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Oakland, California

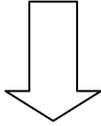
FISCAL YEAR 2009-11 ADOPTED BUDGET FOR THE CITY OF OAKLAND

Dear Mayor, City Council and residents of Oakland:

This letter transmits the City of Oakland's biennial Adopted Budget for Fiscal Years (FY) 2009-2011. This spending plan is likely the most precarious in the City's recent history. The unprecedented General Fund revenue shortfall is fueled by the weakened economy and housing crisis. The City Council adopted the budget on June 30, 2009, based on the Mayor's proposal submitted in May 2009. Jointly, Mayoral and Council actions bridged an \$83-\$85 million shortfall in the General Purpose Fund and balanced \$22-25 million in other funds. Further measures were approved by the Council on July 28, 2009 in close collaboration with the City Administrator and staff to balance an additional \$8-12 million annual gap in the General Purpose Fund. The FY 2009-2011 budget adoption and amendment sequence for the City's largest fund (General Purpose Fund, or GPF) is summarized on the following pages. As is the case for most governments nationwide, Oakland continues to make additional adjustments to its budget to offset continuing impacts of the economic crisis. This budget document, however, reflects efforts through July 2009.

Mayor's Proposed Budget – May 2009

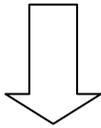
	<u>FY 2009-10</u>	<u>FY 2010-11</u>
Proposed GPF revenues	\$418.1 mill	\$420.2 mill
Proposed GPF expenditures	\$418.0 mill	\$419.7 mill
<i>Proposed GPF surplus</i>	<i>\$0.1 mill</i>	<i>\$0.5 mill</i>



Budget Adopted by City Council on June 30, 2009

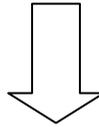
	<u>FY 2009-10</u>	<u>FY 2010-11</u>
Adopted GPF revenues	\$420.9 mill	\$423.5 mill
Adopted GPF expenditures	\$414.3 mill	\$416.9 mill
<i>Adopted GPF surplus</i>	<i>\$6.6 mill</i>	<i>\$6.6 mill</i>

(to account for expected shortfall in the requested COPS funds)



Factors Creating Additional Shortfall

	<u>FY 2009-10</u>	<u>FY 2010-11</u>
<i>COPS award:</i> The City applied for, and included in the Proposed Budget, the COPS federal grant to fund 140 officers. The City received funding for 41 officers (\$6.6 million annually), the largest award in the US, but less than the budgeted for 140 (\$18 million in FY 2009-10 and \$23 million in FY 2010-11).	-\$11.30 mill	-\$16.30 mill
<i>Surplus included in the amended budget to account for possibly lower COPS award:</i> Given the possibility of a less than budgeted for COPS award, the FY 2009-11 Adopted Budget included a surplus of \$6.6 million in the General Purpose Fund.	\$6.62 mill	\$6.61 mill
<i>Reductions to Police budget:</i> June 30, 2009 Council action requested implementation of cuts to Police budget totaling \$11.9 million in FY 09-10 and \$11.5 million in FY 10-11, mainly through union concessions. Actual savings from the negotiated union concessions are reflected below.	-\$11.92 mill	-\$11.52 mill
<i>Police sworn concessions:</i> Sworn police employee concessions, including salary freeze, contribution to retirement, and other measures.	\$8.50 mill	\$9.00 mill
<i>Net shortfall to address</i>	<i>-\$8.10 mill</i>	<i>-\$12.21 mill</i>



<i>Budget Amended by City Council on July 28, 2009</i>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
Amended GPF revenues	\$421.0 mill	\$426.9 mill
Amended GPF expenditures	\$421.0 mill	\$426.8 mill
<i>Amended GPF balance</i>	<i>\$0 mill</i>	<i>\$0.1 mill</i>

HIGHLIGHTS OF FISCAL YEAR 2009-2011 BUDGET

The current unprecedented state of the economy has had direct and significant impacts on the City's declining revenue base. The fiscal issues addressed in this budget were deep and widespread, touching virtually every government service that Oakland provides. The City had to address a \$91-97 million annual General Purpose Fund shortfall in FY 2009-11 (18-19 percent of the baseline budget). This was on top of the \$42 million budget gap balanced just in November 2008 and further adjustments made in May 2009 to avoid an \$8 million shortfall. As a result, the policy and management decisions required by this budget were among the most difficult ever faced by this city.

