



# AGENDA REPORT

**TO:** Honorable City Council

**FROM:** Jestin D. Johnson  
City Administrator

**SUBJECT:** FY 2023-24 GPF Operating Deficit  
Plan of Action To Balance

**DATE:** May 22, 2024

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## **RECOMMENDATION**

**Staff Recommends That The City Council Receive An Informational Report On The Plan Of Action To Close The FY 2023-2024 GPF Operating Deficit**

## **EXECUTIVE SUMMARY**

Per the Consolidated Fiscal Policy, *Part I. Alterations to the Budget*, the Administration is required to return to the City Council within 60 days following the acceptance of the Second Quarter (Q2) Revenue and Expenditure (R&E) report in the event that a department is projected to overspend in the General Purpose Fund (GPF) by more than one percent (1%). This informational report outlines the plan of action to close the FY 2023-2024 projected structural budget deficit.

## **BACKGROUND / LEGISLATIVE HISTORY**

On December 9, 2014, the Oakland City Council adopted [Ordinance No. 13279 C.M.S.](#) amending the City of Oakland Financial Policies to establish a new Rainy Day Policy and consolidating all fiscal policies into the City of Oakland Consolidated Fiscal Policy.

On May 15, 2018, the Oakland City Council adopted [Ordinance No. 13487 C.M.S.](#) that amended the City's Consolidated Fiscal Policy.

On June 26, 2023, the Oakland City Council adopted [Resolution No. 89804 C.M.S.](#) that adopted the Fiscal Year (FY) 2023-25 Adopted Budget Legislation ("adopted budget").

On November 7, 2023, the Oakland City Council adopted [Resolution No. 89981 C.M.S.](#) that amended the FY 2023-2025 Adopted Budget Legislation (hereinafter as "adjusted budget") to reallocate \$2.5 million from reduced debt service payments to the Oakland-Alameda County Coliseum Authority (OACCA) to fund improvements to the 911 dispatch center including the recruitment and retainment of workers.

Pursuant to the City's Consolidated Fiscal Policy - Part G. Criteria for Project Carryforwards and Encumbrances, the FY 2023-24 Adopted Budget has also been adjusted to include \$55.24 million in prior year carryforwards in the GPF, which utilizes available fund balance to cover the cost.

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On March 28, 2024, the Oakland City Council received and filed the [FY 2023-24 Second Quarter \(Q2\) Revenue and Expenditures \(R&E\) report](#) from the Finance Department.

On May 28, 2024, the Finance Department will present the [FY 2023-2024 Third Quarter \(Q3\) Revenue and Expenditures \(R&E\) report](#) to the Finance and Management Committee.

**ANALYSIS AND POLICY ALTERNATIVES**

The FY 2023-24 Q2 projections indicated that the general purpose fund (GPF– fund 1010) projected revenues would come in below projected expenditures, resulting in an estimated **(\$177.10)** million operating deficit and a projected **(\$117.66)** million shortfall of available fund balance in the GPF. An operating deficit occurs when the ongoing expenditures outpace ongoing revenues.

The FY 2023-24 Q3 report (“Q3”) projections indicate a slightly better outlook on the GPF; however, an operating deficit remains. The Q3 projections indicate that revenues will come in below projected expenditures, resulting in an estimated **(\$155.27)** million operating deficit. This operating deficit reveals a projected **(\$62.09)** million dollar shortfall in the GPF, fund balance. This **(\$62.09)** million is further impacted by the anticipated use of \$33.84 million in available fund balance for the FY 2024-25 adopted budget, resulting in a **(\$95.93)** million shortfall leading into the FY 2024-25 budget development season. It is unlikely that the FY 2023-24 will end with a positive general-purpose fund balance without significant modifications to the budget. For this report, the projected deficit described in the Q3 report will be the primary figures discussed. The Mayor’s Office and City Administration have devised the plan outlined in **Table 2** to mitigate the structural imbalance in anticipation of the fiscal year end of 2023-24.

**Table 1-: Summary of FY 2023-24 Fiscal Situation with GPF Fund Balance (\$ in millions)**

<b>GENERAL PURPOSE FUND (1010)</b>	<b>FY 2023-24 Q3 Projected FYE</b>
<b>Estimated FY 2023-24 Beginning Audited Fund Balance</b>	<b>93.28</b>
<b>FY2023-24 Performance</b>	
Revenue	715.70
Expenditures	870.97
<b>FY 2023-24 Operating Surplus / Deficit</b>	<b>(155.27)</b>
<b>Unaudited Ending Fund Balance</b>	<b>(62.09)</b>
<b>Obligations Against Ending Fund Balance</b>	
Use of Fund Balance in FY 2024-25	<b>(33.84)</b>
<b>Estimated FY 2023-24 Ending Available Fund Balance</b>	<b>(95.93)</b>

