



AGENDA REPORT

TO: Steven Falk
Interim City Administrator

FROM: Adam Benson
Director of Finance

SUBJECT: Suspend Requirements and Use of Reserve Funds in the Consolidated Fiscal Policy

DATE: April 21, 2020

City Administrator Approval

Date: 4-30-2020

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Suspending Section 1, Part C of the City of Oakland Consolidated Fiscal Policy (Ordinance No, 13487 C.M.S.), Which Requires A Certain Percentage of The City's Excess Real Estate Transfer Tax To Be Allocated To The Vital Services Stabilization Fund and Used To Fund Debt Retirement And Unfunded Long-Term Obligations, For Fiscal Years 2018-19, 2019-20, And 2020-21; And Authorizing The Use of Vital Services Stabilization Reserve Funds For Fiscal Year 2020-21 Pursuant To Section 2, Part B Of The City of Oakland Consolidated Fiscal Policy.

EXECUTIVE SUMMARY

On Tuesday, April 21, 2020, staff submitted an informational report to City Council. The report provided an update to revenue and fund balance forecasts for the General Purpose Fund (GPF) in Fiscal Year (FY) 2019-20 and FY 2020-21 based on data through March 2020.

FY 2019-20 year-end revenues in the GPF are projected to be \$640.62 million, (\$14.51) million lower than the Adopted Budget and (\$35.64) million lower than second quarter projections. Year-end expenditures are expected to be \$666.79 million resulting in a projected operating shortfall of (\$26.17) million. With various fund balance adjustments and reduced reserve obligations, the year-end available GPF fund balance is estimated to be negative (\$25.46) million. Likewise, FY 2020-21 revenues in the GPF are projected to be \$630.77 million, (\$53.78) million lower than the Adopted Budget. The forecast assumes a possible recovery after the third quarter of FY 2020-21.

The adoption of this resolution will:

- Suspend Vital Services Stabilization Fund (VSSF) and Unfunded Long-Term Obligations (LTO) transfers for FY 2018-19;
- Suspend VSSF & LTO transfers for FY 2019-20;
- Suspend VSSF & LTO transfers for FY 2020-21; and
- Use the VSSF for FY 2020-21

City Council
May 5, 2020

Absent an unexpected State or Federal bailout, this problem will not be easily resolved, and it will not be fixed by tinkering at the margins. It will require significant action by City leaders.

The City's response to the fiscal impacts of this crisis is somewhat analogous to the public health crisis itself in that if the City takes decisive action now to reduce expenditures and suspend actions that may compromise our revenue base, the City may be spared from deeper reductions in the medium- and longer-term. Early action is a necessary form of risk management given the abounding uncertainty on both the duration and depth of the current economic contraction.

BACKGROUND / LEGISLATIVE HISTORY

In reaction to the COVID-19 pandemic, Alameda County issued a Shelter-in-Place (Order No. 20-04) effective March 17, 2020, directing individuals to stay at home except to provide or receive essential services. The order is in effect until May 3, 2020 but may be amended or extended. The State of California issued a similar "Stay at Home" order effective Thursday, March 19, 2020. Non-essential businesses are ordered to close, effectively leaving only gas stations, grocery stores, take-out/delivery restaurants, and pharmacies open. These necessary actions to curb the transmission of the virus will result in a negative impact on the City's anticipated FY 2019-20 and FY 2020-21 revenues. Sales Taxes, Transient Occupancy Taxes, and Parking Taxes, all of which are heavily dependent on purchases and patronage by everyday consumers and travelers alike, are almost certainly impacted.

On April 2, 2020 Governor Newsom announced new measures to help small business weather the economic impacts of COVID-19. One measure allows small businesses with taxable sales of \$5 million or less to defer payment of sales and use taxes of up to \$50,000, for up to 12 months. The deferral of sales tax will create an additional negative impact on the receipt of sales and use taxes in the City's GPF and Measure BB funds.

There is limited data available to analyze the economic impact of the virus. Staff are using a variety of sources to drill down into each of the major tax revenues. This includes historical analysis of previous U.S. economic recessions (2001 & 2008) as well as current news and industry reports.

In addition, staff is continuing to monitor the impact of the pandemic on the City's pension liabilities. The global and domestic market has experienced unprecedented volatility in the last few weeks which is certainly affecting the asset value in both the CalPERS and PFRS pension funds. While this year's returns will not impact the current fiscal year or FY 2020-21 as those contribution rates are already built into the budget, staff is expecting significant increases to the required contributions in the next 2-3 fiscal years.

ANALYSIS AND POLICY ALTERNATIVES

Pursuant to Section 1, Part C. Use of Excess Real Estate Transfer Tax (RETT) Revenues of the Consolidated Fiscal Policy, the City is required to use the excess Real Estate Transfer Tax revenues as follows:

- 1) The excess RETT revenue is hereby defined as any amount of projected RETT revenues that exceed 15% of General Purpose Fund (GPF) Tax Revenues (inclusive of RETT).
- 2) The excess RETT, as described in this section, shall be used in the following manner and appropriated through the budget process:
 - a. At least 25% shall be allocated to the Vital Services Stabilization Fund, until the value in such fund is projected to equal to 15% of total General Purpose Fund revenues over the coming fiscal year; and
 - b. At least 25% shall be used to fund debt retirement and unfunded long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post-Employment Benefits (OPEB) unfunded liabilities; and
 - c. The remainder shall be used to fund one-time expenses or to augment reserves.
- 3) Use of the excess RETT revenues for purposes other than those established in this section must be authorized by City Council resolution. The resolution shall explain the need for using excess RETT revenues for purposes other than those established in this section. The resolution shall also include steps the City will take to return to using excess RETT revenues pursuant to this section.

Pursuant to Section 2, Part B. Vital Services Stabilization Fund Reserve Policy, Item #2 of the Consolidated Fiscal Policy, in years when the City forecasts that total General Purpose Fund revenues will be less than the current year's revenues, or anytime significant service reductions, such as layoff or furloughs, are contemplated due to adverse financial conditions, use of this fund must be considered to maintain existing services.

Due to the projected budget shortfall in FY 2019-20 and FY 2020-21, it is necessary for the City to use its excess Real Estate Transfer Tax and the Vital Services Stabilization Fund in the amount of approximately \$14.7 million to balance the budget and maintain and preserve existing services to the greatest extent possible.

The City plans to return normal contributions to the Vital Services Stabilization Fund and Unfunded Long-Term Obligations once the City's revenues have recovered.

The City plans to replenish the Vital Services Stabilization Fund from excess RETT pursuant to the Consolidated Fiscal Policy formula once the City's revenues have recovered.

FISCAL IMPACT

The fiscal impacts will be described in the FY 2019-21 Proposed Budget Amendment.

PUBLIC OUTREACH / INTEREST

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

COORDINATION

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

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental: No direct environmental impacts have been identified.

Race & Equity: No race or equity opportunities have been identified.

ACTION REQUESTED OF THE CITY COUNCIL

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For questions regarding this report, please contact Adam Benson, Director of Finance, at (510) 238-2026.

Respectfully submitted,



Adam Benson
Finance Director

Prepared by:

Jason Wong
Finance Manager