

Independent Analysis of Current Year Budget City of Oakland

Prepared for:
City Council, City of Oakland

April 12, 2021

HARVEY M. ROSE
ASSOCIATES, LLC

1390 Market Street, Suite 1150 • San Francisco, California 94102
(415) 552-9292 • (415) 252-0461 (FAX) • info@harveyrose.com

public sector management consulting



Scope (1 of 2)



1. Which administrative reductions were implemented from the City Finance Director's 12/20/20 informational memo?
2. Which administrative restorations have been made to date?
3. What is the amount and uses of additional administrative overspending between the first and second quarters of the current year?
4. What is the amount of the current General Purpose Fund shortfall?
5. What is the amount needed to restore the General Purpose Fund emergency reserve to 7.5% of General Purpose Fund appropriations?
6. What is the amount of new real estate transfer tax revenue since the most recent report from the Finance Director and the amount of any other revenue or expenditure amounts not included in the 2nd Quarter Revenue and Expenditure report?
7. What is City's current General Purpose cash on hand?

Scope (2 of 2)



8. Can the City Administrator spend funds from the General Purpose Fund emergency reserves without prior Council approval?
9. Should the General Purpose Fund emergency reserve be in a separate account from the unallocated General Purpose Fund monies?
10. What, if any, restrictions will be placed on the American Rescue Plan Act funds?
11. Are revenues anticipated from the American Rescue Plan Act and the Coliseum Joint Powers Authority subject to the 3% set aside under Measure KK for youth programming?



1. Administrative Reductions

Implemented reduction	Description	Estimated savings before restorations	Rev. estimated savings: 3/18/2021
Hiring freeze	Froze vacant civilian positions, except dispatchers and other rev generating positions Restoration: unfreezing of 5 positions	\$4,100,000	\$3,851,125
Release temporary staff	Directed all departments to release temp. staff by 1/9/21	\$1,000,000	\$1,000,000
Pay reductions for staff not represented by a labor group	10 unpaid days, forego 1% wage increase Restoration: 10 unpaid days	\$500,000	\$100,000
Freeze discretionary spending	Froze all travel and training	\$100,000	\$100,000
Department reductions	Various	\$4,910,000	\$4,910,000
Fire Department reductions	Reduced overtime (3 station brownout) Restoration: 2 stations	\$1,680,000	\$1,680,000
Police Department overtime reductions	Reductions to various Police overtime functions Restoration: strategic overtime authorization	\$7,175,000	\$6,940,792
Police Department operations reductions	Reductions and suspensions of various Police operations and activities Restorations: various (see Exhibit 2)	\$7,802,000	\$6,922,161
Total FY 2020-21 administrative spending reductions (excluding FY 2019-20 carryforward reductions)		\$27,267,000	\$25,504,078
FY 2019-20 carryforward reduction	Reduced approved carryforward	\$5,200,000	\$5,200,000
Total administrative reductions (including carryforward reductions)		\$32,467,000	\$30,704,078

2. Administrative Restorations



Implemented reduction	Description of restoration	Est. savings before restoration	Rev. estimated savings	Restoration cost
Hiring freeze	Unfreeze 1 Paralegal, 4 Police Records Specialists	\$4,100,000	\$3,851,125	\$248,875
Pay reductions for staff not represented by a labor group	Restore 10 unpaid days	\$500,000	\$100,000	\$400,000
Fire Department reduced overtime (3 station brownout)*	Restore 2 stations, only 1 station brownout plus other minor cost savings measures*	\$1,680,000	\$1,680,000	\$0
Police overtime: sideshow enforcement	Limited, strategic overtime authorizations	\$803,000	\$568,792	\$234,208
Police operations: transfer the OK program to non-GPF source (pending)	County funding secured, GPF match required	\$320,000	\$133,333	\$186,667
Police operations: suspend Alcohol Beverage and Tobacco Unit	Restore 1 Officer for 5 months	\$606,500	\$503,578	\$102,922
Police operations: suspend Unsheltered Unit (pending SEIU meet & confer)	Fully restore for 5 months	\$351,000	\$58,500	\$292,500
Police operations: suspend Foot Patrol Unit 1	Restore 2 Community Liaison Officers (Chinatown, Fruitvale)	\$991,000	\$743,250	\$247,750
Police operations: reduce helicopter maintenance budget	Partial budget restoration for previous FY repair invoices	\$250,000	\$200,000	\$50,000
Total restoration cost				\$1,762,922

3. Q2 Overspending (vs. Q1 projections)



	Q1 Projected FY 2020-21	Q2 Projected FY 2020-21	Q2 - Q1 inc./((dec.))
Fire Department	\$150,371,481	\$164,662,957	\$14,291,477
Non Departmental and Port	34,113,642	44,512,081	10,398,439
Human Services Department	14,113,865	16,384,460	2,270,594
Capital Improvement Projects	539,280	2,346,865	1,807,585
City Clerk	3,102,350	4,352,694	1,250,344
Department of Transportation	11,128,556	12,267,336	1,138,780
All other over-spending (various departments)	42,313,068	44,791,310	2,478,242
All under-spending (various departments)	406,647,377	402,170,634	(4,476,743)
Total	\$662,329,619	\$691,488,338	\$29,158,718



