimated Negative Fund Deficit | Current (FY 2004-05) Contribution from GPF | Additional GPF Contribution Required in FY 2005-06 (Increase from FY 2004-05) | Additional GPF Contribution Required in FY 2006-07 (Increase from FY 2004-05) |
|---|---|---|---|---|
| 1100 – Self-Insurance Liability | -$22.39 mill | $7.19 mill | $2.07 mill | $3.84 mill |
| 1730 – Kaiser Convention Center | -$4.99 mill | - | $0.34 mill | $0.63 mill |
| 1760 – Telecommunications | -$1.63 mill | - | $0.15 mill | $0.29 mill |
| 1790 – Contract Compliance | -$5.40 mill | - | $0.24 mill | $0.53 mill |
| 4100 – Equipment | -$5.56 mill | $6.91 mill | $0.36 mill | $1.30 mill |
| 4400 – Facilities | -$10.13 mill | $8.13 mill | $0.80 mill | $1.80 mill |
| | | | **$3.96 mill** | **$8.39 mill** |

# City's Financial Outlook for FY 2005-07 & Key Budget Issues

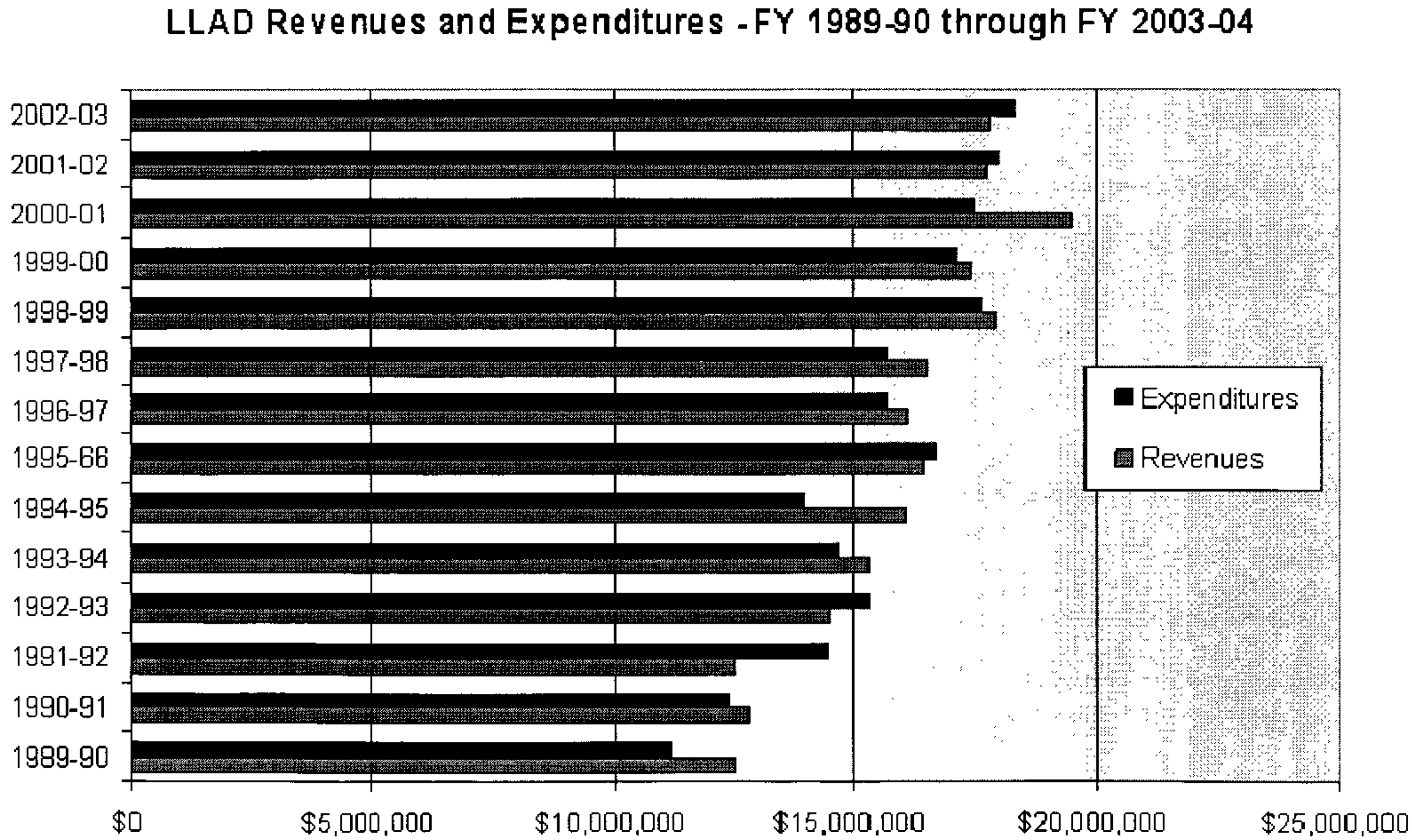
## Potential Solutions

- Potential savings / additional revenues of as high as **$31.67 million** for FY 2005-06, and **$26.93 million** for FY 2006-07

| Potential Solution | FY 2005-06 Savings / Additional Revenue | FY 2006-07 Savings / Additional Revenue |
|---|---|---|
| ***Expenditure Reductions*** | | |
| Increased employee retirement contributions – 3% from all employees (sworn and non-sworn) | $6.19 mill | $6.47 mill |
| Across-the-board cuts – 3% for all departments, with sworn personnel exempted | $7.17 mill | $7.51 mill |
| Five-Day mandatory shutdown (between Christmas and New Year) | $1.94 mill | $2.06 mill |
| Once-per-Month mandatory shutdown | $4.66 mill | $4.95 mill |
| ***Revenue Enhancements*** | | |
| Accelerating VLF loan repayment | $6.25 mill | - |
| Implementing 911 fee | $7.40 mill | $8.00 mill |

# Landscaping and Lighting Assessment District Fund Issues

- LLAD initially formed in 1989, re-approved in 1994
- Revenues virtually flat, expenditures rising



