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Office of the City Administrator

June 6, 2019

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Honorable City Council:

In accordance with my fiduciary duty, I am presenting you with the Finance Department's preliminary but detailed, line-by-line review of Council President Kaplan's Proposed Budget.

The Council's Consolidated Fiscal Policy requires the Council President to submit the proposed budget to the Finance Department prior to making it public so that it can be reviewed and costed by budget and revenue professionals to be sure it conforms with government accounting practices, legally mandated fund restrictions, and other requirements before the full Council deliberates on the proposal.

Unfortunately, President Kaplan's proposal was publicly released without such review, and we are in the unenviable position of publicly identifying the myriad deficiencies, illegalities, and errors contained in Council President Kaplan's Budget.

In short, your professional staff of finance and budget policy experts **urge you to reject Council President Kaplan's Proposed Budget** for the following reasons:

- Council President Kaplan's proposal **misuses funds and is illegal** under the City Charter, City ordinances, voter-approved ballot measures, and State law.
- Council President Kaplan's Budget Proposal is **not balanced**. It relies on fictitious revenues and jeopardizes the long-term financial viability of the City of Oakland:
 - It adds more than **\$100 million in non-existent revenues** that are simply not substantiated by data or evidence to validate their existence.

- It would create a deficit of \$27.6 million in the first year and \$31.1 million in the second year—**\$58.7 million deficit** over two years.
- This deficit **would result in layoffs** of filled positions, hiring freezes, and service reductions.
- Such unpredictability would severely hamper our ability to recruit and retain employees at the very time we are seeking to fill vacancies in a very competitive job market.
- In contrast, the City Administration Proposed Budget responsibly closed a budget gap without any layoffs.
- Many of the proposals in the Council President’s Proposed Budget cannot be legally or operationally implemented.
- Adopting this budget in its present form would be **fiscally irresponsible**. It would negatively impact the City’s credit rating and ability to secure the resources necessary through Measure KK to deliver capital projects, including street paving, the development of affordable housing, and upgrades to City facilities.
- Worse, the Council President’s Budget proposes to add capital projects in a random manner that **undermines and unravels Oakland’s first-in-the-nation publicly-vetted and adopted equity-based analysis** used to prioritize CIP projects and address long-standing disparities in underserved communities.
- It would also **reverse the tremendous progress** that this city has made over the past decade to gain solid financial footing and address irresponsible spending decisions made by prior administrations that brought Oakland to the brink of financial catastrophe during the last recession.
 - For the past decade, we have been diligently plugging away to repair that damage and reduce strain on the General Purpose Fund.
 - Since 2009, we have reduced negative fund balances by nearly \$85 million, begun to fund long-term retiree medical obligations, established an emergency reserve and rainy day fund, **regained** a strong credit rating (the third highest available), and maintained fiscal discipline, as consistently noted by the credit rating agencies.

While we all sincerely wish that the City had more resources to address the homeless crisis, illegal dumping, park maintenance, and the myriad other needs in every department that outstrip our current funds, we must make decisions that preserve services, jobs, and employee benefits well into the future. We have experienced what happens when we as leaders fail to act responsibly and give in to short-term demands.

During the Great Recession, we lost a quarter of our workforce and furloughed City services because the City did not have adequate reserves or a rainy day fund to draw from.

The \$2.7 billion in unfunded liabilities which we are only beginning to address also resulted from decades of past officials “kicking the can down the road” until it stopped here at our feet.

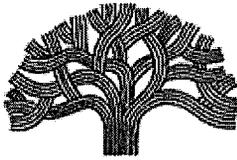
A key tenet of good public policy is never amend a bad bill. **The Council President’s Proposed Budget is too flawed to fix.** I urge you to reject this proposal and use the Administration’s Proposed Budget as the basis for your amendments and revisions so that the final adopted budget is fiscally sound, legally balanced, and avoids unnecessary layoffs and service cuts.

Sincerely,

/s/

Sabrina Landreth
City Administrator

2019 JUN -6 PM 5: 24



CITY OF OAKLAND

MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Katano Kasaine
Director of Finance

SUBJECT: Response to Council President's
Proposed Budget Amendments

DATE: June 6, 2019

City Administrator
Approval

Date June 6, 2019

Council President Rebecca Kaplan published proposed amendments to the Fiscal Year (FY) 2019-21 Proposed Budget on May 31, 2019. The Council President's Proposed Budget is scheduled to be heard at a Special Session of the City Council on June 10, 2019. The Council President did not provide this document to the Finance Department prior to making it public, as required by Ordinance No. 13487 C.M.S., also known as the Consolidated Fiscal Policy (CFP)¹. Thus, the Council President's Budget Proposal has numerous technical errors, misuses restricted funds, and violates various City and State laws. This memorandum summarizes the significant deficiencies that the Finance Department identified in the Council President's Proposed Budget amendments.

As the Finance Department's review is ongoing, this list of deficiencies should be considered preliminary. **For the reasons described in this report, the Council President's Proposed Budget cannot be adopted in its current form.** The budget, as proposed, is not balanced at the fund level as required by the CFP. It relies upon flawed and fictitious assumptions of revenues and violates various requirements of the City Charter, voter-approved ballot measures, and the CFP. Many of the proposals included in the Council President's Proposed Budget are not legally or operationally implementable, and if enacted would result in the elimination of both filled and unfilled positions.

Summary of Key Deficiencies

A high-level summary of the deficiencies in the Council President's budget proposal is provided on the next page. A more detailed, line-by-line analysis of the Council President's General Purpose Fund (GPF) budget proposal begins on page 4 of this memorandum. A detailed description of the deficiencies in the Council President's budget proposal for all other funds

¹ Section 3.10 of the CFP (Ordinance No. 13487) states that, "The City Council President [...] shall prepare a proposed budget for Council consideration [...]. The Finance Department will provide a costing analysis for proposed amendments."

(non-GPF) begins on page 8. **Attachment A** to this memorandum provides additional detail on the Finance Department's line-by-line analysis of the Council President's GPF budget proposal, including proposed expenditure additions.

