



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: Fiscal Year (FY) 2024-25 First
Quarter (Q1) Revenue and
Expenditures (R&E) Report –
SUPPLEMENTAL

DATE: December 5, 2024

City Administrator Approval


Jestin Johnson (Dec 6, 2024 10:48 PST)

Date: Dec 6, 2024

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2024-25 First Quarter (Q1) Results And Year-End Projections For The General Purpose Fund (GPF, 1010), And Select Funds

REASON FOR SUPPLEMENTAL

At the November 19, 2024 Special City Council Meeting, the City Council requested further information from the Finance Department. The purpose of this supplemental report is to transmit to the City Council and public, responses to questions raised by City Councilmembers related to the Fiscal Year (FY) 2024-25 Q1 Report. For transparency, this report contains additional responses to questions pertaining to the FY 2023-24 Q4 Report as the responses will aid in a better understanding of our fiscal situation. To the extent additional information becomes available on any of the responses below, updates will be provided.

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Special City Council
December 9, 2024

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 2

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive An Informational Report On Fiscal Year (FY) 2024-25 First Quarter (Q1) Results And Year-End Projections For The General Purpose Fund (GPF, 1010), And Select Funds

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

Respectfully submitted,



Erin Roseman (Dec 6, 2024 10:02 PST)

ERIN ROSEMAN
Director of Finance
Finance Department

Attachments (6):

- Attachment A – Full-Time Employee (FTE) Changes – July 1, 2019 - June 30, 2024
- Attachment B – General Purpose Fund Vendors Since 2022.
- Attachment C – Fiscal Year 2024 Project & Encumbrance Carryforward into FY 2025
- Attachment D – 2023 Direct Community Grant Award Recipients
- Attachment E – Service List By Department
- Attachment F – Special Project Lists By Department

Special City Council
December 9, 2024

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 3

FY 2024-25 Q1 Report Responses

Structural Deficit/ Longer-term:

Bas:

- 1. A list of the actions that have been taken by date, a list of the actions and the amount.**

The FY 2024-25 Contingency Budget provisions included as part of the FY 2024-25 Midcycle Budget Amendments are listed and linked in the response to question 12.

In addition, administrative actions aimed at reducing citywide GPF spending were implemented in March 2024 and remain in effect. A hiring freeze continues for all non-sworn positions funded by the GPF and other funds under fiscal pressure. Additionally, a citywide moratorium on professional training and conferences funded by the GPF continues unless mandated by employment or regulatory requirements.

Kalb:

- 2. List of newly created FTE's over the last Four Years.**

Please see ***Attachment A –Full-Time Employee (FTE) Changes – July 1, 2019- June 30, 2024.***

Reserve Fund Balance (Kalb)

- 3. Effects and implications of adjusting the general fund reserve requirement from 7.5 to 7 percent.**

There are two components to general fund reserves: (1) cash held in the General Purpose Fund Emergency Reserve, Fund 1011, and (2) unassigned fund balance in the General Purpose Fund, Fund 1010. While the City has close to \$70 million in Fund 1011, unassigned fund balance in 1010 is negative due to ongoing imbalances between expenditures and revenues. As of June 30, 2024, unassigned fund balance in 1010 was negative \$47.8 million, reducing general fund reserves to just \$22.3 million, or roughly one-third of the reserve requirement. This balance continues to decline in the current fiscal year.

Lowering the reserve requirement would reduce the shortfall between the City's general fund reserves and its self-imposed reserve requirement, but it would not address the imbalance between 1010 expenditures and revenues that is the source of the ongoing drain on these reserves. A reduction in the reserve requirement would allow for the transfer of cash from fund 1011 to fund 1010, but the change would be purely cosmetic as the total amount of cash and reserves across the two funds would be unchanged. Addressing the structural imbalance in Fund 1010 is crucial for long-term financial stability.

Special City Council
December 9, 2024

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

While the City’s Consolidated Fiscal Policy requires a reserve equal to 7.5% of the General Purpose Fund budget, the Government Finance Officers Association’s (GFOA) fund balance guidelines and best practices for the General Fund states and recommends:

*“at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of **no less than two months of regular general fund operating revenues or regular general fund operating expenditures.**”(<https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>)*

Following GFOA’s best practice, it is recommended and advised that the City of Oakland maintain no less than two months of regular general fund operating expenditures in the reserve fund (1011), totaling an estimated **\$133.18 million or 16.50%**. Alternatively, the City could seek to meet this goal through a combination of cash in fund 1011 and unassigned fund balance in fund 1010. If the City maintained the 16.50% of reserves, the operating shortfall that the General Purpose Fund reported in the first quarter report could be fully covered by the reserve fund.

| Adopted Budget | GFOA Best Practice Reserve % | CFP Reserve % | Variance Reserve % | GFOA Best Practice Reserve \$ | ACFR Audited Reserve \$ | Variance GFOA Best Practices vs. Audited Reserve | GFOA Best Practice Reserve Deficit |
|----------------|------------------------------|---------------|--------------------|-------------------------------|-------------------------|--|------------------------------------|
| \$807.19 | 16.50% | 7.50% | -9.00% | \$133.19 | \$22.34 | (\$110.85) | (\$88.51) |

For an overall analysis and comparison of the City’s reserve balance and percentage of the General Purpose Fund, the table below shows the effects of reducing the reserve fund percentage from 7.50% to 0.00% in half-percent increments. For the purposes of this table, an audited actual reserve amount of \$22.34 million is used for comparison.

| Adopted Budget | Reserve % | CFP Required Reserves | Audited Reserve (ACFR) | Reserve Deficit |
|----------------|-----------|-----------------------|------------------------|-----------------|
| \$807.19 | 7.50% | \$60.54 | \$22.34 | (\$38.20) |
| \$807.19 | 7.00% | \$56.50 | \$22.34 | (\$34.16) |
| \$807.19 | 6.50% | \$52.47 | \$22.34 | (\$30.13) |
| \$807.19 | 6.00% | \$48.43 | \$22.34 | (\$26.09) |
| \$807.19 | 5.50% | \$44.40 | \$22.34 | (\$22.06) |
| \$807.19 | 5.00% | \$40.36 | \$22.34 | (\$18.02) |
| \$807.19 | 4.50% | \$36.32 | \$22.34 | (\$13.98) |
| \$807.19 | 4.00% | \$32.29 | \$22.34 | (\$9.95) |
| \$807.19 | 3.50% | \$28.25 | \$22.34 | (\$5.91) |
| \$807.19 | 3.00% | \$24.22 | \$22.34 | (\$1.88) |
| \$807.19 | 2.50% | \$20.18 | \$22.34 | \$2.16 |

