



City of Oakland

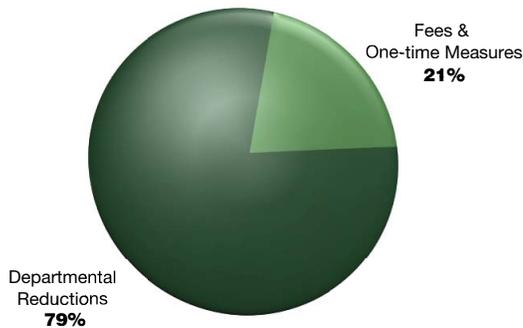
BUDGET FACTS

Mayor Jean Quan's Proposed Policy Budget for FY 2011-13

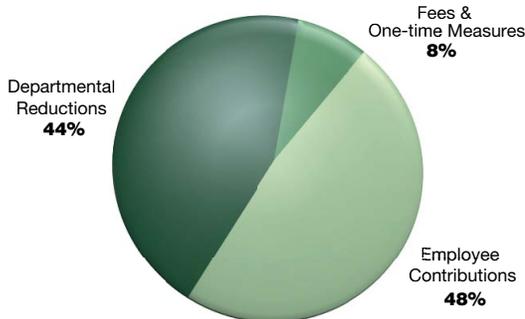
FIGURE 1

Three Proposed Budgets

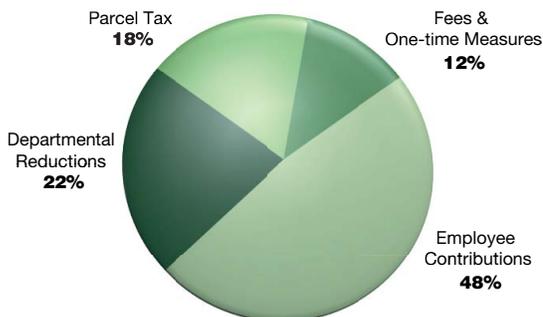
Budget Scenario A All Cuts



Budget Scenario B Cuts & Employee Contributions



Budget Scenario C Cuts, Employee Contributions & New Revenues



Note: None of these scenarios includes the still-looming state and federal cuts.

Dear Oaklander,

Oakland's long-term forecast is positive; yet like the State of California and many other governments nationwide, we continue to reel from the effects of the worst financial crisis since the Great Depression. We must take action to balance and address structural deficits in the budget so that Oakland will be well positioned when the economy rebounds.

The projected deficit for FY2011-13 is \$58 million, despite cutting more than \$170 million in shortfalls over the last few years.

Closing this gap will affect virtually every service the City provides. These proposed budgets reflect the administration's steadfast commitment to putting Oakland on long term, stable financial ground. We have faced painful decisions in balancing the FY 2011-13 budget, but we have focused on preserving core government services like public safety, infrastructure investment and protecting our social safety net at a time when it's needed most.

Given the magnitude of the financial challenges, all budget-balancing strategies are on the table. The size of the projected deficit necessitates shared sacrifices:

- Reduce staff
- Find new revenues
- Restructure City departments
- Prioritize services and eliminate programs
- Seek additional contributions from employees
- Creatively collaborate with local, county, state and federal governments and the private sector

Please join us at the upcoming hearings on the budget.

Mayor Jean Quan

Only Three Ways to Balance the Budget

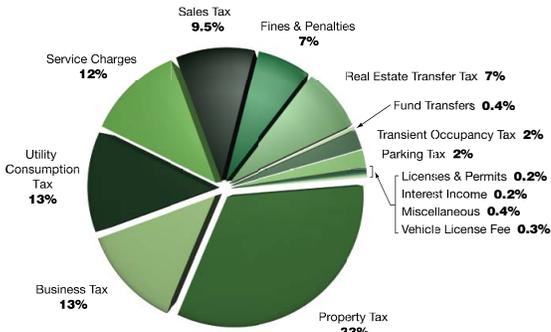
There are only three ways to balance the budget: cut non-mandated expenses, raise revenues or use some combination of the two. The proposed FY2011-13 budget presents three budget scenarios under separate sets of assumptions to close the \$58 million gap as shown in **Figure 1**.