4. General Purpose Fund Shortfall

General Purpose Fund balance and uses	(\$ mil)
General Purpose Fund balance as of June 30, 2020	\$40.12
Project and encumbrance carryforward from FY 2019-20	(18.5)
• Inclusive of \$5.2 million in administrative carryforward reductions	
Kids First FY 2018-19 True Up	(1.52)
Transfer from fund balance FY 2020-21 Adopted Midcycle Budget	(0.54)
Unassigned FY 2020-21 GPF balance	19.56
Total FY 2020-21 reserve requirement (7.5% emergency + OMERS)	(50.67)
Shortfall: General Purpose Fund balance and reserve requirements	(31.11)
FY 2020-21 projected revenues and expenditures	
FY 2020-21 projected revenue	\$650.97
• Inclusive of \$10 million anticipated rebate from the Oakland Alameda Coliseum Joint Powers Authority	
FY 2020-21 projected expenditures	\$691.49
• Exclusive of administrative reductions	
• Estimated FY 2020-21 expenditure savings from administrative reductions as of 3/18/2021*	(\$25.50)
Total FY 2020-21 estimated projected expenditures	\$665.99
Shortfall: General Purpose Fund estimated FY 2020-21 revenues	(15.02)
• Inclusive of \$10 million anticipated rebate from the Oakland Alameda Coliseum Joint Powers Authority	
• Inclusive of \$25.5 million anticipated savings from administrative reductions and the cost of restorations as of 3/18/2021	
• Exclusive of \$10.5 million anticipated Real Estate Transfer Tax revenue from the sale of Uptown Station	



4. General Purpose Fund Shortfall

- Net FY 2020-21 GPF fund balance: **\$19.56 million**
- Total FY 2020-21 GPF Emergency Reserve and OMERS requirement: **\$50.67 million**
- FY 2020-21 fund balance shortfall: **\$31.11 million**

- FY 2020-21 projected revenues: **\$650.97 million**
- FY 2020-21 projected expenditures: **\$665.99 million**
- FY 2020-21 revenue shortfall: **\$15.02 million**

- FY 2020-21 combined shortfall: **\$31.11 million + \$15.02 million = \$46.13 million**



5. Amount Needed for 7.5% GPF Emergency Reserve

- FY 2020-21 adopted midcycle budget: \$644,092,166
 - 7.5% of adopted FY 2020-21 budget: \$48,306,912
 - June 30, 2020 GPF Emergency Reserve: \$40.12 million
 - Unassigned GPF balance as of 3/18/21: \$19.56 million
-
- **7.5% Requirement Amount Needed: \$28.75 million**
(\$48.31m - \$19.56m) *excludes OMERS reserve
-
- FY 2020-21 projected shortfall: \$15.02 million
 - **Amount needed to restore and maintain 7.5% emergency reserve with projected shortfall: \$43.77 million** *excludes OMERS reserve



6. Revenue & Expenditure Update Since Q2 R&E Report

- **\$70.5 million expected from RETT transactions through February**
 - Up \$7.1 million (11.3%) from one year ago
 - Straight Line Projection: \$105.75 million (vs. \$93.33 million in Q2 Forecast)
 - March RETT numbers not expected until mid-April
 - Approximately \$10.5 million in RETT expected from sale of Uptown Station on March 5th
 - RETT is a volatile tax
- Weakness in transit occupancy tax, parking tax, fines & penalties, and service charges affected by COVID
- **\$192.08 from American Rescue Plan Act**
 - (split 50/50 over 2 years or ~\$96 million/year)



7. GPF Cash on Hand

- Cash management vs. budgeting
- Cash on hand fluctuates daily due to the day-to-day revenue and expenditure activities of the City
- Should not be confused with GPF budgeted revenues and expenditures
 - Finance staff has assured that the City does not currently have liquidity problems



8. Authority for Use of GPF Emergency Reserves

- Consolidated Fiscal Policy (Section 2, Part A) does not permit City Administrator to allocate GPF emergency reserve funds without prior Council approval.
- Need to use GPF monies to pay for day-to-day GPF expenditures gives appearance that emergency reserves are being used.
- Separation of GPF emergency reserves would improve transparency



9. Separation of GPF Emergency Reserves

- No current requirement to hold GPF emergency reserves in a separate fund.
- Separation of GPF emergency reserves would improve transparency.



10. Restrictions on ARPA Funds

ARPA funds may be used to:

- Respond to the COVID-19 emergency and address its economic effects, including through aid to households, small businesses, nonprofits, and industries such as tourism and hospitality.
- Provide premium pay to essential employees or grants to their employers. Premium pay couldn't exceed \$13 per hour or \$25,000 per worker.
- **Provide government services affected by a revenue reduction resulting from COVID-19.**
- Make investments in water, sewer, or broadband infrastructure.

Local governments could transfer funds to private nonprofit groups, public benefit corporations involved in passenger or cargo transportation, and special-purpose units of local governments.

Local governments cannot use the funds towards pensions.



11. Measure KK Youth Set Aside

- ARPA funds will *not* be subject to any set-asides, including the Measure KK Kids First 3% set aside.
- \$10 million anticipated from Coliseum JPA is subject to Measure KK Kids First 3% set aside.

Questions and comments



Independent Analysis of Current Year Budget City of Oakland



April 8, 2021

President Nikki Fortunato Bas
Oakland City Council
1 Frank H Ogawa Plaza
2nd Floor
Oakland, CA 94612

Dear President Bas:

Harvey M. Rose Associates, LLC is pleased to present this updated analysis of the City of Oakland's current year budget as part of our engagement with the City Council.