- **Fictitious Revenue:** The revenues included in the FY 2019-21 Proposed Budget include all of the resources available through the third quarter FY 2018-19. The Council President's Proposed Budget increases several categories of tax revenues without providing sufficient financial and economic analysis to justify the increases. The Finance Department cannot certify the availability of these revenues. Therefore, the revenues cannot be appropriated in the budget. The total amount of fictitious revenues (including mischaracterized expenditure reductions as revenues) proposed in the GPF is \$29.1 million in FY 2019-20 and \$32.1 million in FY 2020-21. There is an additional \$45 million in fictitious land sales and leases in non-GPF sources, **bringing the total fictitious revenues to more than \$100 million** over the two-year budget. Budgeting resources against fictitious revenue will result in the City facing a deficit by the end of the fiscal year. Failing to make reductions at midyear, the City will be forced to make substantial cuts to ongoing core services including layoff of City staff and reductions in services. This budgeting practice does not conform to modern budgeting practices and, if implemented, will negatively affect the City's credit rating and may lead to even more severe financial consequences in the near-term. The revenues increased in the Council President's Proposed Budget exceed the Finance Department's projections based on Third Quarter revenues. The Council President does not provide sufficient basis for additional revenue increases beyond referencing the Third Quarter, which is already factored into the FY 2019-21 Proposed Budget.
- **Violates Policies:** Most of the Council President's proposals are not balanced at the fund level as required by the CFP. The addition of \$10 million in real estate transfer taxes in the GPF in FY 2019-20 (\$12.5 million in FY 2020-21) and ongoing expenditures against it violate the Consolidated Fiscal Policy's provisions that 25% of excess Real Estate Transfer Tax (RETT) be set-aside in the Vital Services Stabilization Fund (VSSF) and 25% be used for the repayment of long-term unfunded obligations. Furthermore, increasing expenditures by the amount noted in the Council President's proposal would require the City to increase its set-aside in the emergency reserve by approximately \$2 million (which is not included in the Council President's Proposed Budget) in order to maintain a balance of 7.5% of GPF expenditures.
- **Violates Laws / City Charter / Ballot Measures / Bond Measures:** The Council President's Proposed Budget illegally syphons Measure KK affordable housing bonds (Fund 5331) to hire an in-house paving and sidewalk crew in Oakland Public Works (OPW) with a 2-year cost of nearly \$6.9 million. Adopting a budget in conflict with voter-approved general obligations bonds would violate the trust of the public, imperil the City's ability to pursue future revenue measures, and would have a substantial negative long-term financial impact on the City's credit rating. The Council President's budget also moves \$6.4 million in Fire Prevention costs to an alternative funding source (to be identified) and repurposes the revenues generated from these activities to other General Purpose Fund expenditures. This is a clear violation of Proposition 26.

- **Results in Service Reductions / Hiring Freezes / Layoffs:** The amendments contained in the Council President's Proposed Budget would directly layoff at least five (5) staff. There would be more staff reductions with the consolidation of OPW and DOT, though details on the Council President's proposed merger are not sufficiently detailed to fully evaluate the impacts. There would also be reductions in OPD due to the \$7.0 million budget reduction (GPF, Item No. 14, "Police Overspending Repayment Plan"). The details on this proposal are not fully explained in the Council President's proposed budget. However, we anticipate that it would result in service-level reductions in OPD. **Relying on fictitious revenues to add an additional \$21 million for employee compensation in the GPF (above those ongoing amounts already budgeted) would result in further service-level reductions, hiring freezes, and layoffs.** The FY 2019-21 Proposed Budget avoided laying off any employee due to the extreme adverse impact to the individuals and due to the competitive hiring environment within which we are currently operating. Unnecessarily laying off staff affects the City's image as an employer of choice as prospective employees will doubt their long-term job stability. **Further, we note that layoffs would disproportionately impact civilian staff due to the no layoff and minimum staffing provisions in the approved sworn MOUs.**
- **Not implementable:** Numerous proposals in the Council President's Proposed Budget are not implementable due to the scope of change, legal restrictions, and lack of guiding policy. For example, in the GPF (Fund 1010) Item No. 5, there is a large-scale proposed reorganization of DOT and OPW, which are collectively responsible for \$220 million of operating expenditures and over \$90 million of capital improvement projects, within a short, six (6) month timespan. **This would have a detrimental effect on the City's ability to deliver on the recently approved three-year paving plan.** Reorganizing these departments would require substantial analysis for the merger of multiple units within them, including their fiscal and personnel units, capital delivery units, infrastructure/maintenance units and the funding structures underlying them. Establishing the DOT required two years of careful planning, including consultation with labor partners and other key stakeholders, and another two years of operational implementation. **It is irresponsible to assume that these departments could be merged in just six (6) months without disrupting the department's ability to deliver services to Oakland residents.**
- **Technical Errors / Misuse of Funds:** The amendments add resources that are listed in the wrong department or the wrong funding source. These types of errors make the budget illegal based on restrictions on the use of funds. These proposals are not implementable due to the allocating of resources to departments that do not provide those services. For example, in the GPF (Fund 1010) Item No. 86, the proposal attempts to restore parks maintenance staff in OPYRD while the frozen positions are in OPW. Failure to reflect proper values for proposals in the amendment mean that staff and the public are unable to determine if the proposal is balanced and compliant with the CFP and State law.

There are many other items in the Council President's Proposed Budget for which staff lacks sufficient policy guidance and context to establish whether the funding allocated is sufficient to perform the service requested.

General Purpose Fund (Fund 1010) Deficiencies

Table 1 summarizes the deficit caused by the Council President's Proposed Budget. The Council President's Proposed Budget would result in a deficit of \$27.63 million in FY 2019-20 and \$31.10 million in FY 2020-21 in the GPF, once fictitious revenues, mischaracterized revenues, and non-implementable expenditure reductions are removed from the budget.

Table 1. Council President's Proposed Budget for the General Purpose Fund (Fund 1010)

