




AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Director of Finance,
Finance Department

SUBJECT: Revenue and Expenditure Report
FY 2021-22 Q4 and FY 2022-23 Q1

DATE: November 14, 2022

City Administrator Approval 

Date: Dec 8, 2022

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2021-22 Fourth Quarter Revenue and Expenditure (R&E) Results And Year-End Summaries For The General Purpose Fund (GPF, 1010) and Select Funds, Fiscal Year (FY) 2022-23 First Quarter Revenue and Expenditure (R&E) Year-End Projections For the General Purpose Fund (GPF, 1010) and Select Funds, and a Two Year Revenue and Expenditure Projection for Fiscal Years 2023-24 and 2024-25.

EXECUTIVE SUMMARY

This report details the City of Oakland's (the City) unaudited Fourth Quarter (Q4) financial results for FY 2021-22 in the General Purpose Fund (GPF) and other funds. The purpose of the quarterly revenue and expenditure (R&E) report is to monitor collection and spending trends in relation to the plan and to guide the City in managing its ongoing budget as more financial data becomes available. The report also contains preliminary First Quarter (Q1) FY 2022-23 revenues and expenditures projections as well as revenue and expenditure projections for the FY2023-24 to FY2024-25 Biennial for all funds. This report also highlights non-GPF funds beginning with **Table 11** through **Table 74** of **Attachment A** that are of interest to the City due to their special revenue source (local measure, local tax) or because of particular expenditure restrictions. A fund summary for all other non-GPF funds, grouped by fund type, is captured at the end of **Attachment A** beginning with **Table 75** through **Table 81**.

Attachment B includes a FY 2022-23 Q1 Detailed Report of anticipated year-end projections of revenues and expenditures for all funds. The GPF is broken down by Departmental level spending on the expenditure side and by category on the revenue side, with key categories and adjustments highlighted with analysis. **Attachment B** also highlights non-GPF funds beginning with **Table 7** through **Table 70** that are of interest to the City due to their special revenue source (local measure, local tax) or because of particular expenditure restrictions. A fund summary for all other non-GPF funds, grouped by fund type, is captured at the end of **Attachment B** beginning with **Table 71** through **Table 77**.

Attachment C provides the most up to date Revenue and Expenditure projections for the FY2023-24 to FY2024-25 Biennial for all funds, including the GPF projections for revenues further broken down by category.

For the **Fourth Quarter of 2021-22**, many of the economically sensitive revenue categories in the GPF experienced growth in the fiscal year and revenues collected exceeded budgeted levels. GPF expenditures ended below the Adjusted Budget. Analysis of revenues and expenditures through the Fourth Quarter of 2021-22 indicates that GPF revenues exceed GPF expenditures by \$57.30 million at year-end for FY 2021-22. However, the year-end operating surplus of \$57.30 million in the GPF is primarily attributed to one-time Federal relief funding from American Rescue Plan Act (ARPA) budgeted at a value of \$87.02 million or approximately 11% of budgeted revenues to continue to support qualified GPF expenditures. The Carryforward of monies previously obligated budgetarily or contractually by City Council or administrative action but remained unspent at the end of the fiscal year have also been subtracted and moved into the current fiscal year to complete prior directives. This creates a Fund Balance at the end of FY 2021-22, after accounting for fund obligations, estimated at **\$9.16 million**. Details are found in **Attachment A**.

Amendments to the FY 2022-23 Midcycle Budget adopted via Resolution 89377 C.M.S. included the 'directive to explore funding options and possible sources for various remaining items listed within the General Purpose Fund page of that submittal' for which there were not available funds. This R&E Report finds that the City's GPF is expected to end with negligible available fund balance, and that the GPF is expected to experience in excess of \$100M in shortfalls in each year of the coming biennium. Due to these fiscal constraints staff does not recommend additional expenditure commitments for additional items that were listed. Caution is recommended in the commitment of ongoing resources to additional services and programs given the significant fiscal challenges facing the City in the near term.