We were initially asked to conduct an analysis and provide answers to 11 specific questions developed at, and subsequent to, the March 16, 2021 Special Council meeting. These were provided in a report to the City Council on March 25 to be considered at the March 29 Special Council meeting. Subsequent to the March 29 special Council meeting, we were asked to answer four additional questions. These additional questions regarding the current year (FY 2020-21) budget include:

1. What are the differences between your estimate and the City's estimate for Questions 4 and 5- General Purpose Fund (GPF) shortfall and the amount needed to restore the emergency reserves? **See response on pages 9, 10, and 11 of this memo.**
2. What services have already been restored/implemented (Exhibit 2, page 4, \$1.7 million in restorations) and included in the projected expenditures, and therefore should not be included in the April 12 budget amendments? **See response on page 3 of this memo.**
3. Does our chart on page 8 double count \$18.5 million in project carryforwards against the existing GPF fund balance? **See response on page 10 of this memo.**
4. Can you complete validation of the first and second quarter expenditure projections for each department, mentioned on page 13? **See response on pages 4 & 5 of this memo.**

The remainder of this memo is organized based on the original 11 questions from the Council with updated information responsive to the four additional questions listed above as well as updated information in response to original questions 6 (see page 12) and 7 (see page 13). All responses to the four new questions and all other updated information are provided in ***bold italic font***.

1. Which administrative reductions were implemented from the City Finance Director's December 20, 2020 informational memo on the City's budget shortfall?

The City Finance Director's December 20, 2020 informational memo summarized cost-saving measures that totaled approximately \$29 million, including approximately \$15 million in Police Department spending reductions, \$9 million in general personnel and spending reductions, and \$5 million in Fire Department spending reductions. The Second Quarter Revenue and Expenditure Report presented additional detail on these administrative reductions and in some cases revised the estimated savings (notably, the estimated savings as a result of Fire Department reductions and the hiring freeze decreased and were offset by an increase in savings from FY 2019-20 carryforward reductions). Since the issuance of the Second Quarter Revenue and Expenditure Report, some of the administrative reductions have been partially restored.

As summarized in Exhibit 1 below, the spending reductions that have been implemented as of March 18, 2021 total an estimated savings of \$25.50 million exclusive of FY 2019-20 carryforward reductions, and \$30.70 million inclusive of FY 2019-20 carryforward reductions, according to estimates provided by the City Finance Department. Exhibit 1 is inclusive of any restorations made as of March 18, 2021; restorations are presented in more detail in Exhibit 2 further below.

Exhibit 1: Implemented administrative reductions, inclusive of restorations

Implemented reduction	Description	Est. savings before restorations	Rev. estimated savings: 3/18/2021
Hiring freeze	Froze vacant civilian positions, except dispatchers and other rev generating positions <i>Restoration: unfreezing of 5 positions</i>	\$4,100,000	\$3,851,125
Release temporary staff	Directed all departments to release temp. staff by 1/9/21	\$1,000,000	\$1,000,000
Pay reductions for staff not represented by a labor group	10 unpaid days, forego 1% wage increase <i>Restoration: 10 unpaid days</i>	\$500,000	\$100,000
Freeze discretionary spending	Froze all travel and training	\$100,000	\$100,000
Department reductions	Various	\$4,910,000	\$4,910,000
Fire Department reductions	Reduced overtime (3 station brownout) <i>Restoration: 2 stations</i>	\$1,680,000	\$1,680,000
Police Department overtime reductions	Reductions to various Police overtime functions <i>Restoration: strategic overtime authorization</i>	\$7,175,000	\$6,940,792
Police Department operations reductions	Reductions and suspensions of various Police operations and activities <i>Restorations: various (see Exhibit 2)</i>	\$7,802,000	\$6,922,161
Total FY 2020-21 administrative spending reductions (excluding FY 2019-20 carryforward reductions)		\$27,267,000	\$25,504,078
FY 2019-20 carryforward reduction	Reduced approved carryforward	\$5,200,000	\$5,200,000
Total administrative reductions (including carryforward reductions)		\$32,467,000	\$30,704,078

Source: Finance Department

2. Which administrative restorations have been made to date?

Exhibit 2 below summarizes the administrative restorations that have been made as of March 18, 2021.

(Response to Question 2): None of these restorations were included in the FY 2020-21 projected expenditures of \$691.49 million.

Exhibit 2: Administrative restorations implemented or planned for FY 2020-21

Implemented reduction	Description of restoration	Est. savings before restoration	Rev. estimated savings	Restoration cost
Hiring freeze	Unfreeze 1 Paralegal, 4 Police Records Specialists	\$4,100,000	\$3,851,125	\$248,875
Pay reductions for staff not represented by a labor group	Restore 10 unpaid days	\$500,000	\$100,000	\$400,000
Fire Department reduced overtime (3 station brownout)*	Restore 2 stations, only 1 station brownout plus other minor cost savings measures*	\$1,680,000	\$1,680,000	\$0
Police overtime: sideshow enforcement	Limited, strategic overtime authorizations	\$803,000	\$568,792	\$234,208
Police operations: transfer the OK program to non-GPF source (pending)	County funding secured, GPF match required	\$320,000	\$133,333	\$186,667
Police operations: suspend Alcohol Beverage and Tobacco Unit	Restore 1 Officer for 5 months	\$606,500	\$503,578	\$102,922
Police operations: suspend Unsheltered Unit (pending SEIU meet & confer)	Fully restore for 5 months	\$351,000	\$58,500	\$292,500
Police operations: suspend Foot Patrol Unit 1	Restore 2 Community Liaison Officers (Chinatown, Fruitvale)	\$991,000	\$743,250	\$247,750
Police operations: reduce helicopter maintenance budget	Partial budget restoration for previous FY repair invoices	\$250,000	\$200,000	\$50,000
Total restoration cost				\$1,762,922

Source: Finance Department

* The Finance Director's December 20, 2020 informational memo included \$5 million in savings from the partial closure of three fire stations; this savings estimate was reduced to \$1.68 million by the time of issuance of the Second Quarter Revenue and Expenditure Report. However, it is included in the administrative restorations table above for reference.

