City of Oakland's Financial Condition for Fiscal Years 2012-13 through 2019-20

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JUNE 14, 2021

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June 14, 2021

HONORABLE MAYOR
HONORABLE CITY COUNCIL
CITY ADMINISTRATOR
RESIDENTS OF OAKLAND

RE: CITY OF OAKLAND'S FINANCIAL CONDITION FOR FISCAL YEARS 2012-2013 THROUGH 2019-2020

Dear Mayor Schaaf, Council President Bas, Members of the City Council, City Administrator Reiskin, and Oakland Residents:

The attached audit report provides information on the City of Oakland's financial activities for fiscal years (FY) 2012-13 through 2019-20. This is the second year we have produced this report. Last year, the report provided a baseline on the City's financial health prior to the COVID-19 pandemic. Initially, the impetus for this report was twofold: to provide the public and leadership with an easily digestible account of the City's financial health and to assist decision makers in visualizing the City's course, consider options, and adjust and improve the City's long-term financial condition. The COVID pandemic has highlighted the vulnerabilities in the City's finances. This report now also serves to assess the fiscal impacts of the pandemic. To illustrate the impacts, we included a section on Government Funds, which focuses on the City's near-term financial condition.

Prior to the COVID pandemic, Oakland's financial health was relatively stable. Based on our financial analysis through FY 2018-19, revenues had increased, debt was down, and the City's liquidity and credit ratings were strong. Additionally, the City was working to address the increase in benefits and pensions costs for public employees. The COVID pandemic has impacted some of these gains. While this report begins to articulate the impacts of the pandemic, the long-term consequences are yet to be known. In FY 2019-20, overall revenues increased slightly, and expenses related to government activities decreased slightly. The reverse was true for the City's General Purpose Fund, where expenditures outpaced revenues resulting in a negative change of $69 million in one year. This appears to be attributed to a decrease in revenues due to the pandemic, coupled with an increase in public safety costs. The General Purpose Fund is the City's discretionary fund and it is used to fund all or part of most city services.

In FY 2019-20, the City's business license taxes, real estate transfer taxes, transient occupancy taxes, parking taxes, sales and use taxes, and charges for services declined by $46.9 million from the previous fiscal year. Moreover, five of these same six revenue categories are also tracking behind in the first six months of FY 2020-21 compared to the first six months of FY 2019-20. In total, these revenue categories declined by $55.7 million, or 25.6 percent, from the first six months of the previous fiscal year.

The City's funded ratios for its three pension funds remained relatively constant from last year while the City's Other Post Employment Benefit (OPEB) liabilities decreased significantly from $841 million in FY 2018-19 to $599 million in FY 2019-20, a 40 percent decrease. This $242 million decrease is mainly due to changes in actuarial assumptions regarding the discount rate and future benefits to be paid.

City officials need to focus more attention on the City's General Fund reserves, which declined in FY 2019-20. As of June 30, 2020, the City's General Fund reserves totaled $55 million, or $90 million less than the Government Finance Officer Association's (GFOA) recommends. Last year's report also noted the City reserves were less than the GFOA recommends.

As stated in the previous year's report, the City does not produce an annual city-wide capital asset report. Without quantifying these costs in one place, the City cannot begin to adequately determine the future monies it needs to address the City's future infrastructure obligations.

Throughout the report, we have compared Oakland's financial indicators to those of California cities with similar population size and government services provided. It is important to note that for almost all financial indicators, Oakland does not rank favorably in comparison to these cities. The City would benefit from reviewing these cities' past financial decisions and how they develop their respective budgets to inform Oakland's future.

A key message of this report is the City must balance both its long-term financial picture with its short-term budgetary needs. The decline in revenues, coupled with the General Purpose Fund expenditures outpacing revenues, are clear signs the City's budget should be approached cautiously. We are unclear of the on-going impacts of the COVID pandemic and the City faces significant pension and OPEB liabilities in addition to unknown costs to maintain its assets. This should be a time for implementing financial strategies to shore up finances, build up our reserves and reduce our liabilities so the City can provide essential services in the future.

Respectfully submitted,

COURTNEY A. RUBY, CPA, CFE
City Auditor

Oakland's City Auditor is an elected official and works for, and reports to, the residents of Oakland. The Auditor's job is to provide oversight to the City's activities. The Auditor has the authority to access and audit City financial and administrative records, plus the policies and procedures of all City agencies and departments.

To make sure this work is done objectively and without bias, the City Auditor is not connected to any other City departments and has no day-to-day financial or accounting duties for the City of Oakland. This autonomy allows for independent analyses, ensuring tax dollars and other resources serve the public interest.

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INTRODUCTION

Audit Overview

This report provides residents and public officials with information on the City of Oakland's (City) financial health. Our audit objective was to examine the City's financial well-being by calculating financial ratios, analyzing trends in the City's financial data over the past eight-year period, and comparing the results to other cities of similar size. We used information, primarily from the City's audited Annual Comprehensive Financial Report (ACFR)[1] to identify favorable and unfavorable financial trends at a high level.

For public officials and residents, independently assessing the City's financial health is a daunting task requiring an understanding of the City's ACFRs and biennial budgets. These documents can be technical, lengthy, and not particularly designed for public consumption. Financial analysis, using financial ratios, can be used to draw meaning and give a voice to financial statements.

Therefore, this report aims to (1) be an easily digestible account of the City of Oakland's financial activities and financial condition and (2) assist decision makers visualize the City's course, consider options, and make adjustments to improve the City's financial health.

The scope of this report covers Fiscal Year (FY) 2012-13 through FY 2019-2020, ending June 30, 2020 and unaudited data from the first six months of FY 2020-21. Last year's report provided a baseline for the City's financial condition before the COVID pandemic, and this year's report assesses the fiscal impact of the pandemic on the City's finances in FY 2019-20 and the first six months of FY 2020-21.

Defining Financial Condition

Financial condition refers to a government's ability to (1) generate enough cash over thirty or sixty days to pay its bills, (2) generate enough revenues over its normal budgetary period to meet its expenditures, (3) pay all the costs of doing business in the long run, and (4) provide services required for the health, safety, and welfare of the community, and at the level and quality its residents desire.

[1] In 2021 the Governmental Accounting Standards Board changed the name of the Comprehensive Annual Financial Report (CAFR) to the Annual Comprehensive Financial Report (ACFR).

Understanding the City's Financial Activities

Understanding the City's financial activities provides insight into how the City's finances are managed. The City sets up procedures for keeping track of what is collected (revenues) and spent (expenses) by breaking them down into two major areas as defined by Government Accounting Standards:

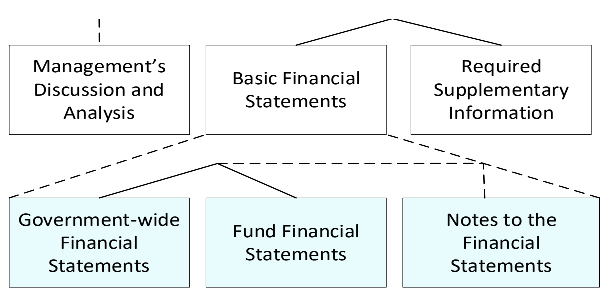
- **Governmental activities** are general programs and departments funded by residents and can be used by or for the benefit of anyone who lives and works in, or travels to Oakland. Some of these governmental activities include public safety, community services, community and economic development, public works and transportation. These activities are primarily supported by taxes and intergovernmental revenues.
- **Business-type activities** are City operated programs that do not receive general tax revenue to support their operation. In Oakland, this includes the sewer service system and some parks and recreation programs. These operations recover most of their costs through user fees and charges.

These activities are further classified into restricted and unrestricted funds. **Restricted revenues** are established by local ordinances, the City Charter, federal and state laws, and grant agreements, specifying how the monies can be spent. **Unrestricted revenues** are the funds that can be appropriated by City Council during the City's biennial budget cycle.

Each year the City prepares its financial statements with the collected financial information for governmental and business-type activities. These are audited by an independent Certified Public Accountant and are made available to the public in the ACFR.

The basic financial statements include three components: The Government-wide Financial Statements, the Fund Financial Statements, and the Notes to the Basic Financial Statements.

Required Components of the Annual Financial Report



City budget documents also provide significant financial information to decision makers and the public. The City's budget serves as a financial plan and policy document describing how the City intends to use projected revenues to perform operations or provide services (expenditures) over a defined period. Oakland has a two-year budget cycle beginning July 1 in odd-numbered years. The next two-year budget cycle begins July 1, 2021 and ends on June 30, 2023.

Assessing Financial Condition

Several methods are available for assessing a local government's financial condition. We primarily used the financial and economic indicators included in the *International City/County Management Association's Evaluating Financial Condition Handbook for Local Government*. In this report, our assessments are organized around eight areas: (1) revenues, (2) expenses, (3) governmental funds, (4) long-term debt and liabilities, (5) pension and Other Post-Employment Benefit (OPEB) liabilities, (6) financial and operating position, (7) capital assets, and (8) demographic and economic indicators.

This report presents financial data for comparable time periods from FY 2012-13 through 2019-20. For example, the report makes comparisons of FY 2019-20 financial data with financial data for other fiscal years. These are objective "apples-to-apples" comparisons that identify the City's changing financial condition and financial trends. These period-specific financial data are taken directly from their respective ACFRs and other data sources, and have not been adjusted for inflation.

How Is Oakland's Financial Health?

Prior to the COVID pandemic, Oakland's financial health was relatively stable. Based on our financial analysis through FY 2018-19, revenues had increased, debt was down, the City had a balanced annual budget, and the City's liquidity and credit ratings were strong. Additionally, the City was dealing with increasing costs around benefits and pensions for public employees. The City made fiscal policies to improve its reserves and to address long-term liabilities. Unfortunately, some of these gains have been impacted by the COVID pandemic.

On March 17, 2020, the County of Alameda issued a directive ordering all individuals living in the county to shelter in place, with the exception of essential activities, to help prevent the spread of COVID. These actions weakened the City's economy and revenues in FY 2019-20 and will likely continue to impact the City through at least FY 2020-21.