In the **First Quarter of 2022-23**, analysis of projected revenues and expenditures through September 30th suggests that the GPF may run an operating deficit in the current year. Sensitive revenue categories in the GPF have been revised to lower revenue projections to reflect recent real estate trends. Specifically for the Real Estate Transfer Tax, the collection rate is down compared to the previous year reflecting decreased sales volume. GPF departmental expenditure projections are projected to meet the Adopted Budget. When comparing revenues projections to expenditure projections, the reduced revenues will produce an operating deficit. This leads to a projected Fund Balance at the end of FY 2022-23, after accounting for fund obligations, estimated at **\$0.37 million**. Heightened monitoring and caution will be exercised in the coming months as the trends develop further. Details are found in **Attachment B**.

Preliminary analysis of FY 2023-24 and FY 2024-25 suggests the City will have substantial GPF deficits that will need to be resolved in the Biennial Budget Process. Staff estimates that the GPF will face a \$105.8 million deficit in FY 2023-24 and a \$102.5 million deficit in FY 2024-25. Details are found in **Attachment C**.

BACKGROUND / LEGISLATIVE HISTORY

Below is a summary of Council's actions that have occurred from the beginning of the FY2021-22 fiscal year that have modified the FY 2021-22 Budget:

- Action to allocate funding for Oakland's Mobile Assistance and Community Responders (MACRO) and capital and transportation projects Resolution [88784 C.M.S.](#)
- Action to fund Head Start Programming Resolution [88801 C.M.S.](#)
- Action to Add Two Police Academies Resolution [88942 C.M.S.](#)

ANALYSIS AND POLICY ALTERNATIVES

General Purpose Fund (GPF)

FY2021-22 Q4 Revenues

The 2021-22 GPF Adopted Budget was developed assuming that many of the revenue categories would continue to recover with the rollout of highly effective COVID-19 vaccines and corresponding loosening of public health restrictions. Key revenues rebounded, but the GPF revenues are still supported by ARPA. Based on the unaudited year end data, \$726.02 million in revenues were collected at the end of Q4 and performed better than budgeted. Netted from the budgeted amounts are the budgeted use of fund balance and interfund transfers used to balance expenditures and support carryforwards. Some of the revenue categories that collected higher than anticipated and exceed the adopted budget include:

- Property Tax, collected 4.0% higher than budgeted,
- Sales Tax, collected 8.1% higher than budgeted,
- Business Tax, collected 3.5% higher than budgeted,
- Real Estate Transfer Tax, collected 43.5% higher than budgeted.

Details of adjustments for these categories are further discussed in **Table 2 of Attachment A**. **Table 1:** below summarizes all the GPF projected and unaudited year-end actual revenues combined. Note that the adjusted budget assumed \$76.96 million in use of fund balance and \$89.93 million in interfund transfers to help balance the expenditures and support carryforwards. As a result, the unaudited year-end revenue total of \$726.02 million came in \$89.35 million or 10.9% below the adjusted budget of \$815.37 million, explicating the reliance on federal aid.

Table 1: FY 2021-22 Q4 GPF Revenues Budget to Actuals (\$ in millions)

FY 2021-22 Adopted Budget	FY 2021-22 Adjusted Budget	Year-End Unaudited Totals	Year-End \$ Over/(Under) Adjusted Budget	Year-End % Over/(Under) Adjusted Budget
784.39	815.37	726.02	(89.35)	(10.9)%

FY2021-22 Q4 Expenditures

The GPF year-end expenditures \$668.72 million, which is \$146.66 million or 18% under the \$815.37 million Adjusted Budget before accounting for \$87.02 million in eligible Public Safety expenditure transfers from GPF to the ARPA Fund (2072). Factoring for the one-time aid from ARPA funds, GPF expenditures would have ended the fiscal year at \$755.74 million, which is \$17.76 million or 2% under the Adjusted Budget.

Table 2 below summarizes GPF's FY 2021-22 expenditures budget to actuals at Q4 year-end, adjusted to reflect the impact of the expenditures transferred out to the ARPA Fund.

