



# **City of Oakland**

## **City Council Budget Workshop Preliminary Baseline Revenue & Expenditures**

**February 25, 2019  
Special City Council Meeting**



# Overview

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- The City started with a **balanced budget** in the General Purpose Fund for FY 2018-19 Midcycle (\$602.45 million, including the planned use of \$1.2 million in reserves).
- FY 2018-19 Second Quarter Revenue & Expenditure Report shows a projected **operating deficit of \$6.3 million**, with projected expenditures exceeding projected revenues.
  - This would leave the City short of its 7.5% emergency reserve by approximately **\$1.7 million**.
- The City's GPF tax revenues are expected to grow at a normal rate. Over a long-term period, **GPF tax revenues generally track the Bay Area rate of inflation over the long-term.**
- However, GPF **expenditures are growing at 2X to 3X the rate of inflation and revenue growth**, driven primarily by growth in fixed personnel costs (pensions, fringe benefits, OPEB, etc.), self-insurance claims/premiums, and other operational costs (fuel, utilities, etc.).



# Overview

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- As a result, the preliminary GPF baseline shows a nearly **\$25 million deficit** in FY 2019-20 (1<sup>st</sup> year of biennial budget) and an \$18 million deficit in FY 2020-21 (2<sup>nd</sup> year of biennial budget).
  - This gap assumes **status quo** operations relative to the Midcycle Budget – which calls into question the long-term sustainability and affordability of existing operations.
  - Continued financial pressures on the City’s core services.
- Financial uncertainty over the next two years? Risk of recession?
  - Need to evaluate programs and services in terms of long-term affordability and ensure that reserves are sufficient to mitigate impacts of any unanticipated downturn in GPF revenues.