In response to the COVID pandemic, the City applied cost cutting measures including freezing spending and hiring, laying off temporary workers, and drawing down reserves. Fortunately, the federal government has stepped in to provide substantial aid in 2021 and 2022. The long-term financial effects of the COVID pandemic cannot be determined at this time. In addition, the City will continue to be challenged by unfunded pension and Other Post-Employment Benefits (OPEB) liabilities, and unquantified infrastructure needs.

During our audit, we found:

- Total governmental activities revenue increased by $14 million, or 1 percent, between FY 2018-19 and FY 2019-20. The small revenue growth was due primarily to an 8 percent jump in property taxes and a 37 percent jump in operating grants and contributions. These increases were offset by declines in business license taxes, real estate transfer taxes, transient occupancy taxes, parking taxes, sales and use taxes, and charges for services.

- Five of the six revenue categories that declined in FY 2019-20, are also tracking behind in the first six months of FY 2020-21 compared to the first six months of FY 2019-20. In total these revenue categories declined by $55.7 million, or 25.6 percent, from the first six months of the previous fiscal year.

- The City spent $1.05 billion in FY 2019-20, a 3 percent decrease in expenses from the previous fiscal year primarily due to more favorable actuarial assumptions about the City's future cost of retiree benefits resulting in a reduction of total expenses by $179.5 million allocated across all major service areas.

- The City's General Purpose Fund revenues outpaced expenditures by $11.7 million in FY 2018-19; however, in FY 2019-20, General Purpose Fund expenditures outpaced revenues by $57.7 million. This appears to be attributed to a decrease in revenues due to the COVID pandemic, coupled with an increase in public safety costs. This is a negative change of $69 million from FY 2018-19 and warrants the immediate attention of the City Administration and City Council.

- The City's total outstanding bond debt increased 16 percent from $751 million in FY 2018-19 to $870 million in FY 2019-20. This debt increase is the result of the City issuing $185 million in general obligation bonds associated with Measure KK (Infrastructure and Affordable Housing Bond) in FY 2019-20. Nevertheless, the City's credit ratings remain very strong.

- The City's pension liability increased from $1.655 billion to $1.717 billion between FY 2018-19 and FY 2019-20. On the other hand, the City's OPEB liabilities decreased from $841 million in FY 2018-19 to $599 million in FY 2019-20, a 40 percent decrease. This $242 million decrease is mainly due to changes in actuarial assumptions regarding the discount rate and future benefits paid. Specifically, in recent years the City has reached agreement with public safety bargaining groups to cap retiree medical benefits for existing employees and retirees effective January 1, 2020, and to implement new, lower-cost tiers for employees hired after January 1, 2019.

- The City's unrestricted net position's general trend over the audited eight-year period has always been negative. However, in FY 2019-20, the City's unrestricted net position improved slightly due to the City's OPEB liability decreasing as previously mentioned. The City's negative unrestricted net position's does not mean that the City does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than its available resources.

- From FY 2018-19 to FY 2019-20 the City's liquidity ratio – or the City's ability to pay its bills on time – declined by 0.3 percent. Although not a significant decrease, this decline may be a sign of the economic impacts of the COVID pandemic.

- The City's General Fund reserves grew over the first seven years we audited but started declining in FY 2019-20. As of June 30, 2020, the City's General Fund reserves totaled $55 million, or $90 million less than the Government Finance Officer Association (GFOA) recommends.

- During the COVID pandemic, the City's unemployment rate skyrocketed from 3.5 percent in FY 2018-19 to 15.7 percent in FY 2019-20, nearly a five-fold increase. Such a jump could pose significant policy and fiscal implications for the City in the near future. The City also had the highest unemployment rate of the benchmarked cities in FY 2019-20.

We were unable to include information on the condition of the City's infrastructure, citywide asset replacement value, or the funding gap for infrastructure needs because the City does not produce an annual citywide capital asset report. Without quantifying these costs in one place, the City cannot begin to adequately determine the future monies it needs to address our future infrastructure needs.

Throughout the report, we have compared Oakland's financial indicators to California cities with similar population size and government services provided. Oakland does not rank favorably in almost all financial indicators when compared to other cities. Each city's circumstances are different, yet it is important to consider how these cities' past financial choices can inform Oakland's future.

01

REVENUES

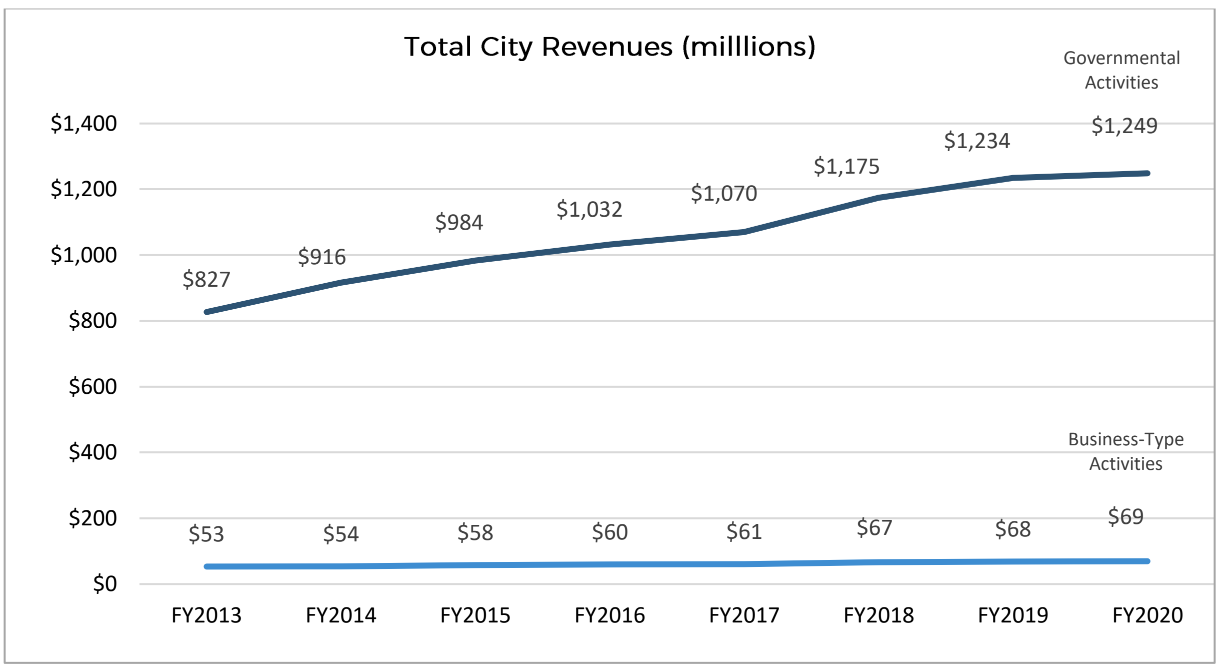
What Are Revenues?

Revenues determine the City's capacity to provide services. Diverse revenue sources can help the City withstand changes in the local or regional economy. Oakland's revenues are diversified and include property taxes, state taxes, other local taxes, charges for service, operating grants, one-time revenues,[2] contributions, and other revenues.

City Revenues

The City's total revenues (governmental activities + business type activities) have increased 50 percent from $880 million in FY 2012-13 to $1.318 billion in FY 2019-20. Revenues related to governmental activities have grown 51 percent from $827 million in FY 2012-13 to $1.249 billion in FY 2019-20. Business-type activities increased by 30 percent from $53 million in FY 2012-13 to $69 million in FY 2019-20, mainly related to sewer-related activities.

Exhibit 1: City revenues for governmental and business-type activities from FY 2012-13 through FY 2019-20 (millions)



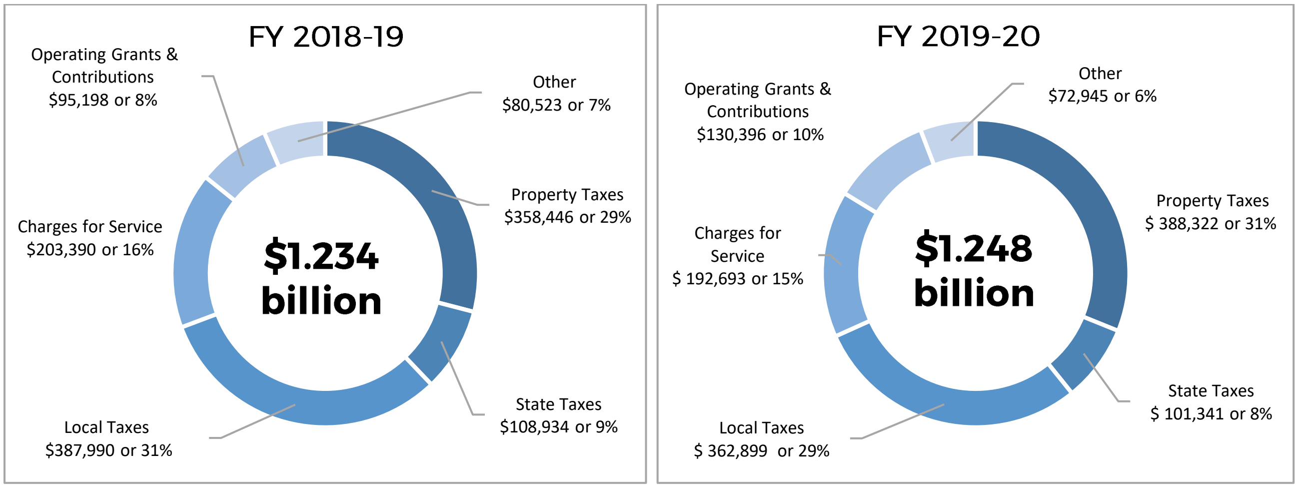
Source: Oakland ACFRs

The City relies heavily on property, state, and local taxes. Between FY 2012-13 and FY 2019-20, combined revenue from property, state and local

[2] Financial proceeds that will not likely occur on an ongoing basis, such as sales of property or proceeds from the refinancing of debt. Fiscal prudence and conservancy require that one-time revenues not be used for recurring expenses as further detailed in the City's financial policy.

taxes consistently accounted for about 67 percent of total revenues used to support governmental activities. Exhibit 2 shows the governmental activities revenue breakdown by revenue source.