Table 2: FY 2021-22 Q4 GPF Expenditures Budget to Actuals (\$ in millions)

	A	B	C	D	C+D=E	F	B - E - F = G	
Department	FY 2021-22 Adopted Budget	FY 2021-22 Adjusted Budget	Q4 Unaudited FYE	ARPA Adjusted	FY 2021-22 Q4 Adjust. Unaudited FYE	FY 201-22 to FY2022-23 Carry-Forwards	Year-End \$ (Over)/Under Adjusted Budget	Year-End % (Over)/Under Adjusted Budget
FY 2021-22 Expenditures	784.39	815.37	668.72	87.02	755.74	41.87	17.76	2.2%

**The adjusted budget includes Council Budget Amendment per Resolutions 88784 C.M.S adopted on July 26, 2021, 88942 C.M.S (Police Academies), 88940 C.M.S. (Head Start) and \$28.07 million in Carryforwards.*

State and federal aid were the essential factors in the City's own economic and financial recovery. Under regulations administered through the United States Treasury Department, ARPA provided the City with an allocation of \$188 million, split between FY 2020-21 and FY 2021-22. Oakland's City Council directed these funds to replace revenue losses experienced during the pandemic and address budget imbalances in FY 2020-21 and FY 2021-22. Through this aid, the City was able to maintain most of its services intact while also preserving its emergency reserve.

In addition to federal aid, the City's number of vacancies is a contributing factor to expenditure savings in the GPF. In May 2022, the overall vacancy rate (net positions that are frozen as part of the FY 2021-23 Adopted Budget), is 16.33% as shown in **Table 3** below. The budgeted vacancy factor assumed in the FY 2021-23 Adopted Budget is 8% across most City Departments, which is approximately one half of the actual vacancy rate.

Table 3: FY 2021-22 Q4 GPF Filled and Vacant Positions (Percent %)

Status as of Q4 FY2021-22	Percent (%)
Filled or Encumbered (linked)	84%
Vacant	16%

GENERAL PURPOSE FUND FY2021-22 Q4 FUND BALANCE

As shown in **Table 4** below, after meeting obligations against fund balance, mandated reserves required by City Ordinances and the City Charter (mandated emergency reserves) & Oakland Municipal Employees' Retirement System (OMERS) totaling \$143.60 million, the preliminary unaudited FY 2021-22 available Fund Balance is \$9.16 million (Unaudited Ending Fund Balance - Obligations). The estimated FY 2021-22 available Fund Balance is the amount of unobligated funding available to the City in the GPF.

Table 4: Summary of FY 2021-22 Fiscal Situation with GPF Fund Balance (\$ in millions)

GENERAL PURPOSE FUND (1010)	FY 2021-22 Q4 Unaudited FYE
Estimated FY 2021-22 Beginning Audited Fund Balance	95.46
FY2021-22 Performance	
Revenue	726.02
Expenditures	668.72
FY 2020-21 Operating Surplus / Deficit	57.30
Unaudited Ending Fund Balance	152.76
Obligations Against Ending Fund Balance	(143.60)
OMERS Reserves (Reso. No. 85098 C.M.S)	(2.36)
New Revenue Subject to Excess RETT CFP Policy Including 50% for One Time Use, 25% for VSSF, 25% for Long Term Obligations - Net of Amounts Appropriated in the FY2022-23 Midcycle Budget	(16.34)
Use of Undesignated Fund Balance in the FY2022-23 Midcycle Adopted Budget	(76.30)
Project Carryforwards to FY 2022-23*	(36.66)
Encumbrance Carryforwards to FY2022-23	(11.95)
Estimated FY 2021-22 Ending Available Fund Balance	9.16

*Carryforwards include \$6.72M carried forward from other funds with insufficient fund balance available

In accordance with the Consolidated Fiscal Policy (CFP), Section 2 Reserve Fund Policies, Emergency Reserves, it shall be the policy of the City of Oakland to provide in each fiscal year a reserve of undesignated, uncommitted fund balance equal to seven and one-half (7.5%) of the General Purpose Fund (Fund 1010) appropriations for such fiscal year. For FY2021-22 that amount is \$54.61 million of which \$48.31 million is from prior year GPF Fund balance and 6.3 million from current year GPF revenues; these amounts are reserved in Fund 1011. The FY2021-22 Adopted Budget includes, \$2.58 million budgeted to the Vital Services Stabilization Fund Reserve. Using the FY21-22 Q4 revenue year-end totals, the policy would require an additional allocation of \$7.83 million based on the Excess RETT formula for a total of \$10.41 million.

