

CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK
 OAKLAND

2007 NOV 29 PM 7:49

TO: Office of the City Administrator
 ATTN: Deborah A. Edgerly
 FROM: City Administrator's Budget Office
 DATE: December 11, 2007

RE: **Report on FY 2007-08 First Quarter Revenue and Expenditure Results for the General Purpose Fund (1010)**

SUMMARY

This report provides information on the City's financial activity through the end of the first quarter of the fiscal year (September 30, 2007) for the General Purpose Fund (1010).

FISCAL IMPACT

The First Quarter Revenue & Expenditure Report includes an analysis of actual revenues and expenditures for the General Purpose Fund for the three-month period of July 1, 2007 through September 30, 2007. The summary table below reflects the First Quarter financial results.

FY 2007-08 REVENUE AND EXPENDITURE ANALYSIS
Through First Quarter (July 1, 2007 through September 30, 2007)
SUMMARY (\$ in millions)

GENERAL PURPOSE FUND (1010)

	FY 2007-08 1st Quarter Adjusted Budget	1st Quarter Actuals	Percent To Date
Revenues	\$501.85	\$78.71	15.7%
Expenditures	\$501.57	\$136.73	27.3%
Variance	\$0.28		

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GENERAL ECONOMIC OVERVIEW

The U.S. Commerce Department recently released the final 2007 (calendar) second quarter Real Gross Domestic Product (GDP) numbers, which showed robust growth of 3.8 percent, after growing only 0.6 percent in the first quarter of 2007. Annual growth in 2006 was 3.3 percent, and was 3.2 percent in 2005.

The Bureau of Economic Analysis reported that the acceleration in real GDP growth in the second quarter primarily reflected a downturn in imports; an upturn in federal government spending and private inventory investment; and accelerations in exports, nonresidential structures, and equipment and software. The second quarter decrease in residential fixed investments was significantly offset by an increase in nonresidential structures.

Real personal consumption expenditures increased at an annual rate of 3.7 percent in the first quarter of 2007 then slowed to 1.4 percent in the second. Recent Bureau of Economic Analysis estimates for the months of July and August reported increasing real consumer spending (personal consumption expenditures) of 0.4 percent and 0.6 percent, respectively.

The trend of steady employment growth, low unemployment, and rising disposable income continues in 2007. Monthly nonfarm payroll employment increases averaged an annual rate of 1.2 percent for the first six months, then slowed to 0.86 percent for July through September. Unemployment, while ticking up to 4.7% in September, from a low of 4.4 percent in March, remains relatively low.

Economic uncertainties and risks are rising as a result of continuing problems in the prime and sub-prime credit markets, and the continuing decline of the housing market. Housing sales continue its downward spiral, which has now begun to have a greater effect on housing prices. As mortgage interest rates start to reset, resulting in an increase in foreclosures of home mortgages, additional problems in the housing market are likely. The longer these problems persist, the greater the risk that there will be an adverse spill-over impact on consumption and the economy as a whole. In response to this risk, the Federal Reserve cut interest rates by one-half a point to 4.75 percent in September, and by one-quarter point to 4.50 percent in October.

Due to steady growth in various sectors of the economy, coupled with the positive effects of a booming global economy, US economic growth will likely continue in 2007. However, the credit and housing market problems continue to be a significant risk to the overall economy, and will require close monitoring.

Current Political/Legal Issues

The State's adopted 2007-08 budget supports the following city programs as identified in the May revised budget, without reports of major changes.

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- Proposition 1B funding for local city streets and roads
- Continuing the Citizens' Option for Public Safety (COPS) program
- Full funding for Proposition 42 – Transportation Congestion Improvement Act (beginning in FY 2008-09)
- Library Funding

Recent news reports indicate that State revenues are coming in less than projected in the first quarter and as a result, the State's operating budget deficit may be larger than previously estimated. At this point in time, it is uncertain what impact this may have on City programs.

Other Issues

In September 2005, Governor Schwarzenegger signed AB 451 to end a 2002 economic development agreement between the City of Oakland and United Airlines that has been generating tax revenues for the City. The 2002 agreement caused the relocation of United Airlines' fuel purchasing and resale business to Oakland, and resulted in additional sales and business license tax revenues generated for the City. On January 1, 2008, AB 451 will effectively end this and other similar jet fuel purchasing agreements between municipalities and airlines. This reduction in revenue has been reflected in the current FY 2007-08 budget.