- **Budget Scenario A** proposes an all-cuts budget based on current conditions.
- **Budget Scenario B** proposes that City employees help offset the cuts by making additional contributions such as continuing furloughs and increasing pension contributions.
- **Budget Scenario C** assumes that the Council follows through with a parcel tax vote and that voters pass it, rolling back some of the cuts proposed in Budget Scenario A.



FIGURE 2

Sources of General Purpose Fund Revenue



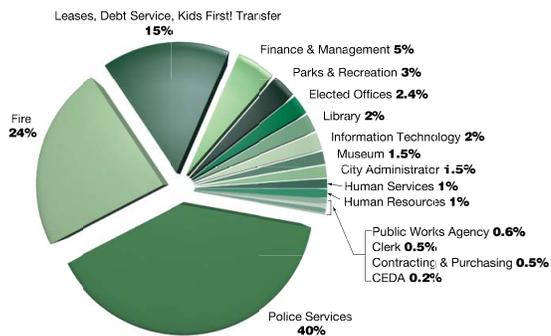
How Much is the City's Budget?

The City's annual budget across all funds is just under \$1 billion. About 58 percent of those funds are restricted for specific purposes such as streets, housing development, sewer maintenance and bond-funded programs such as the Measure DD improvements at Lake Merritt. Restricted funds come from grants, fees, bonds or revenues that are collected for a specific purpose.

The remaining 42 percent of the City's total budget is the General Fund; this is where the \$58 million deficit is. The General Fund pays for basic programs and services such as police and fire protection, libraries, senior centers and recreation programs, as well as elected offices. **Figure 2** shows the sources of revenue to the General Fund. The largest source of revenue to the General Fund comes from property tax.

FIGURE 3

General Purpose Fund Budget By Department



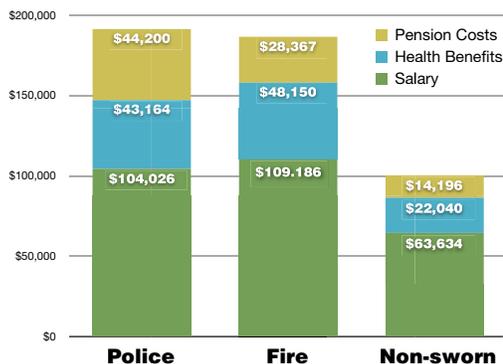
What Does the General Fund Pay For?

The General Fund, shown in **Figure 3**, pays for:

- Police and fire services (nearly two-thirds of the total);
- Programs and services such as parks and recreation, libraries, senior centers, homeless programs, community and economic development and the Oakland Museum of California;
- Most of the City's business functions such as purchasing, information technology, human resources, contracting and finance;
- The City's Charter offices such as the Mayor, City Council, City Administrator, City Attorney and City Auditor; and
- Citywide obligations such as leases and debt service.

FIGURE 4

Average Personnel Costs



As shown in **Figure 4**, one of the reasons that the public safety budget is such a large proportion of the General Fund is that the cost per public safety employee is nearly double that of the average non-sworn employee.

How Much of My Taxes Go to the City?

When you pay sales tax or property tax, only a small percentage comes back to the City to fund local programs and services (see **Figure 5**). For example, when you pay 9.75 percent in sales tax on purchases, less than one percent comes back to the City. For every dollar you pay in property tax, the City receives less than 26 cents; the rest goes to other local government agencies and to the state to fund public education.



How Much is the Projected Deficit?

If the City were to maintain the current level of services in the next two fiscal years, based on existing revenue estimates, we would have a shortfall of \$58 million next year and \$76 million in FY 2012-13, as shown in **Figure 6**.

Why is the Deficit So High?