The CFP also provides guidance for use of One-Time Funds, CFP Section 1, Part D. Appropriate uses and requirements are One-time uses, debt retirement and long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post- Employment Benefits (OPEB) unfunded liabilities or remain as fund balance. Negative balances of prime concern include the Self-Insurance Liability Fund (1100), Internal Service Funds (ISFs), and the Capital Reserves Fund (5510). In alignment with the goals of the CFP, these funds, among others, are on formal repayment plans to reduce negative fund balances. In FY21-22, a total \$4.89 million is budgeted in the GPF for this purpose. The FY21-22 Q4 revenue year-end totals indicate that \$23.50 million (\$31.33 million of Excess RETT less 7.83 million for the VSSF) could be appropriated to address negative fund balances; and such appropriation would be consistent with the required use of such funds under the CFP. In the FY22-23 Midcycle Budget adoption, City Council approved the use of \$22 million to reduce negative fund balances.

Q4 FY2021-22 Non-GPF Funds

Table 5 below shows the selected available fund balance and appropriations in the FY 2021-22 Biennial Budget for the non-GPF Funds that are analyzed in this report. Please note the City's Consolidated Fiscal Policy (CFP) requires the adoption of a balanced budget that limits appropriations to the total of estimated revenues and unallocated fund balances projected to be available at the close of the current fiscal year. The City Administrator shall be responsible for ensuring that the budget proposed to the City Council by the Mayor, adheres to the balanced budget policy.

Table 5: FY2021-22 Q4 Beginning and Year End Estimated Fund Balance (\$ in millions)

FUND	FY 2021-22 Audited Beginning Balance	FY 2021-22 Revenue Year-End	FY 2021-22 Expenditure Year-End	FY 2021-22 to FY 2022-23 Carryforward	FY 2021-22 Estimated Ending Balance
Measure HH – Sugar Sweetened Beverage Distribution Tax (SSBT) Fund (1030)	7.82	7.48	5.97	7.48	1.85
Self-Insurance Liability Fund (1100)^	(19.07)	56.58	39.12	0.57	(2.18)
Recycling Program Fund (1710)	3.27	5.39	5.03	0.90	2.73
Comprehensive Clean-Up Fund (1720)	4.31	23.46	24.07	0.27	3.43
Multipurpose Reserve Fund (1750)	(0.66)	6.26	8.97	0.67	(4.04)
OPRCA Self Sustaining Revolving Fund (1820)	3.54	5.36	5.26	0.24	3.41
Affordable Housing Trust Fund (1870)	38.49	20.43	8.64	41.85	8.42
Measure B/BB and Measure F Funds (2211, 2212, 2213, 2215, 2216, 2217, 2218, 2219, 2220)	31.21	32.85	24.01	18.19	21.87
State Transportation (Gas Tax) Funds (2230, 2232)	4.59	18.86	15.18	2.59	5.68
Measure Q - OPR Preservation, Litter Reduction, Homelessness Support Act Fund (2244)	11.99	27.17	22.52	15.41	1.23
Measure Z -Violence Prevention and Public Safety Act of 2014 Fund (2252)	1.73	27.50	21.62	7.30	0.31
Vacant Property Tax Fund (2270)	0.94	6.14	5.98	1.51	(0.41)
Landscaping & Lighting Assess. District Fund (LLAD) (2310)	0.05	19.11	18.97	0.68	(0.49)
Development Service Fund (2415)	146.66	63.98	73.94	51.99	84.71
Measure C - Transient Occupancy Tax (TOT) Surcharge Fund (2419)	0.22	4.55	3.79	0.82	0.16
Reproduction Fund (4300)*^	(1.31)	1.63	1.02	0.04	(0.73)
City Facilities Fund (4400)*	2.83	39.90	40.27	3.43	(0.97)
Central Stores Fund (4500)**	(3.58)	1.28	0.56	—	(2.86)
Purchasing Fund (4550)*^	(0.21)	1.80	1.79	0.03	(0.23)
Information Technology Fund (4600)*^	9.97	16.59	18.99	11.03	(3.46)
Measure KK Funds (5330, 5331, 5332, 5333, 5335)	112.79	212.51	75.78	126.13	123.39

* FY 2021-22 Beginning Cash Balance is used for Internal Service Funds.