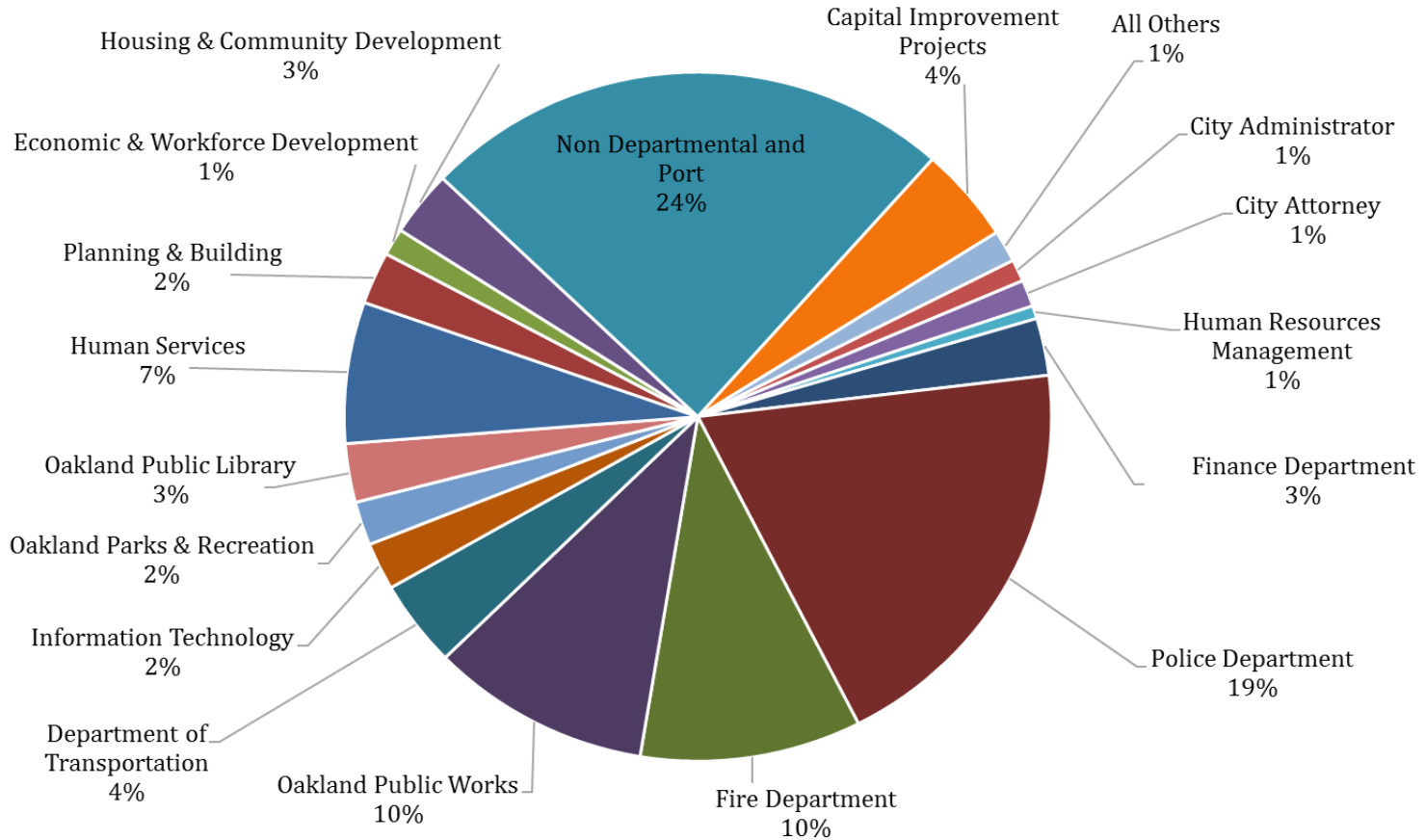


# FY 2018-19 Midcycle Budget

## All Funds, Citywide

- All Funds