# Landscaping and Lighting Assessment District Fund Issues

- The trend of flat revenues and increasing costs will ultimately result in a negative fund balance in LLAD
- By end of FY 2005-06, LLAD fund would be running negative – and drawing resources from the City's GPF – unless measures are put in place to address the structural revenue / expenditure gap in the LLAD

**LLAD Revenues & Expenditures in $$ Millions**

| | FY 04-05 Estimated Actuals | FY 05-06 Baseline | FY 06-07 Baseline |
|---|---|---|---|
| Revenues | 17.72 | 17.72 | 17.72 |
| Expenditures | 19.22 | 20.26 | 20.81 |
| Borrowing from Fund Balance | 1.50 | 2.54 | 3.09 |
| **Estimated Ending Fund Balance** | **1.04** | **-1.49** | **-4.58** |

# Landscaping and Lighting Assessment District Fund Issues

- Structural shortfall in the LLAD fund can be addressed in two ways:

  1. Reducing Expenditures: transfer costs or cut services provided through LLAD
  2. Increasing Revenues: increase current LLAD assessment rate, or establish a new LLAD (either complementing or replacing the existing LLAD); either of these options would require voter approval

- Staff will continue studying both alternatives, and will present a proposal to the Council as part of the FY 2005-07 Proposed Budget

# Capital Improvement Program Status and Future Outlook

- July 2004: Council adopted resolution establishing prioritization methods for the City's infrastructure in the categories of Facilities and Structures, Parks and Open Space, Sewers, Storm Drains, Streets, Sidewalks, and Traffic Improvements (Att. B)
- As part of the FY 2005-10 Proposed Capital Improvement Program Budget, staff will present projects that continue and complete existing capital improvements and add new ones, according to above criteria
- In FY 2003-05, $87 million was approved for CIP – funded by Sewer Service, Municipal Improvement Capital, Measure DD, Measure B–Alameda County Transportation Improvement Authority (ACTIA), other funds