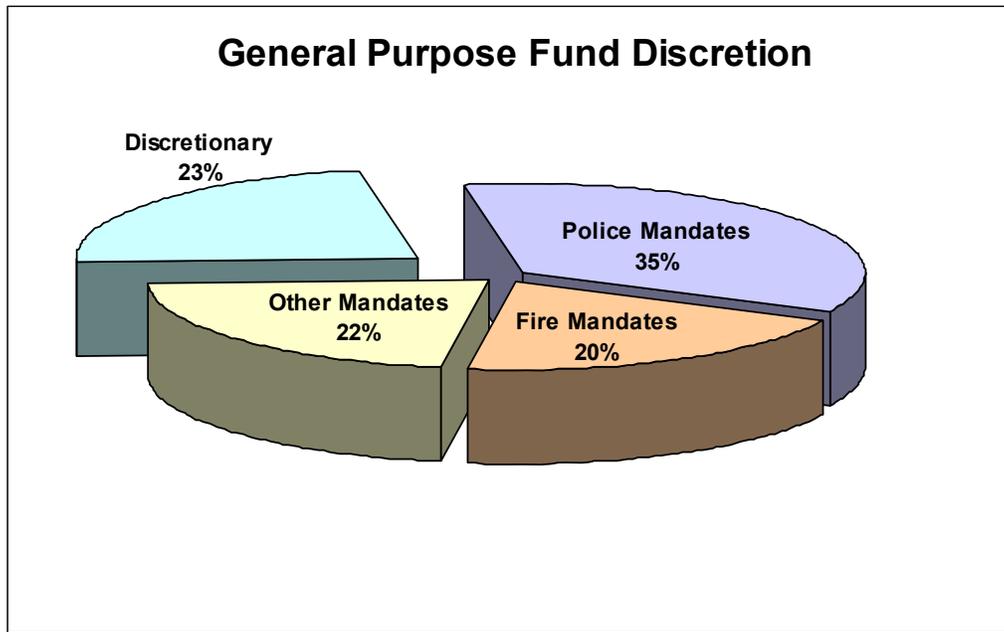
This budget reflects balancing measures of **\$91-97 million** in the General Purpose Fund and **\$34.2 million** across other funding sources. A total of **190 positions** were eliminated or frozen, resulting in 69 layoffs. These position cuts followed the elimination of 146 positions in November 2008, which resulted in 65.5 layoffs. Overall, the City's workforce has shrunk by 277 FTEs in the past two years, from 4,401 in FY 2007-08 to 4,124 in FY 2009-10.

A. GENERAL PURPOSE FUND (GPF)

The General Purpose Fund (GPF) is the largest City fund. It represents 41% of the City's total annual \$1 billion budget. Funds comprising the remainder of the City's budget are restricted for special purposes, such as grant programs, sewer services, bond-funded projects, capital projects, and debt payments.

GPF Challenges

Balancing the \$91-97 million shortfall in the General Purpose Fund was greatly complicated by the ***small discretionary portion*** of the GPF. The chart below illustrates that, of the \$497 million baseline GPF budget, only \$103 million (23 percent) was discretionary, but given the substantial revenue shortfall, the discretionary amount was substantially reduced.



The non-discretionary (“fixed”) portion of the GPF mainly pays for Police and Fire minimum staffing mandated by Measure Y; other federal and state mandates pertaining to public safety (such as reporting to the U.S. Department of Justice and FBI, record-keeping and training); local mandates imposed by Measures K/OO/D (Kids First!) and Q (Libraries); Debt Service obligations; grant match requirements; and cost-covered services.

In addition to limited discretion, **recent budget reductions** (implemented during the Midcycle budget adjustment in July 2008, mid-year budget review in October 2008, and second-quarter adjustment in March 2009) have greatly reduced our flexibility to cut further.

- In July 2008, the City balanced a \$15 million GPF gap.
- In October 2008, an additional \$42 million budget deficit was addressed, including \$37 million in the General Purpose Fund and \$5 million in the Landscaping and Lighting Assessment District Fund.
- In May 2009, measures were taken to avoid a year-end deficit of over \$8 million.

As a result of the numerous budget cuts in the past fiscal year, the City’s workforce has decreased considerably. In the beginning of FY 2007-08, the City had 4,401 FTEs, of which 2,605 were in the General Purpose Fund. After July 2008, October 2008, and March 2009 adjustments, the number of FTEs was reduced to 4,274 citywide, including 2,420 in the GPF. This translates into a 2.9 percent reduction in workforce citywide and 7.1 percent in the GPF.

Lastly, Oakland’s problems are exacerbated by the **very limited GPF reserve**, which in the beginning of FY 2009-10 was only \$9.8 million.

GPF Balancing Measures

Balancing measures for the General Purpose Fund in FY 2009-11 included **revenue increases of \$6.8 million** and **expenditure reductions of \$84.1 million, eliminating or freezing 53.8 positions** (Full-Time Equivalents) and resulting in **20 layoffs**.

❖ *Revenue Increases (\$6.8 million)*

Revenue increases include:

- **One-Time or Limited-Duration Revenues** (\$0.5 to \$3.2 million)

\$0.5 million in one-time revenues are anticipated from the Business Tax Amnesty Program. The budget also includes \$3.2 million in yet to be identified revenue enhancements in FY 2010-11; these are likely to be one-time or limited-duration in nature.

- **Ongoing Revenues** (\$6.3 million)

Raising the hourly parking meter fee citywide by 50 cents will result in **\$2.2 million** in additional annual revenue; increasing the off-street facility charges to match the new \$2.00/hour rate will generate another **\$0.3 million** annually. Extension of parking meter hours of operation to 8:00 pm was expected to generate **\$1.33 million** per year, but was later cancelled and replaced with other measures at the City Council's October 6, 2009 regular meeting. Annually, **\$0.5-0.8 million** is expected from the implementation of a vehicle "boot" program aimed at scofflaw traffic violators with five or more outstanding citations.

The recent amendment to the Oakland Municipal Code that makes property transfers from business consolidations, mergers and acquisitions subject to the City's Real Estate Transfer Tax will generate **\$0.55 million**. Another **\$0.30 million** in revenue is anticipated from the recently approved 18% Business Tax on Medical Cannabis sales.