Exhibit 2: City of Oakland revenues for governmental activities by source in FY 2018-19 and FY 2019-20 (thousands)



Source: Oakland ACFRs

Exhibit 2 shows that total governmental activities revenue increased by $14 million, or 1 percent, between FY 2018-19 and FY 2019-20. The small revenue growth was due primarily to an 8 percent jump in property taxes and a 37 percent jump in operating grants and contributions. These increases were offset by declines in business license taxes, real estate transfer taxes, transient occupancy taxes, parking taxes, sales and use taxes, and charges for services. Appendix A provides an eight-year summary of revenues by type for governmental activities and percentage changes from FY 2018-19 through FY 2019-20.

The revenue increases and decreases for FY 2019-20 are described below:

<u>Revenue increases</u>

- **Property taxes** are ad valorem taxes, which means the tax paid on a property is proportional to the property's assessed value. These taxes are the largest single source of revenue for the City and has grown over the last eight years by 51 percent, or an average of 6.4 percent annually.

  In FY 2019-20, property taxes increased by $29.9 million, or 8 percent, due to increases in assessed values from change in ownership reassessments, inflationary assessed value adjustments, and increases from voter approved measures.

- **Operating grants and contributions** are revenues received from other governments, organizations, or individuals that are restricted in their use within a City program or service.

In FY 2019-20, operating grants and contributions increased by $35.2 million, or 37 percent, due to increased grant activity, particularly for general government, and community and human services**.**

Revenue decreases

Exhibit 3 below shows the revenues that decreased significantly in FY 2019-20.

Exhibit 3: **Two-year summary of revenues for governmental activities by type and dollar and percentage changes from FY 2018-19 through FY 2019-20 (thousands)**

Revenue by Type	FY 2019	FY 2020	$ Change between FY 2019 & FY 2020	% Change between FY 2019 & FY 2020
Business License Tax	99,733	98,036	(1,697)	-1.7%
Real Estate Transfer Tax	104,905	91,534	(13,371)	-12.7%
Transient Occupancy Tax	33,005	24,920	(8,085)	-24.5%
Parking Tax	21,726	17,312	(4,414)	-20.3%
Sales and Use Tax	92,319	83,678	(8,641)	-9.4%
Charges for Service	203,390	192,693	(10,697)	-5.3%
Total	**555,078**	**508,173**	**(46,905)**	**-8.5%**

Source: Oakland ACFRs

As Exhibit 3 shows, the following revenues decreased in FY 2019-20:

- **Business License Tax** is composed of three primary components: normal business gross receipts, gross receipts from construction activity, and business tax from the rental of residential and commercial property**.**

  Revenue from business license tax decreased by $1.7 million or 1.7 percent. It is important to note this decrease is the first drop in business license tax revenues over the last eight years.

- **Real estate transfer tax (RETT)** is assessed whenever there is a change in ownership of real property. It is a highly volatile revenue source and can increase and decrease rapidly with changing market conditions.

  RETT revenue decreased by $13.4 million or 12.7 percent.

- **Transient occupancy tax (TOT) rate** is a 14 percent tax on the hotel rate and is paid by individuals who stay thirty days or less in a hotel located within the City of Oakland. Of the 14 percent tax revenues collected, 11 percent goes to the City's General Fund and the remaining 3 percent goes to the following:
  - Oakland Convention and Visitors Bureau (50%),
  - Oakland Zoo (12.5%),
  - Oakland Museum of California (12.5%),

- Chabot Space and Science Center (12.5%), and
- Cultural Arts Programs and Festivals (12.5%).

In FY 2019-20, TOT revenues decreased by $8.1 million, or 24.5 percent, from the previous fiscal year's total.

- **Parking tax** is a tax imposed on the occupant of an off-street parking space. The tax rate is 18.5 percent and is collected by parking operators. Of this, 8.5 percent supports voter-approved Measure Z - Violence Prevention and Public Safety activities and is allocated to a separate fund and the remaining 10 percent supports general government activities.

  The parking tax is usually a relatively steady and reliable revenue source for the City. However, in FY 2019-20 parking tax revenues dropped by $4.4 million, or 20.3 percent, from the previous fiscal year totals.

- **Sales and use taxes** apply to the retail sale or use of tangible personal property. The total sales tax percentage in the City of Oakland is 9.25 percent. For example, on a $1 taxable purchase, the sales tax paid is 9.25 cents. The City receives 1 percent of the total sales tax revenues– meaning 1 cent on a $1 purchase. The remaining 8.25 percent is allocated to the state and local taxing districts.

  Revenues from sales and use taxes decreased by $8.6 million, or 9.4 percent, in FY 2019-20.

- **Charges for Service** revenues arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. This category includes but not limited to licenses and permits, fines and penalties, land rental income, facility rental income, other rental income, concession income, and service charges.

  Revenues from charges for service decreased by $10.7 million, or 5.3 percent from FY 2018-19 totals.

We also analyzed the six revenue categories above that decreased in FY 2019-20 to determine how they are performing in FY 2020-21. To assess how these revenues categories are performing in FY 2020-21, we compared revenues for the first months of FY 2020-21 to the first six months of FY 2019-20. This analysis compares six months of revenue information before the pandemic to revenue information a year later during the pandemic. This analysis is based on unaudited information. Exhibit 4 below shows the six-month comparison.

Exhibit 4: Six-month summary of revenues for governmental activities by type and dollar and percentage change from FY 2019-20 (July-Dec) through FY 2020-21 (July-Dec) (thousands)

Revenue by Type	First 6 months (July-Dec) FY 2020	First 6 months (July-Dec) FY 2021	$ Change between FY 2020 & FY 2021	% Change between FY 2020 & FY 2021
Business License Tax	15,172	11,286	(3,886)	-25.6%
Real Estate Transfer Tax	45,640	52,160	6,520	14.3%
Transient Occupancy Tax	14,929	5,246	(9,683)	-64.9%
Parking Tax	9,342	4,162	(5,180)	-55.4%
Sales and Use Tax	31,065	29,728	(1,337)	-4.3%
Charges for Service	101,682	59,540	(42,142)	-41.4%
Total	**217,830**	**162,122**	**(55,708)**	**-25.6%**

Source: Oracle - City's financial reporting system

As Exhibit 4 above shows, five of the six revenue categories that declined in FY 2019-20, are also tracking behind in the first six months of FY 2020-21 compared to the first six months of FY 2019-20. In total, these revenue categories declined by $55.7 million, or 25.6 percent, from the first six months of the previous fiscal year. Only the real estate transfer tax revenues are tracking higher, whereas, business license taxes, transient occupancy taxes, parking taxes, sales and use taxes, and charges for service are tracking behind the first-six months of FY 2019-20 by 4 percent to 65 percent.

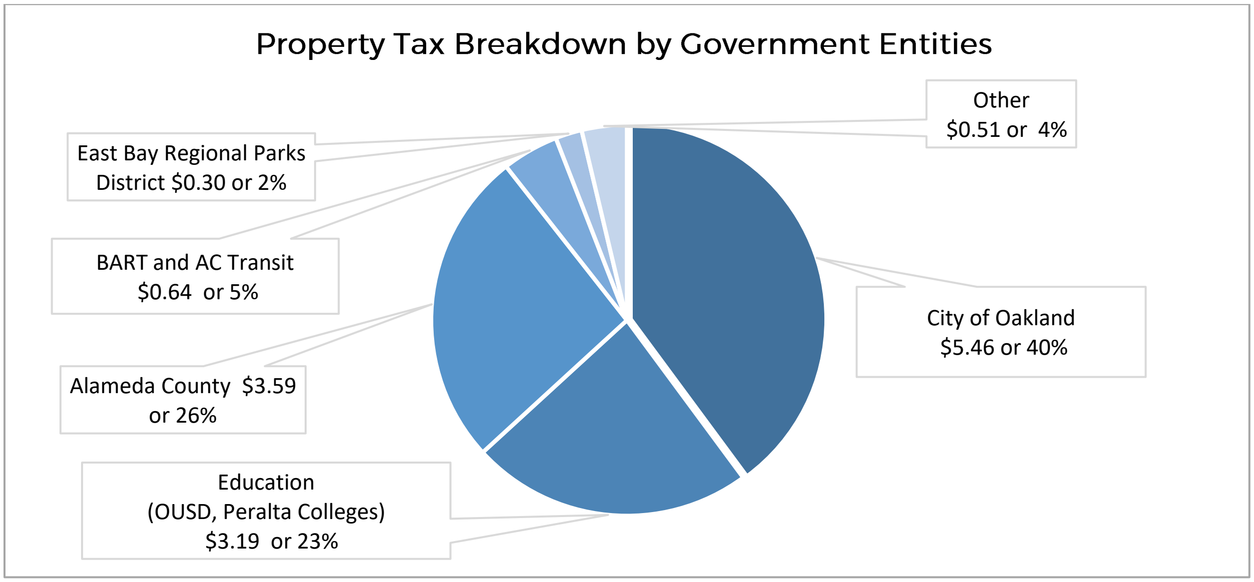
Where Do Your Property Taxes Go?

As noted above, the City relies heavily on property taxes as a revenue stream. In the eight-year period beginning in FY 2012-13, property tax revenues grew by 51 percent. Property taxes are based on a property's assessed value. The County of Alameda is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City.

The property tax rate in FY 2019-20 for the City of Oakland was $13.69 per $1,000 of assessed value. Property taxes are divided among several government entities as demonstrated in Exhibit 5. The City receives approximately $5.46, or 40 percent of the total tax collected.[3]

[3] The City receives approximately 40 percent of total tax collections that is broken down by: (1) Basic Rate (25.5%), (2) Debt Service Fund (3%), and 1981 Pension Liability (11.5%).