<i>(In Millions)</i>	FY 2019-20 Total	FY 2020-21 Total
Council President's Proposed Budget		
Proposed New Revenues	\$27.69	\$24.36
Proposed Expenditure Reductions	(\$2.81)	(\$9.11)
Proposed Expenditure Additions	\$29.04	\$32.47
Surplus / (Deficit)	\$1.47	\$1.00
Fictitious Revenues & Non-Implementable / Illegal Expenditure Shifts		
Rollover unspent cannabis equity assistance funds (Item No. 2)	(\$2.10)	\$0.00
Roll over unspent funds from Public Bank study (Item No. 3)	(\$0.03)	\$0.00
Roll over unspent funds in Council Budgets (Item No. 4)	(\$0.40)	\$0.00
Increased scooter fees (Item No. 5)	(\$0.25)	(\$0.25)
Increased revenue from parking tax (Item No. 6)	(\$1.50)	(\$2.00)
Increased revenue from sales, property, business license tax (Item No. 7)	(\$3.00)	(\$5.00)
Increased transient occupancy tax (Item No. 8)	(\$1.82)	(\$2.05)
Increased revenue from Real Estate Transfer Tax (Item No. 9)	(\$10.00)	(\$12.50)
Raiders Lease, Warriors postseason, naming rights (Item No. 11, 12, and 13)	(\$2.00)	(\$1.50)
Police Overspending Repayment Plan (Item No. 14)	(\$7.00)	\$0.00
Revenue from Park naming rights (Item No. 15)	\$0.00	(\$0.60)
Implementation fee for workforce enforcement standards (Item No. 16)	\$0.00	(\$0.80)
Moving wildfire prevention inspection costs to new funding source (Item No. 21)	\$0.00	(\$6.40)
Reduction in police extra time spent taking people into custody (Item No. 24)	(\$1.00)	(\$1.00)
Sub-total of Fictitious Revenues & Non-Implementable / Illegal Expenditure Shifts	(\$29.10)	(\$32.10)
Actual Surplus / (Deficit) in GPF under Council President's Proposal	(\$27.63)	(\$31.10)

The section below provides a line-by-line analysis of deficiencies in the Council President's Proposed Budget in the GPF.

Revenue Additions in GPF

- **Item No. 2: Rollover unspent cannabis equity assistance funds.** The reduction of the cannabis equity assistance funds and subsequent reallocation of these funds over the two-year period (GPF Item Nos. 31 and 32) should be shown as an expenditure reduction, not

a new revenue. This would result in the full amount of the equity assistance funds not being available in the first year of the budget for cannabis businesses, and should be noted as a reduction in the availability of equity funding, not a new expenditure.

- **Item No. 3: Rollover unspent funds from Public Bank study – set aside for future regional bank strategy.** The reduction of unspent assistance funds should be shown as an expenditure reduction, not a new revenue.
- **Item No. 4: Roll over unspent funds in Council Budgets.** The CFP limits previously approved, but unspent appropriations, to project accounts, and up to 5% of personnel accounts. This proposal violates the CFP ordinance and is not available. Furthermore, this would prohibit individual Councilmembers from reallocating up to 5% of their personnel budget toward non-personnel district-related expenditures.
- **Item No. 5: DOT merger cost savings.** The elimination of the Director of Transportation is not a revenue. Rather, it is an expense reduction. Furthermore, the position of Director of Transportation is not funded in the GPF. As such, savings from this expense elimination are not available for reallocation in the GPF. This line item also discusses (briefly) the merger of DOT and OPW, which are collectively responsible for \$220 million of operating expenditures and over \$90 million of capital improvement projects, within a short, six (6) month timespan. **This would have a detrimental effect on the City's ability to deliver on the recently approved three-year paving plan.** Reorganizing these departments would require substantial analysis for the merger of multiple units within them, including their fiscal and personnel units, capital delivery units, infrastructure/maintenance units and the funding structures underlying them. Establishing the DOT required two years of careful planning, including consultation with labor partners and other key stakeholders, and another two years of operational implementation. It is irresponsible to assume that these departments could be merged in just six (6) months without disrupting the department's ability to deliver services to Oakland residents.
- **Item No. 6: Increased scooter fees.** This revenue is fictitious. The Mayor's Proposed Budget already includes approximately \$531,000 in revenues from new scooter fees as approved by the City Council in the FY 2019-20 Master Fee Schedule. Staff is not aware of any additional scooter fee revenues.
- **Item No. 7: Increased revenue from parking tax (including bundled parking).** This revenue is not available. It would require an audit of every commercial and residential rental property (including single and multi-family units) to determine the number of such parking spaces (approximately 27,165 accounts to audit) and an estimate of the potential revenues. Conducting this audit would minimally require 2.0 FTE Tax Auditors in the Revenue Bureau and any new revenues would not be available until the second year of the budget, if any can be identified.

- **Item No. 8: Increased revenue from sales tax, property tax, and business license tax.** The FY 2018-19 Third Quarter Revenue and Expenditure projections are already included in the FY 2019-21 Proposed Budget. The proposal does not sufficiently breakout the proposed increase by tax category; rather, it lumps them into one line-item. As such, staff cannot provide a detailed analysis of the source of these proposed funds. It also does not include the Charter mandated set-aside for Kids First (3.0% of GPF unrestricted revenues) and requires a recalculation of the “excess” RETT provision of the CFP to ensure proper set-aside of one-time funding.
- **Item No. 9: Increase transient occupancy tax.** This additional increase in transient occupancy tax (TOT) revenue is beyond the projected revenues per the FY 2018-19 Third Quarter Revenue and Expenditure Report. Furthermore, the proposal states that the tax will be, “Split with Measure C.” This proposal needs clarification as Measure C increased the TOT by 3.0%, from 11.0% to 14.0% in total, and restricted the new revenues for specific purposes. It is unclear how the split would occur given the specific language in the Measure C ballot measure. It also does not include the Charter mandated set-aside for Kids First (3.0% of GPF unrestricted revenues).
- **Item No. 10: Increased revenue from Real Estate Transfer Tax.** This revenue is beyond the projected revenues per the FY 2018-19 Third Quarter Revenue and Expenditure Report, particularly when considering the large commercial transactions that are inherently one-time and should be excluded from baseline revenues when projecting growth rates. The Council President’s proposal violates the CFP regarding the use of “excess” real estate transfer taxes, which requires that at least 25% of the “excess” be deposited into the Vital Services Stabilization Fund and 25% be used for long-term obligations. After adjusting for these legally required set-asides, a \$10 million increase in RETT would only yield approximately \$5.5 million in available resources. This is before the Charter mandated set-aside for Kids First (3.0% of GPF unrestricted revenues) is applied.
- **Item No. 11, 12, and 13: Raiders Lease Revenue, Warriors postseason revenue, naming rights.** This revenue is not available. Any new revenues generated are already obligated toward stadium related debt and/or operations of the OACCA.
- **Item No. 14: Police Overspending Repayment Plan.** The source of this revenue is not clear in the Council President’s Proposed Budget. Staff assumes that the additional \$7.0 million in one-time revenues would come from reductions in OPD expenditures. The CFP does not require repayment of overspending. It only requires that the Administration bring an **informational** report detailing the actions the department is taking to control overspending. The Police and Fire Departments have brought numerous reports to the City Council (Finance & Management Committee, Public Safety Committee, and City Council) detailing the actions they are taking and the key challenges they face in meeting budgetary spending levels. **If so, the Council President needs to identify those specific services in OPD that are proposed for elimination (i.e., patrol, investigations, etc.).**

- **Item No. 15: Revenue from Park naming rights.** This is a fictitious revenue. Staff requests that the Council President identify the specific park(s) for which naming rights would generate \$600,000 in revenues so that further financial analysis can be conducted.
- **Item No. 16: Implementation fee for workforce enforcement standards.** This revenue is allocated to the incorrect department (Economic & Workforce Development v. Workplace & Employment Standards). Further, this new revenue would require a new fee be added to the FY 2020-21 Master Fee Schedule in a manner that is compliant with Proposition 26, which requires that the fee be cost recovery. We note that the Council President's Proposed Budget does not include the necessary expenditures to justify the \$800,000 revenue from fees.