Expenditures = **\$1.48 billion**

### FY 2018-19 Midcycle Budget Expenditures by Department

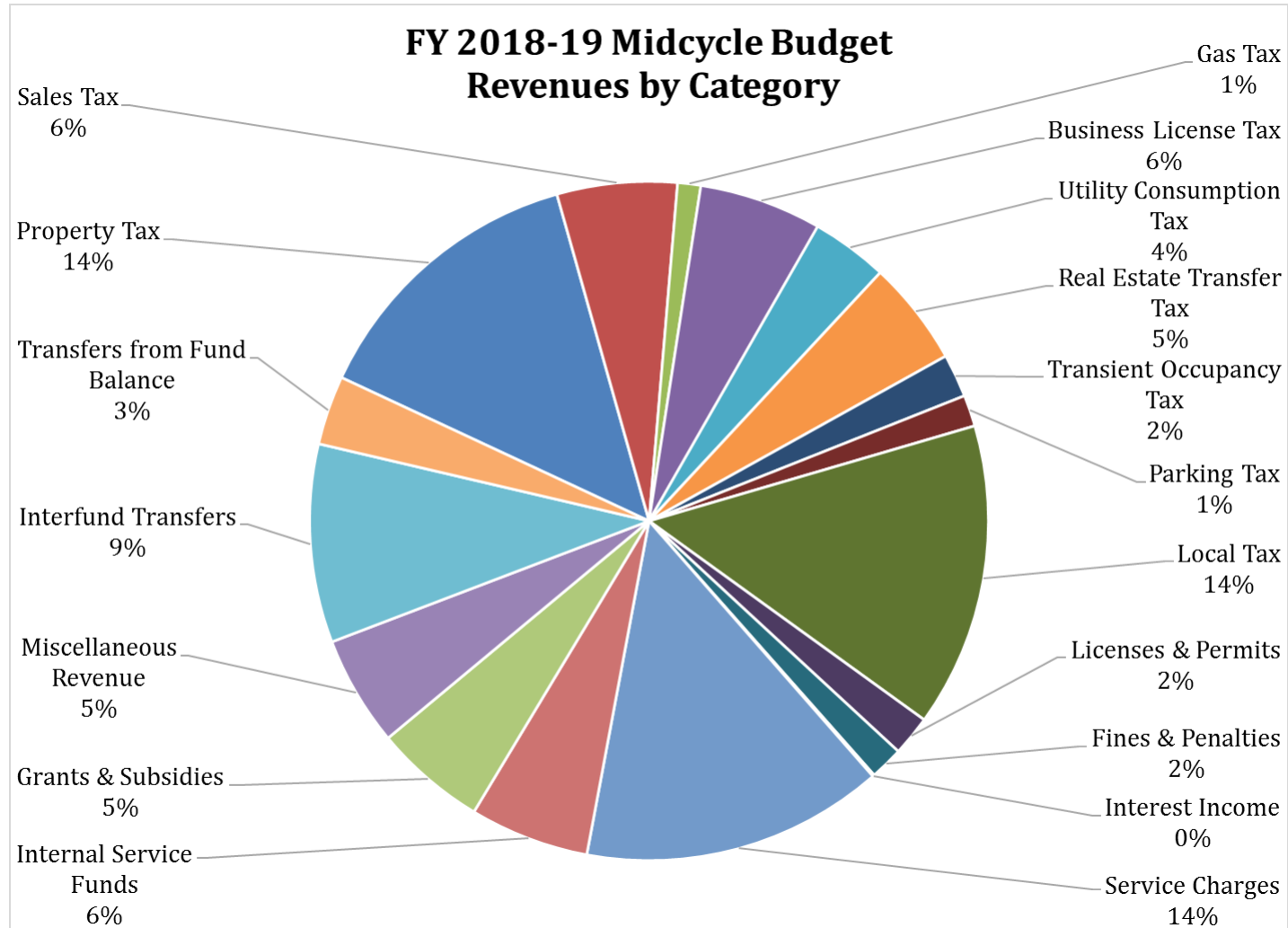