Still Reeling from Widespread Impacts of the Great Recession

The global financial crisis sparked by the nationwide real estate crash has had a staggering domino effect on national, state and local economies: housing values have declined, unemployment rates have soared and economic development has diminished. As a result:

- Median home values nationwide have plunged 42 percent since July 2007.
- Within the last year, the property assessments (taxes) for Alameda County went down for the first time in more than 50 years. Oakland lost \$28 million in property taxes.
- Many Oakland neighborhoods have the highest rates of foreclosure or bank-owned property in the Bay Area. There are more than 3,000 foreclosed or distressed properties in the city.
- The unemployment rate in Oakland remains at an unacceptably high, sustained level of nearly 17 percent, compared to the statewide rate of 12 percent, which is projected to remain high at about 11 percent in 2012.

Economists predict that recovery from this recession will be long and slow. Relatively weak national economic growth means that the job market in California and Oakland will rebound very gradually. Not only do persistently high unemployment rates and slow economic growth affect state and local revenues, they also increase the need for social supports and place added demands on vital public services.

Local Impact: Steep Revenue Declines

Although Oakland has significantly decreased spending over the past three years, the City's revenues have taken a nosedive. Over the past six years, general fund revenues have plummeted from an actual high of \$511 million in FY 2005-06 to a projected \$383 million for FY 2011-12, representing a \$128 million drop, or 25 percent, as shown in **Figure 7**.

The greatest portion of the drop in the general fund comes from declines in property, sales and real estate transfer taxes due to the housing meltdown. As shown in **Figure 8**, revenue from real estate transfer tax dropped by 65 percent, from nearly \$80 million in FY 2005-06 to about \$28 million in FY 2011-12.

FIGURE 5

How Much of My Tax Dollars Does the City Get?



FIGURE 6

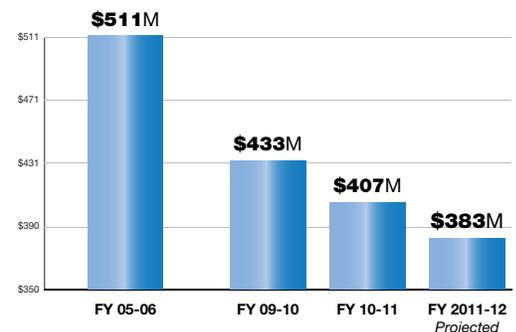
General Purpose Fund (GPF) Deficit

Proposed FY 2011-12 and FY 2012-13 Budget

	FY 2011-12	FY 2012-13
Expense	\$441M	\$460M
Revenue	\$383M	\$384M
GPF Deficit*	- \$58M	- \$76M

FIGURE 7

General Fund Revenues Have Plummeted





Over the past six years, general fund revenues have plummeted from an actual high of \$511 million in FY 2005-06 to a projected \$383 million for FY 2011-12, representing a \$128 million drop, or 25 percent.

FIGURE 8

Steep Decline in Real Estate Transfer Tax Revenue

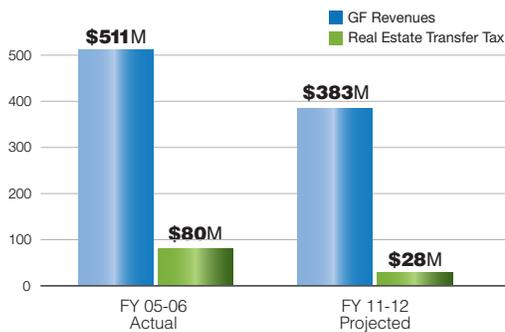
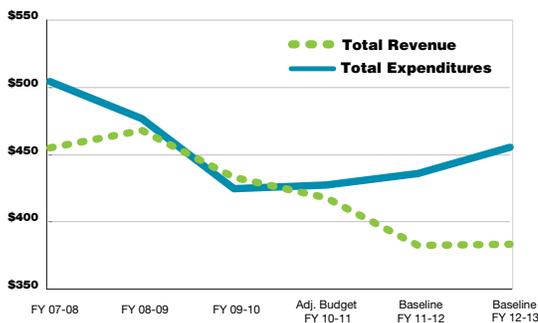


FIGURE 9

Failure to Act Would Result in Deficits



* FY 07-10 are actual expenditures

In addition to housing-related revenues, the City is projecting flat or slight decreases in revenues in all other categories, such as business tax, sales tax and transient occupancy (hotel) tax.