Expenditure Reductions in GPF

- **Item No. 21: Moving wildfire prevention inspection costs to new funding source.** While Wildfire Prevention costs would not have been eligible in Fund 2321 when the fund was active, it is now a legacy fund from an expired ballot measure that is no longer in use. Any voter-approved measure would require the creation of a new fund to ensure proper accounting records are maintained. Further, any moving of Fire Prevention costs would require a commensurate move of the revenues to that same fund, given that these are cost recovered activities. The Council President's Proposed Budget moves only the expenditures and repurposes the revenues in the GPF for other programs and services. This is a clear violation of Proposition 26.
- **Item No. 24: Reduction to police extra time spent taking people into custody.** This would require a substantial policy discussion of the City Council, including defining the use of the term "serious" and "violent" offenses. It should be noted that certain offenses such as domestic violence, restraining order violations, and driving under the influence require arrest and booking for which Santa Rita is the only option. Property crimes (burglary, motor vehicle theft and larceny) are the largest group of crimes in the city. Failing to book these individuals in jail could result in an increase in property crime rates throughout the City. Further, the cost of additional time to transport persons to Santa Rita was not included in the Mayor's proposed budget; therefore, this item is reducing a non-existent expenditure.

Expenditure Additions in GPF

Attachment A provides additional detail on some of the deficiencies in the Council President's proposed budget, including those proposed expenditure additions. As demonstrated in this report, once the fictitious revenues are removed and non-implementable expenditure reductions are added back to the GPF, it results in a substantial operating deficit in the GPF in each year of the budget. As such, staff has not evaluated the costs and/or merits of the Council President's proposed expenditure additions in detail. Rather, we generally note that they are not financially feasible given the massive deficit that is created.

All Other Fund Deficiencies

- **Multi-Purpose Reserve Fund (Fund 1750)**
 - This is the incorrect fund.
 - Both revenues and expenditures related to parking enforcement activities are funded in the GPF (Fund 1010).

- **State of California Other (Fund 2159)**
 - The Council President's budget moves homelessness funds into the Department of Housing & Community Development. Currently, these services are provided by the Human Services Department.
 - In their quarterly report to the Finance & Management Committee on the status of the State and Federal Budget, Townsend Public Affairs (TPA) indicated that new homelessness funding (still subject to approval by the State Legislature) would be available sometime in early 2020. Until the details of the new grant funds are made available, staff recommends that these resources be excluded from the budget. Once allocated amounts, eligible uses, and other guidelines are published (e.g., Administrative staff allowance), staff will be able to develop a more refined spending plan for these anticipated, but not yet approved, grants.

- **Wildland Fire Prevention Assessment District Fund (Fund 2231)**
 - This fund is no longer active.
 - The Council President's Proposed Budget erroneously moves wildfire/vegetation management inspection fees into this fund. They should remain the GPF, where the cost centers are located (these fees are required to be Proposition 26 compliant).
 - The Council President's Proposed Budget creates fictitious revenues that have not yet been approved by voters/property owners.
 - Once these revenues are removed from this fund, there are insufficient resources to add these additional expenditures.

- **Development Services Fund (Fund 2415)**
 - Item Nos. 2, 3, and 4 are not eligible expenditures in Fund 2415. They are more aligned with the Rent Adjustment Program (RAP). City Council recently approved a RAP fee increase for FY 2019-20 that included additional resources for landlord mediation and education assistance and outreach.
 - The Planning & Building Department (PBD) is currently piloting expanded evening hour for permitting in an effort to evaluate the public's use of the expanded hours relative to costs and to gauge future needs. Staff recommends against a \$1.6 million ongoing increase in permanent staff costs until the pilot program is complete and the results can be fully evaluated (Item No. 5). At that time, staff can bring a set of recommendation for the City Council's consideration.

- Staff does not understand intent of the “one-time permit backlog clearance surge funds” (Item No. 7). PBD has existing contingency appropriations that can be used for these purposes.
- **Measure F – Vehicle Registration Fee (Fund 2215)**
 - Allocating \$1.0 million from Fund Balance in Fund 2215 for the installation of two (2) traffic lights would reduce the available balance for both capital and personnel for local streets and roads. ACTC (the origin of these funds) has a goal to maintain a fund balance at 40% of annual revenues. For this fund, that would be approximately \$700,000. Use of \$1.0 million would bring the estimated ending fund balance to \$293,888 in FY 2019-20, substantially below the recommended target.
- **Measure KK – Affordable Housing (Fund 5331)**
 - Items No. 8 and 9 (in-house paving and sidewalk crew) are not an eligible expenditure from the Measure KK Affordable Housing bond fund.
 - This proposal is not balanced.
 - The new expenditures included in the Council President's Proposed Budget in Fund 5331, exceed the proposed revenues by many more than \$7.0 million over the two-years.
- **Capital Improvement Program (Various Funds)**
 - The Council President's Proposed Budget selects CIP projects contrary to the Council adopted prioritization process. Resolution No. 87376 C.M.S., which was approved by the City Council in October 2018, established a CIP prioritization process that looked at a number factors such as equity, health and safety, existing conditions, economy, environment, shovel ready status, among others, in developing the approved CIP projects.
 - Many of the projects recommended in the Council President's budget are ineligible for Measure KK funding. Staff assumes that the “additional bonding” that is referenced is from Measure KK tax-exempt general obligation bonds (Fund 5330), as we cannot identify other eligible funding sources.
 - Regardless, it should be noted that staff does not currently have the capacity to take on these additional projects that were not included in the proposed CIP. Staff considered existing capacity when developing a list of recommended projects. Staff would not have the bandwidth to complete these assignments in the first year of the budget.
 - A Driver Training Simulator for OPD is not eligible for Measure KK funding as it is equipment, not infrastructure.
 - Signage for Lake Merritt is not likely a capitalizable asset, thus it is not eligible for Measure KK.
 - The scope analysis for PAB with gun range is listed twice in the Council President's Budget.
 - Measure KK specifically allowed for the use of funding for a seismic project that was non-specific to a Department, in this case the Oakland Museum. It is

unlikely that the ADA project at the Museum is an eligible use of Measure KK funds.