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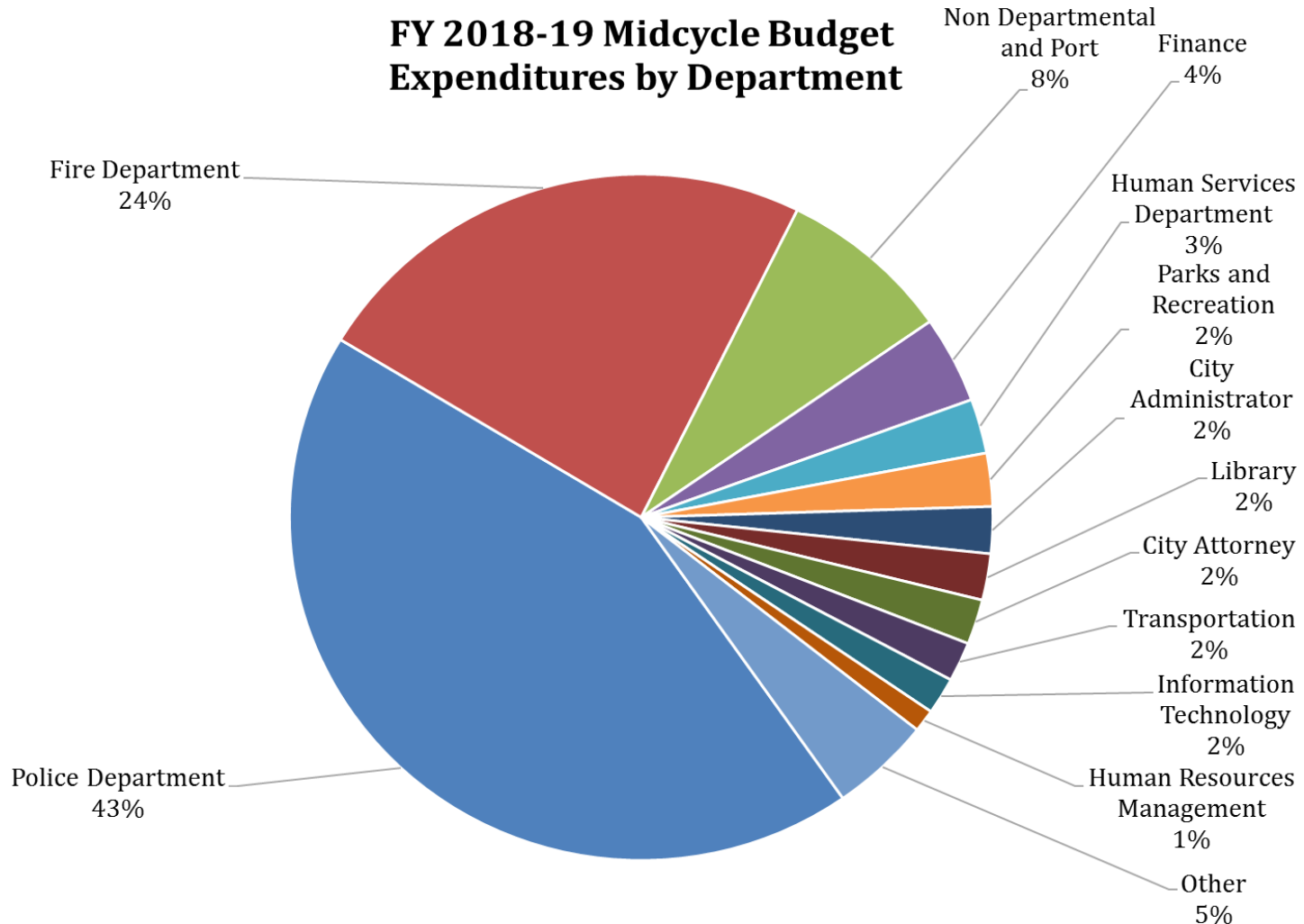