**Plan to Rectify the FY23-24 GPF Operating Budget Deficit**

**Table 2 – City Administrator’s Plan To Close The FY 2023-24 Projected Gap**

<b><u>CITY ADMINISTRATOR PLAN TO REDUCE EXPENDITURES</u></b> <b>(figures in thousands)</b>	
FY 2023-24 Q3 R&E Projected GPF Fund Balance	<b>(\$62,090.00)</b>
<b><u>Appropriation and Carryforward Cancellation – GPF (1010) Only</u></b>	
CIP Department Projects (Transfer to Bond or Facilities Fund)	988.00
Departmental General Operations & Maintenance (O&M)	2,643.67
Other Programs	11,435.57
Council Action	15,120.69
<b>Sub-Total</b>	<b>(\$30,187.93)</b>
<b><u>Contingency – (Add Back)</u></b>	
Contingency for items such as expired contracts, purchase orders, etc., currently encumbered but eligible for release.	<b>(10,000.00)</b>
<b>Total Expenditure/Appropriation Reductions Identified</b>	<b>\$20,187.93</b>
<b>Remaining Expenditure Reduction Required To Close FY 2023-24 Operating Deficit</b>	<b>(\$41,902.07)</b>

<b>Remaining Expenditure Reduction Required To Close FY 2023-24 Operating Deficit</b>	<b>(\$41,902.07)</b>
<b>One-time Land Sale Proceeds</b>	<b>\$105,000.00</b>
<b>Land Sale Proceeds Remaining Revenue Available for FY2024-25</b>	<b>\$63,097.93</b>
<b>Remaining Expenditure Reduction Required To Close FY 2023-24 Operating Deficit</b>	<b>\$0.00</b>

**Capital Improvement Projects (CIP) Department Projects**

In November 2016, Oakland voters approved the 2016 Infrastructure Bond (Measure KK), a \$600 million bond measure to be used for streets and roads, facilities, anti-displacement, and affordable housing preservation projects.

In November 2022, Oakland voters approved the 2022 Affordable Housing & Infrastructure Bond (Measure U), a \$850 million bond measure to be used for affordable housing preservation, transportation, and citywide facilities preservation and improvement projects.

With over \$1.45 billion in bond authorization, staff proposes transferring eligible capital improvement appropriations to bond funds. Capital appropriations that are ineligible for bond funding, for example, maintenance and general repair costs are proposed to be transferred to the facilities fund to minimize the impact on the GPF. **Table 3** below details the projects and amounts intended for transfer.

**Table 3 – CIP Transfers By Project**

<b>CAPITAL IMPROVEMENT PROJECTS</b>	<b>TOTAL</b>
1003625 - Mosswood Rebuild	\$55,000.00
1000712 - Caldecott Tunnel Mitigations	\$250,000.00
1001412 - Caldecott Trail	\$122,221.20
1004222 - P1000834 Museum Minor CIP	\$302,704.00
1006031 - Arroyo Viejo Park Renovation	\$80,000.00
1006462 - Wilma Chan Park Improvements	\$148,104.00
1006463 - Joaquin Miller Trail Repair	\$30,000.00
<b>Total</b>	<b>\$988,029.20</b>

***Departmental O&M***

During the FY 2023-25 Biennial Budget, unrestricted departmental operations and maintenance (O&M) funding were appropriated. As of May 2, 2024, departments have not reserved or earmarked \$1.24 million of this funding for a particular purpose, and as such, staff recommends reducing the appropriations to minimize the impact to the GPF. Additionally, \$1.40 million in departmental O&M has been carried forward into FY 2023-24 from prior fiscal year allocations.

Carryforward is a process through which obligated funds remaining at the end of one budget period may be carried forward to the subsequent budget period. The Finance Department analyzes each fund balance and determines the impact to the fund if all carryforwards are approved and classifies each fund as healthy or unhealthy. Departments must justify the requests for carryforward. Carryforwards in projected healthy funds are granted and the appropriations are made available for departmental use. Carryforwards in projected unhealthy funds are scrutinized and require the approval of the City Administrator and are granted on an exception basis.

Finance Staff have identified the reduction of these appropriations given that the funding is currently unrestricted, or unreserved for a particular purpose, and as such will have minimal impact. **Table 4** below summarizes the departmental O&M reductions by department.