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 5

| Adopted Budget | Reserve % | CFP Required Reserves | Audited Reserve (ACFR) | Reserve Deficit |
|----------------|-----------|-----------------------|------------------------|-----------------|
| \$807.19 | 2.00% | \$16.14 | \$22.34 | \$6.20 |
| \$807.19 | 1.50% | \$12.11 | \$22.34 | \$10.23 |
| \$807.19 | 1.00% | \$8.07 | \$22.34 | \$14.27 |
| \$807.19 | 0.50% | \$4.04 | \$22.34 | \$18.30 |
| \$807.19 | 0.00% | \$0.00 | \$22.34 | \$22.34 |

Expenditure Questions

Fife:

- 4. List of external contractors being funded through the General Purpose Fund (1010).

Please see **Attachment B – General Purpose Fund Vendors Since 2022.**

Reid:

- 5. What is the total amount of all carryforwards listed in **Attachment B (of the Q1 Report)?**
 - a. What is the total amount for eligible carryforwards?

Please see **Attachment C – Fiscal Year 2024 Project & Encumbrance Carryforward into Fiscal Year 2025** for full details regarding eligible and required carryforwards.

- b. Are there Measure KK or U bond funds listed here and aren't those restricted?

Measure KK carryforward funds (fund 5330, 5331, 5332, 5333, 5335, and 5337) and Measure U carryforward funds (fund 5340 and 5341) are listed on the Attachment B and, yes, these funds are restricted.

- c. Are any of the carryforward amounts restricted or non-restricted?

Yes, carryforward funding in restricted funds are considered restricted in operating use. For example, special revenue funds, and debt & fiduciary funds are all considered restricted.

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 6

6. The Equipment Service Fund and Facilities Fund are internal funds to which all City departments contribute, based on their use of equipment or facilities. For example, Police and Fire departments have extensive vehicle fleets, while Public Works and Oakland Parks and Recreation manage many facilities. **If we use the fund balance from these internal funds, how would that impact the ability to access those funds later when repairs are needed for a vehicle in our fleets or for facility maintenance?**

Internal services funds (ISFs) like the Equipment Fund and Facilities Fund are intended to operate on a cost-recovery basis. Their purpose is to accumulate sufficient revenue to cover the cost of operations, including maintenance, repairs and other related services. Any fund balance in an ISF represents amounts collected above and beyond the actual costs of providing those services in a given year. The fund balances proposed for use to help balance the GPF are amounts collected in excess of the ISF's annual operation costs, as those costs have already been fully accounted for.

7. Regarding collection of business tax - The City of Oakland Business Tax (BT) projection for FY 2024-25 is cautiously optimistic that the overall trend in BT collection remains positive. Despite sector-specific declines, there was a modest increase in gross receipts from businesses renewing their tax filings in FY 2023-24 by 1.3% compared to the previous year. This growth, although below the four-year average of 2.7%, still indicates a resilient business environment. **A strategic focus is being made in FY 2024-25 on improving compliance and collection efficiency while banking on the stability observed in previous fiscal years. What efforts are being made to more efficiently collect on these taxes and bring businesses into compliance?**

The City of Oakland actively pursues the collection of outstanding Business Tax revenues. This includes issuing notices to businesses operating without registering for a business tax certificate and pursuing collections activities or securing liens on associated properties. These efforts encompass mailing notices, sending emails, making phone calls, and verifying the status of delinquent accounts to ensure accurate liability assessment or account closure. For delinquent taxpayers, notices inform them of lien or collections status, indicating potential legal actions such as tax return intercepts. Amounts exceeding \$5,000 are forwarded to the City Attorney for collection, due to the \$5,000 jurisdictional limit for Small Claims Court in Alameda County. To enhance collection, the Tax Compliance Unit is collaborating with other entities for Oakland vendor or business entity lists and conducting fieldwork when staffing allows.

To ensure compliance with Real Estate Transfer Tax obligations, staff are reviewing deeds recorded in 2023 and 2024. Monthly, roughly between 500 and 800 deeds are recorded in the county. The Revenue Management Bureau – Audit Unit evaluates these deeds to determine if applicable Real Estate Transfer Tax is outstanding. When tax is due, the process involves issuing bills, followed by notices and reminders. If taxes remain unpaid, a lien is placed on the property, which must be cleared before any change in property ownership. Since fiscal year 2020-21, the City Council has authorized liens totaling approximately \$1.34 million, averaging \$334,000 annually. A report for consideration of

Special City Council
December 9, 2024

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 7

liens for delinquent RPTT is scheduled to come to City Council on December 17, 2024 for delinquent accounts over the period of July 2024 to December 2024.

8. What framework has been provided to department heads for making cuts? Is it a percentage-based approach, or another formula?

The target amounts were calculated by dividing the total reduction required in the GPF proportionally across departments, based on their projected personnel spending.

9. What recommendations is the administration making alongside department leaders' efforts to reduce spending?

The December 9, 2024 staff report addressing the FY 2024-25 Budget Balancing Actions is from the City Administrator's Office and outlines the respective expenditure reductions across the City, utilizing feedback from the department leaders and additional fiscal considerations.

10. What restricted funds might staff be considering converting to unrestricted to address the deficit, and what would be the short- and long-term impacts of such actions?

Please refer to the December 9, 2024 staff report addressing the FY 2024-25 Budget Balancing Actions.

11. What specific actions require a Council budget amendment vs CAO action?

Please refer to the December 9, 2024 staff report addressing the FY 2024-25 Budget Balancing Actions.