Increased revenue of **\$1.12 million** is anticipated from increases in various parking citation charges and service charges in various departments (including Parks and Recreation and Contracting and Purchasing).

❖ *Expenditure Reductions (\$84.1 million)*

Reduction of GPF expenditures has been approved in the following categories.

- **Federal COPS Grant Funding for Police Officers**

The Federal COPS grant will fund 41 sworn police officers for three years, beginning with FY 2009-10. This shifts expenses previously funded by the GPF to this outside grant source, while maintaining the City's sworn police force at 803.

- **Edward Byrne Memorial Justice Assistance Grant (JAG) (\$1.6 million)**

Oakland has been awarded \$3.2 million (over two years) in formula grant funding. Funds are being used to maintain 4 FTEs in Research, Planning and Crime Analysis, \$0.6 million in overtime, and various operational expenses.

- Police Department's Management Reduction (\$8.8 - 9.9 million)

The Police Department's budget reflects expected savings mainly resulting from the Police Department's management of personnel services spending. In addition, OPD management expects savings from running smaller (and most likely lateral only) academies, necessary to maintain the minimum sworn staffing level of 803 officers.

- Anticipated "Golden Handshake" Savings (\$2.3 million)

The Council has approved offering the "Golden Handshake" retirement benefit to a total of 98 eligible employees in the City. Based on an expectation that most of the resulting vacancies will stay frozen, while some may be backfilled or underfilled, **\$2.3 million** in annual savings in GPF are anticipated in FY 2009-11. As of November 2009, expected actual savings will meet the budgeted projection for this item.

- Civilian Employee Concessions (\$7 million)

Included in expenditure reductions are civilian employee concessions of **\$7.0 million**. These mainly reflect savings from a 5% retirement contribution and 11 to 12 mandatory unpaid days off (in conjunction with City business shutdowns).

- Sworn Employee Concessions (\$14.6 million)

Concessions from the *Fire sworn union* total **\$6.1 million** annually and reflect a shift from a 52-hour to a 56-hour work schedule, waived FLSA "in lieu of Pay," and reassignment of staff from the Training to the Suppression division.

Police sworn employees contributed **\$8.5 million** in GPF savings in FY 2009-10 and \$9.0 million in FY 2010-11. Major concessions included the deferral of the 4% cost-of-living increase until 2013, move from an 84-hour to an 80-hour work schedule and elimination of 6 paid holidays.

- Reduction in Branch Library Hours (\$0.6 million)

Reduction in full- and part-time staffing as a result of reducing services from six to five days per week for all branch libraries is expected to save over \$0.6 million annually.

- Reductions in Supply and Material Purchases; Contractor Concessions (\$1.8 million)

\$1.3 million in savings is expected from cut-backs on supply purchases by all departments and programs. Another \$0.5 million in savings in FY 2009-10 and \$0.4 million in FY 2010-11 will come from the expected concessions of as much as 10% from various contractors and vendors.

Reductions in Grants and Subsidies (\$1.1 million)

Almost \$1.1 million in annual savings is expected due to a 20% reduction in subsidies to various organizations, a 60% reduction in financial support to the Oakland School for the Arts, a 10% reduction in art grants, and elimination of GPF support for special events and festivals.

▪ Savings Due to Additional Program Improvements or Adjustments (\$2.3 million)

A total of **\$2.3 million** in savings is expected from a variety of program improvements and adjustments in a number of departments. These operational changes reflect the following:

- \$0.7 million in operational savings in the City Administrator's Office, the City Attorney's Office, Museum, Library, Police Department, Public Works, and Community and Economic Development Agency.
- \$0.5 million in increased insurance recoveries due to aggressive implementation of vehicle accident and damages program by Risk Management.
- Nearly \$0.4 million in annual savings due to the elimination of the estimated 100 under-used City vehicles, and reduction in police take-home vehicles.
- Over \$0.4 million in annual savings due to pre-funding CalPERS retirement contributions for civilian employees.
- \$0.25-0.3 million annually will be saved by limiting the use of police helicopters for emergency response only.

▪ Reductions to Senior Programs (\$0.33 million)

\$0.18 million in savings is expected due to eliminating the Senior Shuttle and \$0.15 million for eliminating the Senior Set-Aside.

▪ Position Reductions (\$5.7 million)

A total of **53.78 FTEs** were eliminated or frozen in the General Purpose Fund, to save **\$5.7 million** annually. Departmental details can be found in the "Financial Summaries" section; highlights are provided below:

- In the Mayor's Office, 4.0 FTEs have been eliminated (3.5 FTEs in the GPF) to save \$0.5 million annually.
- In the City Administrator's Office, 7.0 FTEs were eliminated saving \$0.71 million annually.
- Three FTEs have been eliminated in the City Attorney's Office, saving \$0.71 million annually.
- In the Information Technology Department, 4.6 FTEs have been reduced to save \$0.42 million in FY 2009-10 and \$0.59 million in FY 2010-11.
- In the Finance and Management Agency, a total of 8.53 FTEs have been eliminated, saving \$1.06 million.
- Elimination of 11 FTEs in FY 2009-11 in the Human Resources Department will save \$0.91 million in each year.
- The Police Department eliminated 3.0 FTE and froze 2.0 FTE civilian positions, saving \$0.42 million each year.
- In the Fire Department, 2.0 civilian FTEs were eliminated and 4.0 civilian FTEs were frozen, saving \$0.46 million each year.