^ Funds that are on existing repayment plans for prior year negative balances

FY2022-23 Q1 Revenues

The preliminary Q1 FY 2022-23 GPF revenue forecast projects an overall decrease of \$13.88 million when compared to the Adopted Budget, decreasing the total GPF revenue forecast from \$872.07 million to \$858.19 million. The passage of Measure T (Business License Tax), which changes the business tax rate restructure into a progressive, tiered rate system, is forecasted to bring in an additional **\$19.12 million** in FY2022-23. The current year revenue projection, inclusive of the additional revenue, is revised to a \$8.42 million projection increase overall due to collection trends of Business Tax as a whole. Absent the newly forecasted revenue based on the measure, the Business License tax revenue would have otherwise been projected to come in \$10.70 million lower compared to the Adopted Budget. Additionally, there is a projected decrease in Real Estate Transfer Tax of \$22.44 million when compared to the FY2022-23 Adopted Budget, based on recent collection trends. **Table 6** below highlights revenue categories with projection changes when compared to the FY2022-23 Adopted Budget.

Table 6: FY2022-23 General Purpose Fund Revenues

Revenue Category	FY 2022-23 Adopted Budget	FY 2022-23 Q1 YTD Actuals	FY 2022-23 Q1 Projection	Projected Year-End \$ Over / (Under) Adopted Budget	Projected Year-End % Over / (Under) Adopted Budget
Property Tax	265.49	8.82	265.49	—	%
Sales Tax	62.60	5.53	62.74	0.14	0.2 %
Vehicle License Fee	—	—	—	—	%
Business License Tax	111.88	3.29	120.30	8.42	7.0 %
Utility Consumption Tax	54.40	10.19	54.40	—	%
Real Estate Transfer Tax	112.20	18.84	89.76	(22.44)	(25.0) %
Transient Occupancy Tax	23.99	3.99	23.99	—	%
Parking Tax	12.39	2.09	12.39	—	%
Licenses & Permits	6.08	0.33	6.08	—	%
Fines & Penalties	19.00	3.76	19.00	—	%
Interest Income	0.48	0.03	0.48	—	%
Service Charges	55.55	6.60	55.55	—	%
Internal Service Funds	—	—	—	—	%
Grants & Subsidies	—	—	—	—	NA
Miscellaneous Revenue	0.80	5.35	0.80	—	—%
Interfund Transfers	70.91	—	70.91	—	—%
Transfers from Fund Balance (includes CF)	76.30	—	76.30	—	—%
Total Revenues	872.07	68.82	858.19	(13.88)	(1.6) %

FY2022-23 Q1 Expenditures

The GPF expenditures are forecasted to come in at the Mid-Cycle Adopted Budget of \$872.07 million. Of the GPF expenditure budget, only 18.3% of expenditures have been made at the end of Q1, replicating the seasonality of spending. The budgeted vacancy factor assumed in the FY 2022-23 Mid-Cycle Budget is 10.25% across most City Departments, recognizing the trend and capturing vacancy savings. The Mid-cycle Adopted Budget assumed a use of fund balance in the amount of \$76.30 million to balance the expenditures as budgeted and completes the programming of the remaining ARPA dollars. This follows a trend in recent years, during which funding one time funding was needed in the balancing of the expenditures. Expenditure monitoring is heightened as citywide hiring is a large focus, and current inflationary trends and federal monetary policy are likely to continue throughout the fiscal year and may have an impact on spending trends by year end. **Table 7** below breaks down the FY2022-23 Expenditures by Department.

