

CITY OF OAKLAND

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OFFICE OF THE CITY CLERK
OAKLAND

AGENDA REPORT

09 DEC 15 AM 9:01

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Budget Office and Finance & Management Agency
DATE: December 17, 2009
RE: **Follow-up Report and Resolution on the Mid-Year Review of FY 2009-10
Financials for the General Purpose Fund and Proposed Balancing Measures**

SUMMARY

On November 17, 2009, staff requested City Council action to resolve the anticipated FY 2009-10 General Purpose Fund (GPF) deficit projected to reach **\$18.87 million** by year-end.

Components of this gap are:

- Revenue shortfall of **\$10.08 million**, mainly due to the State-imposed correction to the 'triple flip' portion of the sales tax;
- An additional **\$4.5 million** of budgeted, but not realized, income from the Coliseum ticket surcharge; and
- Overspending of **\$4.29 million**, primarily in the Police Department.

This follow-up report further develops the November 17 budget balancing proposals and provides responses to certain questions posed at that meeting.

Staff requests City Council direction and possible action on the following:

1. FY 2009-10 General Purpose Fund balancing measures presented in **Exhibit A** of the attached legislation. (Note: Staff will re-submit to the City Council in January 2010 previously proposed measures for balancing the FY 2010-11 anticipated GPF shortfall and long-term balancing measures for FY 2011-12 and beyond.)
2. Declare a fiscal emergency to use one-time funds to balance the anticipated \$18.87 million shortfall in the General Purpose Fund in FY 2009-10 (an action required by the City's financial policy, ordinance 12946 C.M.S.), AND declare such one-time General Purpose Funds restricted to be used only for balancing said shortfall.

The budget balancing proposals presented for FY 2009-10 are largely one-time in nature. After considerable spending cuts in the past several months (since October 2008) and given the limited time left in the fiscal year, **further expenditure reductions** will have major impacts on the delivery of non-public safety services, as cuts to sworn programs are restricted by the requirements of Measure Y. Furthermore, mandates from other local measures – such as Kids

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First and Libraries – greatly restrict budget flexibility. As the chart below illustrates, of the **\$421 million** GPF budget, \$369 million (or 88%) is virtually untouchable, leaving only \$51.5 million available for most basic programs and services such as parks, recreation and senior services. By comparison, four years ago in FY 2005-06, \$92.3 million of GPF appropriation remained for these same items.

Total FY 2009-10 GPF appropriation: \$421 million

Less Mandated Police and Fire services (including minimum staffing mandated by Measure Y, cost-covered savings, and federal and state mandates): \$242 million

Less Debt service: \$42 million

Less Mandated Kids First! Funding (baseline and annual transfer): \$19.9 million

Less Measure Q mandated baseline for Library Services: \$9.06 million

Less Funding for Self-Insurance Liability: \$15.6 million

Less payments for essential internal services, including Equipment and Facilities: \$26 million;

Less other local mandates (elected officials' salary and benefits; Public Nuisance, Public Ethics and Citizens' Police Review Board among others) and grant match requirements: \$14.9 million

GPF Funding available for all other city programs and services: \$51.5 million.

Moreover, even if further spending reductions were possible, by the time these could be implemented (earliest date of February 1, 2010), seven months of the fiscal year would have passed, roughly equal to **\$30.4 million** of GPF spending on a straight-line basis; this leaves **\$21.5 million** in unspent GPF. Bridging the \$18.9 million shortfall on the remaining GPF appropriation essentially means that General Purpose-Funded City services and departmental operations not outlined above would cease – an untenable proposition.