- The Library Department has eliminated 1.0 FTE and frozen 2.0 FTEs (3.0 FTEs frozen in FY 2010-11) from its GPF budget to save \$0.29 million in FY 2009-10 and \$0.36 million in FY 2010-11.
- The Office of Parks and Recreation has eliminated 0.75 FTE and frozen 1.0 FTE for savings of \$0.19 million.

▪ Other Personnel Reductions (\$5 million)

This budget also reflects reductions in hours and position downgrades for unrepresented and/or vacant positions, as well as other personnel reductions; these changes will provide an estimated **\$5 million** in savings, and include:

- Downgrade of 0.5 FTE in the Mayor's Office, saving \$0.12 million per year.
- Downgrade of 3.0 FTEs to 0.50 FTE each in the Department of Contracting and Purchasing, yielding annual savings of \$0.14 million.
- Downgrade an Accountant II to Account Clerk III, saving \$0.03 million.
- Reduce 2.0 FTE Human Resource Analysts to 2.0 FTE Human Resource Analysts, Assistants, saving nearly \$0.01 million annually
- Downgrade of 2.0 FTE Accountant IIIs to Account Clerk IIIs and one FTE Deputy Director of Police (non-sworn) to Agency Administrative Manager, saving \$0.05 million per year.
- In the Office of Parks and Recreation, nearly \$0.5 million of annual savings due to replacement of temporary part-time recreation center staff with permanent part-time employees, and reduction of hours from 40 hours to 37.5 hours per week.
- 10% compensation reduction budgeted for all elected officials' salaries (Mayor, City Council members, City Attorney and City Auditor) is anticipated to save \$0.1 million.
- Elimination of field-training officer pay for sworn officers in FY 2009-10 is expected to save \$0.9 million.
- Departments citywide are asked to maintain higher position vacancies: budgeted vacancy rates have been increased to 5% for large departments and 3.5% for small departments; this is anticipated to save \$2.7 million annually. Sworn personnel vacancies have been excluded. Personnel reductions of \$0.3 million were approved for the City Council and \$0.14 million for the City Auditor's Office.

▪ Non-Personnel Reductions (\$12.8 million)

Reductions in non-personnel expenses total **\$12.8 million**, and include:

- Approval by the voters of the compromise Kids First! measure placed on the July 21, 2009 special ballot. This measure reduced the annual funding transfer from GPF to the Kids First! fund from \$15 million to less than \$12 million, saving about \$3.8 million annually.

- \$1.8 million in cost avoidance by passing through to parking violators the \$10 State ticket surcharge.
 - \$1.7 million reduction in the transfer to the Equipment Fund due to cancellation of new vehicle purchases.
 - Over \$0.8 million in one-time savings will be generated in FY 2009-10 by shifting eligible projects to the Development Services Fund.
 - \$0.2 million in savings from reducing the City Administrator/City Council emergency contingency allocation.
 - Finally, an estimated \$9 million per year may be raised through the imposition of a ticket surcharge at the Coliseum and Arena events to recover City's costs to run the facilities. The delayed implementation of this new revenue (requiring a study and collaboration with Alameda County) would result in only \$4.5 million in this revenue collected in FY 2009-10. (Note: this revenue is booked as an expenditure offset to the City's \$11.3 to \$11.6 million expense obligation related to the Coliseum Complex.)
- One-Time or Limited-Duration Savings (\$4.7 million in year 1; \$1.9 million in year 2)
One-time or limited-duration savings included in this budget are summarized below.
 - Suspension of repayments to negative General Fund group funds will save \$3 million in FY 2009-10; repayments will resume in FY 2010-11.
 - Temporary freezing of security guard positions during the Museum closure (from August 2009 to April 2010) is anticipated to save \$0.30 million in FY 2009-10 only.
 - In addition, recoveries for City Treasury's investment services will provide \$0.7 million for FY 2009-10, and \$1.3 million for FY 2010-11.
 - A shift of a Head Start subsidy to the economic stimulus funding will save \$0.4 million.
 - Cancellation of a portion of prior year carryover budget in the City/County Collaboration on Children and Youth will save \$0.3 million in FY 2009-10.
 - Transfers Outside of GPF (\$5.1 million)
Transfers of **\$5.1 million** in annual costs to non-GPF sources include:
 - Transfer of 20.07 FTE in-house legal counsel to Self-Insurance Liability fund (\$3.5 million). Funding for in-house staff was included in the Phoenix model budget recently approved by the City Council;
 - Transfer of 2.01 FTE City Clerk positions to Oakland Redevelopment Agency fund (\$0.20 million);
 - Transfer of 1.0 FTE in Finance Management to Workforce Investment Act fund and 0.41 FTE to Oakland Redevelopment Agency Projects fund (\$0.24 million);
 - Transfer of 0.15 FTE in Human Resources to Employee Deferred Compensation fund (\$0.02 million); transfer of Army Base Winter Shelter funding from GPF to HUD Emergency Services Grant fund (\$0.1 million);

transfer of 0.18 FTE in Community & Economic Development to Oakland Redevelopment Agency Project fund (\$0.03 million); transfer of 0.07 FTE in ADA program to Measure B fund (\$0.02 million); transfer of 2.0 FTEs in Police to new False Alarm Program (\$0.21 million); transfer of Measure Q and Measure N audit costs to respective funds (\$0.07 million each); shift Studio One and Malonga Center costs to the Self-Sustaining Fund (\$0.04 million); transfer Community & Economic Development Committee Legislative Analyst in the City Council Office to Oakland Redevelopment Agency fund (\$0.15 million); and shift 0.5 FTE to City Stores fund (\$0.06 million).

