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**MAYOR DELLUMS ANNOUNCES RESULTS OF A COMPREHENSIVE
FINANCIAL REVIEW AND SUBMITS A BUDGET BALANCING
PROPOSAL TO CITY COUNCIL**

*Proposal Eliminates \$42 Million Deficit, Maintains Commitment to Public Safety, and Minimizes
Impacts on Essential City Services*

OAKLAND – Delivering on his promise to comprehensively address the city’s financial situation, Mayor Ron Dellums today presented the results of a comprehensive financial review and his plan to address a \$42 million budget deficit. The deficit amount includes a \$37 million shortfall in the General Purpose Fund (GPF) and an additional \$5 million in the Landscaping and Lighting Assessment District Fund (LLAD).

The budget adjustments proposed by the mayor address the most immediate fiscal challenges identified during the six-week review. The financial evaluation also revealed systemic problems in a number of funds with negative balances and identified challenges anticipated in the near future. A comprehensive analysis of the last year’s financial results was also conducted to address questions regarding the use the GPF resources through June 2008.

“As the Chief Executive Officer of the City, it is my obligation to present the truth - as painful and inconvenient as it may be - to the City Council and to Oakland residents,” said Mayor Dellums. “I have thoroughly analyzed our financial situation and the conclusion of this effort is clear: Oakland is living beyond its means.”

The mayor’s analysis responds to three questions: **Where are we today? How did we get here? What are our options?**

“WHERE ARE WE TODAY”

A response to the first question reveals a multitude of problems, including: immediate issues; historical/systemic issues; and anticipated future issues.

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- **Immediate Issues** include: (a) only \$10 million in uncommitted reserves and a current year shortfall of \$37.4 million in the General Purpose Fund; and (b) a \$5 million current year deficit in the Landscaping & Lighting Assessment District fund. In addition, a State-mandated pass-through of \$8.5 million will use up the available net revenues and some reserves in the Oakland Redevelopment Agency.
- **Historical / Systemic Issues** include various funds with negative balances that have accumulated over time. These funds are a drain on the city's GPF, which is already struggling financially. Examples include Internal Service Funds with \$49 million in negatives and the City's Capital Improvement Fund with a \$4 million negative and no cash for previously approved projects.
- **Anticipated Future Issues** include a new Kids First initiative on the November 2008 ballot with a \$17 million price tag, outstanding retiree medical (OPEB) liabilities, a requirement to resume annual contributions to the old police and fire retirement system in 2011, and no discretionary capital funds for municipal projects.

Mayor Dellums said: "No stone was left unturned. A comprehensive financial analysis was undertaken for all city funds, and every revenue and expenditure line item was evaluated."

"HOW DID WE GET HERE?"

The mayor's analysis shows the use of the GPF resources in the last fiscal year through June 2008. It was determined that the GPF fund balance was at \$75 million in the beginning of last year (July 2007), but decreased to \$24 million by year-end in June 2008. The dramatic reduction is fully explained by the following (**no funds went missing**):

- (a) Prior year unspent project appropriations and encumbered purchases reduced the fund balance amount by \$20 million right away.
- (b) A \$7 million shortfall was already assumed in the FY 2007-08 adopted budget – the difference between \$470 million in revenues and \$477 million in expenditures. Another \$24 million was drawn down by year-end.
- (b) Components of the \$24 million additional drawdown include a \$14 million reduction in revenues (from the Adopted budget) and another \$10 million increase in expenditures.
 - The revenue decrease is a net of several adjustments, including a \$30 million drop in the real estate transfer tax that was offset by increases in the property tax (\$10 million), sales tax (\$4 million), business tax (\$4 million) and multiple other adjustments.
 - The expenditure increase was mainly in Police Services, and accounts for retroactive salary increases granted by the arbitrator, coupled with overtime and new schedule costs.

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The truly available GPF fund balance was \$10 million in the beginning of the current year in July 2008, after accounting for \$14 million in previously approved projects and encumbrances. The low level of uncommitted GPF reserve funds (at \$10 million) is only one of two issues pertaining to the current year. The other – and most immediate – is a **\$37.4 million projected shortfall** in the GPF. The projected shortfall is \$31 million higher than the \$6.4 million figure assumed in the FY 2007-09 Adopted budget.