Table 7: FY2022-23 GPF Expenditures by Department

Department	FY 2022-23 Adopted Budget	FY 2022-23 Q1 Year to Date Actuals	FY 2022-23 Year-End Estimate	Projected Year-End \$ (Over) / Under Adopted Budget	Projected Year-End % (Over) / Under Adopted Budget
Capital Improvement Projects	3.44	0.00	3.44	—	—
City Administrator	9.90	1.74	9.90	—	—
City Attorney	21.04	3.73	21.04	—	—
City Auditor	3.12	0.50	3.12	—	—
City Clerk	10.37	0.54	10.37	—	—
City Council	7.32	1.53	7.32	—	—
Department of Transportation	22.69	3.12	22.69	—	—
Department of Violence Prevention	13.57	1.06	13.57	—	—
Economic and Workforce Development Department	16.46	2.40	16.46	—	—
Finance Department	28.92	4.50	28.92	—	—
Fire Department	179.82	41.47	179.82	—	—
Housing and Community Development Department	2.18	0.00	2.18	—	—
Human Resources Management Department	8.72	1.82	8.72	—	—
Human Services Department	51.54	2.01	51.54	—	—
Information Technology Department	19.40	2.56	19.40	—	—
Mayor	4.54	0.83	4.54	—	—
Non-Departmental and Port	77.13	2.65	77.13	—	—
Oakland Animal Services	6.16	1.17	6.16	—	—
Oakland Parks and Recreation Department	21.98	3.06	21.98	—	—
Oakland Public Library Department	14.44	1.79	14.44	—	—
Oakland Public Works Department	2.26	0.25	2.26	—	—
Police Commission	8.19	0.99	8.19	—	—

Department	FY 2022-23 Adopted Budget	FY 2022-23 Q1 Year to Date Actuals	FY 2022-23 Year-End Estimate	Projected Year-End \$ (Over) / Under Adopted Budget	Projected Year-End % (Over) / Under Adopted Budget
Police Department	329.67	81.22	329.67	—	—
Public Ethics Commission	1.81	0.35	1.81	—	—
Race and Equity Department	1.46	0.18	1.46	—	—
Workplace and Employment Standards	5.96	0.66	5.96	—	—
FY 2022-23 Total Expenditures	872.07	160.10	872.07	—	—

GENERAL PURPOSE FUND FY2022-23 Q1 FUND BALANCE

The City's GPF available Fund Balance, net of obligations & other commitments, is projected to end the year at \$0.37 million in FY 2022-23. Obligations are reserves required by City Ordinances and the City Charter (mandated emergency & OMERS reserves). Note that \$10.80 million of the mandated FY 2022-23 emergency reserves is included in the projected year-end expenditures in **Table 8** below (as a committed transfer to the designated reserve GPF Emergency Reserve Fund (Fund 1011)).

Table 8 provides detail of obligations against Fund Balance, which reduces the unaudited year-end FY 2022-23 Fund Balance from \$(4.72) million to the available balance of \$0.37 million.

Table 8: FY 2022-23 Year-End Projected Available GPF Fund Balance

GENERAL PURPOSE FUND (1010)	FY 2022-23 Q1 Projected FYE
Estimated FY 2022-23 Beginning Unaudited Fund Balance	9.16
FY2022-23 Performance	
Revenue	858.19
Expenditures	872.07
FY 2022-23 Operating Surplus / Deficit	(13.88)
FY2022-23 Unaudited Ending Fund Balance Subtotal	(4.72)
Obligations Against Ending Fund Balance	5.09
Adjustment for Reduced Revenue Projections Subject to Excess RETT CFP Policy, Reducing 25% for VSSF, Net of Amounts Appropriated in the FY2022-23 Midcycle Budget	5.09
Projected Unaudited Ending Fund Balance	0.37

Summary

In summary, FY 2021-22 Q4 revenues show that GPF revenues exceeded budgeted expenditures by approximately \$57.30 million. Most of the City revenues came in at or above budget. However, the adjusted budget assumes the use of fund balance, to balance expenditures and support Carryforwards, in the amount of \$76.96 million. Concurrently, in addition to Citywide vacancies, expenditure savings are mainly attributable to costs covered by one-time federal ARPA aid in the amount of \$87.02 million. Furthermore, effects of the rapidly growing inflation are not fully reflected in the Q4 expenditures and are expected to change spending trends in FY2022-23. In FY2022-23 analysis of projected revenues and expenditures through September 30th suggests that the GPF may run an operating deficit in the current year the expenditures are projected to come in \$13.88 million over the projected revenues.