Exhibit 5: Property tax distribution by government entities



Source: Oakland ACFRs

Over the years, voters have approved special parcel taxes and special assessments that are part of the property owners' tax statement. Citywide, these special taxes include Measures Q, D, M, N, Z, W, and the Landscape and Lighting Assessment District.[4]

Some of these local parcel taxes, such as the pension override tax, increase with assessed property values. Other local parcel taxes, such as the landscape and lighting district and the vacant property tax, do not adjust. Local parcel taxes, such as paramedic emergency services parcel tax (Measure N) may be adjusted annually up to the consumer price index (CPI) with City Council approval. These various assessments fund important public services, such as libraries (Measures Q and D) and violence prevention and public safety (Measure Z). In FY 2019-20, these citywide special taxes added up to $439/single residential household. Voters also approved parcel taxes that appear as an assessment on the local property tax bills of real property owners whose property falls within the boundary of the assessment district.

How FY 2019-20 Property Taxes, Special Taxes and Special Assessments Were Spent

In FY 2019-20, the City received approximately $442 million in property taxes, special parcel taxes and special assessments. These taxes paid for the following services and obligations:

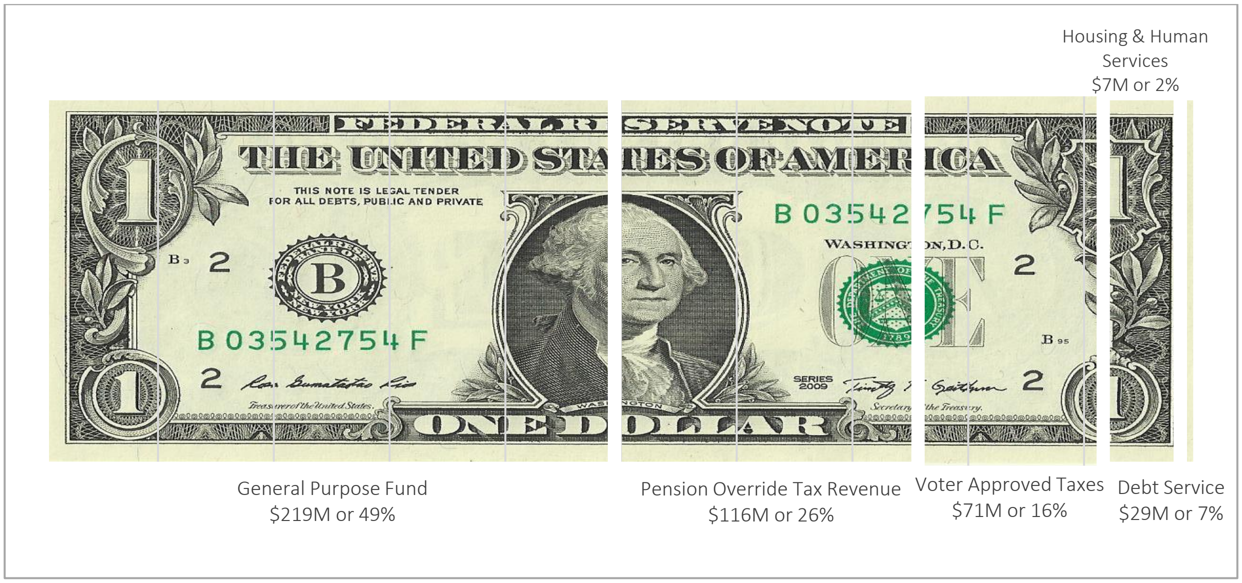
- General purpose services such as police, fire, and public works (49 percent),
- Pension bond payments for the Police and Fire Retirement System (26 percent),
- Municipal services such as emergency medical services, paramedic

[4] Landscape and Lighting Assessment District (LLAD) is to raise funds to support improvements and maintenance of the City's park areas, landscaping areas, and street lighting. The assessments differ between residential and non-residential parcels in each benefit zone.

services, library services, public safety and violence prevention services, and homeless services (16 percent),
- Debt payments on general obligation bonds (7 percent), and
- Programs under the Affordable Housing Trust fund related to housing and human services (2 percent).

Exhibit 6 shows how these taxes were allocated in FY 2019-20.

Exhibit 6: FY 2019-20 allocation of City property tax dollars ($442 million)

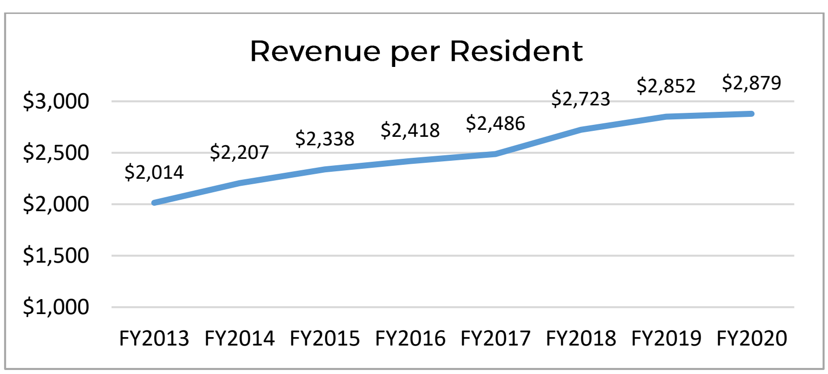


Source: Oakland ACFRs and Oracle Reports

City Revenues Per Resident

Another way of reviewing revenue is on a per resident basis. Oakland's population grew by 5.65 percent over the last eight years. As population increases, revenues and the need for services may increase proportionately with population growth. If revenues decrease, the City may be unable to maintain existing service levels unless it finds new revenue sources or reduces costs. Over the last eight years, annual revenue per resident increased 43 percent, from $2,014 to $2,879 as Exhibit 7 below shows.

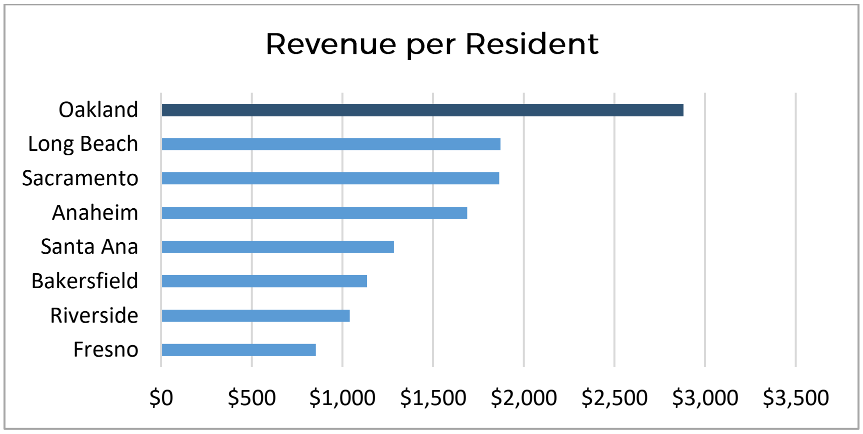
Exhibit 7: Eight-year summary of governmental activities revenue per resident



Source: Oakland ACFRs

Additionally, the revenue per resident was compared with California cities with similar population size and government services provided. As Exhibit 8 demonstrates, Oakland has the highest revenue per resident of the cities benchmarked. In FY 2019-20 Oakland's revenue per resident was $2,879, while the other benchmark cities revenues ranged from $854 to $1,873.

Exhibit 8: Comparison of other cities' governmental activities revenues per resident for FY 2019-20



Source: Oakland and other cities ACFRs

02

EXPENSES

What Are Expenses?

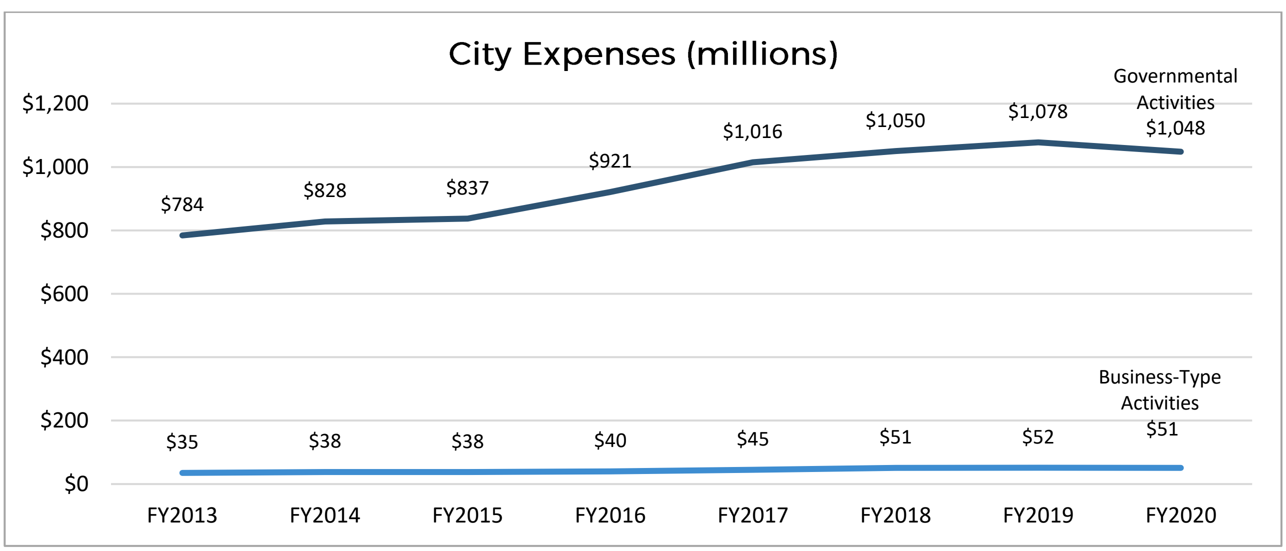
Expenses are the City's costs for providing services. Ideally, the City's expense growth rate will not exceed its revenue growth rate, and the City will have maximum flexibility to adjust spending. Two key categories of expenditures are personnel and operations and maintenance (O&M). Personnel expenditures are used to pay for City employees to perform various functions and provide services to the public. These costs are expended via the City's payroll and benefits systems and include salaries, overtime, premiums, retirement, and healthcare costs. O&M expenditures are used to pay for anything other than City employees and are expended through the contracting, purchasing, and payables systems. O&M expenditures include contracts for services, supplies and materials, utilities, equipment purchases and debt payments.