Therefore, balancing the budget gap of this magnitude will require new revenues, whether one-time or on-going. Covering operating deficits with one-time revenues is generally bad policy – principally, one-time revenues come from selling assets, which once sold are gone and not available for use or for future year deficit balancing. New on-going revenues are the only way to cover the operating deficit on an on-going way. ***We need to discuss the practicality of new ballot measures to bring in new revenue or to change how current measures are structured.*** These include: (i) modifying Measure Y to remove the obligation to fund 739 officers with non-Measure Y funds; (ii) new parcel taxes for public safety (police and/or fire) to provide sufficient funds to fund current staffing levels or to provide funds to increase staffing levels; (iii) new parcel taxes to fund street and park maintenance; (iv) new instruments (tax or bond) to fund public safety equipment (police cars, fire trucks, etc.).

FISCAL IMPACT

The total value of the fiscal challenges facing the City’s GPF is currently estimated at **\$18.9 million** in FY 2009-10 and **\$25.4 million** in FY 2010-11. Staff will re-submit to the City Council in January 2010 previously proposed measures for balancing the FY 2010-11 anticipated GPF shortfall and long-term balancing measures for FY 2011-12 and beyond.

DISCUSSION

Proposed Balancing Measures for FY 2009-10

Exhibit A (attached to the legislation) presents balancing measures for Council consideration to address the current-year fiscal challenges. The table below presents these options. In general staff proposes using largely one-time funds, one-time transfers of GPF appropriations to healthier funds, and sale of assets to bridge the current year deficit. Selling assets to bridge a structural deficit and in a down-real estate market is not good policy. Nonetheless, there are limited options for addressing the deficit. On the upside, where possible, properties could be sold to the Redevelopment Agency to hold for resale when the real estate market regains strength. Further, selling today may allow the City to off-load non-productive assets that drain City resources.

Proposed Balancing Measure	FY 2009-10 Savings	Descriptions
One-Time Funding:		\$5.1
- Use unspent insurance proceeds from damage to City Hall sustained as a result of the 1989 Loma Prieta earthquake	3.2	Transfer remaining funds from CHW Insurance proceeds. Funds are from insurance settlements between insurance carriers and the City and is available in CHW Insurance Proceeds fund (5502) in pooled cash.
- Use unspent funds from the 1985 Variable Rate Demand Certificates of Participation (COPs)	0.9	Use available amount after redeeming the 1985 variable rate bonds.
- Use savings from the Tax Revenue Anticipation Notes (TRAN)	1.0	Savings from the 2009-10 TRAN was due to the City issuing the TRAN at a premium, as a result of higher than market interest paid by the note.

Proposed Balancing Measure	FY 2009-10 Savings	Descriptions
Limited-Duration Funding:		\$3.4
– Use of non-GPF fund balances for eligible appropriations	2.9	Transfer eligible expenses from GPF to: (1) Telecommunications Land Use Fund (1770); (2) OPRCA Self-Sustaining Fund and (3) Measure Q Library Fund (2240).
– Departmental budget balancing	0.5	Anticipated balancing from citywide personnel services savings by keeping positions vacant.
Sale of Assets (see Attachment A for list)		TBD
A Citywide team has been gathered to review all City assets and develop a plan to dispose of those that are a drain on City resources. While it is too early to provide a financial estimate for the revenue that could be generated or to present the specific list of assets, staff estimates raising at least \$1.4 million in FY 2009-10 alone, and much more in the coming years.		
– Major Assets		Staff continues to investigate options for selling Kaiser and Scotlan Convention Centers, the Medical Hill Garage, Coliseum Way @ 66 th Avenue, and former fire engine houses. Transfer of some assets to the Redevelopment Agency for rehabilitation and future transfer to a third party is being considered.
– Minor Assets		Staff is exploring selling parcels of land and other minor surplus properties.
Leasing Efficiencies (see Attachment A for list)		TBD
– Cancellation of Out-Leases and Leasing Underutilized Facilities		Staff is researching instances where City leases non-City facilities for operations, for possible cancellation of leases and transfer of operations into available and under-utilized City facilities. This would save City funds on an ongoing basis.