(Response to Question 4): The Finance Department provided us with the methodology and underlying calculations used to project departmental expenditures for both the First and Second Quarter Revenue and Expenditure Reports, which we reviewed. The Finance Department makes projections for departmental spending using one of the following methods, depending on the type of expenditure: a straight-line projection based on year-to-date actuals (annualizing actual spending to-date); an at-budget projection (assuming expenditures will match the appropriated budget amount); and an actuals projection (assuming the total annual spending will equal the spending to-date). For personnel expenditures that were assumed to

be a straight-line projection, the Finance Department included a cost-of-living adjustment for eligible personnel. (As described above, the Second Quarter Revenue and Expenditure Report included a more precise cost of living adjustment calculation than the First Quarter Revenue and Expenditure Report.) These projections are made on a line-item level for all funds. The Finance Department then generates summary tables, by fund, to roll up these projected expenditures, which we also reviewed. In the Second Quarter Revenue and Expenditure Report, the Finance Department made additional reductions to projected spending levels to account for CARES Act funding and anticipated lower spending on Operations and Maintenance.

The projected departmental expenditures reported in the First and Second Quarter Revenue and Expenditure Reports reflect projected expenditures by department using the methodology described above. Based on our review of the Finance Department's underlying calculations, we believe the methodology behind these projections to be reasonable.

3. What is the amount and uses of additional administrative overspending between the first and second quarters of the current year?

In the First Quarter Revenue and Expenditure Report, the General Purpose Fund expenditures were projected to total \$662,329,619. In the Second Quarter Revenue and Expenditure Report, the General Purpose Fund expenditures were projected to total \$691,488,338. Exhibit 3 below displays the increases and decreases in projected spending between the first and second quarters in FY 2020-21 by department.

According to Finance Department staff, the first quarter expenditure projections were based on a flat cost of living adjustment of 1 percent in January through June 2021 for all City employees, while the second quarter expenditure projections were based on a more precise cost of living adjustment of 1 percent for civilian employees and 2.5 percent for sworn Fire employees. The Finance Department provided us with the analyses to support the first quarter and second quarter projections and we confirmed that the more precise cost of living adjustment was used in the second quarter projections; however, given the time constraints for our analysis, we were unable to validate the first or second quarter expenditure projections for each department.

As shown in Exhibit 3 below, the Fire Department had the largest increase in projected FY 2020-21 expenditures between the first and second quarter, which is likely due to the 2.5 percent cost of living adjustment for sworn Fire employees. In the first quarter projections, the Fire Department's projected personnel spending totaled \$132.3 million; in the second quarter projections, using the higher cost of living adjustment, the Fire Department's projected personnel spending totaled \$149.0 million. This amount was adjusted with a decrease in personnel spending of \$5 million to account for \$5 million in funding from the CARES Act Fund, for a total projected Fire Department General Purpose Fund personnel spending projection of \$144.0 million, which is \$11.7 million more than the first quarter projected spending of \$132.3 million in personnel costs. In other words, the majority of the increase in projected Fire Department

spending is due to increased projected personnel costs (\$11.7 million of the total increase of \$14.3 million, or 82 percent). Overall, although the Fire Department's projected spending increased from the first quarter to the second quarter, the second quarter projections anticipate the Department underspending its adjusted budget of \$169.1 million.

The second largest increase in projected spending between the first and second quarter occurred in non-departmental expenditures, which capture the cost of citywide activities and certain debt service payments that are not assignable to a specific department, including overhead cost recoveries and contingencies. The second quarter projection for non-departmental spending includes an increase to account for CARES Act funding, which was offset by reductions in spending in the Police and Fire Departments. According to Finance Department staff, non-departmental spending also increased due to lower than projected recoveries from central service overhead, which has had lower recovery amounts than anticipated due to citywide vacancies.

Aside from a more detailed personnel cost of living adjustment and CARES Act funding, the other notable difference between the first and second quarter FY 2020-21 spending projections is the inclusion of carryforwards. The first quarter projections were prepared before the City's budget had been adjusted upward (from \$644.09 million to \$662.59 million) to include \$18.5 million in FY 2019-20 carryforwards. These carryforwards were included in the second quarter projections, contributing to overall higher spending projections in the General Purpose Fund overall.