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 8

12. What is the value of each of the bullets in the contingency budget:

Please refer to the [FY 2024-2025 Midcycle Adopted Budget Exhibit 3 – Contingency*](#) for the full contingency budget details. *Please note that the figures provided in the contingency budget and reflected below assume timely budget reductions, however, the actual savings realized from these reductions are unknown at this time.

| | Action | Estimated Cost |
|----|---|-------------------------|
| 1 | Freezes the hiring of new positions | Unknown |
| 2 | Delays the beginning of new sworn trainee academies | \$ 3,465,324.00 |
| 3 | Halts the execution of unfinalized contracts and grant agreements funded from the General Purpose Fund and any Restricted Funds with structural imbalances | Unknown |
| 4 | Halts the approval of unapproved discretionary travel | Unknown |
| 5 | Freezes 11.0 FTE positions in the Finance Department | \$ 2,090,934.00 |
| 6 | Reduces \$350,000 in O&M for Strategic & Crisis Communications | \$ 350,000.00 |
| 7 | Reduces \$1,000,000 in O&M for Performance Management and Strategic Budget Planning | \$ 1,000,000.00 |
| 8 | Freezes five Fire Engine Companies (60.0 FTE Sworn Fire Personnel) | \$ 19,187,578.00 |
| 9 | Freezes two Police Academies and 78.0 FTE Sworn Police Officers | \$ 26,446,902.00 |
| 10 | Freezes 4.0 FTE non-sworn Police positions | \$ 882,803.00 |
| 11 | Reduces \$2,319,768 for Public Safety vehicle replacements | \$ 2,319,768.00 |
| 12 | Freezes 2.0 FTE positions and transfers 1.0 FTE position to Fund 2218 in the Department of Transportation | \$ 533,748.00 |
| 13 | Reduces \$1,125,000 in O&M for IT cyber security and CAD/RMS support | \$ 1,125,000.00 |
| 14 | Freezes 3.5 FTE positions in Oakland Animal Services | \$ 456,757.00 |
| 15 | Freezes 1.0 FTE position in Oakland Parks, Recreation and Youth Development | \$ 225,668.00 |
| 16 | Freezes 5.0 FTE positions in Human Services Department | \$ 675,597.00 |
| 17 | Freezes 1.5 FTE positions in Department of Workplace and Employment Services | \$ 347,104.00 |
| 18 | Reduces \$1,596,606 in O&M for Department of Economic and Workforce Development initiatives, including the Film Attraction Initiative, workforce development grants, cultural grant funding, capacity building funds, and Scotlan Convention Center subsidies | \$ 1,596,606.00 |
| 19 | Eliminates “Five After Five” parking program | \$ 375,000.00 |
| | Grand Total | \$ 61,078,789.00 |

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 9

13. [View Alternative Attachment B - 6/25/2024](#) - 6/25/2024 from the midcycle budget (6/28/2024 meeting): This document included another set of cuts not listed in the contingency budget. **Are these cuts also being considered to address the budget deficit? Have departments analyzed the potential impact of these cuts on service delivery, including feedback and equity considerations?**

Please refer to the December 9, 2024 staff report addressing the FY 2024-25 Budget Balancing Actions containing all reductions for consideration.

14. **Does our current fiscal condition meet the necessary terms to qualify as an extreme fiscal necessity or a fiscal emergency as defined in the FY 2024-25 Execution of Maintenance of Effort Waivers ([Reso No. 90327 C.M.S.](#)) and the [9/24 FMC Draft CFP Report \(9/12/24\)](#)?**

As outlined in the Q1 report, the City continues to meet the requirements of extreme fiscal necessity. The projected deficit is expected to exceed 10%, with a specific forecast of 12.3% as detailed in the report.

The FY 2024-25 Midcycle Adopted Budget resolution ([Resolution No. 90326 C.M.S.](#)) declared a state of extreme fiscal necessity. As a result, the [FY 2024-25 Execution of Maintenance of Effort Waivers \(\[Resolution No. 90327 C.M.S.\]\(#\)\)](#) was adopted, temporarily suspending maintenance of effort provisions for certain ballot measures.

The City is nearing, or may already be at, the stage of fiscal emergency.

Extreme Fiscal Necessity - An intervening step of fiscal austerity, such as when total projected General Purpose Fund revenues will be less than the current year's revenues, where there is an actual or projected reduction in total General Purpose Fund revenues, or when expenditure growth dramatically outpaces revenue growth, or when there is an actual or projected deficit exceeding 10% of the current fiscal year's adopted budget. It is the lessor of a catastrophic situation, the City entity would need to suspend provisions of local laws related to enhanced public services, such as Maintenance of Effort provisions or to prevent a dramatic decrease in essential services, relating to health, safety, and welfare; in addition to the use of the Vital Services Stabilization Fund "Rainy Day Funds" , may include the suspension of Use of One-time Revenues policy, suspension of accelerated liability repayments, or layoffs to achieve cost savings must be considered, in order to sustain City Services, but short of accessing emergency reserve monies. A dramatic reduction is defined as more a pronounced decrease in City services characterized substantial disruptions or limitation in service availability which may result in layoffs, and service closures to essential services that lead to noticeable hardships for residents and businesses.

***Fiscal Crisis or Fiscal Emergency** - Generally, the last and most severe stage of a governmental entity's financial solvency problems an unusual, unanticipated, and seemingly insurmountable event or hardship of the City, one such as a natural disaster, acts of god or war, public emergency, or other unforeseen catastrophic event requiring the use of Emergency Reserves to sustain the most basic operations of the General Purpose Fund and maintain basic public health and safety. The City may need to develop a financial plan to alleviate the financial crisis.*

15. Which of these conditions (natural disaster, acts of god or war, public emergency, or other unforeseen catastrophic event requiring the use of Emergency Reserves to sustain) have occurred for us to move into a Fiscal Crisis or Fiscal Emergency?

While the conditions typically associated with a fiscal crisis—such as natural disasters, acts of God, war, or other unforeseen catastrophic events—haven't occurred in our case, we find ourselves facing a serious financial challenge. Unfortunately, this crisis is largely the result of continued over expenditures and the on-going structural imbalance that began in 2020. The City has been fortunate to have been the recipient of several sources of one-time funding to balance the budget. Those resources are now depleted, and the City must prioritize restructuring the budget to a maintain balance while protecting the core services to the residents of Oakland. It's important to acknowledge that while this situation is difficult, it wasn't caused by an unexpected external event. The need to use Emergency Reserves is a reflection of the tough decisions ahead to sustain basic operations and ensure public safety.