# FY 2018-19 Midcycle Budget

## General Purpose Fund

- GPF Expenditures = **\$602.45 million**

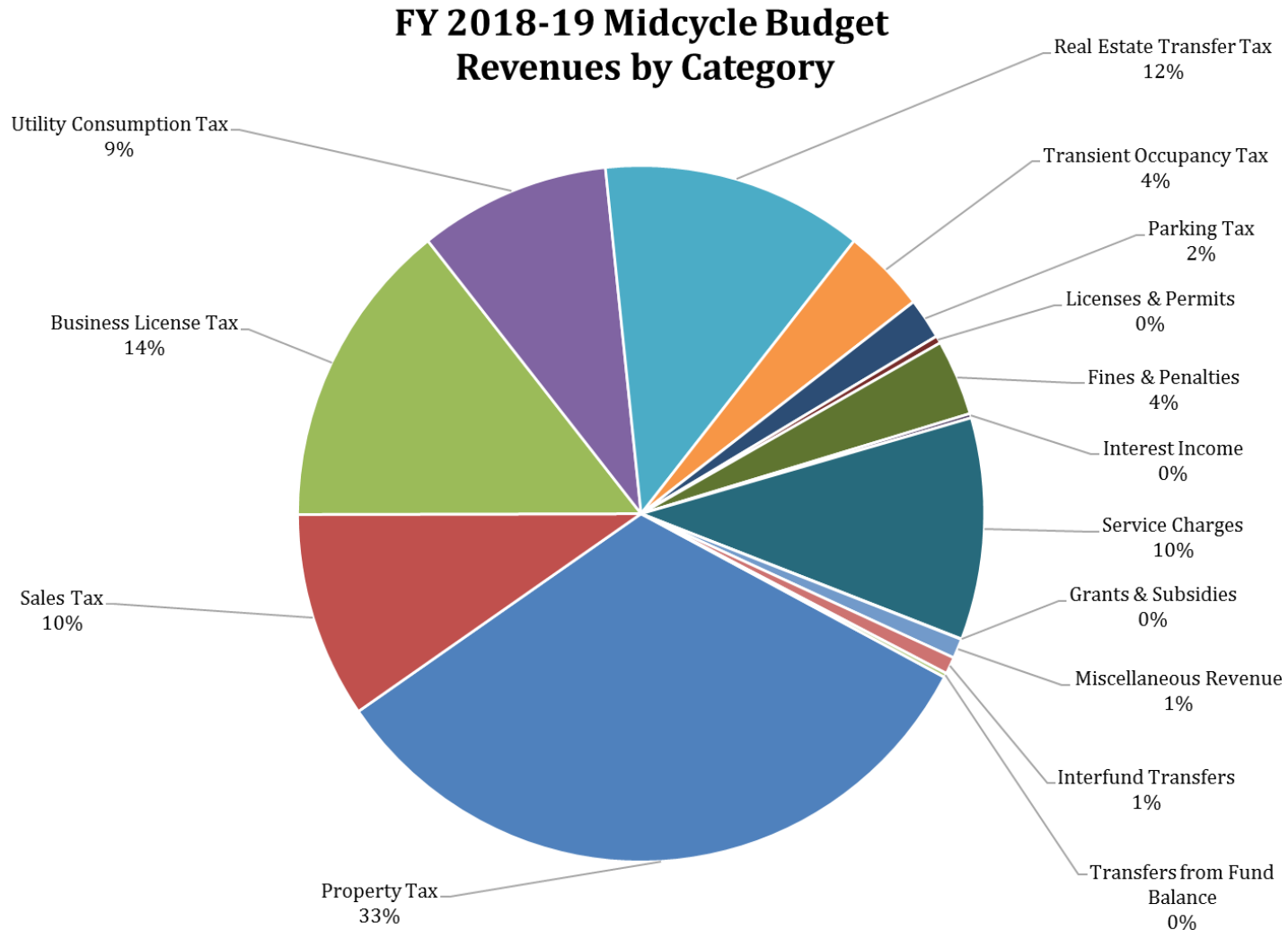




# FY 2018-19 Midcycle Budget

## General Purpose Fund

- GPF Revenues = **\$602.45 million**, including \$1.2 million use of reserves





# GPF Revenues

## *Summary*

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- Economy is returning to a more “normal” growth pattern.
- Growth in Property Tax revenues continue to be stable, resulting from growth in assessed valuations.
  - Growth in property tax revenues is somewhat muted by more moderate growth in other revenue categories such as Sales Taxes, Utility User Taxes, and Parking Taxes.
- Volume of residential real estate sales is leveling off, though home sale values continue to climb.
  - New graduated RETT tax rate should help to buffer any downturns in this revenue category, but it is too early to estimate impact with any great deal of certainty.





# Historical Revenues

## General Purpose Fund - Local Tax Revenues

- Average Annual Growth Rate in **Local Tax Revenues** from FY 2005-06 Actuals to FY 2018-19 Q2 Estimate = **3.3% per year** (CPI-W Average = 2.6%)