- Transfer of the Library book budget to Measure Q and use of prior year carryforwards will save \$0.26 million.
- Transfer of the Hardy Park Restroom capital improvement project to the Capital Reserve fund (5510) to save \$0.21 million.

Organizational Restructuring

This budget includes the following organizational changes to make City government more efficient and responsive to constituents' needs.

- *Aligning closely related programs:* (i) The Oaklanders' Assistance Center has been moved to the City Administrator's Office, and will align with other neighborhood services. (ii) The Marketing Division has moved to the Community and Economic Development Agency (CEDA), to closely coordinate its activities with other marketing and special events functions.
- *Strengthening the City's human resources management function:* The City's human resources management function has become its own department.
- *Improving coordination and effectiveness of on-street and off-street parking:* Under the old structure, on-street parking was managed by the Parking Division of Finance and Management Agency, and off-street (garage) parking was under the umbrella of the Community and Economic Development Agency. This budget consolidated the management of on-street and off-street parking operations under the Parking Division. Improvements in garage operations, including planned automation of garage facilities, are underway.

Financial Policies

In addition to balancing measures, this budget contains a number of *financial policies*. (See "Financial Policies" and "Legislation" sections.) These policies are essential tools in returning the City to a healthy financial state, and ensuring responsible financial management of the City's resources.

- Establishing a baseline for the *Real Estate Transfer Tax* at \$40 million (an amount collected in a normal year), with any amount over the baseline used as follows: (a) replenishment of GPF reserves until such reserves reach 10% of current year budgeted GPF appropriations; and of the remainder: (b) 50% to repay negative Internal Service funds; (c) 30% set aside for the Police and Fire Retirement System

liability (PFRS) until this obligation is met; (d) 10% to establish an Other Post-Employment Retirement Benefits (OPEB) trust; and 10% to replenish the Capital Improvements Reserve Fund until such balance reaches \$10 million.

- Amending the policy on the use of *one-time revenues*, and requiring that any one-time discretionary revenue be used as follows: 50% to repay negative Internal Service fund balances, and another 50% to repay negatives in all other funds, unless legally restricted to other purposes.
- Amending the City's *reserve policy* to: (a) require an annual review and certification of the GPF reserve (net of any reservations, designations and obligations) by the City Administrator; and (b) limit project carryforwards in the GPF.

B. PARK MAINTENANCE FUNDS

Funds in this category include the Landscaping & Lighting Assessment District (LLAD, 2310) fund and the Comprehensive Cleanup Fund (1720). Collectively, the "Park Maintenance" funds pay for **74.77 FTEs** and other operating expenses at a cost of **\$8.8 million** annually. The following programs and functions are supported by these sources: Maintenance of Parks, Grounds & Medians, Ball fields, and Open Space; Custodial Services at Park Enterprise Facilities; Streetlight Outage Repairs; Tree Services; Community Gardens; and Maintenance of Free Standing Restrooms at Parks and Ball Fields.

Due to the limited and fixed level of revenues in the LLAD fund and slow revenue increases in other funds, the cumulative operating shortfall of **\$1.78 million** was projected for FY 2009-10 and **\$1.99 million** for FY 2010-11. Balancing of the above shortfalls required transfers of expenses to other sources. The City Council's budget amendments moved **14.5 FTEs** (four tree and three gardener crews costing **\$1.2 million**) from the Landscaping and Lighting Assessment District (LLAD) Fund to the General Purpose Fund, maintaining the level of park maintenance services.

C. TRAFFIC & TRANSPORTATION FUNDS

The only funds in this category with immediate fiscal issues are the Multipurpose Reserve Fund (1750) and State Gas Tax (2230).

Multipurpose Reserve Fund

Historically, revenues from the city's parking garages fully supported various transportation planning and traffic capital project activities. However, in recent years, due to downtown redevelopment and the Telegraph Plaza garage sale, the fund's revenue has been greatly reduced and a negative fund balance has developed.

To balance this fund, parking garage rate increases as high as 50% were approved, to bring the City's garage rates on par with comparable private parking facilities. These increases are expected to raise existing revenue by 24%, or \$1.15 million annually. On the expenditure side, 3.5 FTEs were transferred to the Design and Construction's

overhead fund to save \$0.41 million, one part-time FTE was eliminated, and contract appropriations were reduced by \$0.18 million.

State Gas Tax Fund

The City's State Gas Tax portion is fixed at \$0.18 per gallon, and is provided to the City based on a state funding model. In FY 2008-09, actual gas tax revenues were \$6.3 million, although \$8.2 million was assumed in that budget. In FY 2009-11, \$7.2 million is anticipated. At the same time, road and sidewalk improvements continue to be a priority, and spending is expected to exceed the available revenue.