- The Oakland Zoo is not eligible for Measure KK bond funds.
- **Capital Improvement Impact Fee Fund (Fund 2421)**
 - Pursuant to Section 15.74.110 of the Oakland Municipal Code, these are likely not eligible projects for the Capital Improvement Impact fees. Fee revenues may be used to fund a public facility or portion of a public facility that meets all the following criteria:
 - The project is a capital project contained within the City's Capital Improvement Program;
 - If the project supports fire, police, library, or parks and recreation services, the project must improve or expand the City's public facilities to accommodate service demand from new development; funds may not be used for rehabilitation, maintenance or operating costs; and
 - If the project supports storm drain services the project must improve, expand, or rehabilitate the City's storm drain facilities to accommodate service demand from new development.
- **Measure Z – Violence Prevention and Public Safety Services Act (Fund 2252)**
 - Item No. 1 (Increased revenue from parking tax – bundled) is a fictitious revenue that is not currently available.
 - Once this revenue is removed, there is insufficient capacity to add these proposed expenditures.
 - Expenditures in this fund must follow the strict percentage distribution guidelines included in Measure Z. This proposal violates these guidelines.
- **Excess Litter Fee Fund (Fund 2417)**
 - As shown on page E-76 of the FY 2019-21 Proposed Budget book, there is no fund balance available for these purposes.
- **Jobs/Housing Impact Fee (Fund 7450)**
 - This fund is not active. Both the Jobs/Housing and Affordable Housing Impact Fees are deposited into the Affordable Housing Trust Fund (Fund 1870).
 - Furthermore, the Council President's budget switches between Fund 7450 and Fund 1870 in the template. The Council President's proposal uses Affordable Housing Impact fees for services to the homeless. While RPTTF revenues (boomerang) are eligible to be used for services aimed at rehousing homeless residents, impact fees are not. When adjusting for the illegal use of these revenues and the fictitious revenues from the sale of land, the expenditures are not feasible.
 - Staff has significant concerns with the Council President's Proposed revenues of \$45 million from the sale of land and leases.

As stated previously, staff's review of the Council President's Proposed Budget is ongoing. As such, the list of deficiencies included in this memorandum should be considered preliminary. Many of the proposals, as written, do not provide sufficient detail for a thorough analysis of the policy implications, the costs, and the risks associated with various proposals.

Conclusions

Staff strongly recommends against adoption of the Council President's Proposed Budget for the various reasons outlined in this report. In its current form, the Council President's proposal is illegal with respect to provisions of the City Charter, City ordinances, ballot measures, and State law.

Furthermore, the Council President's Budget Proposal is not balanced. Its reliance on fictitious revenues jeopardizes the long-term financial viability of the City of Oakland. It adds more than \$100 million in revenues, that are not justifiable. Adopting this budget in its present form would be fiscally irresponsible and it would negatively impact the City's credit rating and ability to secure the resources necessary through Measure KK to deliver capital projects, including street paving, the development of affordable housing, and upgrades to city facilities.

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

Respectfully submitted,

/s/

KATANO KASAINÉ
Director of Finance

Attachment (1)

Attachment A – Finance Department Review of Council President's Proposed GPF Budget

FY 2019-21 COUNCIL PRESIDENT'S BUDGET AMENDMENTS VERSION 1.2
FUND [1010] - [General Purpose Fund]

REVENUE ADDITIONS (POSITIVE #) & REDUCTIONS (NEGATIVE #)

Item #	Fund	Dept	Description	FY 2019-20 Ongoing	FY 2019-20 One-Time	FY 2019-20 Total	FY 2020-21 Ongoing	FY 2020-21 One-Time	FY 2020-21 Total	Notes	Finance Recommendation
1	1010	Cannabis	Cannabis Revenue Tax	\$ (502,107)	\$ -	\$ (502,107)	\$ (542,000)	\$ -	\$ (542,000)		
2	1010	Cannabis	Rollover unspent cannabis equity assistance funds	\$ -	\$ 2,100,000	\$ 2,100,000	\$ -	\$ -	\$ -		Error - Expenditure Reduction Service-Level Impact
3	1010	Community and Economic Development	Roll over unspent funds from Public Bank study - set aside for future regional bank strategy	\$ -	\$ 30,000	\$ 30,000	\$ -	\$ -	\$ -		Error - Expenditure Reduction
4	1010	Council	Roll over unspent funds in Council Budgets	\$ -	\$ 400,000	\$ 400,000	\$ -	\$ -	\$ -	\$200K to Community Service Account	
5	1010	DOT	DOT merger cost savings	\$ 100,000	\$ -	\$ 100,000	\$ 202,077	\$ -	\$ 202,077	This reflects phasing out of DOT Director with consolidation back to PW mid way through the '19-'20 fiscal year	Incorrect Fund Error - Expenditure Reduction Results in Layoffs/Reductions Not Implementable
6	1010	DOT	Increased scooter fees	\$ 250,000	\$ -	\$ 250,000	\$ 250,000	\$ -	\$ 250,000		Incorrect Fund Not Implementable Proposition 26 Violation
7	1010	DOT	Increased revenue from parking tax (including bundled parking)	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 2,000,000	\$ -	\$ 2,000,000		Fictitious Revenue KidsFirst Set-Aside
8	1010	General Purpose Fund	Increased revenue from sales tax, property tax, business license tax	\$ 3,000,000	\$ -	\$ 3,000,000	\$ 5,000,000	\$ -	\$ 5,000,000	Amended based on Q3 data	Fictitious Revenue KidsFirst Set-Aside
9	1010	General Purpose Fund	Increase transient occupancy tax	\$ 1,817,000	\$ -	\$ 1,817,000	\$ 2,054,000	\$ -	\$ 2,054,000	Split with Measure C	Fictitious Revenue KidsFirst Set-Aside
10	1010	Housing	Increased revenue from Real Estate Transfer Tax	\$ -	\$ 10,000,000	\$ 10,000,000	\$ -	\$ 12,500,000	\$ 12,500,000	Amended based on Q3 data	Fictitious Revenue KidsFirst Set-Aside CFP Violation
11	1010	JPA	Raider's Lease Revenue	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000		Fictitious Revenue
12	1010	JPA	Warriors postseason revenue	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -		Fictitious Revenue
13	1010	JPA	Naming Rights	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000		Fictitious Revenue
14	1010	OPD	Police Overspending Repayment Plan	\$ -	\$ 7,000,000	\$ 7,000,000	\$ -	\$ -	\$ -	Per Oakland adopted budgetary policy	Incorrect Fund Results in Layoffs/Reductions Not Implementable
15	1010	Public Works	Revenue from Park naming rights	\$ -	\$ -	\$ -	\$ -	\$ 600,000	\$ 600,000		Fictitious Revenue
16	1010	Workforce Development	Implementation fee for workforce enforcement standards	\$ -	\$ -	\$ -	\$ 800,000	\$ -	\$ 800,000	Fee on hotel and other employers	Incorrect Department Proposition 26 Violation
Subtotal Revenue Adjustments				\$ 6,164,893	\$ 21,530,000	\$ 27,694,893	\$ 9,764,077	\$ 14,600,000	\$ 24,364,077		