(In Millions)	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Q2 Est
Property Tax	\$105.35	\$116.47	\$131.74	\$134.47	\$131.78	\$126.68	\$138.80	\$154.14	\$142.82	\$159.36	\$158.69	\$171.48	\$187.17	\$200.23
Sales Tax	\$44.87	\$46.69	\$53.09	\$46.12	\$35.88	\$41.24	\$44.74	\$48.82	\$49.76	\$51.82	\$55.23	\$53.70	\$57.47	\$60.83
Vehicle License Fee	\$2.98	\$2.27	\$1.81	\$1.28	\$1.25	\$2.17	\$0.22	\$0.00	\$0.00	\$0.18	\$0.17	\$0.19	\$0.22	\$0.00
Business License Tax	\$43.79	\$50.33	\$52.54	\$54.29	\$54.14	\$53.14	\$58.71	\$60.37	\$62.91	\$66.85	\$75.50	\$75.84	\$86.11	\$89.04
Utility User Tax	\$48.77	\$51.43	\$52.52	\$52.70	\$51.11	\$53.44	\$51.43	\$50.75	\$50.42	\$50.59	\$51.01	\$52.62	\$52.05	\$53.09
Real Estate Transfer Tax	\$79.48	\$61.50	\$36.21	\$34.27	\$36.97	\$31.61	\$30.65	\$47.41	\$59.06	\$62.71	\$89.59	\$79.07	\$77.66	\$83.87
Transient Occupancy Tax	\$11.26	\$11.82	\$12.20	\$10.46	\$8.47	\$9.54	\$10.74	\$12.34	\$14.32	\$16.79	\$19.81	\$22.37	\$23.58	\$25.47
Parking Tax	\$8.47	\$8.89	\$8.52	\$7.66	\$7.52	\$8.51	\$8.62	\$7.95	\$8.44	\$9.34	\$10.22	\$10.64	\$10.80	\$11.44
<b>Total Local Tax Revenues</b>	<b>\$344.98</b>	<b>\$349.40</b>	<b>\$348.64</b>	<b>\$341.25</b>	<b>\$327.12</b>	<b>\$326.33</b>	<b>\$343.91</b>	<b>\$381.78</b>	<b>\$387.73</b>	<b>\$417.64</b>	<b>\$460.23</b>	<b>\$465.90</b>	<b>\$495.07</b>	<b>\$523.97</b>
Year-over-Year Growth (\$)	--	\$4.42	-\$0.76	-\$7.39	-\$14.13	-\$0.79	\$17.58	\$37.87	\$5.95	\$29.90	\$42.59	\$5.67	\$29.17	\$28.90
Year-over-Year Growth (%)	--	1.3%	-0.2%	-2.1%	-4.1%	-0.2%	5.4%	11.0%	1.6%	7.7%	10.2%	1.2%	6.3%	5.8%
Bay Area CPI-W (%)*	--	3.0%	3.5%	1.5%	1.6%	2.1%	3.1%	2.7%	2.2%	2.2%	2.6%	3.1%	3.3%	3.0%**

**Red Font** = Negative GPF Tax Revenue Growth

**Blue Font** = GPF Tax Revenue Growth Less Than Long-Term Inflation

\* Based on change in average fiscal year CPI-W

\*\* Data through December 2018 (most recent)



# Historical Revenues

## Real Estate Transfer Tax

- Real Estate Transfer Tax is highly volatile and revenues can increase and decrease rapidly with changing market conditions or as a result of the sale of high value properties.

(In Millions)	FY06 Actual	FY07 Actual	FY08 Actual	FY09 Actual	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Actual	FY14 Actual	FY15 Actual	FY16 Actual	FY17 Actual	FY18 Actual	FY19 Q2 Est
Real Estate Transfer Tax	\$79.48	\$61.50	\$36.21	\$34.27	\$36.97	\$31.61	\$30.65	\$47.41	\$59.06	\$62.71	\$89.59	\$79.07	\$77.66	\$83.87
Year-over-Year Growth (\$)	--	-\$17.98	-\$25.30	-\$1.94	\$2.71	-\$5.36	-\$0.95	\$16.75	\$11.65	\$3.65	\$26.89	-\$10.52	-\$1.41	\$6.21
Year-over-Year Growth (%)	--	-22.6%	-41.1%	-5.4%	7.9%	-14.5%	-3.0%	54.7%	24.6%	6.2%	42.9%	-11.7%	-1.8%	8.0%

- As shown in the table above, in the two most recent years for which audited actuals are available (FY 2016-17 and FY 2017-18), Real Estate Transfer Taxes declined by **-11.7%** and **-1.8%** year-over-year.
- With the approval of Measure X by Oakland voters in November 2018, a new graduated Real Estate Transfer Tax rate was initiated that should result in additional RETT revenues. The table below shows the FY 2019-21 baseline budgeted RETT revenues, which will be further refined at Q3 based on more recent data.

