



May 20, 2021

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

Dear President Bas:

We are pleased to present this Preliminary Analysis of the City of Oakland's Proposed FY 2021-23 Two-Year Budget as part of our engagement with the City Council.

This memo is meant to respond to a request from your office for a preliminary presentation of our analysis as outlined in the scope of work. Please note that our team has only had about a week to review and analyze core data and documentation on the proposed budget from the Finance Department. Further, we have not had time to discuss these findings with Finance Department staff to obtain feedback. Therefore, the preliminary findings in this memo are meant to give the City Council an outline of what to anticipate in our final report, which is due to the Council on Thursday, May 27 and which is, to our understanding, to be presented at a City Council meeting on Tuesday, June 1.

### **Scope of Work**

We were asked by the City Council to provide an independent analysis of the City of Oakland's proposed two-year FY 2021-22 & FY 2022-23 budget. The scope of work includes the following related to the proposed budget:

- Overview of General Purpose Fund revenues and expenditures, including multi-year budget-to-actual analysis of all General Purpose Fund departments;
- Detailed review of the proposed Police and Fire Department's budgets, including a review of overtime. Additionally, seek out and report on best practices to control overtime expenditures;
- Review of the Non-Departmental budget;

- Analysis of major areas of budget year increases, including increases in the number of FTEs over the past three years;
- Analysis of positions, vacancies, and salary savings;
- Analysis of potential assistance from federal and state sources of COVID-19 related economic relief;
- Review of key non-General Purpose funds and the allowable uses of unspent monies, including, but not necessarily limited to the Development Services Fund, Measure BB, and Measure Z funds;
- Review of the City Administrator's revenue projections for the upcoming two-year budget;
- Review and comparative analysis of the City's Finance Department structure;
- Analysis of contract contingencies, administrative projects, and other unspecified accounts;
- Analysis of encumbrance and reserve amounts; and
- Analysis of multi-year projects.

In addition, your office requested that we review the City's Five Year Financial Forecast and provide revenue estimates for two proposed ballot measures (an expansion of the Transient Occupancy Tax and the establishment of a tax on transportation network companies and delivery network companies).

The following sections provide a summary of our preliminary findings:

### **Overview of General Purpose Fund Revenues and Expenditures**

- The proposed revenue and expenditure budgets for the General Purpose Fund total \$775.8 million in FY 2021-22 and \$726.6 million in FY 2022-23. The proposed FY 2021-22 General Purpose Fund budget is approximately \$113 million or 17 percent more than the FY 2020-21 adjusted budget. The proposed FY 2022-23 General Purpose Fund budget is approximately \$49 million or six percent less than the proposed FY 2021-22 budget.
- The City underspent its General Purpose Fund budget by \$507,309 in FY 2018-19, overspent its General Purpose Fund budget by \$9.8 million in FY 2019-20, and is projected to overspend its General Purpose Fund budget in FY 2020-21 by \$20.8 million. Generally speaking, in FY 2018-19 and FY 2019-20, a majority of City departments underspent their General Purpose Fund budgets; however, in FY 2020-21, most City departments are projected to overspend their General Purpose Fund budgets. The Police Department is the department that has most significantly overspent its General Purpose Fund budget in each of the three years, by between \$20.7 and \$26.1 million each year. The Fire Department overspent its General Purpose Fund budget by \$3.8 million in FY 2018-19, but underspent its General Purpose Fund budget by \$2.3 million in FY 2019-20 and is projected to underspend its General Purpose Fund budget by \$10.8 million in FY 2020-21.