# Capital Improvement Program Status and Future Outlook

## Key Issues for FY 2005-07:

- *Municipal Improvement Capital fund (#5500):* No new appropriation (except for ongoing partial support of debt)
- *Sewer Service fund (#3100):* Expect to complete $70 million sewer bond issuance by Dec '04; proceeds used to fund needed capital improvements in City's aged sanitary sewer system (project list presented for Council approval in FY 2005-10 Proposed CIP Budget)
- *Storm Drains:* Master Plan identified needed projects costing $200 million; no funding in FY 2003-05 for capital improvements to storm drainage system
- *Measure B (ACTIA):* Restricted to transportation activities; 55% of revenue approved for capital projects, 45% for operating budget
- *State Gas Tax (#2230*): Restricted to transportation and street-related activities; no appropriation for capital projects in FY 03-05, all funding used for operating needs
- *Capital Improvements Contingency Fund:* Ordinance #12502, adopted June 2003, requires $6 million annual appropriation; no additional appropriation needs are foreseen for FY 2005-07

# Capital Improvement Program Status and Future Outlook

## Operations & Maintenance Needs of City's Infrastructure:

- In last 10-15 years, local taxpayers provided significant resources to City for land acquisition and capital improvements related to parks, open space, recreational and cultural facilities

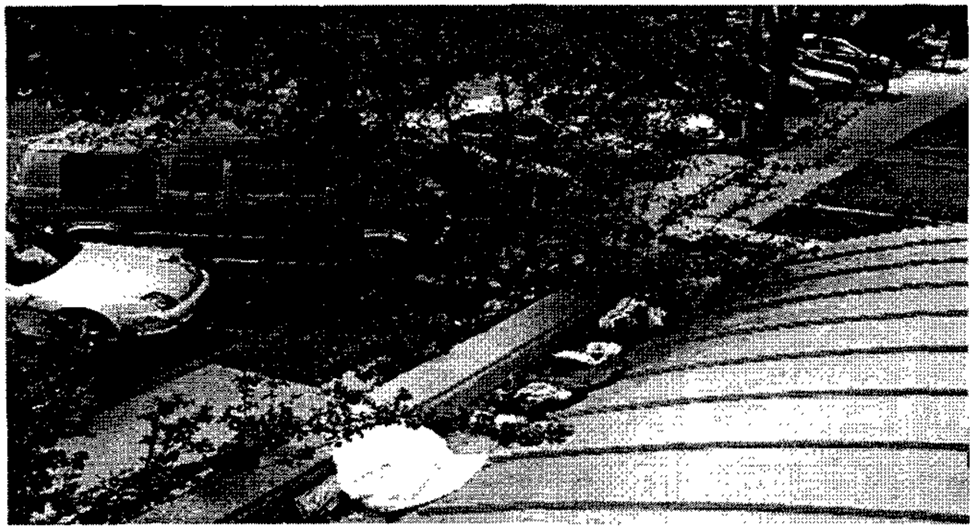
| Source | Amount | Date Approved |
|---|---|---|
| **Measure AA** – Regional Open Space, Wildlife, Shoreline and Park Bond Act | $10.2 million | 1988 |
| **Measure K** – Open Space, Expansion, Development, and Rehabilitation of Park and Recreational Facilities | $60 million | November 1990 |
| **Measure I** – Enhancement of Libraries, Museums, and Other Cultural and Recreation Facilities | $45.4 million | November 1996 |
| **Measure G** – Oakland's Zoo, Museum, and Chabot Space and Science Center Improvements | $59 million | March 2002 |
| **Measure DD** - Oakland Trust for Clean Water and Safe Parks | $198 million | November 2002 |
| **Total** | **$372.6 million** | |