Impact of Further Spending Reductions

As stated above, spending reductions for FY 2009-10 would not result in significant savings given the limited time available in the fiscal year and restrictions imposed on the budget by Measure Y, Measure OO/D, Measure Q and other similar mandates. Nevertheless, City Administration has requested that all City departments carefully analyze possibilities of further spending cuts, and their impacts on programs and services. Specifically, each department was asked to identify measures to cut spending by 20 percent. A 20 percent reduction in non-fixed GPF appropriation equals \$10.3 million for the full fiscal year, or \$4.3 million beginning February 1, 2010. Union negotiations may be necessary to implement most reductions.

Staff does not recommend budget reductions to bridge the FY 2009-10 deficit, given the limited savings that they would generate in the remainder of the year while severely impacting or even decimating basic programs and services. Below are a few examples of how City services and operations would be impacted by a 20 percent budget reduction, while generating very limited savings:

Parks and Recreation: Further reductions would require:

- Elimination of remaining subsidies, instead encouraging eligible grantees to apply for Kids First! Funds.
- Closing as many as six recreation centers and other OPR facilities.
- Eliminating selected boating and playground programs.
- Reducing hours at two year-round pools.
- Instituting Lakeside Park parking fee.

Public Works Agency: Additional budget cuts would result in:

- Reduced park maintenance and tree services equivalent to one "Work Order Crew." This would result in 27 acres of parks that currently receive some priority maintenance being moved to the "no routine maintenance" list. One FTE per 10 acres of developed park property would remain, dropping from a "B" to a "C" level of service.

Information Technology: A 20% budget reduction would lead to:

- Elimination of all desktop, Help Desk and telecommunications support. As technology units fail, they would not be replaced including fire house systems and City burglar alarms OR
- Elimination of Oracle and Permit Tracking support. This option means that all support to Oracle systems (including payroll, personnel, general ledger, budgeting and contracts) would be eliminated OR

- Elimination of public safety systems support, including Police and Fire mobile data, fire house dispatch, Telestaff, and 25 other Police and Fire systems. Upon failure, all tasks would need to be performed manually OR
- Elimination of network, Internet and Geographic Information Systems services; failure of the City network would stop the transmission of data, phone services and external communications with and between City staff.

Finance & Management Agency: Further budget cuts would lead to:

- Reduction in Administration and Accounting Divisions appropriation; would negatively impact fiscal oversight and monitoring and could result in lower bond ratings, increasing the cost of borrowing. Reductions here would also significantly impact the time required to process payments according to the City's Prompt Payment ordinance, thereby increasing late payment charges.
- Reduction in the Revenue Division budget; would significantly diminish the City's ability to enforce local tax ordinances and collect tax revenue and related fees, particularly collections that require extraordinary effort.
- Reduction in the Treasury Division appropriation; would result in lost interest earnings and/or higher interest payments on debt.

Failing the above, the only spending reductions that would yield sufficient GPF savings would be in Police and Fire. These would require non-compliance with Measure Y and hence any savings would have to be above and beyond the Measure Y revenues. As such, sworn reductions in OPD would have to exceed the 63 officers currently funded through Measure Y, plus the \$4 million in revenues which are directed to OFD, just to remain neutral without any savings. To generate an additional \$10 million in savings would require terminating an additional 60 officers on top of the 63 Measure Y-funded officers – a total of 123 officers. Corresponding savings in OFD are problematical because of the MOU.

Additional Balancing Ideas Discussed by City Council Member at the November 17th Special Meeting

At its November 17th special meeting, City Council members asked staff to conduct research on the following:

- a. Cost savings from online permitting (Kaplan)
- b. Higher cannabis tax rate (Kaplan)
- c. Additional billboard revenue (Kaplan)
- d. Vacant building parcel tax (Nadel)
- e. Washington, DC street sweeping efficiencies (Kaplan)
- f. GPF carryforward and current-year project balances (Quan)

Staff continues to conduct research on items (a) through (d) in the above list. Items (e) and (f) are addressed below.