- The Original adopted budget included revenues of \$484.7 million and expenditures of \$491.1 million, for a difference of \$6.4 million (budgeted use of fund balance).
- During the Midcycle budget adjustments (in July 2008), cuts of \$15 million were made but did not change the \$6.4 million use of fund balance.
- The \$31 million adjustment made to the “budgeted use of fund balance” of \$6.4 million is comprised of an \$18 million readjustment in revenues and a \$13 million adjustment to expenditures. The shortfall was determined by carefully re-evaluating revenue and expenditure assumptions in the mid-cycle budget.
- The revenue adjustments were in several categories, most notably in the real estate transfer tax (\$11 million). The expenditure adjustments are mainly in Police Services (\$11 million), to account for the cost of additional academies, overstaffing, booking fees and overtime.
- The calculation of the \$37.4 million shortfall maintains a status quo and does not take into account costs for not yet awarded salary increases. Such increases, if granted at a rate of 3% to both miscellaneous and fire employees, would cost \$5.2 million in the General Purpose Fund alone. The GPF shortfall would increase to \$42.6 million.

“WHAT OUR OPTIONS ARE”

The mayor outlined key guiding principles: keeping public safety as the number one priority, preserving basic services, not using one-time revenues for ongoing expenses, not relying on over-optimistic economic projections, and strengthening the City’s position in the bond market.

The mayor stated: “At the end of the day, we present the community with our best thinking on how to move forward in a fiscally responsible manner.”

The mayor’s proposal maintains the city’s commitment to public safety and essential city services, including: fully staffing our police department by the end of 2008 and keeping all library and senior centers open without reducing hours of operation.

Mayor Dellums’ proposed budget tackles the identified financial challenges by increasing revenues and minimizing layoffs. Citywide, a total of 132 positions are proposed to be eliminated, only 84 of which are filled.

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To bridge the \$37.4 million General Fund deficit in the current year, the mayor has proposed the following:

- **Revenue Increases** (*\$13 million*): These include one-time revenue for limited-duration expenses and additional revenue from rate increases for parking meters, parking citations, and street sweeping citations.
- **Transfers and Reductions** (*\$5 million*): Transfers of costs to non-General funds, reductions in non-personnel discretionary expenses, and reduction in a General Fund subsidy to a Comprehensive Clean-up fund.
- **Freezes and Elimination of Vacancies** (*\$5 million*): Vacancies are being reduced in Police and Fire (civilians), Library, Parks and Recreation, Finance, Personnel, Information Technology, and Contracting and Purchasing.
- **Fifty Layoffs** (*\$4 million*): The proposal includes elimination of 50 currently filled positions from a variety of areas, including executive offices, Office of the City Attorney, Information Technology, Finance Department, Parking and Personnel, Police Department, (civilian), Fire Department (civilian), and Oakland Museum.
- **Citywide Shutdown or Alternative Cuts** (*\$10 million*): To allow for a collaborative process, the Mayor presented options for \$10 million in General Purpose Fund cuts, including a *weekly business shutdown* (every Friday), *OR 120 additional layoffs*, *OR union concessions*, such as cost sharing on retirement or medical insurance. The mandatory business shutdown is an option that is in the administration's control; however, the Mayor is open to discussing other alternatives with the employee unions, including but not limited to flexible furloughs and cost sharing.

To eliminate a \$5 million shortfall in the Landscaping and Lighting Assessment District, 46 additional positions will be cut, of which 34 are filled. Overall, there will be impacts to services at park facilities, park and open space maintenance, tree services, ballfield maintenance, and street light repairs. Several smaller parks may be closed.

The mayor's financial assessment also discovered that there were long-standing, systemic issues in a number of funds with negative balances. To address the most immediate problems, the mayor is proposing to use \$9 million in one-time revenues to zero out long-standing negatives in the LLAD fund (\$5 million) and the Capital Improvement fund (\$4 million).

Balancing measures were also developed for other funds with identified financial issues. These will be reassessed further to ensure that they reflect opportunities to reduce costs through efficiencies and restructuring, with final recommendations made during the FY 2009-11 budget development commencing in November.

In addition to the financial measures, the mayor's proposal contains recommendations on essential financial policies to help rebuild the General Fund reserve, build a capital reserve, address past structural issues and anticipate future challenges.

The Mayor will formally present the financial analysis details at a special meeting on September 30, 2008, followed by City Council workshops planned for October 10 and October 16 (subject to the Rules Committee approval on October 2).