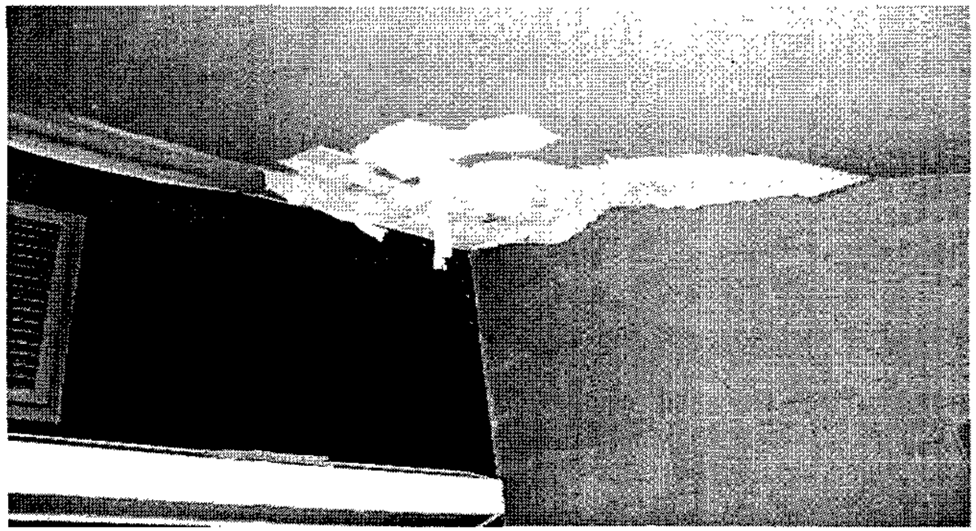
- City also benefited from grant funding sponsored at federal and state levels, including State Propositions 12 and 40, CA Integrated Waste Management Board grants, Federal Urban Park & Recreation Recovery Program, and Federal Land and Water Conservation Fund

# Capital Improvement Program Status and Future Outlook

## Operations & Maintenance Needs of City's Infrastructure:

- Facilities and Structures
  - preventive maintenance needs
  - capital maintenance and replacement needs



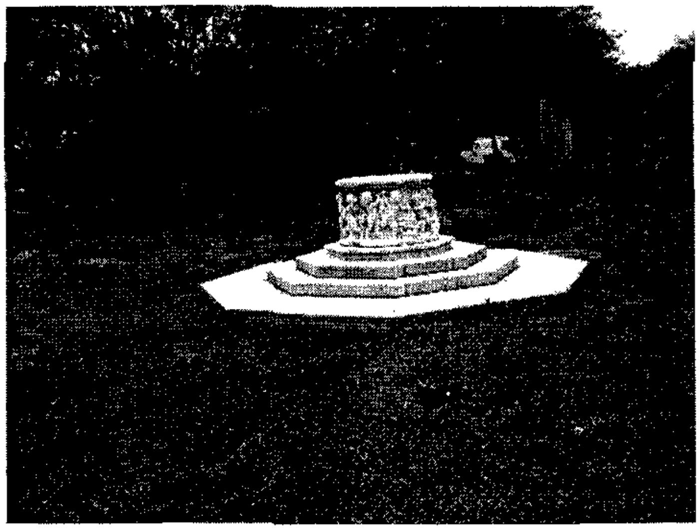


Lafayette Square Restroom

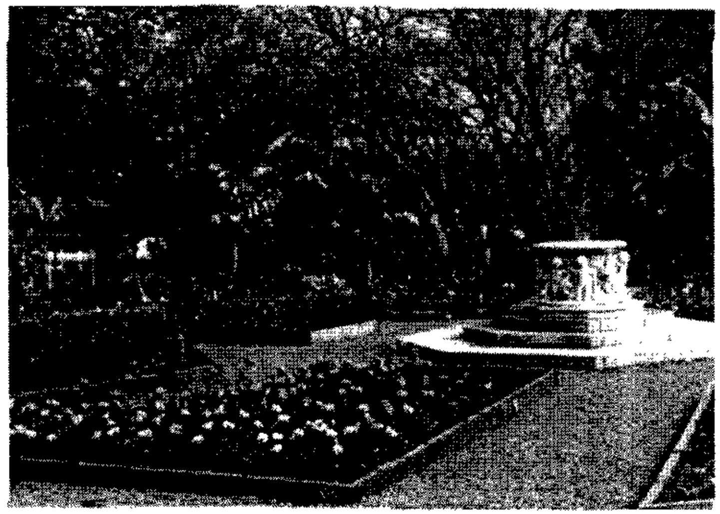
# Capital Improvement Program Status and Future Outlook

## Operations & Maintenance Needs of City's Infrastructure:

- Parks & Open Space
  - ongoing and maintenance needs



Lakeside Park – Today (2004)