EXPENDITURE REDUCTIONS (NEGATIVE #)

Item #	Fund	Dept	Description (Include Job Class & FTE)	FY 2019-20 Ongoing	FY 2019-20 One-Time	FY 2019-20 Total	FY 2020-21 Ongoing	FY 2020-21 One-Time	FY 2020-21 Total	Notes	Finance Recommendation
17	1010	Clerk	Records Manager	\$ 203,000	\$ -	\$ 203,000	\$ 203,000	\$ -	\$ 203,000		Results in Layoffs/Reductions
18	1010	Human Resources	Staff for metal detector system	\$ 397,996	\$ -	\$ 397,996	\$ 397,996	\$ -	\$ 397,996		Incorrect Department Results in Layoffs/Reductions
19	1010	Mayor	Roll-back increases to Mayor's budget	\$ -	\$ 600,000	\$ 600,000	\$ -	\$ -	\$ -		Results in Layoffs/Reductions
20	1010	Non-Departmental	Oakland Promise proposed funding designate to Oakland youth scholarships via non-profit	\$ -	\$ -	\$ -	\$ -	\$ 500,000	\$ 500,000	Keeps funding in Year 1, but adds that it must be for non-profit for distribution to Oakland youth, and funding for year 2 to be decided at May midcycle revise after receiving more info on status of program	
21	1010	OPD	Moving wildfire prevention inspection costs to new funding source	\$ -	\$ -	\$ -	\$ 6,400,000	\$ -	\$ 6,400,000	Moving to Fund 2321	Incorrect Fund Proposition 26 Violation
22	1010	OPD	Remove sworn officers assigned to Council meetings	\$ 150,000	\$ -	\$ 150,000	\$ 150,000	\$ -	\$ 150,000		Incorrect Department
23	1010	OPD	OPD personnel for metal detector system	\$ 460,000	\$ -	\$ 460,000	\$ 460,000	\$ -	\$ 460,000		Incorrect Department
24	1010	OPD	Reduction in police extra time spent taking people into custody	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	Reduce extra time to transport people to Santa Rita. Accompanied with policy to use incarceration only for serious/violent offenses.	Not Implementable Need Policy Direction Technical Error

FY 2019-21 COUNCIL PRESIDENT'S BUDGET AMENDMENTS VERSION 1.2
FUND [1010] - [General Purpose Fund]

Subtotal Expenditure Reductions \$ 2,210,996 \$ 600,000 \$ 2,810,996 \$ 6,610,996 \$ 500,000 \$ 9,110,996

	FY 2019-20 Ongoing	FY 2019-20 One-Time	FY 2019-20 Total	FY 2020-21 Ongoing	FY 2020-21 One-Time	FY 2020-21 Total
FUNDS AVAILABLE FOR PROGRAMMING	\$ 8,375,889	\$ 22,130,000	\$ 30,505,889	\$ 18,375,073	\$ 15,100,000	\$ 33,475,073

EXPENDITURE ADDITIONS (POSITIVE #)