City Expenses

As shown in Exhibit 9, the City's spent $1.05 billion in FY 2019-20, a 3 percent decrease in expenses from the previous fiscal year. This decrease was due to more favorable actuarial assumptions about the City's future costs of retiree benefits resulting in a reduction of total expenses by $179.5 million allocated across all major service areas.

Expenses related to governmental activities increased 37 percent from FY 2012-13 through FY 2019-20. Expenses related to business-type activities decreased less than half percent between FY 2018-19 and FY 2019-20. Business-type activities recover all or a significant portion of expenses through user fees and charges.

Exhibit 9: City expenses for governmental and business-type activities from FY 2012-13 through FY 2019-20 (millions)



Source: Oakland ACFRs

As shown in Exhibit 10, the City's expenses are categorized into the following service areas: General Government, Public Safety, Community Services, Community and Economic Development, Public Works and Transportation, and Interest on Long Term Debt.

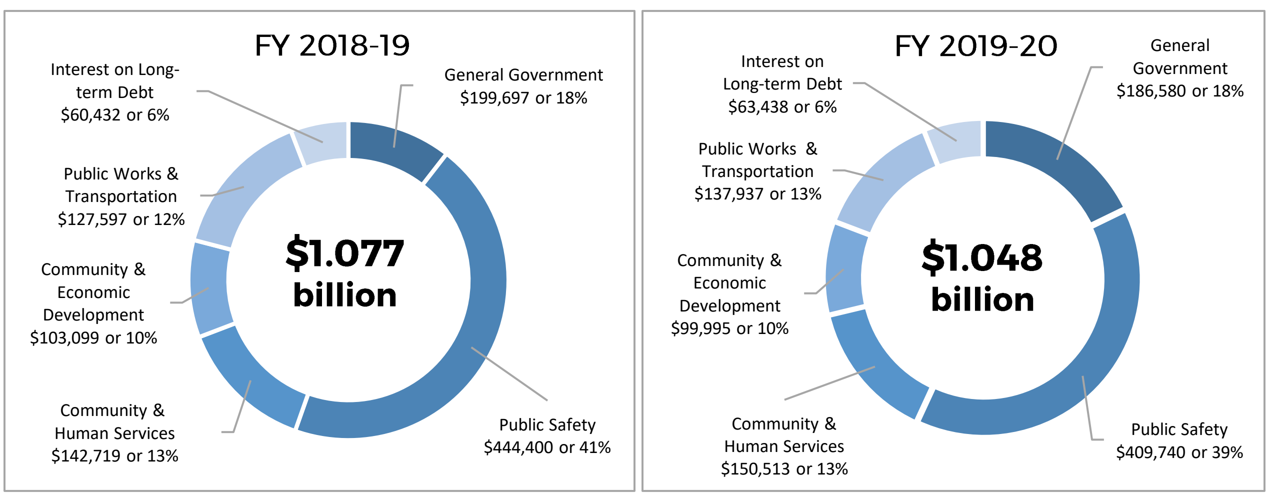
Public safety was the City's largest expense by service area for the last eight years. These expenses are related to the Police and Fire Departments and accounted for $409.7 million, or 39 percent of all expenses in FY 2019-20. These expenses decreased from the last fiscal year by $34.7 million, or 7.8 percent, primarily due to changes in actuarial assumptions regarding the OPEB discount rate and future benefits to be paid.

The Public Works and Transportation Department expenses increased by $10.3 million, or 8.1 percent, primarily due to increased personnel and vehicle costs this fiscal year.

Community and human services expenses increased by $7.8 million, or 5.5 percent in FY 2019-20, primarily due to an increase in community and City services funded through the Sugar-Sweetened Beverage Tax (Measure HH).

In FY 2019-20 general government expenses decreased by $13 million, or 7 percent, primarily due to changes in actuarial assumptions regarding the OPEB discount rate and future benefits.

Exhibit 10: City of Oakland expenses for governmental activities by source in FY 2018-19 and FY 2019-20 (thousands)



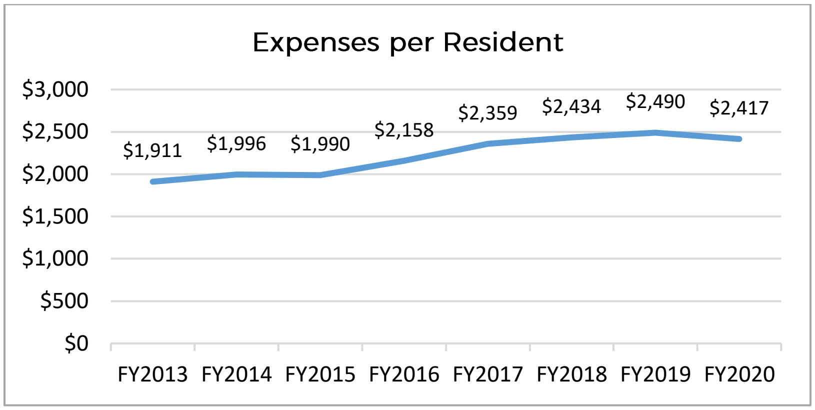
Source: Oakland ACFRs

For an eight-year summary of expenses for governmental activities by type and the percentage change from FY 2012-13 through FY 2019-20 (thousands), see Appendix B.

City Expenses Per Resident

The City's expenses per resident related to governmental activities increased by 26 percent from $1,911 in FY 2012-13 to $2,417 in FY 2019-20, as seen in Exhibit 11. Such an increase in expenses could indicate new services were added, and/or service delivery has become more expensive, in addition to inflation and cost of living adjustments.

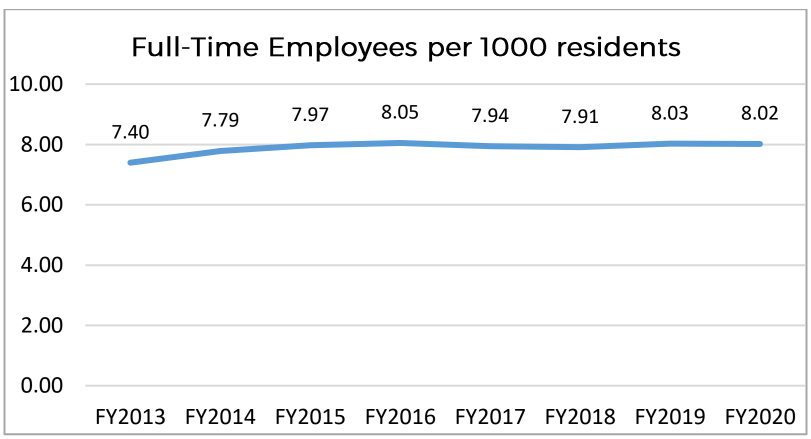
Exhibit 11: Eight-year summary of expenses per resident



Source: Oakland ACFRs

Between FY 2012-13 and 2019-20 the number of full time employees (FTEs)[5] per 1,000 residents increased slightly from 7.4 to 8.02, as shown in Exhibit 12.

Exhibit 12: **City of Oakland's full-time employees per 1,000 residents from FY 2012-13 through FY 2019-20**

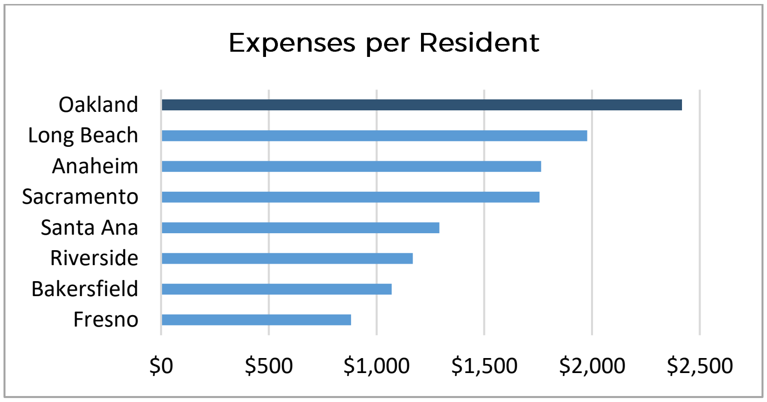


Source: Oakland ACFRs

As Exhibit 13 shows, Oakland has the highest expenses per resident of the benchmarked cities. In FY 2019-20 Oakland's expenses per resident was $2,417, while the benchmarked cities' expenses per resident ranged from $882 to $1,977.

[5] An FTE is the hours worked by one employee on a full-time basis or the hours worked by several part-time employees added together into a full FTE.

Exhibit 13: Comparison of other cities' governmental activities expenses per resident for FY 2019-20



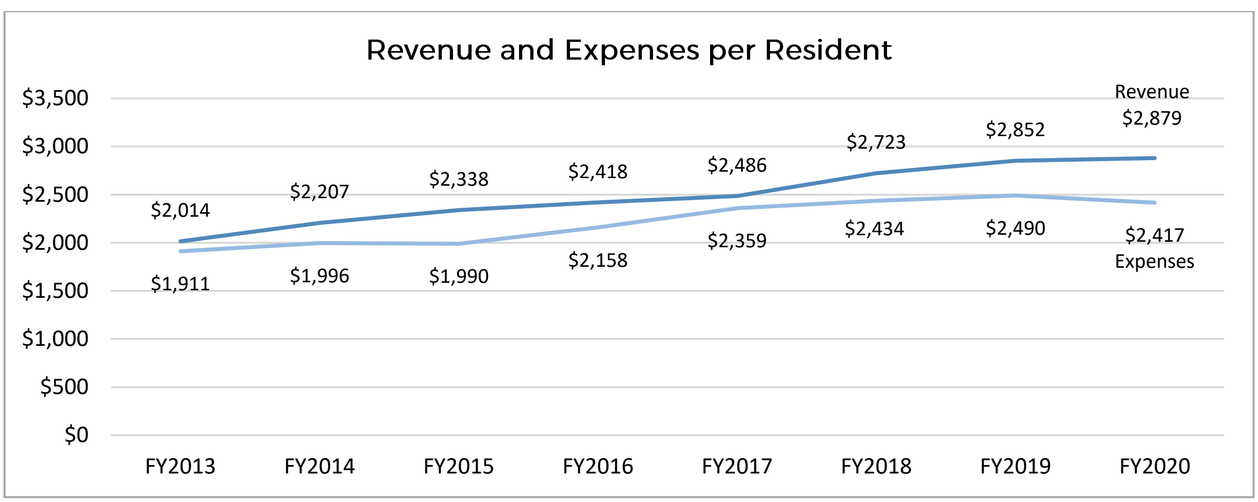
Source: Oakland and other cities ACFRs

City Revenues Compared to Expenses

Revenue related to governmental activities have exceeded expenses annually for the last eight years as shown in Exhibit 14. The City's revenue per resident related to governmental activities increased by 43 percent from FY 2012-13 to FY 2019-20, while expenses per resident related to governmental activities increased by 26 percent during the same period. The trend in revenues exceeding expenses is in part due to business and property tax growth and a strong local economy.