Increasing Expenses

As Oakland has grappled with declining revenues, City leadership has responded by making \$170 million in cuts over the past few years. Despite these efforts, costs continue to rise in three key categories: salaries, pension costs and Internal Service Funds.

The proposed FY 2011-13 budget projects an increase in expenditures based on these assumptions:

- City employees agreed to 12 business closures per year in the previous two years, saving the General Fund about \$3.5 million per year. These savings cannot be carried forward until agreements have been finalized regarding labor contracts that expire on June 30, 2011.
- No cost of living increases for City employees.
- Pension rates and health care costs are projected to increase.

The Challenge: Expenses Projected to Eclipse Revenues

As shown in **Figure 9**, despite cost-cutting efforts, if expenses are not significantly and structurally reduced, rising expenses will continue to eclipse flat revenues.

Looking ahead, the City's financial analysts are reviewing economic trends to place current budget decisions in the context of a longer-range planning horizon. Their analysis reveals that without significant intervention now, the City's deficit will balloon to more than \$100 million in the next four years. This assessment reinforces the urgency and necessity for comprehensive and strategic budget reform as proposed in this two-year budget.

Can't the City Just Tighten its Belt Instead of Cutting Critical Services?

Over the past three years, as revenues collapsed, the City has not only tightened its belt, we have significantly curtailed spending, slashed programs, abolished maintenance crews and reorganized departments to enhance efficiency.



Examples of how the City has closed more than \$170 million in shortfalls since July 2008:

- Eliminated 528 jobs across all funds
- Laid off 269 workers, including police officers
- Closed City offices 12 days per year through furloughs
- Cut nearly \$3 million in funding to more than 11 local service providers
- Closed branch libraries one day per week
- Eliminated more than 200 cars in the City fleet
- Implemented travel restrictions
- Initiated a hiring freeze
- Reduced pay and benefits by 10 percent for most City employees

What are the Constraints on General Fund Spending?

Balancing the projected \$58 million shortfall in the General Fund is complicated by the fact that outside of public safety and mandated services, only a small portion of the expenditures is discretionary. As shown in **Figure 10**, of the \$441 million in General Fund costs:

- Nearly three-quarters goes to pay for police, fire and debt service.
- Another seven percent is dedicated to several voter-approved ballot measures such as Measure Q (libraries) and Measure K/OO/D (Kids First!). These measures generate revenue, but they also require baseline spending levels, so the funds can't be cut without jeopardizing the revenue they generate.
- About five percent of the General Fund budget pays for revenue-generating staff and essential services to keep the City running (i.e., paying invoices, payroll, grants management and oversight, technology infrastructure).

After accounting for these constraints, only \$72 million or about 16 percent remains to pay for all other General Fund programs, including senior centers, Head Start, tree maintenance, equal opportunity programs and recreation centers.

If the City were to maintain public safety at current levels and fund current operations using only available revenues, the \$58 million deficit would consume 80 percent of the remaining funds, as shown in **Figure 11**. In other words, **we would have to eliminate 80 percent of the remaining staff and services to close the budget deficit using cuts alone.**

Even as we tackle the challenges of today, we are laying the groundwork for long-term reform that will put Oakland on more stable financial ground for years to come. We are developing a five-year financial plan to help City government confront emerging financial challenges.