16. When will these actions listed in the Q1 report at the [bottom of page 17](#) take place?

- a. If passed, a voter-approved measure on the ballot for November may raise additional revenue for Public Safety which may minorly mitigate this; the City will explore future revenue measures to support Public Safety services, including restoring fire engine companies and police services. **When will we begin to see these funds?**

The earliest implementation of any new revenue measure would be through a special election in spring 2025. If approved by voters, the resulting revenue would be incorporated into the FY 2025-26 tax roll, with funds becoming available for use starting in Fiscal Year 2025-26. This timeline underscores the urgency of securing interim solutions to address the FY 2024-25 budget deficit while planning for long-term fiscal stability through these proposed measures.

- b. The City will explore options to reduce costs in negotiations with ALL of its bargaining units at the legal and appropriate times through the legal and appropriate processes. **Have these meetings occurred or are the scheduled?**

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 11

The December 5, 2024 Special Closed Session meeting to begin these proceedings was cancelled. At the time of this report's publication, this item has not been rescheduled.

- c. The City will engage in a process to more tightly budget for all contract services to ensure that all funded contracts are necessary to provide services. **Is that taking place right now?**

The Budget Bureau initiated the FY 2025-27 budget development process on September 11, 2024. In Phase I, departments were required to submit comprehensive details about all contracts. This information will serve as the basis for a thorough review of contracted services to explore opportunities for consolidation, cost reduction, or improved efficiency in service delivery.

- d. The City will be evaluating the services provided by all programs and staff to ensure that these services are properly prioritized and to facilitate reductions to non-priority services which may free resources for fire engine companies and police services. The City will explore more efficient mechanisms of service delivery which may free additional resources to support fire engine companies and police services. **Is there a consideration for merger departments as a potential cost-saving measure?**

Please refer to the December 9, 2024 staff report addressing the FY 2024-25 Budget Balancing Actions containing all reductions for consideration.

17. When is the final audit come to the council?

The City is required to publish the Annual Comprehensive Financial Report (ACFR) no later than 180 days from the end of the fiscal year. The Finance Department will publish no later than December 31, 2024 with a goal of publishing by December 16, 2024.

18. Regarding contract services, how will the city ensure that all funded contracts are: (1) Necessary and (2) Cost-effective? Is there a plan to review existing contracts and renegotiate terms where possible?

Contracts are being reviewed on a case-by-case basis. The Budget Bureau in collaboration with the Purchasing Bureau has begun a more comprehensive analysis on contracts for the FY 2025-29 Biennial Budget.

19. Are there any obligations to make public announcements to bond counsel representatives, the market, or other critical stakeholders regarding our budget deficit at this stage?

We are obligated under SEC Rule 15c2-12, which governs municipal securities continuing disclosure, and any applicable bond covenants to provide investors with timely and accurate updates.

Special City Council
December 9, 2024

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 12

The issuance and management of municipal securities are subject to strict regulations and contractual obligations to ensure transparency and maintain market integrity. Bondholders and secondary market participants rely on accurate information to make informed decisions about holding, selling, or purchasing these securities.

All reports describing the financial stability of the City, including Adopted Budget, budgetary updates such as the Quarterly Revenue and Expenditure Reports, ACFR, Cash Management reports, etc. are subject to disclosure and should be accurate and transparent.

To address the City's disclosure obligations regarding the budget, the Finance Department is working closely with the City Attorney and Disclosure Counsel to ensure compliance with Rule 15c2-12, applicable bond covenants, and any other relevant requirements. Although, in some cases it may not be required, the City has elected on occasion to provide Voluntary Disclosures about events regarding extraordinary events affecting the City to the market, investors, and bond holders. Those disclosure can be found on EMMA. [Municipal Securities Rulemaking Board:EMMA](#)

20. Given the current budget crisis, do we need to issue any public announcements to grantees awarded through the community grant process or other programs that have not yet received funding, especially those that may have already rendered services?

Generally, a valid contract or grant agreement must be in place prior to delivery of services. If there are administrative reductions to City Council authorized contract or grant funding that is not currently under an executed agreement, the relevant programmatic staff will be in communication about the changes.

21. How many organizations have been paid from the community grants how many are still outstanding and are those organizations at risk of not receiving those funds?

The 2023 Direct Community Grant Recipients awarded grants to twenty-three (23) organizations in a total amount of \$750,000.

As of 12/3/2024, 15 organizations have fully executed contracts and are paid in full totaling \$612,976.00. Two organizations, totaling \$55,000, ceased communications with the project manager and their grant awards will be rescinded.

Five organizations, with a combined award of \$76,250.00, face delays due to document submission issues, insurance requirements, and/or pending work order review. Funding for these pending grants has not been authorized for carryforward into the FY 2024-25 making these funds unavailable for finalizing the remaining agreements. Please see

Attachment D – 2023 Direct Community Grant Award Recipients for additional information.

Fiscal Year 2023-24 Q4 Report - Responses

Structural Deficit/ Longer-term:

Ramachandran:

22. Are contracts and grants currently experiencing a freeze?

As of November 18, 2024, the Administration has not frozen grants or contracts.

Gallo:

23. How do the Oakland Police Department (OPD), Oakland Fire Department (OFD) and Oakland Public Works (OPW) fit into the budget context?

Police and Fire Departments: These departments (OPD and OFD) are the largest budget items in the General Purpose Fund (GPF), together consuming 63% of the total budget (42% for OPD and 21% for OFD). Their large share means that decisions made regarding staffing, resources, and spending in these departments can significantly impact the GPF.

Public Works: Although OPW directly makes up just **0.5%** of the GPF, its budget is spread across several ISFs, which feed off the GPF. Therefore, while OPW doesn't directly absorb a large portion of the GPF, its spending within these funds can have a ripple effect on the GPF. Careful management of these ISF budgets is crucial because unregulated or uncontrolled spending in these areas could have unintended consequences for the city's overall financial health.

24. Additionally, which departments are exceeding their budgets, and what measures should be taken to address these issues?

Over 90% of the projected overspending in the GPF can be tied to the City's Public Safety departments. The departments that are projected to overspend can be found in **Attachment A**, Table 6 of the [Q1 R&E report](#).