While revenues per resident exceed expenses per resident, this analysis does not incorporate the portion of revenues that are restricted and not available to meet the annual operating expenses of the government. The net position analysis presented later in the report analyzes the resources available for the City to use for providing services after its debts are settled and its fund restrictions are factored in.

Exhibit 14: Revenue and expenses per resident for governmental activities between FY 2012-13 and FY 2019-20



Source: Oakland ACFRs

03

GOVERNMENT FUNDS

Why Are Government Funds Important to Financial Condition?

The purpose of this report is to provide an overall picture of the City's financial health. The first two sections of this report provide a picture of the City's government-wide revenues and expenses. This section provides a snapshot of the City's near-term financial condition and uses information from the City's governmental fund financial statements.[6] To better assess the City's near-term financial situation, it is important to have a general understanding of governmental funds and the discretion the City has in spending these funds to provide City services.

What is the Difference Between Government-wide Financial Statements and Fund Financial Statements?

The City's Annual Financial Report (ACFR) includes government-wide financial statements and governmental fund financial statements and each play very different, but equally important roles.

Government-wide financial statements are designed to provide a broad overview and long-term perspective of the City's financial position. Accordingly, they report inflows and outflows of resources as soon as the underlying event has occurred, regardless of the timing of related cash flows. Thus, revenue is recognized in government-wide financial statements as soon as it is earned or in the case of grants, as soon as all eligibility requirements have been met, even if collection will not actually occur until much later. Accountants describe this approach to revenue recognition, which deliberately ignores the timing of related cash flows, as the accrual basis of accounting.

Governmental fund financial statements focus on near-term inflows and outflows[7] of resources, consistent with the operating budget. As a practical matter, resources that will not be collected until well into the following year, or even later, cannot be used to pay for the current year expenditures and short-term financial commitments, and so are irrelevant to this near-term focus. Accordingly, it is not enough that earning has occurred or that eligibility requirements have been met to recognize revenue in governmental funds. Resources must be received in the near-term or readily available to be used to satisfy a government's near-term financial obligations. This approach is known as the modified accrual basis of accounting.

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[6] Governmental fund financial statements and Government-wide financial statements report on essentially the same government functions yet have a different time focus, near-term versus long-term. For example, governmental fund revenues versus government-wide revenues, provides the reader with insights on resources available in the near term versus the long-term.

[7] Inflows and outflows refer to inflows or outflows of cash and other assets that can be easily converted to cash in the near-term or readily available to be used to satisfy a government's near-term financial obligations.

Government Fund Accounting

Government accounting is far more complex as compared to normal accounting that is carried out by businesses. Governments need to be accountable in terms of the monies they receive since they are generated from public collections, such as taxes. Governments must also ensure the monies are spent in service to the public.

As such, government fund accounting is used to maintain control over public resources, including monitoring resource inflows and outflows, with particular attention to the remaining amount of funds available. By segregating resources into multiple funds, a government can more closely monitor resource usage, thereby minimizing the risk of overspending or the unauthorized use of revenues.

In the Near Term Does the City Have the Resources to Finance Its Current Needs?

To better assess the City's near-term financial situation, it is essential to understand the discretion the City has to spend Governmental Funds on City services. The funnels in Exhibit 15 below show revenues and expenditures for:

- **Governmental Funds** account for most of the City's basic services such as police, fire, and other general government services. These funds are organized according to their type: special revenue, capital projects, debt service, and the General Fund, and include both restricted and unrestricted revenues. **Restricted revenues** are established by local ordinances, the City Charter, federal and state laws, and grant agreements, specifying how the monies can be spent. **Unrestricted revenues** are the funds that can be appropriated by City Council during the City's biennial budget cycle.

- **General Fund** is a group of funds that the City categorizes for general use of citywide functions, the largest of which is the General Purpose Fund. The General Fund includes both restricted and unrestricted revenues.

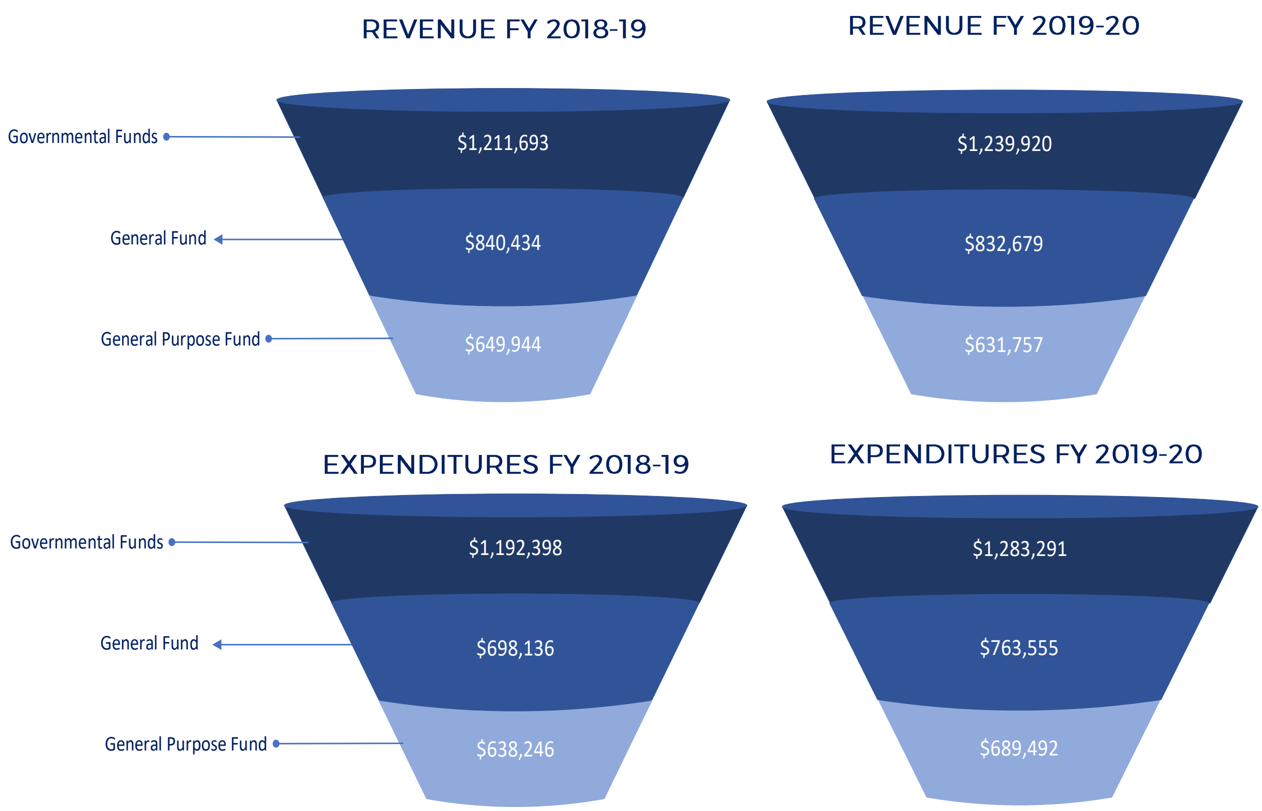
- **General Purpose Fund** is one specific fund within the General Fund. The General Purpose Fund is the City's primary operating fund and its revenues are not restricted for specific purposes and activities.

During the budget process, the City focuses on the General Purpose Fund revenues because its revenues are not restricted for specific purposes and activities. This fund provides policymakers flexibility on how to appropriate its revenues to address the City's most pressing needs.

Most City operations are at least partially funded by the General Purpose Fund. These operations provide community services, such as public safety, parks and recreation, public works, transportation and library services, as well as vital support functions such as finance, legal, audit, and human resources. The General Purpose Fund is mostly supported by the City's taxes, fees, and service charges.

Exhibit 15 below shows revenues and expenditures by Governmental Funds, General Funds, and the General Purpose Fund for FY 2018-19 and FY 2019-20. This exhibit is designed to illustrate the restrictions on funding.

Exhibit 15: **Summary of revenues and expenditures by fund level for FY 2018-19 and FY 2019-20 (thousands)**



Difference between General Purpose Fund Revenues & Expenditures	**$11,698**	**$(57,735)**

Source: Governmental Funds and General Fund – Oakland ACFRs; General Purpose Fund – Oracle, City's financial reporting system

The City Council only has full discretion over the use of General Purpose Fund revenues, which accounted for $650 million, or 54 percent of the $1.2 billion of the total revenues collected in FY 2018-19; and $632 million, or 51 percent of the $1.2 billion in revenues collected in FY 2019-20, as Exhibit 15 shows.

This exhibit also shows overall Governmental Funds revenue **increased** by $28 million, General Fund revenues **decreased** by $8 million, and General Purpose Fund revenues **decreased** by approximately $18 million during the same period from FY 2018-19 to FY 2019-20. The increase in Governmental Funds revenue was attributed to increases in property taxes, and federal and state grants, some of which are restricted revenues.

The overall decrease in General Fund revenues is the net effect of property taxes increasing by $29.8 million, while the following decreased: real estate transfer tax by $13.4 million, transient occupancy tax by $6.3 million, sales and use taxes by $6.5 million, business license tax by $1.7 million, parking tax by $2 million, charges for services by $5 million, and fines and penalties by $2.4 million.