FIGURE 10

General Fund Budget Constraints

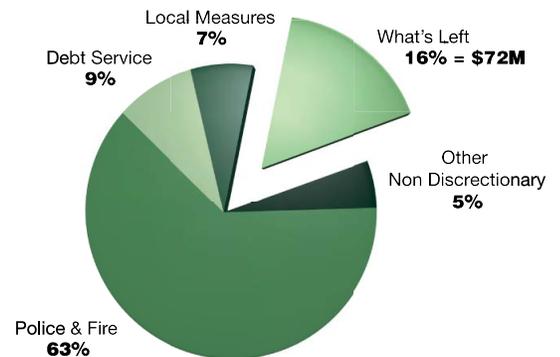


FIGURE 11

What's Left Isn't Enough

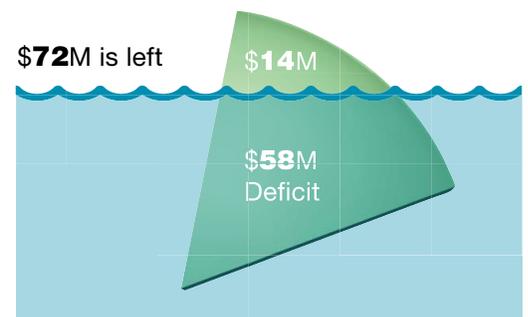




FIGURE 12

Unknown Federal & State Cuts Impact Oakland's Budget



In addition to the City's staggering deficit, Oakland is also facing severe program cuts and revenue losses due to potential federal and state budget cuts, as shown in **Figure 12**. This is happening just as the City is in its greatest need of providing job creation and services for our residents. The magnitude of what is being considered by the state and federal governments and the unknown likelihood of what will be adopted has added immeasurably to the complexity of the planning and budgeting process for FY 2011-13.

Get Involved in the Decision-Making Process

By City Charter, the City Council must pass a balanced budget by June 30, 2011. There are a number of ways you can make your voice heard about the budget-balancing choices being considered.

Guiding Budget Principles

The following principles guided the Administration's decision-making in developing this proposed two-year budget:

- Achieve a long-term, structurally balanced budget through efficiencies, permanent reductions to the expenditure base and/or revenue enhancements. Minimize reliance on reserves or the use of one-time revenues for ongoing expenditures.
- Give highest priority to protecting the most essential City services.
- Minimize the negative impact on Oakland residents, businesses and employees.
- Help strengthen the City's position in the financial and capital markets.
- Develop a long-term plan to address negative fund balances.
- Maintain an open and transparent process for City employees and the public.
- Public involvement shall be encouraged in the budget decision-making process through public hearings, public outreach and information.
- General Fund revenues shall not be earmarked for any particular purpose, unless required by law or generally accepted accounting principles (GAAP).
- All Enterprise Funds shall be fully self-supporting from revenues generated by rates, fees and charges.

City Council Budget Hearings

- Thursday, May 5, 5:30 pm**
Oakland City Hall, City Council Chambers
Mayor Quan and City Administrator Lamont Ewell present proposed budget
- Thursday, May 12, 5:30 pm** Oakland City Hall, City Council Chambers
- Thursday, May 26, 5:30 pm** Oakland City Hall, City Council Chambers
- Tentative: Tuesday, May 31, 5:30pm** Oakland City Hall, City Council Chambers

Community Budget Forums

- Council Districts 2, 4 & 5**
- Monday, May 23, 6 pm** Fruitvale Elementary School

Dates, times and locations for remaining meetings to be determined. **Check www.oaklandnet.com for updates.**

City Council Meetings

- Tuesday, June 7, 5:30 pm** 1st reading of budget
- Tuesday, June 21, 5:30 pm** 2nd reading and anticipated final passage of budget

Join us, or send your ideas to: budgetsuggestions@oaklandnet.com

You can also direct your ideas or concerns about the proposed budget to your City Councilmember:

District 1	Jane Brunner	(510) 238-7001	JBrunner@oaklandnet.com
District 2	Pat Kernighan	(510) 238-7002	PKernighan@oaklandnet.com
District 3	Nancy Nadel	(510) 238-7003	NNadel@oaklandnet.com
District 4	Libby Schaaf	(510) 238-7004	LSchaaf@oaklandnet.com
District 5	Ignacio De La Fuente	(510) 238-7005	Delafuente@oaklandnet.com
District 6	Desley Brooks	(510) 238-7006	DBrooks@oaklandnet.com
District 7	Larry Reid	(510) 238-7007	LReid@oaklandnet.com
At-Large	Rebecca Kaplan	(510) 238-7008	RKaplan@oaklandnet.com