GENERAL PURPOSE FUND

REVENUE HIGHLIGHTS

As of the first quarter of FY 2007-08, the City received \$78.71 million or 15.7 percent of the adjusted revenue budget. Please see Attachment A-1 for details on revenue collections through the first quarter. Since many of the City's largest revenue categories are collected after the first quarter, it is premature to provide a year-end projection at this time. Comments and observations on major revenue categories are as follows:

- Property Tax first quarter receipts came in higher compared to the first quarter last year, but first installments will be collected in the second quarter and will provide a better indication of year-end results.
- Real Estate Transfer Tax (RETT) revenue collections are at risk as the housing market continues to slow down. The housing market problems are further exacerbated by problems in the credit industry, especially in the subprime home mortgage and related credit markets.

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- Business Tax has no data yet since the bulk of the collections are received in February and March, though last fiscal year's collections indicates a potential for positive results this year.
- Utility Consumption Tax (UCT) revenue collection is higher compared to the same period last fiscal year due to higher energy costs and cable franchise revenues.
- Sales Tax revenues may be at risk if problems in the real estate market continue and begin to adversely impact consumption and the economy as a whole. In addition, economic forecasters are predicting slower holiday sales growth this year compared to last year. Second quarter results should provide a better indication of how sales tax revenue will end the year.
- Fines & Penalties revenue collection is somewhat low compared to the first quarter last year, but the new parking meters were recently installed, and are expected to increase the revenues due to a combination of better enforcement and collections.
- Vehicle License Fee revenue is at risk for lower collections due to reports that show new vehicle registration dropped 9.3 percent through the first three quarters of 2007, as compared to the prior year. This decline was attributed in part to tightening credit and consumer uncertainty. Additionally, the Department of Motor Vehicles increased the administrative fees charged against the statewide pool by approximately ten percent.
- Transient Occupancy Tax had a strong first quarter. This trend should continue as long as the economy grows and the business environment remains positive.

Carryforwards

At the end of each fiscal year, the City has unspent appropriations that can potentially be carried forward into the next fiscal year. These exist either in projects or as non-project encumbrances. For the General Purpose Fund in FY 2007-08, \$19.83 million in projects and encumbrances were carried forward from FY 2006-07 and represent funds reserved in the fund balance to pay for the project activities (or encumbered items) not spent in the prior year. By year-end, it is projected that all project and encumbrance carryforward balance will be expended.

EXPENDITURE HIGHLIGHTS

As outlined in Attachment A-2, the General Purpose Fund expenditures through the end of September totaled \$136.73 million, or 27.3 percent of the adjusted budgeted for FY 2007-08. Spending in the first quarter appears high due to one-time contract and capital expenditures that

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have either been encumbered or expended in the first quarter. As experienced in previous years, it is anticipated that Police Services will overspend its appropriation due to overtime costs. Overtime costs typically run higher during the holiday season, so the second quarter is expected to provide a better indication of how Police Services spending will end the year. At this time, it is expected that other agencies/departments will end the year within budget.

RECOMMENDATION(S) AND RATIONALE

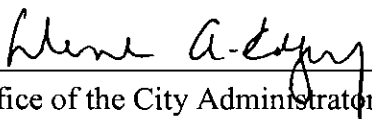
Staff requests the City Council accept this report.

Respectfully submitted,



Sarah T. Schlenk
Budget Director

APPROVED AND FORWARDED TO THE
FINANCE COMMITTEE


Office of the City Administrator

Attachments:

- A-1: General Purpose Fund Revenues
- A-2: General Purpose Fund Expenditures

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FY 2007-08 REVENUE AND EXPENDITURE ANALYSIS
Through First Quarter (July 1, 2007 through September 30, 2007)
GENERAL PURPOSE FUND REVENUES (\$ in millions)