Exhibit 3: General Purpose Fund adjusted budget and projected FY 2020-21 expenditures, quarter 1 compared to quarter 2, by Department

Department	FY 2020-21 adj. budget	Q1 projected FY 2020-21	Q2 projected FY 2020-21	Q1 to Q2 inc. / (dec.)
Fire Department	\$169,099,381	\$150,371,481	\$164,662,957	\$14,291,477
Non-Dept. and Port	34,798,778	34,113,642	44,512,081	10,398,439
Human Services Dept.	15,860,704	14,113,865	16,384,460	2,270,594
Capital Improvement Projects	2,346,865	539,280	2,346,865	1,807,585
City Clerk	4,503,782	3,102,350	4,352,694	1,250,344
Dept. of Transportation	13,187,865	11,128,556	12,267,336	1,138,780
Housing and Community Development Dept.	797,614		797,614	797,614
Dept. of Workplace and Employment Standard	3,286,296	3,153,632	3,643,859	490,226
Police Commission	4,616,716	3,380,755	3,750,862	370,107
Information Technology Dept.	10,585,511	10,837,120	11,140,123	303,003
City Council	6,278,259	6,058,868	6,241,241	182,373
Economic and Workforce Development Dept.	5,764,251	5,441,007	5,581,488	140,482
Human Resources Management Dept.	6,714,921	7,191,545	7,283,970	92,424
Mayor	3,881,364	3,147,573	3,204,850	57,277
Race and Equity Dept.	866,973	815,118	841,979	26,861
City Auditor	2,475,102	2,287,450	2,305,324	17,874
Public Works Dept.	455,237	512,781	490,844	(21,937)
Dept. of Violence Prevention	3,244,356	3,199,901	3,139,550	(60,352)
Planning and Building Dept.	(83,055)	16,000	(83,055)	(99,055)
Public Ethics Commission	1,324,195	1,483,867	1,357,156	(126,711)
City Attorney	11,505,879	13,188,649	12,995,284	(193,365)
City Administrator	12,042,769	12,555,868	12,344,922	(210,946)
Parks and Recreation Dept.	16,369,527	16,185,346	15,808,376	(376,970)
Oakland Public Library Dept.	11,657,253	13,697,735	13,117,686	(580,049)
Finance Dept.	24,520,904	24,881,034	24,069,108	(811,926)
Police Dept.	296,486,149	320,926,195	318,930,763	(1,995,432)
Total	\$662,587,596	\$662,329,619	\$691,488,338	\$29,158,718

Source: Finance Department Q1 and Q2 projections

4. What is the amount of the current GPF shortfall?

As reported in the City's Comprehensive Annual Financial Report, on June 30, 2020 the City's General Purpose Fund balance totaled \$40.12 million. Of this \$40.12 million, \$20.56 million is assigned to be spent during FY 2020-21 on project carryforwards from FY 2019-20, the Kids First FY 2018-19 true up, and a transfer of fund balance adopted as part of the FY 2020-21 adopted midcycle budget, leaving **\$19.56 million** in unassigned FY 2020-21 General Purpose Fund balance. As described in more detail later on in this memo, the City's Consolidated Fiscal Policy requires the City to maintain a General Purpose Fund Emergency Reserve of \$48.31 million, which is held in the General Purpose Fund as fund balance and not in a separate fund. Oakland is also required to maintain an OMERS reserve amount of \$2.36 million pursuant to City Council Resolution No. 85098 C.M.S., for total required General Purpose Fund reserves of **\$50.67 million**.¹ The shortfall between the FY 2020-21 unassigned General Purpose Fund balance and the General Purpose Fund reserve requirements is therefore **\$31.11 million** (\$50.67 million reserve requirements minus \$19.56 million unassigned fund balance).

In addition, the City's projected FY 2020-21 expenditures of \$691.49 million exceed its projected FY 2020-21 revenues of \$650.97 million by \$40.52 million. This shortfall is inclusive of the anticipated \$10 million rebate from the Oakland Alameda Coliseum Joint Powers Authority, but exclusive of the anticipated \$10.5 million in Real Estate Transfer Tax revenue from the sale of Uptown Station (discussed in more detail in the following section). As detailed in Exhibit 2 above, the Finance Department currently estimates the savings resulting from administrative reductions to FY 2020-21 spending to be \$25.50 million. Therefore, the shortfall between the City's projected FY 2020-21 revenue and expenditures, inclusive of the anticipated \$10 million rebate from the Oakland Alameda Coliseum Joint Powers Authority and administrative spending reductions but exclusive of the anticipated \$10.5 million in Real Estate Transfer Tax revenue from the sale of Uptown Station, is **\$15.02 million** (\$650.97 million in FY 2020-21 revenue – [\$691.49 million in FY 2020-21 spending – \$25.50 in FY 2020-21 savings]).

The combined General Purpose Fund balance shortfall and FY 2020-21 revenue shortfall totals **\$46.13 million** (\$31.11 million in General Purpose Fund balance and reserve shortfall + \$15.02 million in projected FY 2020-21 revenue shortfall).

If the City foregoes meeting its FY 2020-21 reserve requirements, the General Purpose Fund is projected to end the FY 2020-21 fiscal year with a fund balance of **\$4.54 million** (\$19.56 million in unassigned FY 2020-21 General Purpose Fund balance – \$15.02 million in FY 2020-21 revenue shortfall).

Exhibit 4 below summarizes the numbers detailed above. Exhibit 4 is inclusive of: (a) the anticipated \$10 million anticipated rebate from the Oakland Alameda Coliseum Joint Powers

¹ We were unable to validate the required OMERS reserve amount of \$2.36 million as reported in the second quarter Revenue and Expenditure Report.