Exhibit 15 shows that expenditures in **all categories of funds increased**. Governmental Funds expenditures increased by $91 million, General Fund expenditures increased $65 million, and the General Purpose Fund's expenditures increased by $51 million during the same period from FY 2018-19 to FY 2019-20. The General Fund increases in expenditures are attributed mainly to a $50 million increase in public safety costs due to the negotiated cost of living adjustment and overtime for sworn employees, a $9.7 million increase primarily from additional community and City services funded through the Sugar-Sweetened Beverage Tax (Measure HH), a $6.3 million increase in general government costs attributed to the negotiated cost of living adjustment, a $2 million increase in capital project expenditures and a $3 million decrease in debt service payments.

Lastly, Exhibit 15 highlights that General Purpose Fund revenues outpaced expenditures by $11.7 million in FY 2018-19; however, General Purpose Fund expenditures outpaced revenues by $57.7 million in FY 2019-20. This is a negative change of $69 million. When General Purpose Fund expenditures exceed General Purpose revenues, as occurred in FY 2019-20, it warrants immediate attention from the City Administration and the City Council.

04

LONG-TERM DEBT and LIABILITIES
(not including pension and OPEB)

What Is Long-Term Debt?

The City borrows money to pay for major capital improvements and long-term obligations. By borrowing money, the City can spread costs across many years. The majority of the City's long-term debt (not including pension and other post-employment benefits) comes from issuing bonds. A bond could be thought of as an I.O.U. ("I owe you") between the lender and borrower that includes the details of the loan and its payments. To borrow money, the City issues four different types of bonds to finance governmental activities, as detailed in Exhibit 16:

Exhibit 16: City of Oakland bond types as of FY 2019-20

Bond Type	Used to Support or Fund	Funded by
General obligation bonds	Infrastructure improvements (e.g. Measure KK, Measure DD, Measure G)	Property Taxes
Lease revenue bonds	Payment for improvements on the Oakland Administration Buildings	Lease payments made by the City's General Fund
Pension obligation bonds	A portion of the City's unfunded actuarial accrued liability for retirement benefits to members of the Police and Fire Retirement System (PFRS)	Primarily funded by property taxes
Special assessment district bonds	Improvements in specific assessment districts. (e.g. underground street lighting in Piedmont Pines neighborhood)	Assessments levied on real property within specific assessment districts

Source: Auditor summary of information gathered from bond issuance documentation

How Much Long-Term Debt Does the City Have?

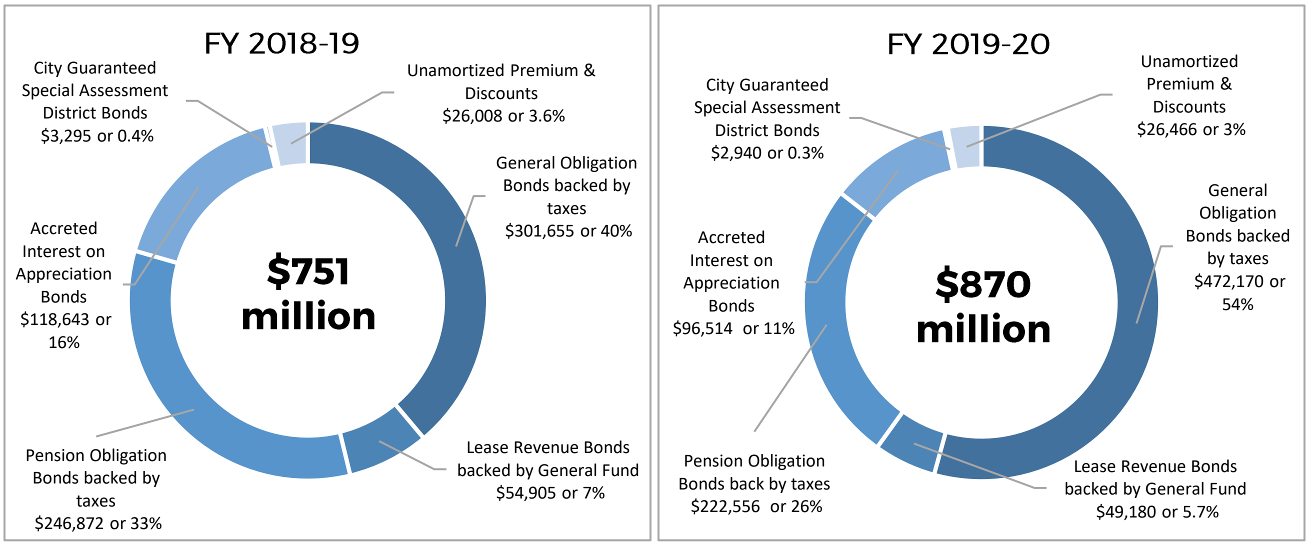
The City's total outstanding bond debt increased 16 percent from $751 million in FY 2018-19 to $870 million in FY 2019-20. Exhibit 17 shows the changes in the composition of the City's bond debt from FY 2018-19 to FY 2019-20.

The composition of the bond debt and the changes over the last two fiscal years are shown below:

- Debt from general obligation bonds increased by 57 percent from $302 million in FY 2018-19 to $472 million in FY 2019-20. This debt increase is the result of the City issuing $185 million in general obligation bonds associated with Measure KK (Infrastructure and Affordable Housing Bond) in FY 2019-20.

- Debt from pension obligation bonds decreased by 10 percent from $247 million in FY 2018-19 to $223 million in FY 2019-20.
- Debt from lease revenue bonds decreased by 10 percent from $55 million in FY 2018-19 to $49 million in FY 2019-20.

Exhibit 17: City of Oakland debt by type in FY 2018-19 and FY 2019-20 (thousands)[8]



Source: Oakland ACFRs

Credit Ratings

Maintaining a strong credit rating reduces borrowing costs because investors consider the debt less risky. For the last eight years, the City had an Aa3 (Moody's) rating or higher on its bond obligations. This means the City is considered stable by the credit agencies. Despite issuing more debt in FY 2019-20, the City's bond ratings improved slightly and remain categorized as "very strong" as Exhibit 18 below shows.

Exhibit 18: City of Oakland bond ratings as of FY 2019-20

Type	% of City Total Debt[9]	Moody's Rating	Credit Quality
General Obligation Bonds	63%	Aa1	Very Strong
Lease Revenue Bonds	7%	Aa2	Very Strong
Pension Obligation Bonds	30%	Aa2	Very Strong

Source: Oakland ACFRs

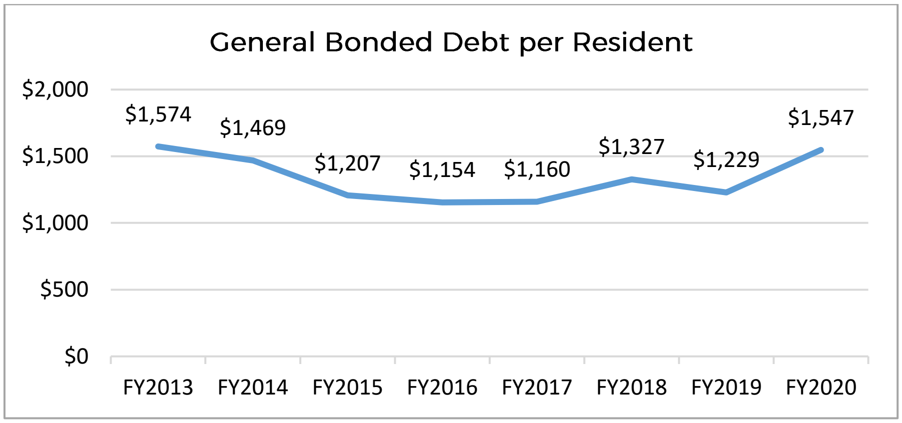
[8] Accreted interest means accrued interest on a bond that is added to the principal amount of the bond instead of being paid as it accrues.

[9] Percentage of total City debt rated by Moody's includes only general obligation bonds, lease revenue bonds, and pension obligation bonds, and does not include accreted interest on appreciation bonds, City guaranteed special assessment district bonds, or unamortized premium and discounts.

City General Bonded Debt Per Resident

As Exhibit 19 shows, the City's debt backed by property taxes, including general obligation and pension obligation bonds (general bonded debt) per resident increased by 26 percent, from $1,229 in FY 2018-19 to $1,547 in FY 2019-20.

Exhibit 19: Eight-year summary of debt per resident from FY 2012-13 through FY 2019-20



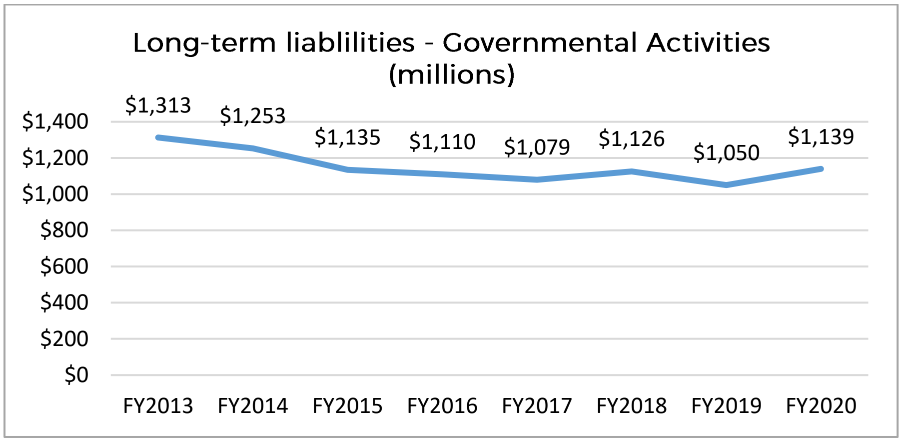
Source: Oakland ACFRs

In addition to bonds, the City has various other types of long-term liabilities. These include loans, capital leases, accrued vacation and sick leave, the City's self-insurance of workers' compensation and general liability.

The City has increased its total long-term liabilities associated with governmental activities from $1.05 billion in FY 2018-19 to $1.14 billion in FY 2019-20, or 8 percent.

