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OFFICE OF THE CITY CLERK
OAKLAND

2019 JUN 21 AM 9:00

CITY OF OAKLAND

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Director of Finance

SUBJECT: Supplemental Budget Report

DATE: June 20, 2019

City Administrator Approval   Date: 6/20/19

RECOMMENDATION

Staff Recommends That The City Council Accept This Supplemental Informational Report Regarding General Purpose Fund Forecasted Revenues And The Reasons To Not Increase Revenues Beyond Third Quarter Projections.

EXECUTIVE SUMMARY

The Finance Department – in close consultation with the departments – prepares a revenue forecast each year as part of the budget process. For certain revenue streams (i.e., sales and property tax) the City uses outside consultants to assist with projections. The forecast is based on revenue collection trend data and prevailing economic conditions at the time of the forecast. The revenue forecast takes into consideration several economic factors including changes in economic growth, assessed valuation, growth in income levels, consumer consumption, and the Consumer Price Index (CPI), among other factors. Anticipated changes in State and local tax policy are also considered to the extent that such actions drive specific revenue streams.

The City's professional finance staff does not recommend increasing General Purpose Fund (GPF) revenues above those amounts included in the Mayor's Proposed Budget for Fiscal Year (FY) 2019-21. The data through the third quarter for FY 2018-19 demonstrates that staff's ongoing estimates for local taxes in FY 2019-20 and FY 2020-21 are consistent with mainstream economic expectations. It is important to note that the revenue forecast **does not assume an economic contraction – or even an economic slowdown – during the two-year budget.**

It must also be clarified that while the Finance Department participated in multiple meetings with Councilmembers Kaplan, Bas, Taylor, and Thao that resulted in the "Oakland Together" budget, staff was clear that **we did not recommend any increase in GPF revenues.** While the revenue additions included in the "Oakland Together" budget are more reasonable relative to Council President Kaplan's original projections, we continue to have significant concerns. **Staff is concerned that any additional increase in revenue estimates will introduce an unacceptable level of risk into the City's finances that is not substantiated by the data and that jeopardizes the City's long-term financial sustainability and the stability of employment for our City's workers and the services they provide to our residents.**

REASON FOR SUPPLEMENTAL

This supplemental is to address budget questions raised by the City Council during the June 18, 2019 Special City Council Meeting.

OVERVIEW OF GENERAL PURPOSE FUND REVENUES

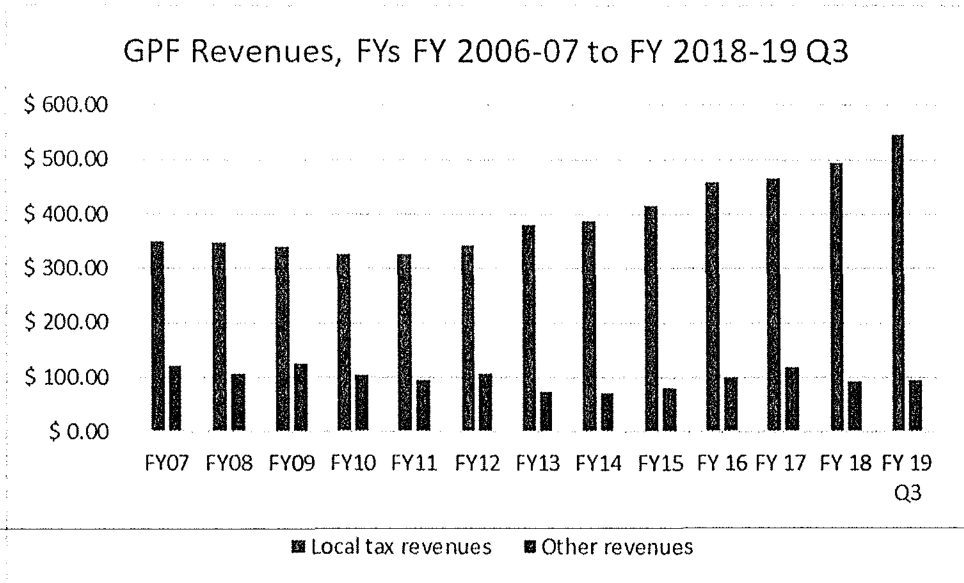
General Purpose Fund – Local Tax Revenues

GPF local taxes consist of property taxes, sales taxes, business license taxes, utility user taxes, real estate transfer tax, transient occupancy tax, and parking taxes. Since Fiscal Year (FY) 2006-07, the first year that building permit revenue was moved to Fund 2415, the bulk of GPF revenues derive from local tax revenues as shown in the table below. (Table 1)

Table 1

GPF Revenues	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Local tax revenues	$ 349.40	$ 348.64	$ 341.25	$ 327.12	$ 326.33	$ 343.91	$ 381.78	$ 387.73
Other revenues	$ 122.02	$ 106.58	$ 127.00	$ 105.91	$ 94.52	$ 106.12	$ 73.28	$ 72.46
Total	$ 471.42	$ 455.22	$ 468.25	$ 433.03	$ 420.85	$ 450.03	$ 455.06	$ 460.19
% of local tax revenues	74.12%	76.59%	72.88%	75.54%	77.54%	76.42%	83.90%	84.26%