Item #	Fund	Dept	Description (Include Job Class & FTE)	FY 2019-20 Ongoing	FY 2019-20 One-Time	FY 2019-20 Total	FY 2020-21 Ongoing	FY 2020-21 One-Time	FY 2020-21 Total	Notes	Finance Recommendation
25	1010	AC Transit	Bus Pass for all City Employees, Boards, and Commissions (AC Transit)	\$ -	\$ 360,000	\$ 360,000	\$ -	\$ 360,000	\$ 360,000		
26	1010	Administrator	Additional security to cover City Hall complex 24/7	\$ 194,586	\$ -	\$ 194,586	\$ 259,449	\$ -	\$ 259,449		Inconsistent with Item No. 18
27	1010	Administrator	Additional security to cover FHOP 24/7	\$ 86,691	\$ -	\$ 86,691	\$ 115,589	\$ -	\$ 115,589		Inconsistent with Item No. 18
28	1010	Administrator	Establish a Homeless Commission	\$ -	\$ 300,000	\$ 300,000	\$ -	\$ -	\$ -	Mayor's budget starts this in year two we are adding funds in year one so the important work can begin. This commission is required by voter approved Measure W.	
29	1010	Administrator	Create dashboard and metrics systems for budget implementation tracking	\$ 197,895	\$ 75,000	\$ 272,895	\$ 205,042	\$ 75,000	\$ 280,042		Costing Error Need Policy Direction
30	1010	Administrator	Commission created by the Public Lands Resolution 1/2 FTE	\$ 100,000	\$ -	\$ 100,000	\$ 150,000	\$ -	\$ 150,000		Costing Error Need Policy Direction
31	1010	Cannabis	Cannabis Equity Business funding	\$ -	\$ 800,000	\$ 800,000	\$ -	\$ 800,000	\$ 800,000		
32	1010	Cannabis	Cannabis Equity TA Funding	\$ -	\$ 250,000	\$ 250,000	\$ -	\$ 250,000	\$ 250,000		
33	1010	City Attorney	Public Records Requests one (1) FTE	\$ 126,000	\$ -	\$ 126,000	\$ 129,000	\$ -	\$ 129,000		
34	1010	City Auditor	Audit of OPD	\$ -	\$ 80,000	\$ 80,000	\$ -	\$ -	\$ -		
35	1010	City Auditor	Audit of Information Security	\$ -	\$ 80,000	\$ 80,000	\$ -	\$ -	\$ -		
36	1010	Clerk	Equity in City Advertising launch	\$ -	\$ 20,000	\$ 20,000	\$ -	\$ -	\$ -	Plan for policy update in year 2 to shift existing advertising funding more equitably. Some funds added in year one to start improving equity in our advertising.	
37	1010	Clerk	One (1) parking spot in Dalziel	\$ 2,640	\$ -	\$ 2,640	\$ 2,640	\$ -	\$ 2,640		
38	1010	Clerk	Receptionist One (1) FTE	\$ 113,535	\$ -	\$ 113,535	\$ 130,000	\$ -	\$ 130,000	Position will enable moving control over meeting room scheduling to Clerk's office.	
39	1010	Clerk	Administrative Analyst 1	\$ 130,859	\$ -	\$ 130,859	\$ 140,813	\$ -	\$ 140,813		
40	1010	Clerk	O & M	\$ -	\$ 35,000	\$ 35,000	\$ -	\$ -	\$ -	Retention Schedule	
41	1010	Clerk	O & M	\$ -	\$ 73,000	\$ 73,000	\$ -	\$ -	\$ -	Meet contractual obligations to new storage services provider	
42	1010	Clerk	Costs for Election	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	March 2020 election	
43	1010	Council	Budget Analyst	\$ 89,746	\$ -	\$ 179,493	\$ 185,975	\$ -	\$ 185,975		Costing Error
44	1010	Council	Fund Public Bank business plan	\$ -	\$ 35,000	\$ 35,000	\$ -	\$ -	\$ -	In collaboration with regional partners	
45	1010	Council	Polling for ballot measures	\$ -	\$ 30,000	\$ 30,000	\$ -	\$ -	\$ -		Costing Error Not implementable
46	1010	Council	Increase support fund for each council office (1/2 FTE)	\$ 400,000	\$ -	\$ 400,000	\$ 400,000	\$ -	\$ 400,000	\$50K per year per council office	
47	1010	Council	Community Service Fund	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ 200,000	\$ 200,000	\$25K per year per councilmember to spend on community services/projects	
48	1010	Council	Council Staff parking placards	\$ -	\$ 2,400	\$ 2,400	\$ -	\$ 2,400	\$ 2,400	One per office.	
49	1010	DOT	Pilot tow fee waiver for victims of crime	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -	Revisit at May revise	Need Policy Direction
50	1010	DOT	Launch system to repair privately owned sidewalks and bill property owner	\$ -	\$ -	\$ -	\$ 568,019	\$ -	\$ 568,019	3.0 FTEs (2.0 Construction Inspectors and 1.0 Administrative Assistant II) and \$30,000 in O&M costs.	Incorrect Fund
51	1010	Economic Workforce Development	Vocational and trades training program expansion	\$ -	\$ 250,000	\$ 250,000	\$ -	\$ 250,000	\$ 250,000		
52	1010	Economic Workforce Development	Facade and Tenant Improvement Program (Streetscaping) for MacArthur (73rd to 82nd) and Foothill (56th to 62nd) and Bancroft (66th to 67th)	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000		

FY 2019-21 COUNCIL PRESIDENT'S BUDGET AMENDMENTS VERSION 1.2
 FUND [1010] - [General Purpose Fund]

53	1010	Economic Workforce Development	Implementation of labor standards office - Chief Enforcement Officer for creation of Department of Workplace and Employment (Bas)	\$ 100,000	\$ -	\$ 100,000	\$ 336,004	\$ -	\$ 336,004		
54	1010	Economic Workforce Development	Cypress Mandela - Add resource support to expand existing training programs and to add related services	\$ -	\$ 250,000	\$ 250,000	\$ -	\$ 250,000	\$ 250,000		
55	1010	Economic Workforce Development	1 FTE - Urban Economic Analyst III	\$ 209,705	\$ -	\$ 209,705	\$ 216,666	\$ -	\$ 216,666	East Oakland business assistance improvement staffer	
56	1010	Economic Workforce Development	East Oakland Business Development Fund	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,000,000	Coordinate with existing programs, new staffer, and BRT assistance fund	
57	1010	Housing and Community Development	Downtown Streets Team	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	Including to hire the homeless to help improve Oakland	Need Policy Direction Not Implementable
58	1010	Housing and Community Development	Local Community based organization to hire the unsheltered to do litter removal from encampments and other sites around the City (including needle collection) and to monitor encampments like an RV Park attendant.	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -		
59	1010	Housing and Community Development	Mobile showers and restrooms, storage for homeless	\$ 440,000	\$ -	\$ 440,000	\$ -	\$ -	\$ -	\$15,000/site/year for 20 sites (portable toilets and wash stations) at an annual cost of \$300,000. Mobile showers are approx. \$580,000/year.	
60	1010	Human Resources	Hire Human Resources Analyst, AP203	\$ 140,000	\$ -	\$ 140,000	\$ 140,000	\$ -	\$ 140,000	To help reduce delay in filling vacant city positions	Costing Error
61	1010	Human Resources	Labor TBD		\$ 7,000,000	\$ 7,000,000		\$ 14,000,000	\$ 14,000,000		
62	1010	Human Resources	Contracting with a Government HR Consultant to analyze and report on how the City can reduce hiring time including reasonable changes to civil service process.	\$ -	\$ 220,000	\$ 220,000	\$ -	\$ -	\$ -		
63	1010	Human Services	East Oakland Senior Center Programming Expansion	\$ 100,000	\$ -	\$ 100,000	\$ 100,000	\$ -	\$ 100,000		
64	1010	Human Services	Increased Programs for Senior Healthy Living	\$ 250,000	\$ -	\$ 250,000	\$ 250,000	\$ -	\$ 250,000		
65	1010	Human Services	Head Start	\$ -	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ 500,000	From Fund Balance	
66	1010	Non-Departmental	Cahoots Model Feasibility Analysis Study	\$ -	\$ 40,000	\$ 40,000	\$ -	\$ -	\$ -		Incorrect Department
67	1010	Non-Departmental	Building Opportunities for Self Sufficiency (BOSS)	\$ -	\$ 300,000	\$ 300,000	\$ -	\$ 300,000	\$ 300,000	Violence prevention	Incorrect Department
68	1010	Non-Departmental	St. Mary's Shelter		\$ 250,000	\$ 250,000	\$ -	\$ -	\$ -		Incorrect Department
69	1010	Non-Departmental	Day Laborer program	\$ 80,000	\$ -	\$ 80,000	\$ 80,000	\$ -	\$ 80,000		
70	1010	Non-Departmental	Chinatown and Eastlake BID feasibility study	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -		Incorrect Department
71	1010	Non-Departmental	Emergency Services Planning	\$ -	\$ 125,000	\$ 125,000	\$ -	\$ -	\$ -	Matching funds for a CalFire Grant	Incorrect Department
72	1010	Non-Departmental	Meals on Wheels	\$ 110,000	\$ -	\$ 110,000	\$ 110,000	\$ -	\$ 110,000	In addition to the Mayor's funding.	Incorrect Department
73	1010	Non-Departmental	OUSD Absenteeism	\$ -	\$ 150,000	\$ 150,000	\$ -	\$ 160,000	\$ 160,000	Counselors to work with youth to reduce absenteeism	Costing Error
74	1010	Non-Departmental	Oakland Tech Theater Department	\$ -	\$ 5,000	\$ 5,000	\$ -	\$ -	\$ -		
75	1010	Non-Departmental	Oakland Park and Recreation Foundation - additional funding	\$ 105,000	\$ -	\$ 105,000	\$ 105,000	\$ -	\$ 105,000	In addition to Mayor's funding.	Incorrect Department
76	1010	Non-Departmental	Emergency preparedness for public city facilities (earthquake boxes, first aid kits, etc.)	\$ -	\$ 50,000	\$ 50,000	\$ -	\$ -	\$ -		Incorrect Department
77	1010	OPD	System to clear fire danger and bill property owner	\$ -	\$ 150,000	\$ 150,000	\$ -	\$ -	\$ -		Not Implementable Need Policy Direction
78	1010	OPD	One (1) FTE Gun Tracing Crime Analyst	\$ 140,635	\$ -	\$ 140,635	\$ 145,713	\$ -	\$ 145,713		
79	1010	OPD	2 FTE motorcycle officer	\$ 280,000	\$ -	\$ 280,000	\$ 607,670	\$ -	\$ 303,835		Costing Error
80	1010	OPD	Improve recruitment and retention of Police Officers	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -		
81	1010	OPD	Expand staffing for non-emergency OPD lines	\$ 100,000	\$ -	\$ 100,000	\$ 200,000	\$ -	\$ 200,000		
82	1010	OPD	Add two (2) 911 Dispatchers	\$ 180,000	\$ -	\$ 180,000	\$ 270,000	\$ -	\$ 270,000		