	FY 2019-20	FY 2020-21
Estimated RETT in Baseline	\$82.2 million	\$85.4 million
Est. RETT w/o Measure X	\$78.5 million	\$79.6 million



# Key Expenditure Challenges

- Long-term obligations pressure City's finances...

Table 1. Unfunded Retirement Benefit Obligations

	Accrued Liability	Assets (MV)	Unfunded Liability	Funded Ratio	Eff. Date
Police & Fire Retirement System <sup>1</sup>	\$673,441,000	\$353,203,000	\$320,238,000	52.4%	7/1/17
Other Post-Employment Benefits <sup>2</sup>	\$853,796,061	\$26,432,487	\$827,363,574	3.1%	7/1/17
CalPERS - Miscellaneous	\$2,616,012,657	\$1,783,380,244	\$832,632,413	68.2%	6/30/17
CalPERS - Safety	\$1,997,661,954	\$1,283,385,686	\$714,276,268	64.2%	6/30/17
<b>Sub-Total</b>	<b>\$6,140,911,672</b>	<b>\$3,446,401,417</b>	<b>\$2,694,510,255</b>	<b>43.9%</b>	<b>n/a</b>

- Addressing negative funds...

Table 3: FY 2018-19 Projected Ending Fund Balance for Non-GPF Funds:

FUND	FY 2017-18 Audited Ending Balance	FY 2018-19 Projected Ending Balance
Self-Insurance Liability Fund	\$ (13.78)	\$ (6.77)
Landscaping & Lighting Assess. District Fund (LLAD)	(1.11)	(2.08)
Reproduction Fund	(1.77)	(1.71)
Facilities Fund	(2.35)	—
Central Stores Fund	(4.25)	(4.26)
Purchasing Fund	(0.53)	(0.49)

**Total Gap: (\$15.31)**



# Key Expenditure Challenges

## *General Purpose Fund*

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- Address shortfall in other funds such as:
  - Landscaping & Lighting Assessment District
  - Comprehensive Clean-Up
  - Head Start
  
- Insurance premiums & claims/settlements increasing at very significant rate.
  
- Dedicated funding for wildfire prevention exhausted.
  
- Historical under-budgeting of Sworn overtime.
  
- Impact of upcoming labor negotiations.



# Key Expenditure Drivers

## General Purpose Fund

- The table below provides a highlight of the key GPF expenditure drivers.

(In Millions)	FY 2018-19 Midcycle	FY 2019-20 Prelim	FY 2020-21 Prelim
<b>Pension</b>	<b>\$101.0</b>	<b>\$116.4</b>	<b>\$125.5</b>
YOY Increase (\$)	-	\$15.4	\$9.1
YOY Increase (%)	-	15.2%	7.8%
<b>Fringe Benefits<sup>1</sup></b>	<b>\$82.9</b>	<b>\$94.5</b>	<b>\$97.5</b>
YOY Increase (\$)	-	\$11.6	\$3.0
YOY Increase (%)	-	14.0%	3.1%
<b>Self-Insurance Claims &amp; Premiums</b>	<b>\$8.3</b>	<b>\$16.13</b>	<b>\$16.13</b>
YOY Increase (\$)	-	\$7.9	\$0.0
YOY Increase (%)	-	95.2%	0.0%
<b>Internal Service Funds Cost Allocation<sup>2</sup></b>	<b>\$53.5</b>	<b>\$63.6</b>	<b>\$63.1</b>
YOY Increase (\$)	-	\$10.1	(\$0.5)
YOY Increase (%)	-	18.9%	0.8%

<sup>1</sup> Includes active healthcare benefits, retiree medical, dental, vision, Medicare, workers' compensation, etc.