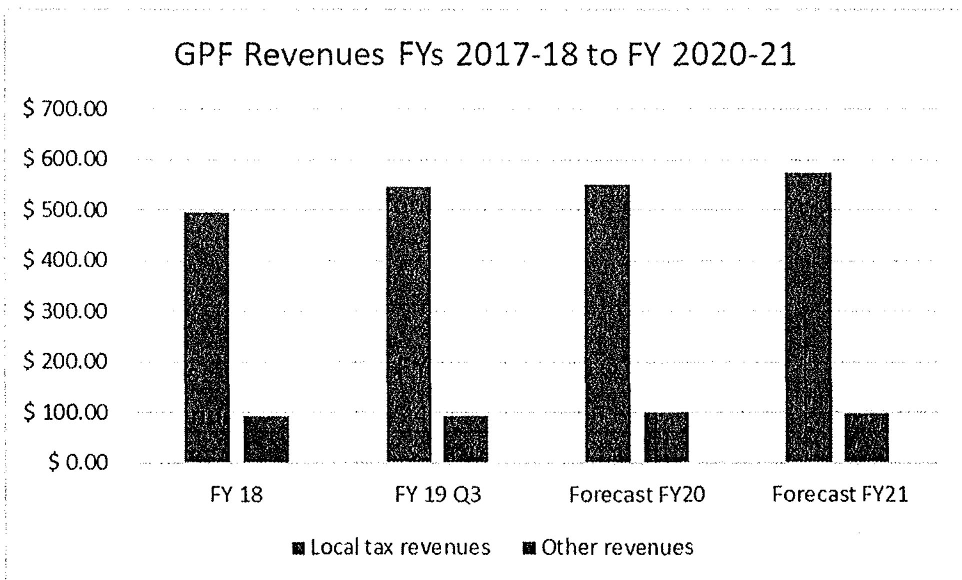
GPF Revenues	FY15	FY 16	FY 17	FY 18	FY 19 Q3	Forecast FY20	Forecast FY21
Local tax revenues	$ 417.46	$ 460.23	$ 465.90	$ 494.92	$ 545.68	$ 549.81	$ 573.93
Other revenues	$ 81.56	$ 99.04	$ 119.65	$ 93.14	$ 94.15	$ 100.47	$ 99.22
Total	$ 499.02	$ 559.27	$ 585.55	$ 588.06	$ 639.83	$ 650.28	$ 673.16
% of local tax revenues	83.66%	82.29%	79.57%	84.16%	85.29%	84.55%	85.26%



The FYs 2019-20 and 2020-21 revenue forecasts projects a continuation of this trend. (Table 2)

Table 2

GPF Revenues	FY 18	FY 19 Q3	Forecast FY20	Forecast FY21
Local tax revenues	$ 494.92	$ 545.68	$ 549.81	$ 573.93
Other revenues	$ 93.14	$ 94.15	$ 100.47	$ 99.22
Total	$ 588.06	$ 639.83	$ 650.28	$ 673.16
% of local tax revenues	84.16%	85.29%	84.55%	85.26%



Additionally, growth in local tax revenues and other revenues since FY 2006-07 has been volatile. (Table 3)

Table 3

GPF Revenues	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Year-over-.year growth of local tax revenues	-0.22%	-2.12%	-4.14%	-0.24%	5.39%	11.01%	1.56%
Year-over-year growth of other revenues	-12.65%	19.16%	-16.61%	-10.76%	12.28%	-30.95%	-1.12%

GPF Revenues	FY15	FY 16	FY 17	FY 18	FY 19 Q3	Forecast FY20	Forecast FY21
Year-over-.year growth of local tax revenues	7.67%	10.25%	1.23%	6.23%	10.26%	0.76%	4.39%
Year-over-year growth of other revenues	12.56%	21.43%	20.81%	-22.16%	1.08%	6.71%	-1.24%

The average person looking at the above table might think that there is room for movement to increase revenues in the aggregate local tax category. While one might think that this is a reasonable assumption, it is necessary to understand the driving factors behind the volatility BEFORE haphazardly moving the needle on the revenue forecast.

The GPF revenue forecast for any given fiscal year contains a factor for growth in ongoing revenues and *known or reasonably anticipated* one-time revenues, such as revenues anticipated to be received from a sale of City property or, as was the case in FY 2015-16, close-out of a State level complicated sales tax swap (the Triple Flip). What is not contained in the GPF revenue forecast is unexpected revenues, such as revenues derived from a special project or a single property owner placing a large suite of office towers on the market.

Focus on FYs 2015-16 to Q3 2018-19

Table 4

GPF Revenues Budget to Actual	FY 2015-16 Budget	FY 2015-16 Actual	FY 2016-17 Budget	FY 2016-17 Actual	FY 2017-18 Budget	FY 2017-18 Actual	FY 2018-19 Budget	FY 2018-19 Q3
Local tax revenues	$ 428.67	$ 460.23	$ 436.54	$ 465.90	$ 478.59	$ 493.80	$ 504.27	$ 545.68
Other revenues	$ 95.64	$ 99.04	$ 85.31	$ 89.63	$ 95.77	$ 90.75	$ 97.21	$ 92.91
Total	$ 524.31	$ 559.27	$ 521.85	$ 555.53	$ 574.36	$ 584.55	$ 601.47	$ 638.59
Less unexpected 1x		$ 31.22		$ 21.40		$ 13.44		$ 34.66
Ongoing revenues	$ 524.31	$ 528.05	$ 521.85	$ 534.13	$ 574.36	$ 571.11	$ 601.47	$ 603.93
Actuals over/(under) forecast		**(3.74)**		**(12.28)**		**$ 3.25**		**(2.46)**
		0.71%		**2.35%**		**-0.57%**		**0.41%**

As shown in Table 4 when adjusted for one-time, unexpected revenues the City's forecast has been off an average of 0.73%. Table 5 provides a breakdown of one-time revenues.

