



**News from
Office of the Mayor**

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**Mayor Dellums Releases Proposed Budget for Fiscal Years 2009-2011
\$83 Million General Fund Shortfall is Worst Ever, Could Result in 250
Layoffs**

Oakland, CA — Mayor Ron Dellums presented his proposed budget for fiscal years 2009-2011 today, stating that the City of Oakland is confronting a serious financial crisis. He explained that while this is largely the result of external economic factors—in particular the national and state economic decline and the housing meltdown—it has critical impacts on City finances.

“The fiscal issues that must be addressed in this two-year budget are deep and widespread, touching virtually every government service Oakland provides,” Mayor Dellums said. “The policy and management decisions required by this budget will be among the most difficult ever faced by this City.”

The largest and most difficult issue in the FY2009-11 budget is the **\$83 million annual shortfall** in the General Purpose Fund, although serious financial problems also exist in many other funds.

How Did the General Fund Deficit Reach \$83 Million?

Sharp Revenue Declines

The General Fund deficit is largely the result of a nearly **\$51 million drop in revenues** caused by the economic recession, the implosion of the national and regional housing market and an associated steep downward spiral in consumer spending. Significant declines in tax revenues include:

- property tax \$5.8 million
- real estate transfer tax \$8.9 million
- sales tax \$4.6 million
- transient occupancy tax \$2.3 million

- parking tax \$1.4 million
- business license tax \$1 million

The \$51 million revenue decline is the result of a \$30 million decrease in ongoing revenues, most of which are listed above, and a \$21 million reduction in one-time revenues used in FY 2008-09 but no longer available. Examples of discontinued one-time revenues include \$9.5 million in bond refunding savings, use of \$5.3 million in Workers Compensation Fund surplus and a \$2.3 million reimbursement from the Development Services Fund.

Expenditure Increases

In addition to the \$51 million revenue decrease, the General Fund also experienced a **\$32 million increase in expenditures**, including the following:

- rising cost of employee benefits, mainly health and retirement
- four percent (4%) cost of living increase for sworn police officers for FY 2009-10 only, based on the arbitrator's award
- deferral of over \$4 million in projects from the current year into the next year, in order to balance FY 2008-09
- an increase in the mandatory transfer to Kids First! based on Measure OO

Why is \$414 million in Projected Revenues for FY 2009-10 Not Enough?

The General Purpose Fund is the largest City fund; it represents 41 percent of the City's total annual \$1 billion budget. Continuing the current level of services funded by the General Purpose Fund in FY 2009-10 would cost \$497 million, yet revenues are only estimated at \$414 million, resulting in the \$83 million projected shortfall.

At mid-cycle, a basic principle of budget balancing was to avoid cuts to sworn personnel in both Police and Fire. If that were to continue, along with no cuts to staff critical to supporting sworn personnel (e.g., dispatchers and other key support staff), budget balancing would be impossible without substantial new revenues.

For example, the Police Department costs the General Purpose Fund \$186 million and the Fire Department costs \$103 million. Add to that an annual debt service cost of \$45 million that is mandated, and the total "non-discretionary" General Fund spending totals \$334 million. With revenues projected at only \$414 million, that leaves about \$80 million for all other services paid out of the General Purpose Fund, which last year cost \$163 million. This is another way of looking at the \$83 million gap in the General Fund.

Anticipated Federal Funding to Avoid Police Layoffs (\$23 million)

The City's current fiscal reality means that the only way to address the unprecedented budget deficit is to cut public safety costs, which now account for 70 percent of the available General Purpose Fund revenues, or get substantial outside funding.

The City has applied for about \$23 million in annual funding for three years from the federal government from the COPS grant, which is only available to forestall the firing of police officers or to hire new officers. If these anticipated grant funds do not materialize, the City would be forced to **lay off 140 sworn police officers** effective October 1, 2009. Grant notification is expected by August or September.

Proposed Revenue Increases (\$4 million)

The proposed budget contains about **\$4 million in revenue increases**, including \$2 million from increased parking ticket fines and recreation fees, and nearly \$1 million from two measures on the July 21, 2009 ballot (expansion of Real Estate Transfer Tax to include mergers and acquisitions and 18 percent business tax on medical cannabis sales).

Proposed Expenditure Reductions (\$56 million in addition to \$23 million in federal funding above)

The proposed budget contains over **\$79 million in General Fund expenditure reductions**. Across all funds, a total of **319 positions are proposed for elimination** (193 positions from the General Fund and the remainder from other funds). About 250 of these 319 positions are currently filled. In addition to possible police cuts mentioned above, key balancing measures include:

- Use of nearly **\$2 million** in anticipated Edward Byrne Memorial Justice Assistance Grant (JAG) funding to offset police expenditures.
- **Over \$1 million** in annual savings from the “Golden Handshake” early retirement program for City employees.
- Other permanent cuts of **over \$23 million**:
 - Reduction of nearly 53 FTEs to save \$2.8 million annually. Position eliminations in non-public safety departments add to the significant reductions made in July 2008, October 2008 and March 2009. Collectively, non-public safety reductions in the General Fund during these recent rounds of budget cuts resulted in the elimination of nearly 245 FTEs.
 - Reduction in hours and position downgrades for various employees.
 - Employee concessions from civilian unions, adding up to the equivalent of a 10 percent pay cut, would save nearly \$7 million annually. Discussions continue with the police and fire sworn unions on proportionate cuts.
 - Nearly \$4 million in savings if voters approve a compromise Kids First! measure on July 21, 2009.
 - \$6 million in debt service savings from anticipated debt restructuring.
 - Reduction in branch library service from six to five days a week and “paired” closure of branch libraries (six smaller branches would be “paired” for rotational closure, with one set of staff serving both branches), to save over \$0.8 million annually.
 - Operational savings.

- Elimination of Senior Shuttle and Senior Set-Aside programs in lieu of closing or reducing hours of senior centers.
- One-time or limited duration savings of nearly **\$26 million**. The majority of the savings in this category come from the proposed two-year suspension of General Fund payments to two internal service funds (facilities and equipment) to save \$24 million annually. This is not a prudent approach in a positive fiscal environment but will address the immediate and significant fiscal pressures in the General Purpose Fund in order to maintain the minimum level of essential services supported by this fund.
- Transfers of costs to other funds (mainly City Attorney's liability-related expenses) would save over **\$4 million**.

The budget proposal also presents balancing measures for other funds, including a reduction of 24 positions in park maintenance to save over \$2 million and elimination of 12 positions to save over \$1 million in transportation funds.

“The balancing measures I have put forward in this proposed budget have required difficult decisions,” said Mayor Dellums. “We look forward to a dialogue with the City Council on possible alternatives, yet given the magnitude of our deficit, there will be no easy choices.”

The complete FY 2009-11 Proposed Budget document is available to the public in the City Clerk's Office and at City libraries. An electronic copy is available at: www.oaklandnet.com or www.mayorrondellums.org.

A special meeting of the Oakland City Council to discuss the FY 2009-11 proposed budget has been scheduled for 4 pm on Wednesday, May 13 in the City Council chambers.