Street-sweeping/Citation efficiencies. Council member Kaplan asked staff to explore the possibility of mounting digital cameras on street-sweeping equipment to eliminate the need for enforcement officers to separately cite vehicles parked on streets scheduled for street-sweeping, following Washington, DC. Staff's research shows that this option is not feasible in California under existing law. Essentially, the California State Assembly had considered a bill (AB 1336; Eng) that would enable public agencies to mount digital cameras on street sweeping equipment for the purpose of identifying violators. The Governor vetoed the bill in October 2009 on the grounds that vehicle owners' privacy would be violated by such photography.

GPF carryforward and current-year project balances. Council member Quan asked staff to address (a) carryforward balances and (b) available balances for current-year projects that could be deferred or cancelled. As of December 14, 2009, **\$18.6 million** is appropriated in GPF projects. The majority of this appropriation is not discretionary, including appropriations for the Police Department's mandatory expenses associated with the Negotiated Settlement Agreement (NSA), Human Services' Head Start Waivers, and the City Clerk's FY 2009-10 election appropriation. Carryforward balances – projects with unspent appropriations from prior years – are reflected in this amount and total \$3.2 million.

SUSTAINABLE OPPORTUNITIES

There are no direct sustainable opportunities associated with this report.

DISABILITY AND SENIOR ACCESS

There are no direct disability and senior access opportunities associated with this report.

RECOMMENDATIONS

Staff requests City Council direction and possible action on the following:

1. FY 2009-10 General Purpose Fund balancing measures presented in **Exhibit A** of the attached legislation. (Note: Staff will re-submit to the City Council in January 2010 previously proposed measures for balancing the FY 2010-11 anticipated GPF shortfall and long-term balancing measures for FY 2011-12 and beyond.)
2. Declare a fiscal emergency to use one-time funds to balance the anticipated \$18.87 million shortfall in the General Purpose Fund in FY 2009-10 (an action required by the City's financial policy, ordinance 12946 C.M.S.), AND declare such one-time General Purpose Funds restricted to be used only for balancing said shortfall.

Respectfully submitted,

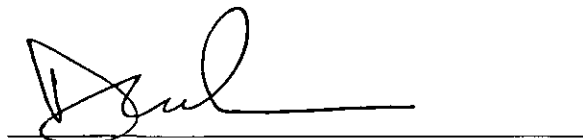


CHERYL L. TAYLOR
Budget Director



JOSEPH T. YEW
Finance Director

APPROVED FOR FORWARDING TO THE
CITY COUNCIL



Office of the City Administrator

Attachment A: Assets for Sale and City Lease Efficiencies

Major Assets Possibly Considered for Sale	
Property	Timing
Kaiser Convention Center	Sale of surplus property could be executed in current fiscal year.
Scotlan Convention Center	Sale of surplus property could be executed in current fiscal year.
Medical Hill Garage	Sale of surplus property would likely be executed for next fiscal year.
Coliseum Way @ 66 th Avenue	Sale of surplus property could be executed for current fiscal year.
Minor Assets Possibly Considered for Sale	
Former Engine House #14 3459 Champion Street	Sale of surplus property could be executed for next fiscal year.
Tunnel Road Property	Sale of surplus property could be executed for next fiscal year.
Grandview Lots (two lots)	Sale of surplus property could be executed for this fiscal year.
Former Engine House #20 1270 93 rd Avenue	Sale of surplus property could be executed for next fiscal year.
Miller Center 1449 Miller Avenue	Site could be sold for another suitable purpose.
Cancel City Out-Leases for Efficiency Purposes	
Employee Assistance Center (EAC)	Current lease at current site expires in November 2010.
Independent Assessment and Monitoring Team (OPD)	Lease has expired and rent is currently month-to-month.
5050 Coliseum Way, LLC/750 50 th Avenue	Real Estate and Public Works are meeting later in the month to determine suitable sites that may be used.
Underutilized City Owned Facilities That Could Be Better Used For Efficiency Purposes	
Eastmont Mall Police Substation – Jail section	On-Going
Hall of Justice	On-Going

DRAFT
Approves and Legality

OAKLAND CITY COUNCIL

City Attorney

RESOLUTION NO. _____ C.M.S.