Table 5

GPF 1x Unexpected Revenues	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
RETT	$22.02	$13.84	$3.44	$17.63
Business license tax	$6.60	$2.34	$2.50	$10.96
RPTTF		$2.40	$3.50	$2.40
Insurance settlements	$2.60	$1.40		
Sales tax			$3.87	$1.27
Service charges		$1.60		$2.40
Total	**$31.22**	**$21.58**	**$13.31**	**$34.66**

The question is often asked, "If we *appear* to consistently receive unexpected revenues in a single category, why do we not forecast a value for unexpected revenues?" Appearances can be deceiving. **There is significant risk that must be managed across all ongoing GPF revenue categories to ensure that the aggregate of all ongoing GPF revenues meets budgeted expectations.**

In December 2016, the City launched a new local tax software to replace the failing legacy software. The local tax software houses revenues derived from business, parking, transient occupancy, and utility user taxes. As of June 2019, the City has 2.5 years of quality data that is derived from these local taxes.

CONCERNS BY TAX CATEGORY

Utility User Tax

Staff recommends **reducing** the Utility User Tax forecast.

After remaining dormant for a number of years, the City began to see some growth in UUT and staff began applying a conservative economic increase to the forecast. The Proposed Budget forecasts revenue received from Utility User Taxes to increase 2% in Year 1 when compared to the FY 2018-19 Adopted Midcycle Budget and 3% in Year 2 when compared to Proposed FY 2019-20. After the Proposed Budget was created, it was discovered that Pacific Gas and Electric (PG&E) began disturbing the Gas California Climate Credit to its customers as direct by the California Public Utilities Commission. This credit appears on a PG&E customer's April and October bills. The CCC reduces a customer's overall gas charges, which in turn, reduce the UUT remittances to the City. The fiscal impact of this is still be analyzed but a preliminary analysis indicates **the City will experience a loss of approximately $2 million per year in ongoing UUT**. The impact of the CCC was noted in the Fiscal Year 2018-19 Third Quarter Revenue & Expenditure Report. The current budget proposal has not been adjusted to reflect this loss of ongoing local tax revenue. **Thus, the first $2 million of ongoing revenue, unanticipated revenues realized in FYs 2019-20 and 2020-21 (such as those received from Transient Occupancy Tax) will be needed to first fill the budget hole created by the CCC.**

Business License Tax:

Staff recommends no changes to the business license tax forecast. The Golden State Warriors is one of the City's top 100 taxpayers. Loss of the team will negatively impact the receipt of business tax revenues. In addition, the budget has already absorbed the initial decrease of the Cannabis business tax revenues without changing the forecast.

In FY 2019-20, the business license tax, after controlling for one-time revenues, is forecasted to increase 15%. The majority of growth is anticipated to come from cannabis, new residential rentals, and identifying non-compliant businesses.

Revenues in the business tax category derive from a variety of sources:

1) Registered businesses: Registered businesses are business that appear in the City's local tax database. There are approximately 53,735 registered businesses, broken down into approximately 22 different subcategories as defined by the Oakland Municipal Code. These businesses are anticipated to continue paying taxes to the City on an annual basis with some expectation of economic inflation factor.

   Business tax facts for 2019:
   - 80% of the ongoing business tax revenue is remitted by 6,445 (11.99%) of the registered businesses.
   - The top three revenue generating tax categories are:
     - Professional/semi-professional service providers, 7,289 registered businesses generating 22.40% of total business tax revenue
     - Residential real estate rental, 23,950 registered businesses generating 22.11% of total business tax revenue
     - Commercial real estate rental, 3,360 registered businesses generating 15.48% of total business tax revenue
   - Residential and commercial landlords are taxed $13.95 per $1,000 gross receipts. (Total gross receipts x 0.1395)
   - Approximately 45-50% of registered landlords are beholden to rent control, thus are limited in how much the rent (and taxes derived from the rent) can be increased.
   - Under OMC section 5.04.430 C- All new commercial buildings and those buildings on which major renovations are completed after July 1, 1981 are eligible for a five-year exemption from the tax rate of $13.95. Buildings that qualify pay a rate of $1.80 per $1,000 for the first five-years of operation, and almost 90% discount on the tax for first 5-years.

2) Audits of registered businesses: Audits of existing business tax accounts produce both one-time and unexpected on-going revenues.
   - On-going- Some audits occur on annual basis. These audits tend to be more simplistic and narrow in scope and focus. The revenue forecast assumes $1 million of on-going revenue derived annually from these audits.