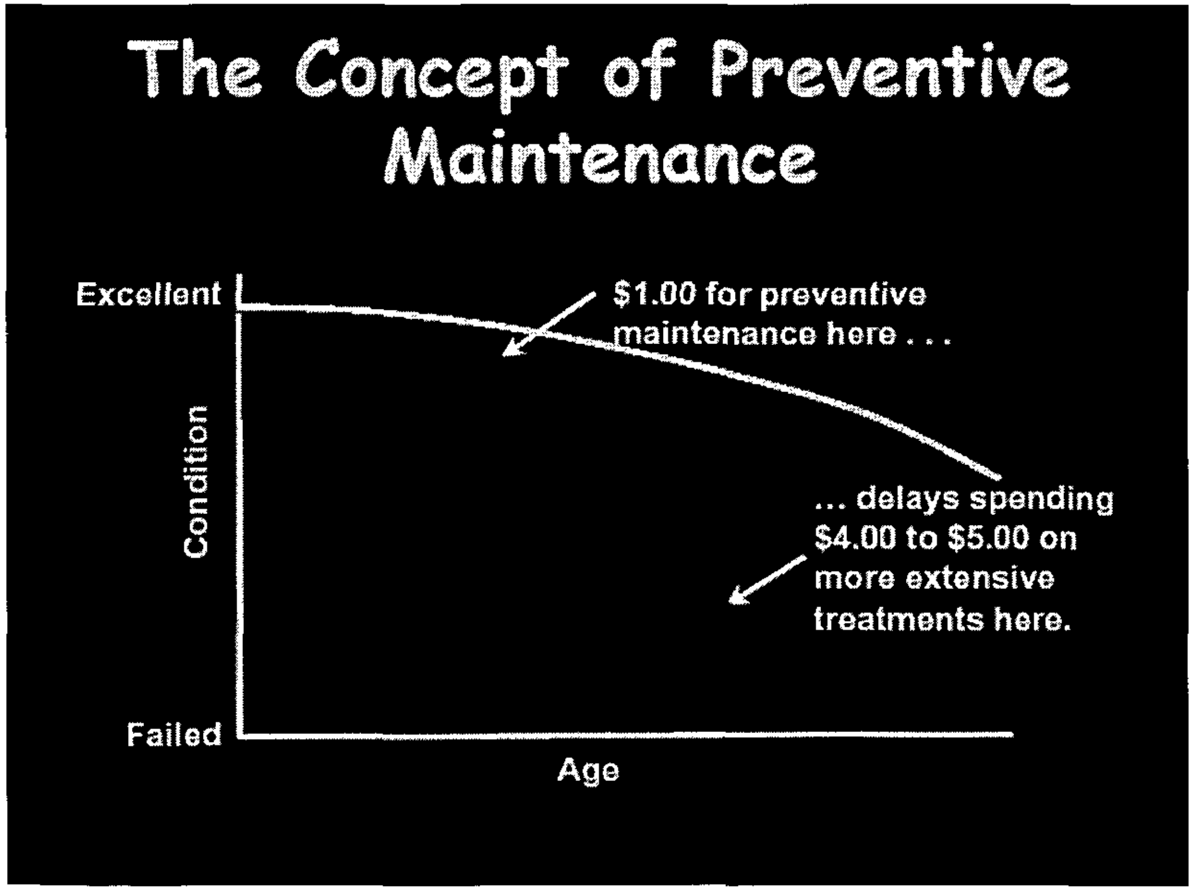


Lakeside Park – 1987

# Capital Improvement Program Status and Future Outlook

## Operations & Maintenance Needs of City's Infrastructure:

- Streets
  - preventive maintenance needs
  - repairs needs

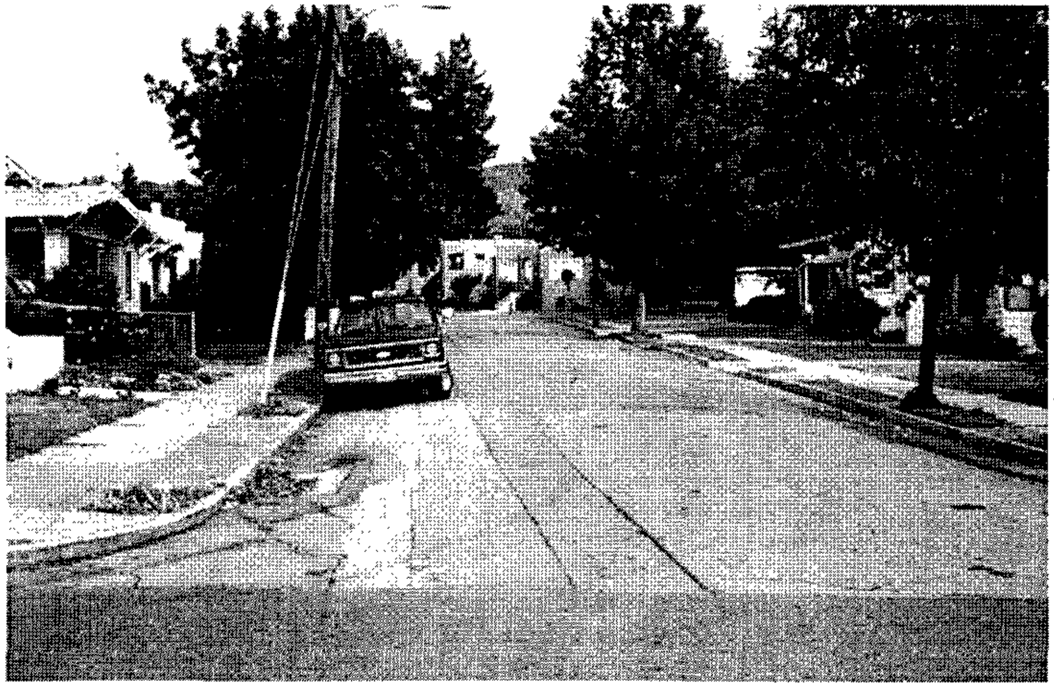


# Capital Improvement Program Status and Future Outlook

## Operations & Maintenance Needs of City's Infrastructure:

- Streets