Bas:

25. What revenue-generating positions have already been frozen or deleted, and if ever reinstated, how much additional revenue might they generate per year?

An analysis of the positions that have been frozen or deleted would be necessary to determine whether these roles directly contribute to additional revenue generation or if they are merely associated with revenue-related functions. It is important to assess

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 14

whether these positions are actively involved in revenue collection, such as those in tax enforcement or auditing, or if they are part of broader administrative or support functions that do not directly result in increased revenue.

However, it is important to note that reinstating these positions in the short term is unlikely to have a significant impact on addressing the City's current budget deficit. While there may be potential long-term benefits from reinvesting in revenue-generating roles—such as improving collections, closing gaps in tax compliance, or enhancing enforcement—the immediate fiscal challenges require a more comprehensive approach, focusing on managing existing expenditures, optimizing operational efficiency, and pursuing strategic, sustainable revenue growth.

Therefore, while these positions may offer potential for future revenue generation, the focus for the City at this time is on ensuring fiscal stability through a combination of expenditure management and long-term revenue strategies.

26. What is the outcome from the Strategic Planning process to date? How are we using the inventory of services identified through that process in this budget-balancing process?

The strategic budget process underway is specifically designed for the biennial budget cycle and usable for the current year. Attached is a preliminary list of service and special projects by department for reference (**Attachment E and Attachment F**). This data is raw, collected directly from City departments and will require further review and refinement before it can be fully utilized.

Reid:

27. Has staff conducted an analysis of the impacts on services related to the cuts outlined in the contingency budget?

No.

28. Has there been an updated five-year budget analysis to determine when any forthcoming cuts might be restored in future budget cycles?

The Consolidated Fiscal Policy requires the publication of a five-year forecast every two years, in conjunction with the adoption of the biennial budget. You may view the current and past five-year forecasts on the City's website (<https://www.oaklandca.gov/documents/five-year-financial-forecasts>). The next five-year forecast is due in Spring 2025. However, the City's need for budget reductions is so great that the restoration of cuts will not likely occur over this planning horizon. As in past reports, pension and healthcare costs continue to outpace the long-term revenue growth rate, a standard trend that is not expected to change. It is crucial to act on available information and implement immediate service reductions to address the shortfall effectively to remain fiscally solvent.

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 15

29. What is the last date by which we must approve a budget to avoid financial market or fiscal risks?

In California, municipalities are required to approve their budgets by June 30 to align with the fiscal year beginning on July 1. This deadline helps ensure that local governments have a spending plan in place to avoid disruptions in services, manage cash flow effectively, and maintain investor confidence, thereby minimizing fiscal risks. Missing this deadline could lead to operational issues, potential delays in payments, and could negatively impact the municipality's credit rating or its ability to issue debt on favorable terms.

30. Has staff conducted an analysis of the impacts on services related to the cuts outlined in the contingency budget?

No.

31. Is there any additional financial analysis available regarding pending sales?

No.

Kaplan:

32. How much is our towing contract, and is the City receiving payments as it should?

The towing contract stipulates that the contractor is responsible for the following fees:

- **Referral Fee:** \$54 per towed vehicle, excluding City-owned vehicles or those with a written OPD fee waiver
- **Contract Administration Fee:** \$172,000 annually
- **Gross Revenue Percentage Fee:** 4% of gross revenue from the preceding 12-month contractual period

OPD staff has confirmed that APT has paid the referral and contract administration fees up to May 2024. The team is currently verifying the gross revenue percentage fee. Please note that the referral and contract administration fees are paid together, and part of the delay is due to the OPD Records Division reconciling the number of tows that qualify for the referral fee.

<https://oakland.legistar.com/LegislationDetail.aspx?ID=2549069&GUID=3288C76D-9C0F-451C-A7D2-74443B53E453&Options=ID|Text|&Search=towing>

Expenditure Questions

Bas:

- 33. Please share a list of the carryforwards from the GPF and other funds, and which ones are required.**

Please refer to **Attachment B** of the [Fiscal Year \(FY\) 2024-25 First Quarter \(Q1\) Revenue and Expenditures \(R&E\)](#) report.

(Link: <https://oakland.legistar.com/gateway.aspx?M=F&ID=ebc539f0-1efb-4674-a7c0-5a2412ad2d0c.pdf>)

- 34. What is our current bond rating and how does Oakland compare to other municipalities? (ex. Fresno, Sacramento, Long Beach, Los Angeles)**

As of October 24, 2024, when the [FY 2023 -24 Q4 report](#) was presented to the Finance and Management Committee, the Overall Ratings were as follows:

- Oakland – AA+
- Fresno – A-
- Sacramento – AA+
- Long Beach – AA-
- Los Angeles - AAA

Please see the recent Fitch Rating downgrade here (<https://cao-94612.s3.us-west-2.amazonaws.com/documents/Fitch-Downgrades-Oakland-CAs-IDR-to-A-Outlook-Revised-to-Negative.pdf>)

- a. Current interest rates for municipal bonds are high. What is the financial cost of going from AA+ to AA or AA- credit rating? How are other jurisdictions managing potential credit downgrades?**

It is difficult to isolate the direct financial costs of downgrades because bond pricing reflects a host of factors in addition to credit quality, such as the interest rate environment and other market conditions. However, given the large size of the City's typical bond issuances, a small change in yield can have a very large financial impact over the 30-year life of a bond, resulting in higher tax assessments for property owners. The City's last bond issuance resulted in a principal of \$154 million and interest of \$157 million. For a similarly sized issuance after a multi-notch downgrade we expect interest costs to increase by \$10-20 million.

A potentially larger concern for the City than interest costs is the ability to access capital markets. Negative publicity about the City's financial status (headline risk) or open discussion of financial insolvency is likely to discourage potential investors from bidding on City bonds. Investors who remain in the market may demand unacceptably

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 17

high interest rates, effectively preventing the City from issuing new debt. This can occur before a downgrade ever happens. The City's ability to borrow is the foundation of its extensive capital plan. If a balancing plan cannot be achieved, the City may be unable to complete existing capital projects or pursue new ones for an extended period.

35. Given Police and Fire are 75% of the General Purpose Fund, what are the major expense categories for Police and Fire?