Authority, and (b) the current estimated savings from implemented administrative reductions and inclusive of restorations, as described in Exhibit 2 above. Exhibit 4 does not include anticipated Real Estate Transfer Tax revenue from the sale of the Uptown Station, which is discussed in more detail after the table.

Exhibit 4: General Purpose Fund shortfall, FY 2020-21

General Purpose Fund balance and uses	(\$ mil)
General Purpose Fund balance as of June 30, 2020	\$40.12
Project and encumbrance carryforward from FY 2019-20	
• Inclusive of \$5.2 million in administrative carryforward reductions, see Exhibit 2 above	(18.5)
Kids First FY 2018-19 True Up	(1.52)
Transfer from fund balance FY 2020-21 Adopted Midcycle Budget	(0.54)
Unassigned FY 2020-21 GPF balance	19.56
General Purpose Fund emergency reserve requirement	48.31
OMERS reserve requirement ²	2.36
Total FY 2020-21 reserve requirement	50.67
Shortfall: General Purpose Fund balance and reserve requirements	(31.11)
FY 2020-21 projected revenues and expenditures	
FY 2020-21 projected revenue	
• Inclusive of \$10 million anticipated rebate from the Oakland Alameda Coliseum Joint Powers Authority	\$650.97
FY 2020-21 projected expenditures	
• Exclusive of administrative reductions	\$691.49
• Estimated FY 2020-21 expenditure savings from administrative reductions as of 3/18/2021*	(\$25.50)
Total FY 2020-21 estimated projected expenditures	\$665.99
Shortfall: General Purpose Fund estimated FY 2020-21 revenues	(\$15.02)
• Inclusive of \$10 million anticipated rebate from the Oakland Alameda Coliseum Joint Powers Authority	
• Inclusive of \$25.5 million anticipated savings from administrative reductions as of 3/18/2021	
• Exclusive of \$10.5 million anticipated Real Estate Transfer Tax revenue from the sale of Uptown Station	

Source: City Finance Department

*\$25.5 million is the estimated savings from administrative reductions *after the service restorations (detailed in Exhibit 2 above)*. *This figure does not include the savings* of \$5.2 million in carryforward reductions, which were applied to the General Purpose Fund balance obligation (\$18.5 million) shown in the GPF fund balance and uses.

(Response to Question 1): The March 24, 2021 Information Report from the City's Finance Department reported the year-end General Purpose Fund shortfall to be \$44.33 million, as stated in the Second Quarter Revenue and Expenditure Report. This number does not take into account the cost of subsequent restorations that were made to the administrative reductions,

² We were unable to validate the required OMERS reserve amount of \$2.36 million as reported in the second quarter Revenue and Expenditure Report.

which are detailed in Exhibit 2 on page 4 of this report. The cost of these restorations was approximately \$1.8 million. This \$1.8 million in additional expenditures is the reason for the difference between the \$46.13 million figure stated in this report (\$15.02 million + \$31.11 million in shortfall from Exhibit 4 above), and the \$44.33 million figure reported by the Finance Department.

(Response to Question 3): Exhibit 4 above does not double-count spending on carryforwards because the City's FY 2019-20 carryforwards are included in both the FY 2020-21 revenue projections and FY 2020-21 expenditure projections. On June 23, 2020, the City Council adopted the FY 2020-21 Midcycle Budget Amendment for a balanced budget of \$644.09 million in the General Purpose Fund, meaning General Purpose Fund revenues and expenditures were both adopted at \$644.09 million. The adopted midcycle budget was then adjusted upward to \$662.59 million in both revenues and expenditures to account for \$18.5 million in FY 2019-20 carryforward obligations and encumbrances. In other words, while the \$18.5 million in FY 2019-20 carryforwards is included in the projected expenditures of \$691.49, it is also included in projected revenues: the projected \$650.97 million in FY 2020-21 revenues is based on the FY 2020-21 adjusted revenue budget of \$662.59 million, which is shown in Table 8 on page 11 of the Second Quarter Revenue and Expenditure Report. Therefore, because the carryforwards are netted out to zero in the projected revenues and expenditures, they still need to be applied to the General Purpose Fund balance, as shown in Exhibit 4 above.

Additional Real Estate Transfer Tax revenue

The FY 2020-21 projected revenues of \$650.97 million do not include anticipated Real Estate Transfer Tax revenues to the City from the March 2021 sale of Uptown Station. According to staff in the Department of Finance, the Uptown Station property sold for approximately \$419 million, which would result in approximately \$10.5 million in additional RETT revenue to the City once remitted from the County. The City expects to receive this amount in Real Estate Transfer Tax revenue from the County by the end of April. Under the City's Consolidated Fiscal Policy, 50 percent of excess Real Estate Transfer Tax revenue (defined as projected Real Estate Transfer Tax revenue that exceeds 15 percent of General Purpose Fund tax revenues, inclusive of Real Estate Transfer Tax revenue) is required to be used to fund the City's Vital Services Stabilization Fund and the City's debt retirement and unfunded long-term debt obligations. However, Oakland City Council Resolution No. 88108 C.M.S., passed by the Council on May 12, 2020, suspended this requirement and authorized the use of excess Real Estate Transfer Tax revenue to balance the budget and maintain existing services.

Assuming the City receives an additional estimated \$10.5 million in unanticipated Real Estate Transfer Tax revenue in April 2021 and the full amount is used as General Purpose Fund unallocated revenue, the FY 2020-21 estimated General Purpose Fund revenue shortfall would decrease from \$15.02 million to **\$4.52 million**.