FY 2019-21 COUNCIL PRESIDENT'S BUDGET AMENDMENTS VERSION 1.2
FUND [1010] - [General Purpose Fund]

83	1010	OPD	Overtime/Vital needs set aside fund.	\$ -	\$ 7,000,000	\$ 7,000,000	\$ -	\$ 7,000,000	\$ 7,000,000	Create tracking and oversight system for police overtime with funds set aside that may not be used by OPD unless/until policy tracking is in place and approved by council. Once council receives this report funds can be allocated to police overtime or other vital needs.	Not Implementable Need Policy Direction
84	1010	OPD	NCPC O&M Budget	\$ -	\$ 24,500	\$ 24,500	\$ -	\$ 24,500	\$ 24,500		
85	1010	OUSD	Restorative Justice Program	\$ -	\$ -	\$ -	\$ -	\$ 700,000	\$ 700,000		Incorrect Department
86	1010	Park and Rec	Parks maintenance restoration (restore 8.5 FTE cut by Mayor's budget)	\$ 960,000		\$ 960,000		\$ -	\$ -	Restore 8.5 FTE to Parks. Year 2 to be covered by Ballot Measure or revisit at midyear.	
87	1010	Park and Recreation	Community gardens	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -		Incorrect Department
88	1010	Park and Recreation	Community murals	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -	\$25,000 per council office	Incorrect Department
89	1010	Park and Recreation	1 FTE Project Manager for Lincoln Park	\$ 234,995	\$ -	\$ 234,995	\$ 243,476	\$ -	\$ 243,476		
90	1010	Public Ethics	Additional Staffing Public Ethics 1 FTE for Ethics Analyst III	\$ 135,000	\$ -	\$ 135,000	\$ 135,000	\$ -	\$ 135,000		
91	1010	Public Works	Melrose/High Hopes/Fairfax streetscape	\$ -	\$ 400,000	\$ 400,000	\$ -	\$ -	\$ -		
92	1010	Public Works	1 Zone Based Trash Removal Team	\$ 447,746	\$ 325,000	\$ 772,746	\$ 447,746	\$ -	\$ 447,746	To ensure proactive illegal dumping removal citywide	
93	1010	Public Works	Illegal Dumping Enforcement and Rewards Program to strengthen collection and rewards	\$ -	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -		
94	1010	Public Works	Additional security cameras for illegal dumping and enforcement	\$ -	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -		
95	1010	Public Works	Two (2) FTE to maintain bathrooms	\$ 104,000	\$ -	\$ 208,404	\$ 216,636	\$ -	\$ 216,636		Costing Error
96	1010	Public Works	Tree care and trimmers in District business corridors	\$ 75,000	\$ -	\$ 75,000	\$ 80,000	\$ -	\$ 80,000		
97	1010	Public Works	Madison Park .5 FTE	\$ 61,334	\$ -	\$ 61,334	\$ 65,568	\$ -	\$ 65,568		
98	1010	Public Works	Rose Garden and Splash Pad make .5 FTE to 1 FTE	\$ 61,334	\$ -	\$ 61,334	\$ 65,568	\$ -	\$ 65,568		
Subtotal of Expenditure Additions				\$ 5,756,701	\$ 23,279,900	\$ 29,036,601	\$ 6,101,574	\$ 26,371,900	\$ 32,473,474		

	FY 2019-20	FY 2019-20	FY 2019-20	FY 2020-21	FY 2020-21	FY 2020-21
	Ongoing	One-time	Total	Ongoing	One-time	Total
SURPLUS / (DEFICIT)	\$ 2,619,188	\$ (1,149,900)	\$ 1,469,288	\$ 12,273,499	\$ (11,271,900)	\$ 1,001,599

2019 JUN -6 PM 5: 25



MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Katano Kasaine
Director of Finance

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

DATE: June 6, 2019

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

Frequently Asked Questions

1. How does the Finance Department forecast revenues?

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

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

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

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

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

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

Beacon Economics Report, dated April 2017

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

Beacon Economics Report, dated April 2017

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

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

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

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

HONORABLE MAYOR AND CITY COUNCIL

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

Date: June 6, 2019

City- Adjusted FY 2018 Budget

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

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

City- Adopted Midcycle FY 2019 Budget

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

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

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

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

Respectfully submitted,

/s/

 KATANO KASAINÉ
 Director of Finance