The major expense category for the Police and Fire Department is centered around personnel costs, primarily consisting of overspending in overtime. A more detailed analysis of public safety overtime costs will be provided in a supplemental support.

Reid:

36. Please confirm the total amount of overspending identified for OPD and Fire, and what for what purposes.

The Oakland Fire Department is projected to overspend by \$34.44 million, mostly due to overtime overspending. The overtime use is due to three main causes: unfilled vacant positions, compliance requirements within the Local 55 MOU for minimum staffing provisions, and significant numbers of personnel out on long-term disability leave (work related injuries) all requiring overtime shifts to cover these leaves or vacancies.

a. If OPD relied solely on straight time with no overtime, what would be the impacts on service delivery and the availability of personnel in each OPD Area on a daily basis?

Given OPD's current staffing challenges—89 sworn personnel totally off work due to admin and medical leave, with an additional 16 on modified duty—alongside the high volume of calls on both emergency and non-emergency lines, maintaining the level of service that Oakland residents need would be extremely difficult if not impossible without overtime. This excludes vacant positions requiring backfill due to sick leave, vacation, and mandatory training, which impacts each Area.

Critical operations, including multi-jurisdictional efforts led by the Ceasefire Section, which have led to multiple arrests and firearm recoveries, would be significantly impacted. Essential crime prevention efforts such as violence suppression, daily Air Support Unit (ARGUS) coverage, and division-level investigations related to NSA compliance would also be compromised if overtime were eliminated.

Another critical consideration, separate from long-term leaves, is the need to backfill vacant positions due to comp-time requests, court appearances, and POST-required qualifications. These requirements create unavoidable vacancies in field positions, which,

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 18

if left unfilled, pose serious risks to the safety of our residents and the officers serving our community.

Given our current understaffing challenges and previously frozen positions, eliminating overtime would severely impact our response capabilities. It would further weaken our ability to address calls for service for our deserving community members and hinder our proactive work to reduce violent crime, which has already decreased nearly 40% from last year.

The cuts have already forced us to scale back collaborative community programs severely. Eliminating overtime would mean that all non-essential law enforcement activities would cease, destroying years of work to build trust and connection with the community we serve. Additionally, it could jeopardize grants that rely on staff working multiple roles, some of which require overtime.

b. If we have met the MOU terms and conditions for adjustments to OFD, what are the proposed or recommended impacts on services?

The conditions, which were met, required to temporarily suspend the minimum staffing requirements include all of the following:

- “Severe Financial Event,” defined as when the General Purpose Fund revenues in the Adopted Budget are less than the current year’s revenues; and
- Layoffs or furloughs are noticed to all of the City’s labor unions due to adverse financial conditions; And
- The City Administrator submits a report to the City Council explaining the Severe Financial Event, the steps that were taken by the City to avoid the need to temporarily suspend the minimum staffing provisions, and the steps that will be taken by the City in the future to restore the minimum staffing provisions.

The closure of multiple firehouses will have a devastating impact on emergency response. While the districts containing the out of service engine companies will be the most impacted with slower response times, districts surrounding those companies will be affected as there will be decreased coverage overall and Oakland Fire Department (OFD) dispatch will have fewer options to rely upon when emergencies occur. The more stations that are closed means that more incidents will experience delayed responses. These delays have real life implications for residents, businesses, and visitors of Oakland.

Jenkins/Reid:

37. What services is Oakland statutorily obligated to provide (or not)?

There is no comprehensive list that exists that details all legally mandated services. Many of the services Oakland provides stem from policy decisions made to address community needs, rather from strict statutory requirements.

c. Will the Council receive a report identifying services that could be removed if we are not statutorily obligated to provide them?

Attached is a preliminary list of services provided by each City department (**Attachment E**), compiled for use in the FY 25-27 budget process. While this data represents a broad overview of services, it is still in draft form. It has not been fully reviewed or refined for usability this year but should provide insight into the range of services across departments. Further vetting is needed before it can serve as a final reference.

Reid:

38. Is there a list of services offered by departments, with line-item details, available for staff and council to review prior to enacting additional cuts? If not, when will that report become available?

Attached is a preliminary list of services and special projects offered by department (**Attachment E and Attachment F**). This data is raw, collected directly from City departments and will require further review and refinement before it can be fully utilized. Please note that service-specific information is not reflected in the financial system. If there are particular proposals of interest, staff can evaluate and provide cost estimates for those specific items.

39. Will there be an analysis to determine the total number of employees we can afford to maintain for service delivery?

An analysis based on FTE count will not be conducted. It will be most effective to focus on evaluating and prioritizing which services are essential to maintain. Cost estimates by service can be provided if there are specific proposals for consideration.

40. Will we be evaluating all outsourced work with vendors and contractors to determine how our workforce can be sustained where we have the internal expertise, equipment, and capacity?

We expect service reductions to impact both contract-based services and those provided directly by City staff.

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 20

41. Please provide a list of contingency budget adjustments made, along with the formal date they became effective, as noted in Exhibit 3 - FY 2024-25 Council Contingency Amendments Fund 1010 - General Purpose Fund.

The budget adjustments are listed in the FY 2024-25 Quarter 1 Revenue & Expenditure report and align with the reductions noted in the Exhibit. Implementation of the position freezes and O&M reductions took effect in October 2024. However, adjustments for Police and Fire items are still pending, as implementation specifics are yet to be determined.

Revenue Questions

Reid:

42. What are the Administration’s plans for revenue growth?

The Administration recognizes that the City’s financial challenges are not primarily driven by a lack of revenue, but rather by the need to manage and prioritize expenditures more effectively. While the City has diverse revenue streams, including taxes, fees, and grants, the key focus moving forward will be on ensuring that resources are spent efficiently and aligned with the City's core priorities, such as public safety, infrastructure, and community services.

The Administration is committed to reviewing and optimizing existing spending, improving fiscal discipline, and exploring opportunities for cost savings across departments. Additionally, efforts are underway to enhance the efficiency of the City’s revenue collection processes to ensure that outstanding revenues are collected in a timely manner.

In terms of revenue growth, the City will continue to seek opportunities for economic development, pursue state and federal funding where available, and explore innovative approaches to strengthen its financial foundation while maintaining a strong commitment to fiscal responsibility. The goal is to ensure long-term financial sustainability without overburdening residents or businesses.