**Table 4 – Departmental O&M Summary By Department**

<u>DEPARTMENT</u>	<u>TOTAL</u>
Capital Improvement	\$251,904.19
City Administrator	\$489,500.00
City Attorney	\$20,000.00
City Council	\$316,228.00
Department of Workplace and Employment Standard	\$400,000.00
Economic and Workforce Development Department	\$512,855.37
Fire Department	\$100,000.00
Information Technology Department	\$40,000.00
Non-Departmental and Port	\$108,439.26
Police Commission	\$404,744.00
<b>Total</b>	<b>\$2,643,670.82</b>

***Other Programs and Council Actions***

Per the Consolidated Fiscal Policy *Part G. Criteria for Project Carryforward and Encumbrances*, the Finance Department, upon approval from the City Administrator, proceeded with the carryforward process after the City Council adopted the FY 2023-25 Budget Legislation. Despite ongoing efforts to minimize the amount of carryforwards year after year, there are several carryforwards that require fiscal retrenchment due to the inaction to utilize the funds and the lack of funding (the operational budget deficit) in the GPF fund balance by fiscal year-end. Fiscal retrenchment is defined as the reduction of costs or spending in response to economic difficulty where jurisdictions take immediate action to begin to stabilize the fiscal situation. The carryforward retrenchment is estimated at \$11.43 million and will have minimal impact to the existing service levels provided by the departments. **Table 5** summarizes the Other Program carryforward reductions.

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**Table 5 – Other Program Carryforward Reductions Summary By Department**

<b>Department</b>	<b>Total</b>
City Administrator	\$139,193.00
City Clerk	\$2,810,858.47
Department of Transportation	\$281,653.00
Department of Workplace and Employment Standard	\$347,248.98
Economic and Workforce Development Department	\$428,028.58
Fire Department	\$4,221,665.89
Human Services Department	\$998,603.13
Oakland Parks and Recreation Department	\$207,292.19
Oakland Public Works Department	\$265,000.00
Police Commission	\$400,000.00
Police Department	\$1,297,388.23
Race and Equity Department	\$38,642.87
<b>Total</b>	<b>\$11,435,574.34</b>

The plan includes the retrenchment of \$15.12 million of City Council Action carryforwards, found in **Table 6** below. Many of these carryforwards were established in FY 2020-21 when the City used the one-time American Rescue Plan Act (ARPA) funding to close the funding gap and subsequently added various enhancement programs in the GPF. Currently, the funding remains unspent, and the retrenchment of the enhanced program appropriations would significantly contribute to closing the current year's funding gap.

**Table 6 – Council Action Carryforward Reduction Summary By Department**

<b>DEPARTMENT</b>	<b>TOTAL</b>
City Administrator	\$575,237.00
City Council	\$100,000.00
Department of Transportation	\$192,812.25
Economic and Workforce Development Department	\$2,088,048.41
Finance Department	\$150,000.00
Fire Department	\$9,190,190.86
Housing and Community Development Department	\$2,512,198.87
Police Department	\$40,000.00
Public Ethics Commission	\$272,209.72
<b>Total</b>	<b>\$15,120,697.11</b>

The Finance Department reviewed each retrenchment and determined one or a combination of the following:

- 1) the program currently has additional ongoing funding to continue services,
- 2) the carryforward is substantially outdated,
- 3) the department currently does not have the staff capacity to complete the project, or
- 4) the funds are no longer needed.

### ***Use of Anticipated One-Time Funding***

The City anticipates the proceeds of a sale of property that would yield \$105 million in one-time revenue prior to the end of the fiscal year. The receipt of those land sale proceeds is intended to fill the remaining amount of the FY2023-24 GPF operating budget deficit. The use of land sale proceeds in this manner is in accordance with the Consolidated Fiscal Policy, Section 1- Budgeting Practices, Part D- Use of One-Time Revenues.

### ***Summary***

The sum of all of these actions will resolve the projected FY 2023-24 GPF Operating Budget deficit, restoring the fidelity of the GPF, maintaining a balanced budget, and making strides to correct the historical structural imbalance.

This informational report supports the citywide priority of a ***responsive, trustworthy government*** by providing timely and up-to-date financial information. This ensures transparency and allows residents, stakeholders, and decision-makers to be informed of the city's fiscal health, and promotes a culture of responsible financial stewardship.

### **FISCAL IMPACT**

The mid-year resolution of an operating deficit requires the City to further examine the organization's long term structural deficit, as this issue will persist into the future years absent concerted intervention. The City's short-term and long-term fiscal outlook will depend on nimble and decisive management in the current and coming years.

### **PUBLIC OUTREACH / INTEREST**

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

### **COORDINATION**

This report was prepared in coordination between the Mayor and City Administrator's Offices and the Finance Department.

### **SUSTAINABLE OPPORTUNITIES**

***Economic:*** No direct economic opportunities have been identified.

***Environmental:*** No direct environmental impacts have been identified.

***Race & Equity:*** No direct Race & Equity opportunities have been identified.

**ACTION REQUESTED OF THE CITY COUNCIL**

**Staff Recommends That The City Council Receive An Informational Report On The Plan Of Action To Close The FY 2023-2024 GPF Operating Deficit**

For questions regarding this report, please contact Monica Elise Davis, Deputy City Administrator, at 510-238-7561.

Respectfully submitted,

  
Justin Johnson (May 23, 2024 15:37 PDT)

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JESTIN D. JOHNSON  
City Administrator

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