RESOLUTION AMENDING THE CITY OF OAKLAND'S FY 2009-11 BIENNIAL BUDGET, WHICH WAS AMENDED PURSUANT TO RESOLUTION NO. 82235 C.M.S., TO APPROVE BALANCING MEASURES FOR THE ANTICIPATED FY 2009-10 GENERAL PURPOSE FUND SHORTFALL

WHEREAS, on June 30, 2009, in accordance with City Charter section 800, the City Council adopted the biennial policy budget by passing Resolution No. 82102 C.M.S.; and

WHEREAS, on July 28, 2009, the City Council approved amendments to the adopted budget in light of the actual grant award from the Office of Community Oriented Policing Services (COPS) which was lower than anticipated in the FY 2009-11 Adopted Budget; and

WHEREAS, local general tax revenues are anticipated to be generated lower than budgeted amounts and Police and other departments are anticipated to over-spend their appropriations in FY 2009-10 and FY 2010-11; and

WHEREAS, management has developed budget implementation measures in part using one-time revenues to address fiscal challenges totaling \$18.87 million in FY 2009-10 and \$25.44 million in FY 2010-11 in the General Purpose Fund;

WHEREAS, the City's financial policy codified in ordinance 12946 C.M.S. requires a Mayoral or City Council declaration of a fiscal emergency to use one-time revenues to address recurring expenses, now therefore be it

RESOLVED: That the FY 2009-10 projected General Purpose Fund shortfall of \$18.87 million creates a fiscal emergency for the City; and be it further

RESOLVED: That the City Council declares a fiscal emergency to use one-time revenues to balance the FY 2009-10 projected General Purpose Fund shortfall; and be it further

RESOLVED: That one-time revenues used to balance the FY 2009-10 General Purpose Fund projected deficit are restricted revenues to be used only for the purpose of budget balancing; and be it further

RESOLVED: That the City's Fiscal Year 2009-10 Amended Budget is hereby amended to include implementation measures reflected in **Exhibit A** included with and made a part of this resolution, subject to additional amendments that may be presented and adopted on the floor at the December 17, 2009 meeting, which amendments will be incorporated into Exhibit A; and be it further

RESOLVED: That the City Council directs the City Administrator to implement the
aforementioned with all deliberate speed.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2009

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID, and PRESIDENT
BRUNNER

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

EXHIBIT A
**Balancing Measures Addressing Projected FY 2009-10 General Purpose
Fund Deficit**

Proposed Balancing Measure	FY 2009-10 Savings	Descriptions
One-Time Funding:		\$5.1
Use unspent insurance proceeds from damage to City Hall sustained as a result of the 1989 Loma Prieta earthquake	3.2	Transfer remaining funds from CHW Insurance proceeds. Funds are from insurance settlements between insurance carriers and the City and are available in CHW Insurance Proceeds fund (5502) in pooled cash.
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Use savings from the Tax Revenue Anticipation Notes (TRAN)	1.0	Savings from the 2009-10 TRAN was due to the City issuing the TRAN at a premium, as a result of higher than market interest paid by the note.
Limited-Duration Funding:		\$3.4
Use of non-GPF fund balances for eligible appropriations	2.9	Transfer eligible expenses from GPF to: (1) Telecommunications Land Use Fund (1770); (2) OPRCA Self-Sustaining Fund and (3) Measure Q Library Fund (2240).
Departmental budget balancing	0.5	Anticipated balancing from citywide personnel services savings by keeping positions vacant.
TOTAL	\$8.5	