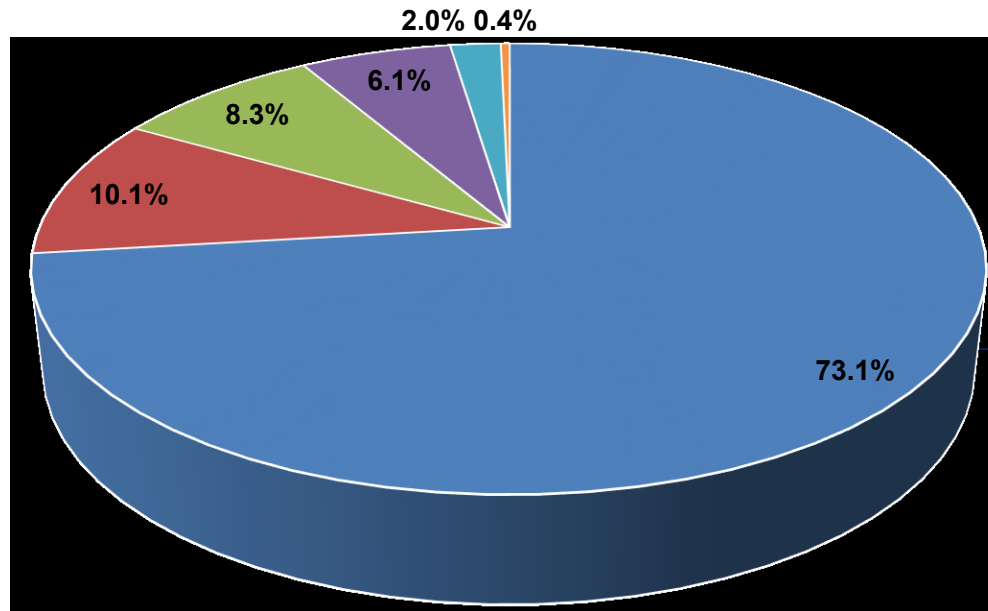
<sup>2</sup> Driven by growth in personnel costs as well as utility cost increases, fuel, debt service, etc.



# GPF Expenditures by Category

- About 73% of GPF expenditures are related to personnel, including wages, fringes (health, retiree health, workers' comp, etc.), and retirement (pension).

**Fiscal Year 2019-20  
Expenditures by Account Type**



Personnel	FY 19-20
Wages	55.3%
Fringes	20.0%
Retirement	24.7%

- Personnel & OH
- Internal Service Funds
- Operating Transfers
- O&M
- All Other Expenditures
- Debt Service



# GPF Preliminary Baseline

## FY 2019-21 Biennial Budget

### General Purpose Fund - 1010

<b>Preliminary Baseline (In Millions)</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>
Revenues	\$638.48	\$664.12
Expenditures	\$653.57	\$671.36
<b>Surplus / (Deficit)</b>	<b>(\$15.09)</b>	<b>(\$7.25)</b>
One-Time Expenditure Add Backs <sup>1</sup>	(\$3.98)	(\$3.98)
Other Fund Subsidies <sup>2</sup>	(\$5.41)	(\$6.38)
<b>GPF Surplus / (Deficit)</b>	<b>(\$24.48)</b>	<b>(\$17.61)</b>
<b>Gap with 1% Wage “Trigger” in FY 18-19</b>	<b>(\$27.40)</b>	<b>(\$20.73)</b>

<sup>1</sup> Includes one-time funding set-aside by City Council in FY 2019-21 Adopted Budget for various projects (e.g., Wildfire Prevention, Homelessness, Cultural Arts, etc.)

<sup>2</sup> Reflects estimated GPF subsidies for non-GPF funds with insufficient resources (e.g., Fund 2128 - Head Start, Fund 2310 - LLAD, Fund 2195 - Workforce, etc.)