- One-time, unexpected- Some audits are significantly more complex and in depth. Complex audits take years to complete and run the risk of being settled by the courts. The forecast does not assume revenue derived from these audits as it is difficult to anticipate when the audit result will occur.
    - In FYs 2016-17 ($2.34m) and 2017-18 ($2.5m), the City closed out two large, complex audits. These revenues are reflected as unexpected one-time revenues.

3) Special projects: Occasionally, the City will benefit from one-time revenues derived from a special project. Depending upon the success of these projects, the revenue is considered unexpected, one-time revenue.
    - In FY 2015-16, the City conducted a non-compliant residential rental property compliance audit. The anticipated revenue of $0.97 million one-time from the project WAS reflected in the FY 2015-17 Adopted Budget. The project proved to be much more successful and produced over $6 million in one-time revenue.
    - In FY 2017-18, utilizing the new local tax software, the City was able to identify delinquent accounts and bring them into compliance. This generated $7 million in one-time, unexpected revenues.

Real Estate Transfer Tax

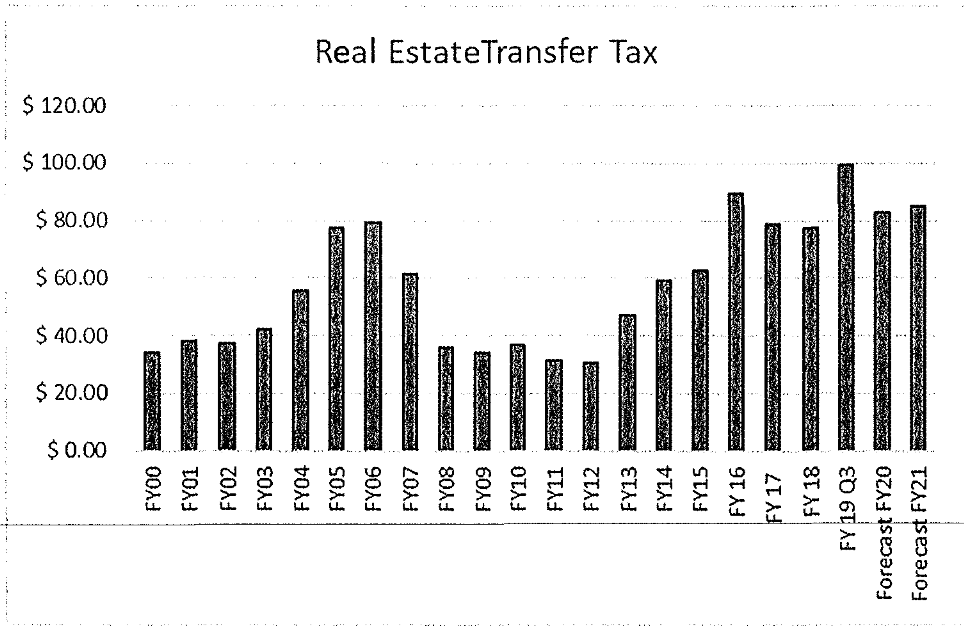
Staff recommends no changes to the real estate transfer tax forecast.

The Consolidated Fiscal Policy states that Real Estate Transfer Taxes (RETT)greater than 15% of GPF tax revenue is to be considered one-time or "Excess RETT". One-half of excess RETT may be spent on one-time expenditures, 25% is to be allocated to the Vital Services Stabilization Fund and 25% is allocated to repayment of long term obligations. Based upon the Proposed FYs 2019-21 budgets, any additional RETT would be beholden to the CFP.

In FY 2019-20, revenues derived from RETT are forecasted to decrease -16.80%. When the original forecast was created, revenues were forecasted to increase 11.70% over the FY 2018-19 midcycle adopted. Prior to January 1, 2019, RETT was calculated as 1.5% of the property sale price. Table 6 below shows the historical growth of RETT from FY 2008.

Table 6

GPF Revenues	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY 16	FY 17	FY 18	FY 19 Q3	Forecast FY20	Forecast FY21
Year-over-.year growth, RETT revenues	-41.13%	-5.36%	7.90%	-14.51%	-3.02%	54.65%	24.58%	6.17%	42.88%	-11.75%	-1.96%	28.49%	-16.80%	3.02%



As is evidenced by the two charts above, actual revenue derived from RETT is volatile. In the last 5 fiscal years two years have shown increases while two years have shown decreases; thus, it is not unreasonable to forecast a reduction in aggregate RETT based on this recent history. Starting in FY 2012-13, in an effort to control for volatility in the forecasting, transactions that created remittance anomalies were identified and the forecast was adjusted to account for RETT base revenues and large commercial sales (anomalies). The demarcation was commercial transfers of $33.33 million or more generating RETT of $0.5 million or more were considered large commercial transfers. All other transactions were considered the base and forecasted as ongoing revenues.

Table 7

Category	FY12-13	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19 Q3 YE Forecast
RETT	$ 43.02	$ 46.45	$ 53.73	$ 64.57	$ 67.17	$ 67.84	$ 72.73
RETT-Larger Commercial Properties	$ 2.27	$ 12.11	$ 8.08	$ 22.02	$ 11.07	$ 8.94	$ 18.24
Growth Rate- Base RETT		7.97%	15.69%	20.16%	4.03%	1.00%	7.21%
Growth Rate- Large Commercial Poperties		434.42%	-33.30%	172.52%	-49.74%	-19.19%	103.92%

It is important to note that after peaking in FY 2015-16, growth in the base transaction has declined, **with it only growing 1% last year.**

Why is base revenue up in FY 2018-19?