- The departments with the largest proposed budget increases from FY 2020-21 to FY 2021-22 are Non-Departmental (\$92.2 million, accounting for 82 percent of the proposed net General Purpose Fund budget increase between FY 2020-21 to FY 2021-22 of \$113.1 million) and the Police Department (\$22.6 million). The \$92.2 million increase in Non-Departmental occurs primarily in city-wide activities, which include fund transfers and subsidies to organizations outside City government, and the emergency contingency reserve. The proposed General Purpose Fund budget increases in the Police Department occur primarily in personnel expenditures, with some additional increase in contract services expenditures. The department with the largest decrease from FY 2020-21 to FY 2021-22 is the City Administrator's Office, reflecting the creation of the Animal Services Division as a stand-alone department rather than a division of the City Administrator's Office.
- From FY 2021-22 to FY 2022-23, the departments with the largest proposed budget increases are the Police Department (\$9.5 million) and the Fire Department (\$8.2 million). In the Police Department, the increase is due to proposed increases in personnel expenditures, partially offset by proposed decreases in other areas. In the Fire Department, the increase is due primarily to proposed increases in personnel and contract services expenditures. The department with the largest proposed decreases from FY 2021-22 to FY 2022-23 is Non-Departmental (-\$73.8 million), due primarily to decreases in the emergency contingency reserve, city-wide activities, and liability claims.

### **Proposed and Historical Police and Fire Department Budgets**

- The proposed FY 2021-22 General Purpose Fund budget for the Police Department is \$22.6 million or eight percent higher than the FY 2020-21 adjusted General Purpose Fund budget for the Department. The proposed FY 2022-23 General Purpose Fund budget for the Department is \$9.5 million or three percent higher than the proposed FY 2021-22 General Purpose Fund budget for the Department. The proposed General Purpose Fund budget increases in the Police Department occur primarily in personnel expenditures.
- The Police Department historically over-spends its General Purpose Fund budget and is projected to over-spend its FY 2020-21 budget by \$22.4 million, primarily due to over-spending in personnel expenditures (overtime). Our previous analysis of Oakland's proposed FY 2019-21 budget found that the Police Department's overtime budget was not realistic compared to actual overtime expenditures, and a performance audit of Police overtime produced by the Oakland City Auditor also found that the City has not realistically budgeted for overtime. The proposed FY 2021-22 General Purpose Fund budget for the Police Department personnel expenditures is more realistic when compared to historical spending patterns and projected FY 2020-21 expenditures.

- The Police Department's General Purpose Fund budget for overtime is proposed to increase by \$15.1 million from FY 2020-21 to FY 2021-22, from \$17.1 million to \$32.2 million. Of this \$15.1 million proposed increase, \$11.3 million is proposed overtime for sworn personnel.
- According to the Mayor's proposed budget book, the proposed Police Department budget includes six academies for new officers. We are continuing to analyze the Department's staffing levels, proposed FTEs, and proposed personnel expenditures, as well as overtime best practices.
- The proposed FY 2021-22 General Purpose Fund budget for the Fire Department of \$169.8 million is not significantly different than its FY 2020-21 adjusted budget of \$169.1 million. However, the Department is projected to underspend its FY 2020-21 adjusted budget by \$10.8 million. The proposed FY 2022-23 General Purpose Fund budget for the Fire Department of \$178.0 million is \$8.2 million higher than the proposed FY 2021-22 General Purpose Fund budget for the Department. We are continuing to analyze the Department's staffing levels, proposed FTEs, and proposed personnel expenditures.

### **Non-Departmental Budget**

- The proposed General Purpose Fund budget for Non-Departmental expenditures is proposed to increase from its FY 2020-21 adjusted budget of \$34.8 million to \$127.0 million in FY 2021-22. These proposed increases occur primarily in city-wide activities, which include fund transfers and subsidies to organizations outside City governments, and the emergency contingency reserve.
- However, the proposed increase for Non-Departmental expenditures is primarily a one-time increase. The Non-Departmental General Purpose Fund budget is proposed to decrease back down to \$53.1 million in FY 2022-23.
- According to the Mayor's proposed budget book, part of the increase in Non-Departmental expenditures in FY 2021-22 is due to the allocation of the expected FY 2020-21 General Purpose Fund balance of \$48.31 million to the new Emergency Reserve Fund, which was created at the direction of the City Council. In addition, the proposed General Purpose Fund budget allocates an additional \$5.5 million to the Emergency Reserve Fund in FY 2021-22 and \$1 million in FY 2022-23. It appears that these transfers flow through the Non-Departmental budget and contribute to the significant fluctuations in the proposed Non-Departmental budget in FY 2021-22 and FY 2022-23. We are continuing to analyze the proposed General Purpose Fund budget for Non-Departmental expenditures.