To balance this fund, 13.68 positions were cut in Public Works and Community and Economic Development to save \$1.4 million. The impact will be a reduction in curb repainting, heavy paving and pothole repairs.

D. FUNDS WITH HISTORICAL NEGATIVES

The City has had a number of funds with negative balances. This is a significant problem, as these negatives continuously "borrow" from the City's cash pool, which has decreased dramatically over the past eighteen months and unless eliminated, will become a financial obligation of the General Purpose Fund.

Funds with negative balances have been discussed on multiple occasions in the past few years, beginning in FY 2005-07. Repayment plans for some funds were established in FY 2005-07; additional negatives were addressed in October 2008. Also in October 2008, each city fund, negative or not, was assigned to one of the City departments to monitor financials. The review of negative funds in particular now takes place on an ongoing basis. Further, the City's newly adopted financial policy (Ordinance 12946 C.M.S. included in the Financial Policies and Legislation sections of this document) requires that excess Real Estate Transfer Tax and one-time revenues be used to repay negative fund balances, as they come available unless legally restricted to other purposes.

Selected General Funds on existing repayment schedules

Funds in this category include Self-Insurance Liability (1100), Kaiser Convention Center (1730), Telecommunications (1760), and Contract Compliance (1790). As of June 2009, these funds had a collective negative balance of \$31.5 million (pre-audit figures).

All of these funds have been on repayment schedules since FY 2005-07, and generally, repayment schedules have been followed. However, for these funds, the first year of the FY 2009-11 budget reflects a one-time delay in the repayments amounting to \$3 million. Detailed repayment schedules are reflected in the "Financial Summaries" and "Non-Departmental" sections of this budget.

Internal Service Funds (ISF)

Funds in this category include Equipment Fund (4100), Radio Fund (4200), Facilities Fund (4400), Central Stores (4500) and Purchasing Fund (4550). As of June 2009, these funds had a collective negative cash balance of \$54.1 million (pre-audit figures).

Reductions were made in the Facilities Fund in FY 2009-11, eliminating or transferring 16.7 positions to save \$1.7 million annually. Adjustments were also made in the Equipment and Radio funds, to finance \$0.4 million in fleet replacement for the Police Department and \$1.2 million in annual radio and telecommunications replacement Citywide.

Repayment schedules and cost reductions for two of the ISF funds (Equipment and Facilities) were approved in FY 2005-07. For FY 2009-11, these repayments will generally continue. The City's newly adopted financial policy (Ordinance 12946 C.M.S. included in the Financial Policies and Legislation sections of this document) requires that 50% of any one-time discretionary revenue be used to pay off negative Internal Service Funds, unless legally restricted to other purposes.

Funds not immediately requiring one-time revenues

Funds in this category include Mandatory Garbage (1700), Comprehensive Clean-Up (1720), Multipurpose Reserve (1750), and CEDA/PWA Overhead Clearing (7760). As of June 2009, these funds had a collective negative balance of \$16.6 million (pre-audit figures).

Measures to address the long-standing negatives have been identified for many of these funds, as follows:

- *Mandatory Garbage* (\$9.4 million in pre-audit negative balance as of June 2009): Recovery rates were increased to begin addressing the negative.
- *Multi-Purpose Reserve* (\$3.9 million in pre-audit negative balance as of June 2009): As discussed above, garage parking rate increases, positions transfers to another fund, and cuts to staffing and operations were implemented to balance this fund. In addition, efforts are underway to automate City garages, thereby reducing ongoing expenses and increasing revenues.
- *Grant Clearing* (\$2.1 million in pre-audit negative balance as of June 2009): Reductions were made in Administration, Electrical Services and Small Project Design Group. In addition, eligible positions were moved to the Measure B fund (2211). Additional steps will be required to fully reduce the negative balance, and further budget adjustments will be presented during the FY 2010-11 Midcycle budget review.

Funds that require one-time revenues to eliminate negative balances

Funds in this category include Underground District Revolving (1600), Municipal Capital Improvement (5500), Miscellaneous Capital Projects (5999), California Waste Solutions (7400), Museum Preservation Trust (7660), and Rehabilitation Trust (7752). As of June 2009, these funds had a collective negative balance of \$12 million (pre-audit figures).

In general, the identified negative fund balances are a result of operating gaps going back several years. In some cases, such gaps were caused by charging expenses to funding sources that could not sustain them. In many other cases, ongoing expenditures simply exceeded ongoing revenues, and steps had not been taken to either cut costs or increase revenues. Elimination of negatives in these funds would require one-time

revenues (through land sales, refunding, unanticipated revenue surges, etc.). The City's newly adopted financial policy (Ordinance 12946 C.M.S.; included in the Financial Policies and Legislation sections of this document) requires that 50% of any one-time discretionary revenue be used to pay off negatives in these other funds, unless legally restricted to other purposes.