Beginning January 1, 2019, the RETT tax rate was changed by voter approval from 1.5% of the sale value to a tiered tax rate ranging from 1% to 2.5% depending upon the sale value.

Table 8

Sale price	Assessed Tax
$300,000 or below	1.00%
$300,001 to $2 million	1.50%
$2 million to $5 million	1.75%
Over $5 million	2.50%

By the end of December 2019, the City will have absorbed all growth benefits of the increase due to the changes in tax rates. For FY 2018-19, because of the new tax rates, the base is on track to grow 6.72%, well above the growth experienced in the past two fiscal years.

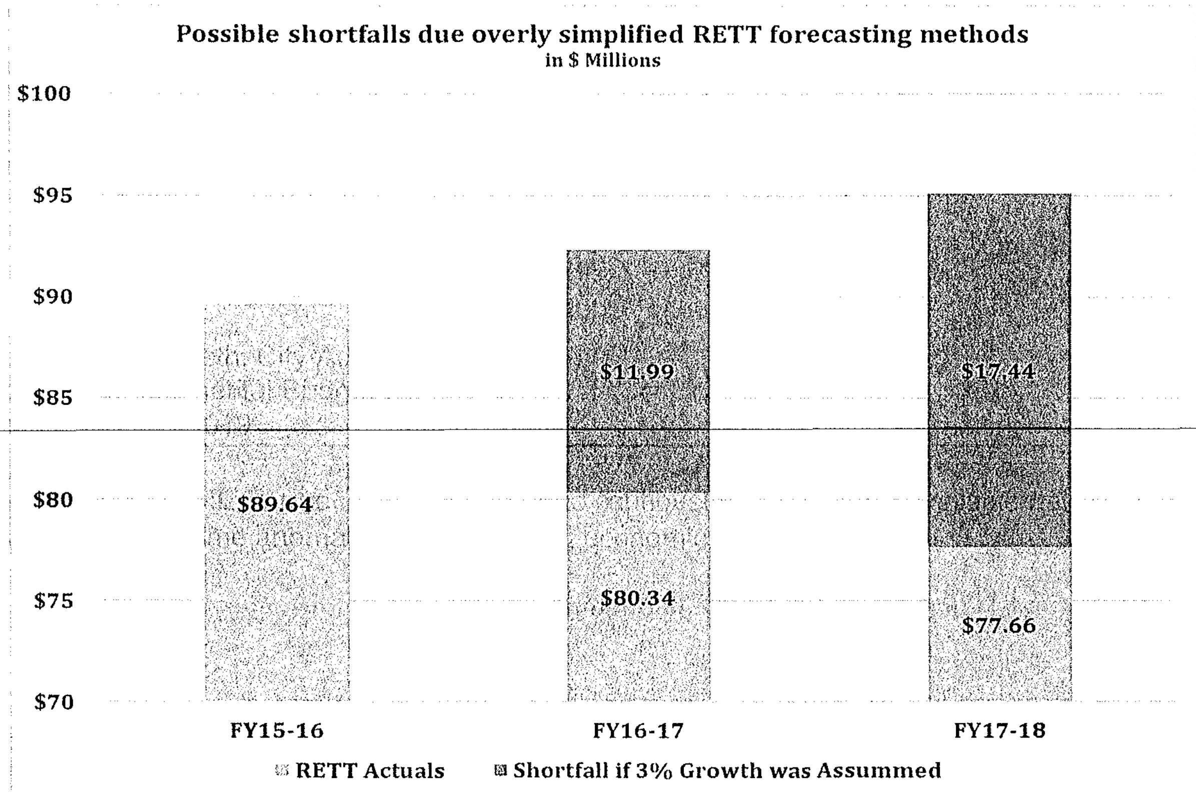
In an effort to present an apple to apple comparison of current growth, the following table shows FY 2017-18 gross sales and volume through April 2018 compared to FY 2018-19 gross sales and volume through 2019.

Table 9

		FY 2017-18 through April 2018		FY 2018-19 through April 2019			
Sale Price	Tax Factor	Gross Sales	Volume	Gross Sales	Volume	Gross Sales Growth to FY 2017-18	Volume Growth to FY 2017-19
$300,000 or below	1.00%	$ 83.62	520	$ 55.44	332	-33.71%	-36.15%
$300,001 to $2 million	1.50%	$ 2,672.43	3,501	$ 2,629.24	3,263	-1.62%	-6.80%
$2 million to $5 million	1.75%	$ 420.77	142	$ 407.99	143	-3.04%	0.70%
Over $5 million	2.50%	$ 812.03	46	$ 1,892.84	69	133.10%	50.00%
	Total	**$ 3,988.85**	**4,209**	**$ 4,985.51**	**3,807**	**24.99%**	**-9.55%**

The above chart shows growth concentrated in the highest band (sales of properties over $5 million). After reviewing the historical data, staff has identified properties that sell for $140 million or above to be outliers. Through April 2018 of FY 2017-18, there was one property transfer of $140 million, while through April of FY 2018-19 there were 4 property transfers of $140 million or higher for a total of $923.89 million. This volume of property transfers above $140 million is considered an anomaly and should not be expected to repeat. **The FYs 2019-21 RETT forecasts already includes $20 million in Year 1 and $21 million in Year 2 of revenue received from the sale of properties in excess of $5 million. Furthermore, as with last year, sales of properties in the lower tiers continue to decrease. This creates a larger reliance on the sale of properties over $5 million to ensure the ongoing revenue forecast is met.**