Redwood Road – resurfaced in 2004

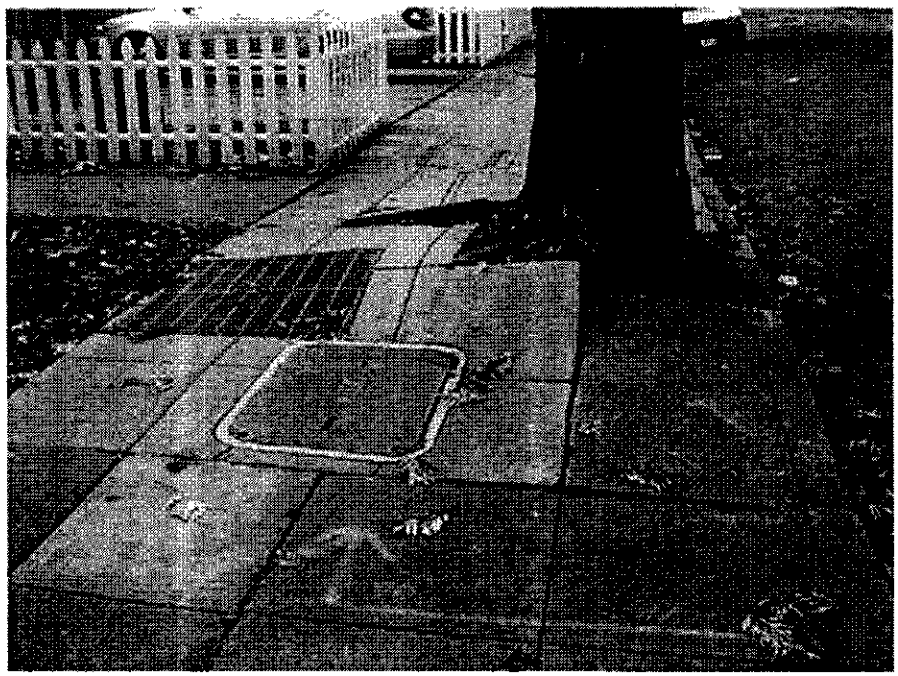


Laurel Avenue – repaved in 1980

# Capital Improvement Program Status and Future Outlook

## Operations & Maintenance Needs of City's Infrastructure:

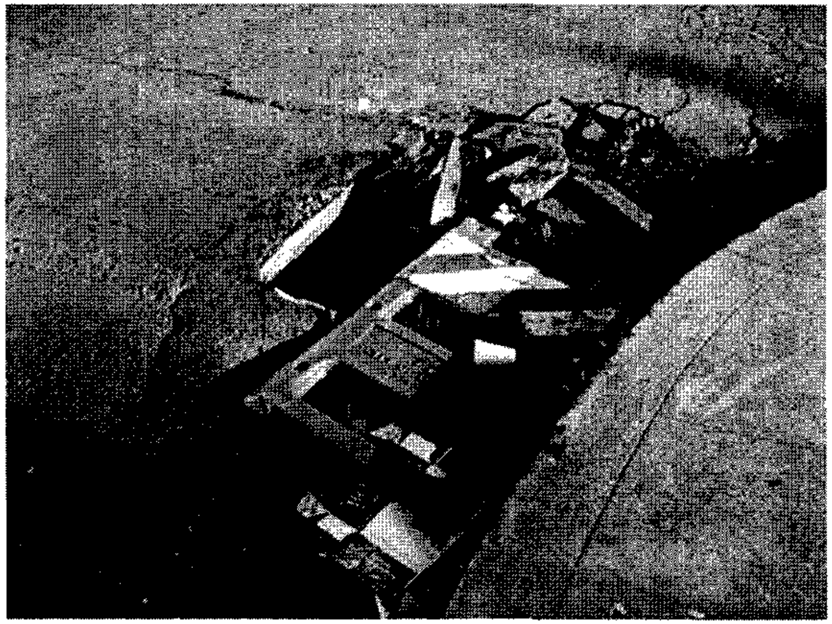
- Sidewalks
  - tree-related damage
  - repairs needs



# Capital Improvement Program Status and Future Outlook

## Operations & Maintenance Needs of City's Infrastructure:

- Storm drains
  - Storm Drain Master Plan: $200 mill capital project need
    - *Rehabilitation/Replacement Projects ($32 mill)*
    - *Capacity Correction Projects ($155 mill)*
    - *Capacity Correction Projects ($11 mill)*
    - *Annual maintenance ($5 mill)*