Grant funds

Funds in this category are reflected in the following table:

Grant Funds with Negative Balances as of June 30, 2009*			
Fund #	Fund Name	Fund #	Fund Name
2061	2006 FEMA: 1628 Winter Storms	2158	5th Year State COPS Grant, AB 1913 Statutes of 2000
2062	2006 FEMA: 1646 Spring Storm	2162	Metro Transportation Com: TDA
2081	2008 Winter Storm	2163	Metro Transportation Com: Program Grant
2102	Department of Agriculture	2164	Congestion Mitigation & Air Quality
2103	HUD-ESG/SHP/HOPWA	2185	Oakland Redevelopment Agency Grants
2105	HUD-EDI Grants	2190	Private Grants
2106	Department of Defense	2213	Measure B: Paratransit - ACTIA
2108	HUD-CDBG	2214	ACTIA Reimbursable Grants
2112	Department of Justice	2230	State Gas Tax
2114	Department of Labor	2310	Landscaping and Lighting Assessment District
2118	National Foundation of the Arts and Humanities	2400	Senior Citizens Bonds
2120	Federal Action Agency	2511	Local Law Enforce Block Grant of 2001
2123	U.S. Department of Homeland Security	2513	Local Law Enforce Block Grant of 2003
2124	Federal Emergency Management	2602	Department of Labor (ARRA)
2126	Department of Education	2810	Rehabilitation Trust Loans
2128	Department of Health & Human Services	2820	Community Development Rehabi
2134	California Parks and Recreat	2822	Title I Loans: Revolving
2141	State Traffice Congestion Relief - Proposition 42	2824	FHA 203k Loan: Revolving
2144	California Housing and Commu	2916	Vice Crimes Protection - Cou
2148	California Library Services	2990	Public Works Grants
2152	California Board of Corrections	2992	Parks and Recreation Grants
2154	California Integrated Waste Management Board		

**Based on pre-audit actual revenues and expenditures.*

As of June 2009, these funds had a collective negative balance of \$30.1 million (pre-audit figures). In many cases, negatives in these funds will be offset once grant reimbursements are received. There may be exceptions, however, where reimbursements would be insufficient to cover the negative balances, due to disallowed costs. The City's departments that receive and use grant funds, under the guidance of the Finance Department, are continuing to seek reimbursements from grantors on a timely basis.

E. CAPITAL IMPROVEMENT PROJECTS (CIP)

Details of the FY 2009-11 CIP budget are contained in the "Capital Improvement Projects" section of the FY 2009-11 budget document. Summaries by funding source and category are provided on the following page.

**CAPITAL IMPROVEMENT PROGRAM FY 2009-11
BY FUNDING SOURCE**

Source	FY 2009-10 Amended Budget	FY 2010-11 Amended Budget	FY 2009-11 Total Budget
City			
1010 - General Fund: General Purpose	\$406,840	\$420,490	\$827,330
2140 - California Department of Transportation	5,350,000	4,000,000	9,350,000
2141 - State Traffic Congestion Relief - Proposition 42	2,065,440	2,268,300	4,333,740
2163 - Metro Transportation Com: Program Grant	5,968,000	-	5,968,000
2165 - Prop 1B Nov 2006 CA Trans Bond	-	6,176,850	6,176,850
2211 - Measure B: ACTIA	5,775,020	6,200,020	11,975,040
2212 - Measure B: Bicycle/Pedestrian Pass-Thru Funds	1,000,000	1,000,000	2,000,000
2260 - Measure WW: East Bay Regional Parks District Local Grant	19,204,460	-	19,204,460
3100 - Sewer Service Fund	6,947,000	7,120,000	14,067,000
5200 - JPFA Capital Projects: Series 2005	1,157,000	1,040,000	2,197,000
5320 - Measure DD: 2003A Clean Water, Safe Parks & Open Space Trust Fund for Oakland	300,000	850,000	1,150,000
5501 - Municipal Capital Improvement: 1989 LGFA Refunding	666,590	611,580	1,278,170
5510 - Capital Reserves	1,633,550	1,000,000	2,633,550
7780 - Oakland Redevelopment Agency Projects (ORA)	316,050	316,050	632,100
Subtotal City	\$50,789,950	\$31,003,290	\$81,793,240
Oakland Redevelopment Agency			
9450 - Coliseum: Operations	\$200,000	\$200,000	\$400,000
9451 - Coliseum: Capital	2,841,100	1,127,120	3,968,220
9455 - Coliseum Area: Tax Allocation Bonds Series 2006B-TE(Tax Exempt)	361,000	-	361,000
9456 - Coliseum Area: Tax Allocation Bond Series 2006B-T(Taxable)	2,000,000	1,065,000	3,065,000
9504 - 1986 Bonds	1,690	1,710	3,400
9510 - Central District: Operations	1,395,970	1,401,980	2,797,950
9513 - City Center: Garage West Subsidy	2,062,500	2,151,000	4,213,500
9515 - Chinatown: Parking Lot	1,120,000	230,000	1,350,000
9516 - 1989 Bonds	3,000,000	-	3,000,000
9522 - Multi Service Center / Rent - County	98,110	98,110	196,220
9526 - Liability / Contingency / Finance	158,500	-	158,500
9527 - 10% School Set Aside / Coliseum	760	760	1,520
9529 - Broadway / MacArthur / San Pablo: Operations	101,600	101,620	203,220
9532 - Central District: TA Bond Series 2003	3,070,000	-	3,070,000
9536 - Central District Tax Allocation Bond Series 2009T (Taxable)	10,500,000	-	10,500,000
9540 - Central City East: Operations	307,770	507,890	815,660
9553 - Unrestricted Land Sales Proceeds	4,762,630	3,520,800	8,283,430
9570 - OBRA: Operations	200,000	200,000	400,000
Subtotal ORA	\$32,181,630	\$10,605,990	\$42,787,620
TOTAL *	\$82,655,530	\$41,293,230	\$123,948,760

* A total of \$316,050 is budgeted in both the City's ORA Projects Fund (7780) and in various Oakland Redevelopment Agency funds. Although both sections present this allocation, the annual totals do not double count this allocation.