43. If a portion of the Coliseum Sale revenues are received at close of escrow by end of November, what would be the impact of including those revenues?

There is no scenario under which the City can recognize as revenue any amount above the \$5M it has already received for this transaction before the end of November. Even if AASEG makes an additional \$10M deposit, the City will have no rights to these funds prior to the closing of the sale. Funds must be available and measurable to be recorded as revenue and refundable deposits fail the first of these two tests.

44. What services or expenditures does our business license tax cover within the general fund?

Business tax is a general revenue and supports all general fund expenses. The majority of such expenses are in public safety labor costs.

45. Do we have an aggressive contingency budget plan to secure new revenue?

The ability of municipalities to raise revenues is constrained by Proposition 13 and in most cases voter approval is required to increase revenues meaningfully. Even when voters approve taxes there is often no benefit to the general fund—bond measures pay for capital items and special taxes fund service enhancements. A new general tax or changes to an existing general tax could result in new general revenue but such approvals could not be obtained in time to address the City's present fiscal crisis.

Kaplan:

46. What are the steps to collect on outstanding rental property tax, Business License Tax, Real Estate Transfer Tax, and when could we expect to receive those revenues and at what amounts?

The city's efforts to collect outstanding revenues includes noticing taxpayers in violation of operating a business without a license and securing a lien on the associated real property belonging to the business. Alternative noticing advises taxpayers that they are in collections status and the city will seek to legally secure a judgment or tax return intercept. Delinquent amounts above \$5,000 are referred to the City Attorney for collection, in light of the \$5,000 limit for Small Claims Court businesses in Alameda County. Additionally, we have contacted our Business Tax software vendor to explore additional support under our current contract. which allows them to assist the city in collecting outstanding amounts. This additional support will focus on collecting outstanding revenue including mailing notices, sending emails, making phone calls, researching delinquent accounts to confirm whether there is an outstanding business tax liability due to the city and or whether the account should be closed.

The uncollected amount for Real Property Transfer Tax (RPTT) has not yet been fully identified, as staff must review recorded deeds to determine RPTT applicability. Currently, staff are still reviewing deeds from 2023 and 2024. This was outlined in staff presentations to the City Council on July 16, 2024, and to the Finance & Management Committee on September 24, 2024. Each month, the county records between 500 and 800 deeds, and the city's Revenue Management Bureau – Audit Unit assesses whether RPTT is applicable. If the Audit Unit determines that RPTT is owed, the collection process begins with issuing a bill, followed by sending notices and additional follow-up reminders. If the tax remains unpaid, the city places a lien on the property. A lien secures the property as collateral for the outstanding RPTT and must be satisfied (paid in full) when ownership changes. The timing of the city receiving payment is uncertain, as it depends on a subsequent real property transaction. Since Fiscal Year 2020-21, the City Council has

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

authorized liens on properties for a total of approximately \$1.34 million (see **Table 1**), averaging about \$334,000 per fiscal year.

A report for consideration of liens for delinquent RPTT is scheduled to come to City Council on December 17, 2024 for delinquent accounts over the period of July 2022 to December 2022.

Table 1: City Council Authorized Property Liens (Historical RETT Liens)

| Fiscal Year | CC Meeting Date | Agenda Item No. | Authorized Lien Amount | Fiscal Year Lien Amount |
|--------------------|------------------------|------------------------|-------------------------------|--------------------------------|
| FY 2023-24 | 7/16/2024 | 6.2 | \$469,503.97 | \$469,503.97 |
| FY 2022-23 | 6/6/2023 | 8.2 | 128,465.57 | 350,263.77 |
| | 12/6/2022 | 3.2 | 221,798.20 | |
| FY 2021-22 | 6/21/2022 | 3.1 | 59,574.24 | 128,793.24 |
| | 3/15/2022 | 3.1 | 69,219.00 | |
| FY 2020-21 | 6/15/2021 | 3.2 | 128,824.94 | 388,506.67 |
| | 9/15/2020 | 3.4 | 259,681.73 | |
| Total | | | \$1,337,067.65 | \$1,337,067.65 |
| FY Average | | | | \$334,266.91 |

47. What additional revenues would the City receive if the City ballot measures pass (Measure NN, Wildfire Prevention measure) and when would the City receive that additional revenue?

Measure NN and the Wildfire Prevention **revenues would not become available until fiscal year 2026** and cannot be used to supplant existing funding. In addition, the revenues from these measures are restricted and will require the City to fund new expenditures for purposes specified in the ballot measure.

Measure NN (Violence Reduction Services)

Measure NN would raise approximately \$47.4 million per year beginning in FY 2025-26, or \$16.27 million more than the amount raised from Measure Z in FY 2023-24.

Parcel Tax Adjustments:

- Single Family Residential Properties: The tax will increase from \$133.45 per property to \$198.00.
- Multiple Residential Units: The tax per unit will rise from \$97.17 to \$132.00.
- Non-Residential Properties: The tax, based on frontage and square footage, will increase from \$68.35 to \$198.00.

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 23

Parking Tax Surcharge:

- The surcharge on parking will go up from 8.5% to 10%.

Projected Revenue Estimated on the Ballot Measure:

- Annual Total: Measure NN is expected to generate approximately **\$47,400,000** each year.

Comparison with Measure Z (FY 2023-24):

- Parcel Tax Revenue: Measure Z collected \$20,674,235.
- Parking Surcharge Revenue: Measure Z collected \$10,451,850.
- Total Revenue from Measure Z: \$31,126,085.

Net Revenue Increase:

- The anticipated net increase from Measure NN over the actual revenue from Measure Z that was collected in FY 2023-24 is **\$16,273,915**.

Measure MM (Wildfire Protection Zone)

The Measure is estimated to raise \$2.67 million in revenue in the first fiscal year (FY 2025-26). In subsequent years increases to the tax are limited to cost-of-living adjustments and capped at 5 percent. The last time the City received revenue from a wildfire prevention assessment came in FY 2013-14 when the City collected \$1.68 million from the Wildland Fire Prevention Assessment District. This figure was roughly \$1.0 million less than the estimated revenue from Measure MM.

48. When will the \$12M from the Alameda Training Facility land sale be received, and is that revenue already included in this fiscal year?