There is substantial risk in simplified projections of RETT which does not consider the aforementioned details and nuances. Specifically, any attempt to grow aggregate RETT based on an assumed percentage over prior year actuals can wildly over project the next year's received revenue. For instance, if the FY 2016-17 forecast of RETT was assumed to be 3% higher than the prior year and the subsequent year FY2017-18 was assumed to grow another 3%, there would have been a cumulative shortfall over the two years of nearly $30 million, see the below chart. RETT forecasts must be done cautiously, using all the available data to account for one-time anomalies and changing economic circumstances.

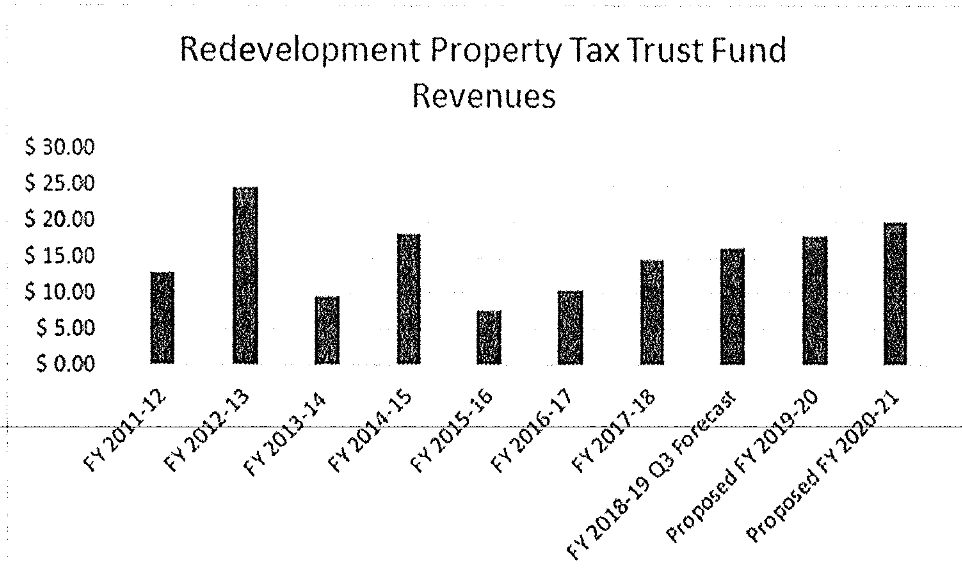


Property Tax

Staff recommends no changes to the property tax forecast.

Revenue derived from property taxes are realized from 14 property tax subcategories, including secured, unsecured, unitary, vehicle license fee swap, and redevelopment property tax trust fund (RPTTF). The City contracts with HdL Property Tax Services for help building the property tax forecast, as well as information provided to the City by the County Assessor. The Assessor's office provides preliminary assessment information in March/April and May/June, with the final assessment information being transmitted to the City in August. The Proposed Budget assumes a forecasted growth rate of 7.92%.

Since 2012, the City receives a portion of the Redevelopment Property Tax Trust Fund (RPTTF) as the result of the dissolution of the Redevelopment Agency, which is regulated by state law. The RPTTF is the portion of property tax increment that would have gone to redevelopment agencies if they had not been dissolved, less the funding required to wind-down the obligations of that redevelopment agency. Particularly in FY 2012-13, the City realized a one-time spike in RPTTF resulting from the distribution of all unobligated tax increment revenue held in reserve by the former Redevelopment Agency. Distribution of these revenues can be affected by changes in law at the State level, and by administrative review of the Recognized Obligation Schedule by the State Department of Finance. **Revenues received from the RPTTF are currently the most volatile of all property tax revenues.**



Transient Occupancy Tax

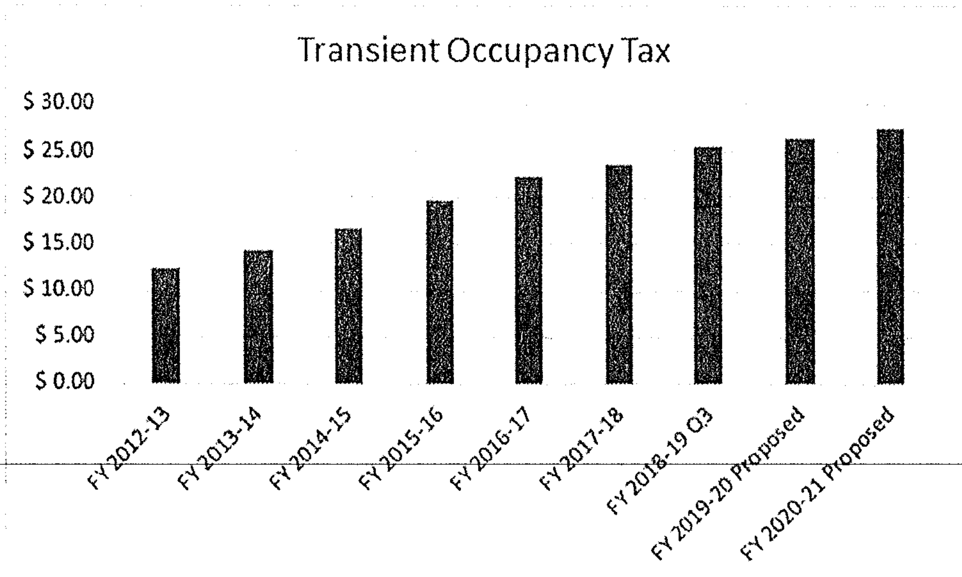
Staff recommends no changes to the transient occupancy tax forecast.