**CAPITAL IMPROVEMENT PROGRAM FY 2009-11
SUMMARY BY CATEGORY***

Category	FY 2009-10 Amended Budget	FY 2010-11 Amended Budget	FY 2009-11 Total Budget
Buildings & Facilities	\$25,874,870	\$8,653,870	\$34,528,740
Miscellaneous	1,785,290	1,730,490	3,515,780
Parks & Open Space	21,381,760	850,000	22,231,760
Sewers & Storm Drains	6,947,000	7,120,000	14,067,000
Streets & Sidewalks	14,213,440	12,375,150	26,588,590
Technology Enhancements	3,331,620	2,943,700	6,275,320
Traffic Improvements	9,121,550	7,620,020	16,741,570
TOTAL	\$82,655,530	\$41,293,230	\$123,948,760

*Figures reflect City and Oakland Redevelopment Agency Appropriations.

The City has almost no discretionary capital funds, and our capital needs far exceed the diminishing resources that are in place. (For example, the FY 2009-11 Capital Improvement budget identifies \$545 million in unfunded projects.) The little discretionary funding that is available for CIP projects is mainly in the **Capital Reserve Fund (5510)**. Council Ordinance No. 12946 C.M.S. mandates a \$6 million reserve level for this fund, and the City Council can appropriate this funding for capital expenses. As of June 2009, there was \$8.1 million in this fund, with \$3.2 million set aside for previously approved projects (such as Council Pay-Go, Arroyo Viejo Recreation Center, ADA Accommodations, Sidewalk Repairs, MLK Renovations, Shepherd Canyon Storm Drain Repairs, and Chinese Garden Improvements). This left \$4.6 million available for appropriation during FY 2009-11.

The CIP budget includes a total of \$2.6 million in projects for this fund during FY 2009-11, as summarized below:

**CAPITAL IMPROVEMENT PROJECTS
CAITAL RESERVE FUND (5510)**

Projects	FY 2009-10 Amended Budget	FY 2010-11 Amended Budget	FY 2009-11 Total Budget
Hardy Park Restroom	\$207,300	\$0	\$207,300
Citywide Roof Repairs	350,000	-	350,000
IPSS Support and Maintenance	1,076,250	1,000,000	2,076,250
TOTAL	\$1,633,550	\$1,000,000	\$2,633,550

F. OAKLAND REDEVELOPMENT AGENCY (ORA)

Given the City’s weakened property values, the ORA’s overall *tax increment revenue* is anticipated to increase by approximately 2.3 percent per year in FY 2009-11. The estimated revenue changes vary by redevelopment area, and range from flat growth in the Acorn Project Area to a 4.3% increase in the Coliseum Project Area.

ORA *expenditures* continue to be driven by personnel costs. Overall, of the \$70 million operating budget net of pass-through and debt service, personnel expenses account for 40.4 percent. The remaining funds are used for neighborhood programs and projects.

Highlights of the ORA budget are summarized below. Details are contained in a separate ORA Adopted Budget document.

- **Education Revenue Augmentation Fund (ERAF)**

In FY 2008-09, the Agency set aside \$8.4 million for a State-mandated contribution to the Educational Revenue Augmentation Fund (ERAF). A subsequent court decision declared the State’s taking of these funds from redevelopment agencies illegal, and the ORA has kept this funding as a result. The State’s FY 2009-10 budget contains a provision for a similar revenue diversion from redevelopment agencies, resulting in an estimated \$41 million impact on the ORA in that year. The State’s decision to take this money became final after the ORA’s budget was adopted. The California Redevelopment Association has filed a lawsuit challenging

the constitutionality of the State taking these funds; nonetheless the ORA took action on October 6, 2009 to set-aside these funds in the event this challenge fails.

- **Loan Guarantee Program**

The Agency is finalizing plans to initiate a loan guarantee program, under which Agency funds would be used to provide gap financing to private developers of small and medium-sized projects.

- **Suspension of Coliseum Set-Aside**

The Agency's FY 2009-11 budget contains a temporary, two-year suspension of the Coliseum School set-aside. The set aside is a 10% annual contribution of Coliseum's net tax increment revenue, earmarked for the development of school facilities in the Coliseum project area. The set aside was initiated by the City Council in 1997. A large reserve of previously accumulated and unspent funds is now in place, prompting the suspension.

- **Capital Projects**

In the Central District project area, efforts are largely focusing on the completion of and/or the modification of business terms for the existing City Walk and Forest City projects. In the Coliseum project area, proceeds from the Tax Allocation Bonds issued in 2006 are being directed towards a number of projects, most notably the Coliseum and Fruitvale transit villages.

ACKNOWLEDGEMENTS

This budget document is the outcome of a team effort by City staff. I praise their hard work and diligent efforts.



Dan Lindheim
City Administrator