5. What is the amount needed to restore the GPF emergency reserve to 7.5% of GPF appropriations?

The City's FY 2020-21 adopted midcycle budget is \$644,092,166. The City's Consolidated Fiscal Policy states that the City shall "maintain in each fiscal year a reserve equal to seven and one-half (7.5%) of the General Purpose Fund (Fund 1010) appropriations as adopted in the biennial or midcycle budget," not including prior year carryforwards, encumbrances, or appropriations to Fund Balance. Accordingly, for FY 2020-21 the City needs to maintain a General Purpose Fund Emergency Reserve of **\$48,306,912**.

As reported in the City's Comprehensive Annual Financial Report and shown in Exhibit 4 above, on June 30, 2020 the City's General Purpose Fund Emergency Reserve totaled \$40.12 million. As shown in Exhibit 4 above, after accounting for known uses of General Purpose Fund balance during FY 2020-21, the available General Purpose Fund balance is \$19.56 million in FY 2020-21. Based on this number, the amount needed to restore the General Purpose Fund emergency reserve is **\$28.75 million** (\$48.31 million required reserves – \$19.56 million in FY 2020-21 unassigned fund balance).

However, as noted above, the City is projected to have a FY 2020-21 revenue shortfall of **\$15.02 million** after accounting for FY 2020-21 administrative savings. To ensure that the City's General Purpose Fund emergency reserve is maintained even in the event of this projected shortfall, the amount needed to restore *and maintain* the General Purpose Fund emergency reserve in the event of anticipated FY 2020-21 revenue shortfall is **\$43.77 million** (\$28.75 million to restore the General Purpose Fund emergency reserve + \$15.02 million to offset projected revenue shortfalls). If the City realizes the entirety of its anticipated approximately \$10.5 million in additional Real Estate Transfer Tax from the sale of Uptown Station, this amount would decrease to approximately **\$33.27 million**.

The amounts reported in response to question #5 above do not include the \$2.36 million in required OMERS reserves, only the \$48.31 million in General Purpose Fund emergency reserves.

(Response to Question 1): The March 24, 2021 Information Report from the City's Finance Department reported the amount needed to restore the General Purpose Fund emergency reserve to be \$44.33 million (accounting for the \$10 million in revenue from the Oakland Alameda Coliseum Joint Powers Authority). This number includes the \$2.36 million in required OMERS reserves for a total reserve amount of \$50.67 million, while our calculation responds only to the question about restoring City's General Purpose Fund Emergency Reserve of \$48.31 million. In addition, as described in Question #4 above, the Finance Department's figure does not take into account the cost of subsequent restorations that were made to the administrative reductions, which are detailed in Exhibit 2 on page 4 of this report. The cost of these restorations was approximately \$1.8 million.

6. **What is the amount of new real estate transfer tax (RETT) revenue since the most recent report from the Finance Director and the amount of any other revenue or expenditure amounts not included in the 2nd Quarter Revenue and Expenditure Report?**

RETT Revenue

(April 8 Update): The City has received \$70.5 million in RETT through the end of February. This represents a \$7.1 million or 11.3 percent increase at the same time from one year ago. A straight-line projection of year-end RETT revenues shows that the City would receive approximately \$105.75 million through June. This would be a \$16.69 million (18.7 percent) increase above the FY 2020-21 adjusted budget or \$12.42 million (13.3 percent) increase over the Finance Department's Q2 projection for FY 2020-21. As previously noted, RETT tends to be a volatile tax that can easily be affected by the sale (or lack thereof) of large properties in a given fiscal year.

According to the most recent data available on RETT revenue, the City has received or will receive a total of approximately \$10,704,172 from real estate transactions that occurred in January and February (i.e. the two full months since the end of the 2nd quarter). This is slightly higher than the \$7.6 million monthly average that the City received in RETT in FY 2019-20. Notably, the RETT is a highly volatile tax that can easily be affected by the sale (or lack thereof) of large properties in a given fiscal year.

According to management and staff of the Finance Department, the County provides the City with a report on real estate transactions and anticipated RETT on a monthly basis approximately two weeks after the close of the month. The most recent report available includes transactions through the end of February. Finance Department management noted that the County should provide data on real estate transactions that occurred in March by mid-April.

Of note, we found that the Finance Director's projections for RETT from the 2nd Quarter Revenue and Expenditure report did not anticipate the sale of the Uptown Station property, an eight-story office and retail complex at 1955 Broadway, which occurred on March 5th. According to Finance Department staff, the Uptown Station property sold for approximately \$419 million, which would result in approximately \$10,475,000 in additional RETT revenue to the City once remitted from the County.

Other Revenue

As noted by the Finance Director in the Second Quarter Revenue and Expenditure report, the City is experiencing weakness in four GPF revenue sources: (1) transit occupancy tax (i.e. hotel tax) down 48%; (2) parking tax down 49%; (3) fines and penalties down 43%; and, (4) service charges down 16%. All four of these revenue sources have been affected by the shelter-in-place orders that have reduced travel and commuting to job centers in the City. The Administration projects

a more modest decrease of 5% in the business license tax and otherwise projects that revenues will meet the original budgeted amounts with the exception of an additional \$10 million from the Coliseum JPA as described below. Although we believe that the basis for the projections of these revenues is sound, we were unable to verify the precise estimate for each GPF revenue source with the materials that were provided and the time allotted.