Revenue Category	FY 2006-07 1st Qtr Adjusted Budget	FY 2006-07 1st Qtr Actuals	FY 2006-07 Percent To Date	FY 2006-07 Year-End Actuals	FY 2007-08 1st Qtr Adjusted Budget	FY 2007-08 1st Qtr Actuals	FY 2007-08 Percent To Date
PROPERTY TAX	109.14	5.82	5.3%	116.47	\$121.72	\$7.92	6.5%
SALES TAX	44.41	10.66	24.0%	47.41	\$48.96	\$10.24	20.9%
VEHICLE LICENSE FEE (VLF) - TAX & BACKFILL	2.13	0.74	34.7%	2.27	\$3.04	\$0.69	22.7%
BUSINESS LICENSE TAX	47.80	0.79	1.6%	48.81	\$47.92	\$0.02	0.0%
UTILITY CONSUMPTION TAX	51.46	10.40	20.2%	51.46	\$52.18	\$12.48	23.9%
REAL ESTATE TRANSFER TAX	63.23	16.06	25.4%	61.39	\$67.22	\$11.96	17.8%
TRANSIENT OCCUPANCY TAX	10.01	3.06	30.5%	11.77	\$12.36	\$3.40	27.5%
PARKING TAX	9.00	2.13	23.7%	8.89	\$9.45	\$2.28	24.1%
LICENSES & PERMITS	1.30	0.30	23.4%	1.06	\$1.23	\$0.23	18.3%
FINES & PENALTIES	26.45	5.81	21.9%	25.95	\$27.75	\$5.66	20.4%
INTEREST INCOME	0.00	1.07	N/A	3.74	\$0.00	\$0.85	N/A
SERVICE CHARGES	47.28	6.69	14.1%	46.03	\$51.27	\$5.60	10.9%
GRANTS & SUBSIDIES	0.53	1.03	193.3%	5.22	\$0.04	\$0.24	600.0%
MISCELLANEOUS	1.16	0.32	27.2%	12.39	\$2.21	\$0.42	19.2%
FUND TRANSFERS	48.10	3.40	7.1%	28.62	\$36.66	\$6.11	16.7%
SUBTOTAL	462.02	68.28	14.8%	471.48	\$482.02	\$68.10	14.1%
CARRYFORWARDS & PRIOR YEAR ENCUMBRANCES					\$19.83	\$10.61	53.5%
TOTAL	0.00	0.00	14.8%	471.48	\$501.85	\$78.71	15.7%

FY 2007-08 REVENUE AND EXPENDITURE ANALYSIS
Through First Quarter (July 1, 2007 through September 30, 2007)
GENERAL PURPOSE FUND EXPENDITURES (\$ in millions)

Agency / Department	FY 2006-07 1st Qtr Adjusted Budget	FY 2006-07 1st Qtr Actuals	FY 2006-07 Percent To Date	FY 2006-07 Year-End Actuals	FY 2007-08 1st Qtr Adjusted Budget	FY 2007-08 1st Qtr Actual Spending	FY 2007-08 Percent To Date
MAYOR	2.33	0.36	15.5%	2.67	\$3.15	\$0.76	24.2%
CITY COUNCIL	4.92	1.19	24.2%	3.73	\$4.33	\$1.11	25.6%
CITY ADMINISTRATOR	9.37	2.40	25.6%	9.33	\$9.27	\$2.13	22.9%
CITY ATTORNEY	8.62	2.10	24.4%	8.89	\$9.25	\$2.08	22.5%
CITY AUDITOR	1.29	0.24	18.6%	0.96	\$1.34	\$0.23	17.1%
CITY CLERK	2.80	0.97	34.6%	2.81	\$2.77	\$0.48	17.2%
CONTRACTING & PURCHASING	N/A	N/A	N/A	N/A	\$2.34	\$0.47	19.9%
INFORMATION TECHNOLOGY	N/A	N/A	N/A	N/A	\$10.97	\$3.08	28.1%
FINANCE & MANAGEMENT	37.02	8.64	23.3%	36.29	\$32.55	\$7.30	22.4%
POLICE SERVICES	187.05	50.97	27.2%	194.19	\$194.11	\$48.21	24.8%
FIRE SERVICES	105.44	26.10	24.8%	101.67	\$109.35	\$26.21	24.0%
MUSEUM	6.13	1.62	26.4%	11.44	\$6.73	\$1.60	23.8%
LIBRARY SERVICES	12.38	3.23	26.1%	12.15	\$12.91	\$2.89	22.4%
PARKS & RECREATION	13.53	3.95	29.2%	13.72	\$15.09	\$4.05	26.8%
HUMAN SERVICES	7.83	1.41	18.0%	6.52	\$8.06	\$1.93	24.0%
PUBLIC WORKS	4.11	0.50	12.2%	2.59	\$2.86	\$0.62	21.6%
COMM & ECON DEVELOPMENT	5.40	1.78	33.0%	2.46	\$5.27	\$1.37	25.9%
NON-DEPARTMENTAL	64.19	11.57	18.0%	62.68	\$62.65	\$28.43	45.4%
SUBTOTAL	472.41	117.03	24.8%	472.11	\$492.99	\$132.93	27.0%
CAPITAL IMPROVEMENT PROGRAM	6.59	0.01	0.2%	1.83	\$8.59	\$3.80	44.3%
TOTAL	\$479.00	\$117.04	24.4%	473.94	\$501.57	\$136.73	27.3%