The City recorded \$17.96 million in revenue for its share of these facilities in FY21, when title was transferred. The only scenario where the City could record additional revenue would be if the selling price exceeded the amount booked in FY21. However, the opposite has occurred. If the sale of the property closes, the anticipated sale proceeds of \$11.85 million are below the value booked in FY21, so the transaction will result in a financial loss to the City of \$6.11 million. This amount will reduce general fund balance in FY25.

49. How much of the available fund balance from the Equipment Fund (~\$30M) and Self-Insurance Fund (~\$30M) could be used to balance the General Purpose Fund, and what limitations or impacts would it have on City services?

Positive fund balance in the Equipment Fund is offset by negative fund balances in other ISF departments, including negative \$28.5M in the Facilities Fund. The Information Technology Internal Service Fund (ISF) has a positive balance of \$16.9M but the other ISFs collectively have a negative balance of \$3.8M. The general fund must cover deficits in the internal service funds so use of ISF balances directly burdens the general fund, as of Q4 R&E Report, using unaudited data.

The positive balance in the Self-Insurance Fund is far below projected future losses of \$89.3M as of June 30, 2024. A healthy level of fund balance for Self-Insurance would be sized at approximately 80% of this level, or **\$71.4M**. Reductions to Self-Insurance fund

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

Page 24

balance are effectively a borrowing from the General Fund, which would have to make up the difference in future years.

Reserves and Potential Declaration of Fiscal Emergency

Reid:

- 50. Please confirm the total emergency reserves available and the required reserve amount. Please confirm what amount in the fund would require us to formally declare a fiscal emergency, and if so, when would we need to make that declaration?**

As of the Q4 report, using unaudited data, the City holds \$37.23 million in emergency reserves, which is 57% of the required reserve level of \$68.78 million. While the City's consolidated fiscal policy (CFP) does not specify a single, fixed dollar amount to declare a fiscal emergency, it outlines a series of events that could lead to severe deficits or an inability to balance the budget effectively – conditions that the City is currently experiencing.

- 51. What fiscal options do we have to avoid declaring a fiscal emergency or a more significant filing/declaration? If none, please explain why?**

The City has surpassed the threshold for avoiding a fiscal emergency based on the City's Consolidated Fiscal Policy (CFP), and a swift recovery of the financial situation is no longer feasible. Given the severity of the situation, it is clear that **immediate and substantial reductions in services will be necessary** to stabilize the City's finances and avoid further deterioration of the fiscal condition. These reductions are a necessary step to create a more sustainable budget moving forward, allowing the City to rebuild fiscal health and avoid more severe financial consequences in the future.

While there are limited options to avoid the declaration of a fiscal emergency at this point, the priority is to implement targeted reductions in services to stabilize the City's finances and begin the process of fiscal recovery.

HONORABLE MAYOR AND CITY COUNCIL

Subject: SUPPLEMENTAL 2 – Fiscal Year (FY) 2024-25 First Quarter (Q1) Revenue and Expenditures (R&E) Report

Date: December 5, 2024

52. Please clarify the statement regarding service delivery in the City of Oakland compared to neighboring or similarly sized cities on a per capita basis.

The table below compares the per capita revenues collected by GPF categories amongst neighboring, similar sized cities to Oakland.

| FY 2023-24 GPF Adopted Budet Per Capita | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenue Type | Oakland | Fremont | Hayward | San Leandro | Alameda |
| Property Tax | \$ 692.01 | \$ 592.12 | \$ 422.47 | \$ 332.49 | \$ 725.97 |
| Sales Tax | \$ 159.24 | \$ 440.15 | \$ 290.66 | \$ 465.86 | \$ 288.20 |
| Other Sales Tax | \$ - | \$ - | \$ - | \$ 175.34 | \$ - |
| Business License Tax | \$ 294.64 | \$ 60.60 | \$ 24.41 | \$ 79.79 | \$ 35.35 |
| Utility Consumption Tax | \$ 145.61 | \$ - | \$ 112.66 | \$ 129.52 | \$ 117.97 |
| Franchise Fees (Comcast, AT&T, PGE, Comm Solid Waste) | \$ 33.84 | \$ 52.82 | \$ 76.23 | \$ 65.81 | \$ 40.72 |
| Real Estate Transfer Tax | \$ 259.74 | \$ 7.32 | \$ 110.16 | \$ 126.29 | \$ 166.52 |
| Transient Occupancy Tax | \$ 52.89 | \$ 32.03 | \$ 12.52 | \$ 7.92 | \$ 42.27 |
| Parking Tax | \$ 26.50 | \$ - | \$ - | \$ - | \$ - |
| Other Taxes | \$ - | \$ 5.37 | \$ 12.99 | \$ 40.44 | \$ 17.27 |
| Licenses & Permits | \$ 3.27 | \$ - | \$ - | \$ 53.28 | \$ 59.45 |
| Fines, Forefeitures, & Penalties | \$ 54.27 | \$ 12.40 | \$ 17.15 | \$ 7.04 | \$ 7.86 |
| Interest Income | \$ 1.14 | \$ 8.49 | \$ 4.07 | \$ 29.69 | \$ 23.92 |
| Service Charges | \$ 87.55 | \$ 30.72 | \$ 87.65 | \$ 25.53 | \$ 106.10 |
| Miscellaneous Revenue | \$ 49.91 | \$ 2.40 | \$ 53.87 | \$ 45.33 | \$ 18.15 |
| Interfund Transfers | \$ 30.76 | \$ 26.36 | \$ 26.24 | \$ - | \$ 65.40 |
| Total | \$ 1,891.35 | \$ 1,270.77 | \$ 1,251.07 | \$ 1,584.34 | \$ 1,715.13 |
| * Excludes use of fund balance | | | | | |

53. Please provide a statement on the impact of benefit increases, including COLA, medical, and pension costs, along with the annual growth rate, on current and future budget decisions.

The City must account for these increasing obligations when developing future budgets, as they impact the availability or resources for other services and priorities. Benefit increases, particularly COLA adjustments, medical and pension contributions, represent ongoing and often escalating costs for the City. Pension costs are driven by actuarial assumptions and investment performance, and medical benefits often see cost increases generally due to overall inflation in healthcare costs.

END OF REPORT