### **Positions, Vacancies, and Salary Savings**

- In FY 2017-18, FY 2018-19 and FY 2019-20, the City consistently overspent on personnel services by \$5.6 million, \$22.5 million, and \$33 million, respectively. The City is projected to overspend on personnel services by approximately \$18 million in FY 2020-21.
- Overtime contributes most to overspending on personnel costs. Fire and Police make up the largest part of this overspending. Looking back at the last three fiscal years of actual spending, Fire and Police account for 97.8 percent of all overtime overspending (\$109,545,019 out of \$112,028,827).
- The City is currently budgeting for approximately \$60 million in overtime in FY 2021-22 and \$49.3 million in overtime in FY 2022-23 in General Purpose Fund monies. These proposed overtime budgets do a better job of reflecting what the City has historically spent and is projected to incur in the current year (FY 2020-21) on overtime expenditures.
- The proposed City vacancy rate is six percent in FY 2021-22 and 5.9 percent in FY 2022-23. This is higher than in prior proposed budgets. For example, in the FY 2019-21 budget the proposed citywide vacancy rate was 2.4 percent for FY 2019-20 and 2.4 percent in FY 2020-21. The most recent staffing report with data through March 22, 2021 shows a citywide vacancy rate of 9.23 percent overall, this is lower than in prior reports and may be a result of increases in number of positions frozen.

### **Funds with Significant Balances (Non-General Purpose)**

- There are numerous City funds set aside for the development, acquisition, and rehabilitation of affordable housing. As of April 30, 2021, the combined balances in these accounts totaled approximately \$248.3 million. An inquiry has been submitted to Finance Department staff to better understand how these funds are managed and we are awaiting a response.
- As of April 30, 2021, the 2415 Development Service Fund had a balance of nearly \$145 million. We will outline potential uses for these funds in our final report.
- We have sent an inquiry to the Director of Human Services to obtain additional information on three funds: (1) Measure Z Violence Prevention; (2) Measure HH Sugar Sweetened Beverage Tax; and (3) Measure K Kids First. These funds had balances of approximately \$9 million, \$9.4 million, and \$16.4 million respectively as of April 30, 2021. We are awaiting a response from the Human Services Director for additional information.
- We have submitted an inquiry to Finance Department staff to obtain additional information on other funds, including: 2159 State of California Other, 2244 Measure Q, 4600 Information Technology, and 2216 & 2218 Measure BB. We are awaiting a response.