Transient occupancy tax (TOT) is paid by individuals who stay thirty days or less in a hotel or short-term residential rental located within the City of Oakland. The tax is collected and remitted by the business. After a significant decline in TOT revenues during the Great Recession, the City has experienced a renaissance largely driven by regional demand. The City's TOT directly benefits from the popularity of its local sports teams, specifically the Warriors and the Raiders. The City always a bit of a TOT bump when the Warriors are in the NBA finals. It is unclear if this revenue benefit will continue once the Warriors relocate to San Francisco and the Raiders to Las Vegas. It should be noted in FY 2018-19, a single major taxpayer has remitted a 40% increase in TOT. When this anomaly is removed from the data, the overall growth rate of TOT in FY 2018-19 is 9%. Due to the anomaly, the City anticipated higher than expected TOT revenues in FY 2018-19 but does not anticipate that level of growth to continue. As noted in the section on Utility User Tax, **the first $2 million of ongoing revenue, unanticipated revenues realized in FYs 2019-20 and 2020-21 (such as those received from Transient Occupancy Tax) will be needed to first fill the budget hole created by the California Climate Credit.**

The chart below reflects the volatility in the TOT revenue stream.

Table 10

Transient Occupancy Tax	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19 Q3	FY 2019-20 Proposed	FY 2020-21 Proposed
Growth Rate	15.99%	17.24%	18.03%	12.89%	5.43%	8.00%	4.00%	4.00%



RESPONSE TO BEACON ECONOMICS APRIL 2017 & 2019 FORECAST

Attached to this report is the response to Beacon Economics' April 2017 and 2019 forecasts that were created for Local 21. If the City would have adopted Beacon's April 2017 revenue assumptions for the FY 2017-19 Adopted Budget, we would be facing a two-year budget **deficit of $41.25 million**, a deficit $28.16 million in FY 2017-18 and an estimated deficit of $13.09 million in FY 2018-19. This would have put the City at extreme risk of overspending. (Attachment A)

ECONOMIC CONTRACTION

Historically, periods of expansion are followed by economic contraction. According to the National Bureau of Economic Research, the average expansion period lasts for approximately 4-5 years. Since the end of the Great Depression, there have been 13 recessions. This current economic expansion has exceeded 10 years. The previous longest period of economic expansion in the Post-War War II period was 10 years from 1991 to 2001 during the "Dot Com" boom. Thus, it would be inconsistent with historical patterns not to experience an economic contraction during the Forecast period. This will be the longest economic expansion come July 2019. Staff is concerned about the impact of international trade and tariffs with the US's largest trading partners could possibly trigger an economic contraction and/or increase the price of key consumer goods.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept this supplemental informational report regarding General Purposed Fund forecasted revenues and the reasons to not increase the revenue forecast beyond the Third Quarter projections.

For questions regarding this report, please contact Margaret L. O'Brien, Revenue & Tax Administrator, 510-238-7480

Respectfully submitted,

Katano Kasaine

Katano Kasaine
Director of Finance

Attachments (#):
Attachment A-City's Response to Beacon Economics April 2017 & April 2019 Forecast

DISTRIBUTION DATE: June 6, 2019

CITY OF OAKLAND

MEMORANDUM

TO: HONORABLE MAYOR & CITY COUNCIL

FROM: Katano Kasaine, Director of Finance

SUBJECT: Response to Beacon Economics April 2017 & April 2019 Forecast

DATE: June 6, 2019

It has come to the Finance Department's attention that IFPTE, Local 21, has commissioned an independent study of the City's revenues by Beacon Economics (Beacon). Staff is concerned with Beacon's aggressive revenue assumptions and have concerns that they do not fully understand the one-time nature of certain revenue streams, such as the Real Estate Transfer Tax. As such, we have prepared this high-level analysis that aims to dispel myths about Oakland's revenue prospects.

Frequently Asked Questions

1. How does the Finance Department forecast revenues?

The Finance Department – in close consultation with the departments – prepares a revenue forecast each year as part of the budget process. For certain revenue streams (i.e., sales and property tax) the City uses outside consultants to assist with projections.

The forecast is based on revenue collection trend data and prevailing economic conditions at the time of the forecast. The revenue forecasts take into consideration several economic factors including changes in economic growth, assessed valuation, growth in income levels, consumer consumption, and the Consumer Price Index (CPI), among other factors. Anticipated changes in State and local tax policy are also considered to the extent that such actions drive specific revenue streams.

2. Was Beacon Economics ("Beacon") accurate in their April 2017 forecast of General Purpose Fund revenues for the FY 2017-19 time period?