FY2023-24 and FY2024-25 Biennial Projections

As the City looks ahead to the FY 2023-25 biennial budget process, baseline estimates indicate sizable budgetary deficits that will likely necessitate significant balancing actions by the Mayor and City Council to develop a balanced 2-year budget. While GPF revenues are estimated to continue to increase year over year, projected to come in at \$750.60 million in FY2023-24 and at \$766.95 million in FY2024-25, the GPF preliminary figures show approximately negative **\$104 million deficit** per year, or negative **\$208 million** over the FY 2023-25 biennium as expenditures are expected to outpace revenues. For all funds, there is a estimated deficit of negative \$119 million in FY 2023-24 and negative \$130 million in FY 2024-25, for a total of negative \$250 million. **Table 4 on Attachment C** lists preliminary FY 2023-25 surplus or deficit by fund.

The projected shortfall concurs with projections from the State of California. The State's Legislative Analyst's Office (LAO) recently released its fiscal outlook report for the State's 2023-24 upcoming budget cycle. The fiscal outlook projects a \$25 billion budget shortfall in the 2023-24 fiscal year due to rising inflation rates and constricted revenue projections, as well as anticipated deficits of \$17 billion and \$8 billion over the next two years.

Loss of one time revenues and increased labor costs have expanded the projected shortfalls in the General Purpose Fund by \$51.39 million in FY2023-24 and \$53.50 million in FY2024-25 compared to the City's most recent Five Year Financial Forecast. **Table 9** below compares the current FY2023-25 Biennium Operating Projections to the most recent Five Year Financial Forecast for these Fiscal Years.

Table 9 – Current Biennial Operating Budget Deficits Projections vs 5 Year Financial Forecast

Fund	FY2023-24 Operating Shortfall - 5 Year Forecast	FY2023- 24 Operating Shortfall - Q1 Forecast	FY2023- 24 Variance		FY2024-25 Operating Shortfall - 5 Year Forecast	FY2024-25 Operating Shortfall - Q1 Forecast	FY2024- 25 Variance
General Purpose Fund (1010)	(64.40)	(105.79)	(51.39)		(49.00)	(102.50)	(53.50)

Conclusion

The City faced tremendous economic challenges during FY 2020-21, but was much improved by year-end. One-time Federal relief funding from American Rescue Plan Act (ARPA) of \$188 million prevented the City's fiscal crisis at a time when residents have been especially reliant on City services. Despite the fortune of receiving these one-time funds, the City still faces a structural imbalance in the GPF and other funds, including funds reliant upon hotel taxes and parking revenues. Macroeconomic trends are placing pressure on expenditures while vacancies in staffing throughout the City are offsetting it, but at the expense of providing necessary services. The City's short-term and long-term fiscal outlook will depend on nimble but cautious management in the current and coming years.

PUBLIC OUTREACH / INTEREST

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

COORDINATION

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

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental: No direct environmental impacts have been identified.

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

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that City Council receive an informational report on the unaudited Fiscal Year (FY) 2021-22 Fourth Quarter Revenue and Expenditure (R&E) results and year-end summaries for the General Purpose Fund (GPF, 1010) and select funds, Fiscal Year (FY) 2022-23 First Quarter Revenue and Expenditure (R&E) Year-End Projections For the General Purpose Fund (GPF, 1010) and Select Funds, and a Two Year Revenue and Expenditure Projection for Fiscal Years 2023-24 and 2024-25.

For questions regarding this report, please contact Bradley Johnson, Budget Administrator, at (510) 207-5730.

Respectfully submitted,



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Attachments (3):

- A. FY 2021-22 Q4 Detailed Report
- B. FY 2022-23 Q1 Detailed Report
- C. FY 2023-24 - FY 2024-25 Biennial Projections

Appendixes:

- AA.Consolidated Fiscal Policy
- BB.FY2021-22 to FY2022-23 Carry-Forwards