### **Review of the Five-Year Financial Forecast**

- The City's Five-Year Financial Forecast, prepared by the Finance Department with assistance from an outside consultant, was presented to the City Council on March 16, 2021. Since that time there have been several developments, which could result in higher revenues than anticipated in the baseline scenario.
- The Five-Year Financial Forecast baseline scenario noted that high levels of vaccination necessary to significantly reduce infections may not arrive until the end of calendar year 2021 and that economic activity (workers returning to offices, consumers shopping and dining in-person, and a gradual business and leisure travel recovery) would not begin to return to normal levels until that time. However, the vaccine rollout has been more aggressive than many anticipated with all adults across the U.S. eligible for the COVID-19 vaccine starting on April 19. As of May 19, 2021, 72.7 percent of Oakland adults 16 years of age or older have received at least one dose of the COVID-19 vaccine and 55.1 percent have been fully vaccinated. Further, on March 10, 2021, there were 103 new cases of COVID-19 reported in Alameda County (6.2 per 100,000); as of May 10, 2021, there were 59 new cases of COVID-19 reported in the county (3.5 per 100,000). The State of California appears to be on track to re-open on June 15, further signaling that the rapid recovery scenario may more closely reflect the actual recovery.
- The Five-Year Financial Forecast estimated that the City's real estate transfer tax revenues for FY 2020-21 would be \$93.33 million. We prepared a straight-line projection in April based on revenues through February, which showed that the City could receive approximately \$105.75 if trends through February continue until the end of June. This level of revenue was not anticipated in the baseline scenario until year three (FY 2023-24). We have obtained an update on the real estate transfer tax revenue through April, which has confirmed stronger than expected activity. The County has recorded over \$101 million in real estate transfer tax for the City through April. Using a straight-line projection, the City could see approximately \$118 million in real estate transfer taxes through the end of FY 2020-21. However, as we have noted in the past, the real estate transfer tax is a highly volatile tax as it is heavily influenced by the sale of relatively few large value properties.
- The Five-Year Financial Forecast was prepared prior to the passage of the American Rescue Plan Act and therefore did not assume the \$192.08 million that will be provided to the City over the next two fiscal years (\$96.04 million in the current year and an equal amount one year from now). This federal aid will have a significant impact on the first two years of the five-year forecast.
- The Forecast did not assume any new taxes or fees that the City may establish. We are aware of two proposals, discussed in the next section, for the establishment of new taxes:

(1) a Transient Occupancy Tax on stays between 31 and 90 days and (2) a tax on transportation network companies and delivery network companies. If new taxes or fees are established, they would likely bring in additional revenue beyond which is assumed in the Five-Year Financial Forecast.

- On May 6, 2021, Oakland International Airport announced that passenger traffic increased by 59.6 percent in March 2021 (487,610 total passengers) compared to what was reported in February 2021 (305,463 total passengers). The Airport also noted that air cargo was up 18.6 percent year-over-year in March 2021 and up 22.6 percent from February 2021. However, on a rolling 12-month basis, traffic was still down 72.47 percent in March compared to the same period a year ago.
- The Five-Year Financial Forecast assumed that there would be no additional salary increases for miscellaneous (civilian) staff and that the number of full-time equivalent (FTE) positions remains constant at 4,167 in years two through five of the forecast. Any increase in the number of FTEs or salary increases for civilian staff would increase the forecasted structural deficit.

#### **Analysis of Proposed Revenue Measures**

- We are continuing to work on providing a revenue estimate for the proposed expansion of the transient occupancy tax (for stays of 31 to 90 days). Unfortunately, there is very little data available to estimate revenue from such a tax. We may be able to use landlord licenses and/or review revenues from other jurisdictions to provide an estimate.
- We are continuing to work on providing a revenue estimate for the proposed transportation network company (TNC) and delivery network company (DNC) tax. Publicly available data on these companies is very limited. We may be able to use data collected by the San Francisco County Transportation Authority and revenue estimated by the San Francisco Controller's Office on that City's TNC tax to prepare a revenue estimate for the TNC tax. Further, we may be able to utilize publicly available demographic information to provide a rough estimate of revenue that would result from a tax on DNCs.

#### **Finance Department Organizational Structure**

- The City of Oakland's Department of Finance had 156.0 FTE budgeted in FY 2020-21 and the proposed FY 2021-22 budget increases this slightly to 156.8 FTE.
- Relative to the other cities we are reviewing, Oakland's Department of Finance contains many functions that other cities appear to split up across different departments, such as Treasurer, Controller, or budget preparation functions.

**Other**

- We are continuing to analyze contract contingencies, administrative projects, other unspecified accounts, and encumbrances.

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](mailto:dgoncher@harveyrose.com) or Linden Bairey at [lbairrey@harveyrose.com](mailto:lbairrey@harveyrose.com).

Respectfully submitted,



Dan Goncher  
Principal

cc: Rebecca Kaplan, Vice Mayor & At-Large Member  
Dan Kalb, Councilmember, District 1  
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