No, Beacon was very inaccurate and overly optimistic in their revenue assumptions. Staff assumes this inaccuracy is a result of Beacon attempting to estimate one-time revenues, which can be highly volatile from year-to-year and result in errors in estimation.

3. What would have been the impact had the Finance Department accepted Beacon's forecast in April 2017 for the FY 2017-19 General Purpose Fund Budget?

If the City would have adopted Beacon's April 2017 revenue assumptions for the FY 2017-19 Adopted Budget, we would be facing a two-year budget **deficit of $41.25 million**, a deficit $28.16 million in FY 2017-18 and an estimated deficit of $13.09 million in FY 2018-19, as shown in the tables below. This would have put the City at extreme risk of overspending.

Beacon Economics Report, dated April 2017

	Beacon Forecast FY 2018	FY 2018 Actual	Beacon to Actual	Variance
Business tax	78,530,680	86,107,189	7,576,509	9.65%
Transient Occupancy Tax	26,233,940	23,583,086	(2,650,854)	-10.10%
Real Property Transfer Tax	112,822,800	77,663,378	(35,159,422)	-31.16%
Parking Tax	11,677,690	10,803,104	(874,586)	-7.49%
Utility Tax	49,100,690	52,047,385	2,946,695	6.00%
Total	**278,365,800**	**250,204,142**		
		Actuals Over/(Under) Beacon Forecast	**(28,161,658)**	

Beacon Economics Report, dated April 2017

	Beacon Forecast FY 2019	City FY 2019 Q3 Estimate	Beacon to Actual	Variance
Business tax	82,215,290	97,430,399	15,215,109	18.51%
Transient Occupancy Tax	28,431,259	25,469,733	(2,961,526)	-10.42%
Real Property Transfer Tax	126,217,868	99,608,392	(26,609,476)	-21.08%
Parking Tax	12,445,160	11,436,700	(1,008,460)	-8.10%
Utility Tax	50,028,880	52,300,000	2,271,120	4.54%
Total	**299,338,457**	**286,245,224**		
		Actuals Over/(Under) Beacon Forecast	**(13,093,233)**	

It is important to note that Beacon Economics had no way of knowing in April 2017 that Councilmember Kalb would introduce, and that City voters would approve, a graduated Real Estate Transfer Tax effective midway through FY 2018-19. The Revenue Bureau is estimating this change alone accounts for more than $8.8 million of the Real Estate Transfer Tax revenues projected in FY 2018-19. ***This means that Beacon's two-year GPF forecast was more than $50 million over stated.***

4. How did the Finance Department's General Purpose Fund estimates compare in the FY 2017-19 Budget?

In FY 2017-18, General Purpose Fund revenues exceeded the Adjusted Budget by just $7.0 million. When adjusting for one-time revenues (which are legally obligated pursuant to the CFP), the Finance Department under estimated revenues by just **$3.2 million**, a margin of less than 0.5 percent.

City- Adjusted FY 2018 Budget

	Adjusted FY 2018 Budget	FY 2018 Actual	Less 1x Revenues	City Variance to Actual Controlling for 1x Revenues	Variance
Business tax	79,580,950	86,107,189	3,640,000	2,886,239	3.63%
Transient Occupancy Tax	22,653,820	23,583,086	-	929,266	4.10%
Real Property Transfer Tax	75,822,812	77,663,378	3,437,152	(1,596,586)	-2.11%
Parking Tax	11,130,600	10,803,104	-	(327,496)	-2.94%
Utility Tax	50,700,000	52,047,385	-	1,347,385	2.66%
Total	**239,888,182**	**250,204,142**	**7,077,152**		
		Actuals Over/(Under) City Forecast		**3,238,808**	

In the FY 2018-19, General Purpose Fund revenues are expected to exceed the Adjusted Budget by $36.1 million, **of which $30.5 million is considered one-time**. These one-time revenues are in large part due to the change in the graduated RETT tax rate ($8.8 million), a large one-time commercial transaction ($500 million +), and a one-time audit of Oakland businesses. When adjusted for these one-time resources (which are legally obligated pursuant to the CFP), the Finance Department under estimated revenues by just **$5.6 million**.

City- Adopted Midcycle FY 2019 Budget

	Adopted Midcycle FY 2019	City FY 2019 Q3 Estimate	Less 1x Revenues	City Variance to Actual Controlling for 1x Revenues	Variance
Business tax	86,622,000	97,430,399	10,463,721	344,678	0.40%
Transient Occupancy Tax	23,673,242	25,469,733	-	1,796,491	7.59%
Real Property Transfer Tax	74,181,417	99,608,392	20,075,188	5,351,787	7.21%
Parking Tax	11,436,700	11,436,700	-	-	0.00%
Utility Tax	54,207,390	52,300,000	-	(1,907,390)	-3.52%
Total	**250,120,749**	**286,245,224**	**30,538,909**		
		Actuals Over/(Under) City Forecast		**5,585,566**	

5. Should the City accept Beacon's revenue estimates as of April 2019 for the FY 2019-21 Budget?

No. Beacon's April 2017 forecast consistently showed an over-estimate of GPF revenues.

For questions, please contact Adam Benson, Budget Administrator, at (510) 238-2026.

Respectfully submitted,

/s/

KATANO KASAINE
Director of Finance

Attachment A