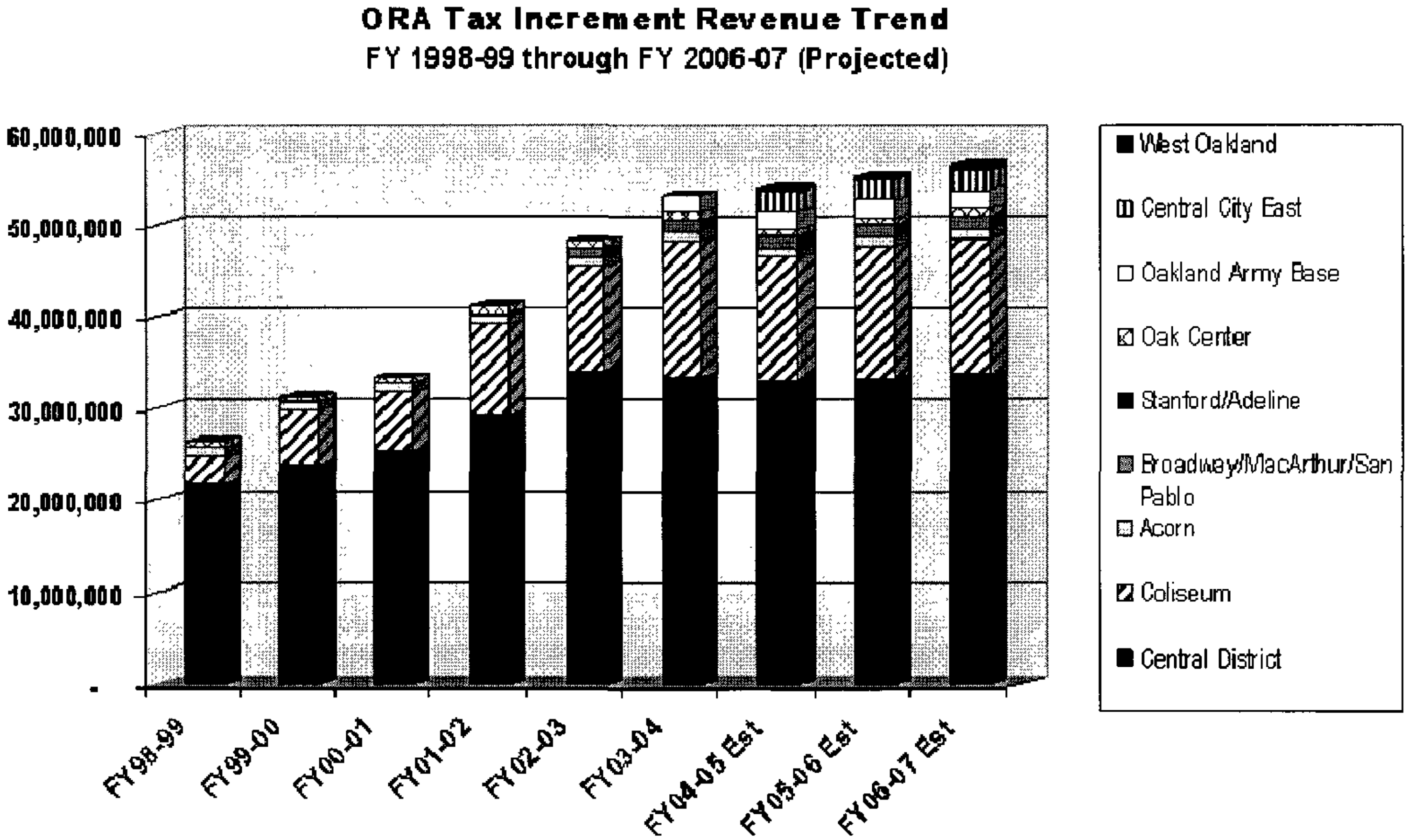


# Oakland Redevelopment Agency Financials and Major Projects

- ORA continues to experience rapid changes – both in terms of revenue generation and project activity
- Overall, gross tax increment revenues for 9 active project areas are expected to increase during FY 2005-07
- Strong property values and brisk redevelopment activity across most project areas are projected to yield between 2% and 5% percent tax increment revenue growth
- However, mix of this growth differs from prior years due to:
  - *Leveling off of Central District tax increment revenues*
  - *Increasing revenues from newer project areas as a % of total*

# Oakland Redevelopment Agency Financials and Major Projects

## ORA Tax Increment Revenue



# Oakland Redevelopment Agency Financials and Major Projects

## Bond Issuances and Capital Projects

- Uptown Development - Central District's primary capital project
- $40-$45 million in bonds expected by end of FY 2004-05 to finance :
  - *Uptown Project developments*
  - *Fox Theatre improvements and related affordable housing subsidy*
  - *Broadway to Jack London streetscape improvements*
  - *21st Garage Expansion (design and other soft costs)*
  - *10K Downtown Project – site assembly*
  - *Retail Façade and Tenant Improvements*
- This bond issuance is expected to fund projects through FY 2006-07

# Oakland Redevelopment Agency Financials and Major Projects

## State- and Locally-Mandated Expenditures

- ORA generally eligible to collect all tax increment revenue above base year values for each project area
- State and local mandates constrain uses of these revenues
  - *AB 1290 pass-through*
  - *ERAF shift*
  - *Housing set-aside*
  - *School set-aside*

# Questions / Discussion

- Special Considerations on Establishing FY 2005-07 Mayor/ Council Budget Priorities
- City's Financial Outlook & Key Budget Issues
- Landscaping and Lighting Assessment District (LLAD) Fund Issues
- Capital Improvement Program (CIP) Status and Future Outlook
- Oakland Redevelopment Agency (ORA) Financials and Major Projects

# Establishing Mayor / Council Goals for FY 2005-07

- Main Objective of this Session, Intended Outcomes
- Time Allotted
- Next Steps