According to Finance Department management, there are no unusual revenues the City has received since the Second Quarter Revenue and Expenditure analysis. We were unable to fully vet this assumption based on the data provided and the time allotted for this analysis. However, as noted above, the City is anticipating approximately \$10.5 million in RETT that was not anticipated by the Finance Department when the Second Quarter Revenue and Expenditure report was presented. An additional source of funding that was not included in the Second Quarter Revenue and Expenditure report was the approximately \$192.08 million anticipated from the American Rescue Plan Act (ARPA). These funds are described in more detail in response to question 10 below.

Notably, the \$10 million rebate from the Oakland Alameda Coliseum Joint Powers Authority was included in the Finance Director's Second Quarter Revenue and Expenditure Report. According to the report, this \$10 million helps to partially offset the shortfall due to revenue weakness in the transient occupancy tax (i.e. hotel tax), parking tax, fines & penalties, and service charges.

Other Expenditures

Details on additional expenditures incurred since the end of the second quarter are included in our response to questions #2 and #3 above.

7. What is the City's current GPF cash on hand?

According to the Finance Department, the GPF account cash on hand balance was \$58,296,975 as of March 24, 2021. Notably, this figure fluctuates daily due to the day-to-day revenue and expenditure activities of the City.

(April 8 Update): After further consultation with Finance, it is now our understanding that the GPF account cash on hand balance was negative \$58,296,975 as of March 24, 2021. However, as mentioned in our original response, this should not be confused with the budgeted revenues and expenditures for the General Purpose Fund. The cash on hand figure noted here reflects cash management activities of the Finance Department staff to meet the immediate short term needs of the City and not the GPF fund balance. Further, Finance Department staff note that the City does not currently have liquidity issues.

8. Can the City Administrator allocate funds from the GPF emergency reserves without prior Council approval?

The City's Consolidated Fiscal Policy (Section 2, Part A) does not permit the City Administrator to allocate monies from the GPF Emergency Reserve without prior Council approval. However, the need to use GPF monies to pay for the day-to-day general purpose expenditures of the City gives the appearance that the Administration is spending emergency reserve monies because the GPF Emergency Reserve is comingled with all other unallocated GPF monies.

According to Finance Department staff, if the GPF Emergency Reserve were held in a separate fund, the Council would be able to clearly see that the reserve monies are not being spent. If this were the case, the Council would also see the GPF unallocated fund balance drop to much lower levels and periodically become a negative balance that would temporarily be covered by inter-fund loans. This is due to the day-to-day cash flow needs of the City, which shows up as cash on hand; as compared to the budgeted revenues and expenses, which occur over a longer period of time (i.e. over several months and ultimately over the course of the fiscal year).

9. Should the GPF emergency reserve be in a separate account from the unallocated GPF monies?

Under the City's current Consolidated Fiscal Policy, there is no requirement that the GPF emergency reserves be held in a separate account from other unallocated GPF monies. We believe that a revision of the Consolidated Fiscal Policy to require that such funds be held in a separate account would improve transparency of the budget process and the use of unallocated GPF monies.

10. What, if any, restrictions will be placed on the American Rescue Plan Act (ARPA) funds that are to be provided to the City?

According to the League of California Cities, the ARPA provides \$130.2 billion in aid to local governments. The Finance Department anticipates approximately \$192.08 million from the ARPA in two equal tranches of \$96.04 million. The first tranche is anticipated to be provided in the current year and the second tranche is expected approximately one year after the first tranche is remitted. All funds must be used by December 31, 2024. These funds may be used to:

- Respond to the COVID-19 emergency and address its economic effects, including through aid to households, small businesses, nonprofits, and industries such as tourism and hospitality.
- Provide premium pay to essential employees or grants to their employers. Premium pay couldn't exceed \$13 per hour or \$25,000 per worker.

- Provide government services affected by a revenue reduction resulting from COVID-19.
- Make investments in water, sewer, or broadband infrastructure.

Local governments could transfer funds to private nonprofit groups, public benefit corporations involved in passenger or cargo transportation, and special-purpose units of local governments.

Local governments cannot use the funds towards pensions.

11. Are revenues anticipated from ARPA and the Coliseum Joint Powers Authority subject to the three percent set aside under Measure KK for youth programming?

According to Finance Department management, the ARPA funds will not be subject to any set-asides, including the Measure KK Kids First three percent set aside.

According to Finance Department management, the revenue anticipated from the Coliseum JPA will be subject to the Measure KK Kids First three percent set aside. However, Finance Department management notes that the Kids First set-aside is calculated on audited revenue numbers based on the total unrestricted revenue received in the fiscal year across the entire GPF. Finance Department management further noted that calculations such as Kids First and other related items, specific revenues cannot be assessed in a vacuum.

We appreciate being provided with the opportunity to serve the City Council on this matter. For questions regarding this report, please contact Dan Goncher at dgoncher@harveyrose.com or Linden Bairey at lbairrey@harveyrose.com.

Respectfully submitted,



Dan Goncher
Principal

cc: Rebecca Kaplan, Vice Mayor & At Large Member
Dan Kalb, Councilmember, District 1
Carroll Fife, Councilmember, District 3
Sheng Thao, Councilmember, District 4
Noel Gallo, Councilmember, District 5
Loren Taylor, Councilmember, District 6
Treva Reid, Councilmember, District 7