As Exhibit 20 shows, the City's long-term liabilities per resident were decreasing until FY 2019-20, when the City issued $185 million in general obligation bonds to improve infrastructure and finance affordable housing projects in accordance with Measure KK.

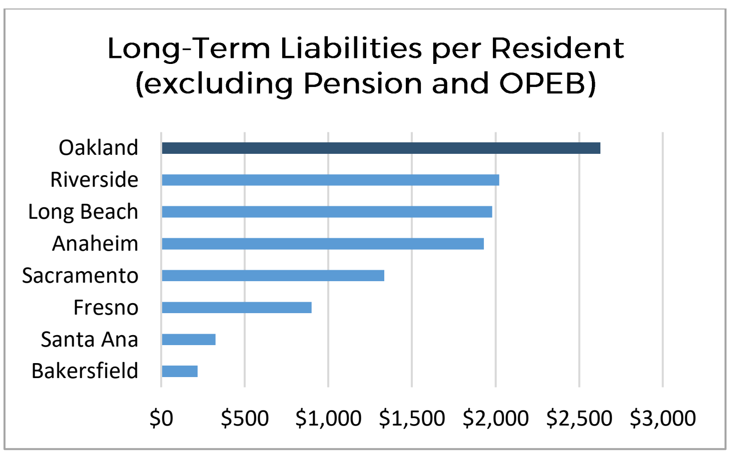
Exhibit 20: Eight-year summary of long-term liabilities for governmental activities



Source: Oakland ACFRs

The City's long-term liabilities per resident is higher than any of the benchmarked cities. Exhibit 21 indicates in FY 2019-20 Oakland's long-term liability was $2,627 per resident, while the other benchmarked cities ranged from $2,021 to $218.

Exhibit 21: Comparison of other cities' long-term liabilities (excluding pension and OPEB) per resident for FY 2019-20



Source: Oakland and other cities ACFRs

05

PENSION and OTHER POST-EMPLOYMENT BENEFITS LIABILITIES

This section describes the City's pension liabilities and OPEB costs and liabilities, which are significant long-term financial obligations for the City. The City has three defined benefit retirement plans:

- Oakland Police and Fire Retirement System (PFRS),[10]
- California Public Employees Retirement System (CalPERS) Miscellaneous Plan, and
- CalPERS Public Safety Plan (CalPERS).[11]

Defined benefit retirement plans are the pensions where workers and their employers agree to contribute to the pension funds over time for a guaranteed source of retirement income. The City's defined benefit plans guarantee a retirement income based on the employees' salary and years of service at retirement. See Appendix C for details on the number and type of participants in each plan between fiscal years 2014-15 and 2019-20.

Recent accounting changes require the City to recognize unfunded pension obligations and OPEB in its net position calculation. Governmental Accounting Standards Board Statement 68 and Statement 75 (or GASB 68 and 75) require government entities providing defined benefit plans to report the total long-term cost of these benefits as a liability in their annual financial reports. Prior to this requirement, plans only reported the yearly contributions required to cover benefits in annual reporting. In other words, the City is now required to quantify the future benefits to be paid and then compare this number to the current value of pension assets. It's like comparing the mortgage on your recently purchased home to your savings account.

Net Pension Liabilities

To determine whether the City has a pension liability, the benefits already earned by employees (total pension liability) need to be compared to the resources accumulated and held in trust to pay those benefits (fiduciary net position). The difference between the two amounts is the net pension liability (total pension liability - fiduciary net position = net pension liability). If the resources held in trust are less than

[10] PFRS is a closed single employer pension plan that covers public safety employees hired prior to July 1976. The City contributes, at a minimum, such amounts that are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to PFRS members. The City is required to fund all liabilities for future benefits for all members by June 30, 2026.

[11] All civilian City employees and sworn fire and police personnel hired after July 1976 are participants in the California Public Employees' Retirement System (CalPERS) Safety Plan and the CalPERS Miscellaneous Plan. These plans are funded on an actuarial determined basis each year pursuant to CalPERS requirements. The annual actuarial determined cost includes a percentage of payroll to account for the normal cost, and an additional fixed amount to fund the unfunded liability.

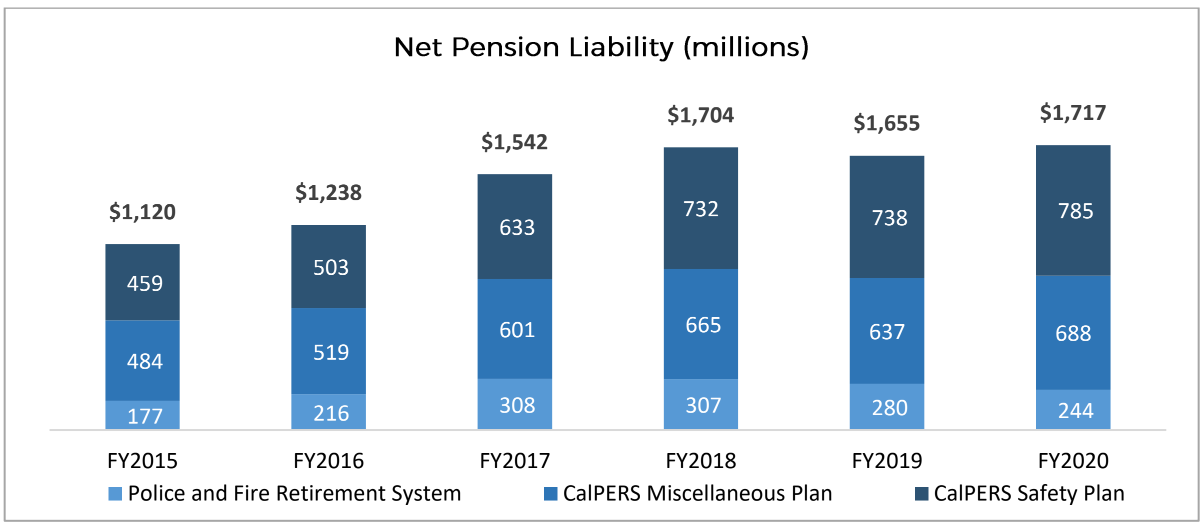
the pension liability, a pension shortfall exists. In other words, the employer and employee contributions to the plan, combined with investment earnings, are not enough to cover the anticipated payments due retirees.

As of June 30, 2020, the total net pension liability was $1.717 billion.[12] The City's net pension liability was allocated as follows:

- PFRS - $244 million
- CalPERS Miscellaneous plan - $688 million
- CalPERS Safety plan - $785 million

Exhibit 22 below shows the change in the net pension liability for PFRS, CalPERS Miscellaneous, and CalPERS Safety plans from FY 2014-15 through FY 2019-20.[13] As Exhibit 22 shows, the City's total pension liability has grown by approximately $597 million over the last six years.

Exhibit 22: Six-year summary of the City's net pension liability by pension plan from FY 2014-15 through FY 2019-20 (millions)



Source: Oakland ACFRs

Funded Ratio

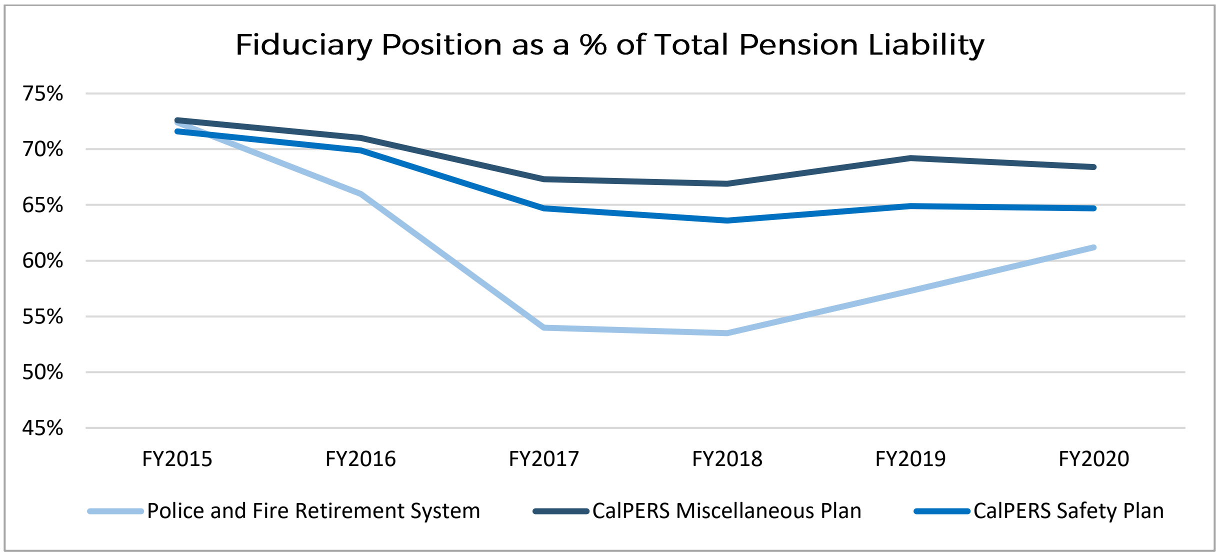
The funded ratio is another way to examine the financial health of a pension plan status at a point in time. The funded ratio of a pension plan equals the value of assets in the plan divided by a measure of the pension obligation. Many experts consider a funded ratio of about 80 percent or better to be generally sound for government pensions. Additionally, a July 2012 Issue Brief published by the American Academy of Actuaries noted that pension plans should have a strategy in place to attain a funded status of 100 percent over a reasonable period of time.

[12] Total Net Pension Liability excludes the Port of Oakland pensions.

[13] Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only six years of information is shown.

Since FY 2014-15, the funded ratio of each of the City's three pension funds decreased as Exhibit 23 demonstrates. Compared to the previous fiscal year, however, the funded ratios for the FY 2019-20 stayed relatively constant. The PFRS funded percentage increased from 57 percent in FY 2018-19 to 61 percent in FY 2019-20. The CalPERS Miscellaneous plan declined from 69 percent to 68 percent, and CalPERS Safety plan's funded ratio stayed at 65 percent when FY 2018-19 and FY 2019-20 is compared.

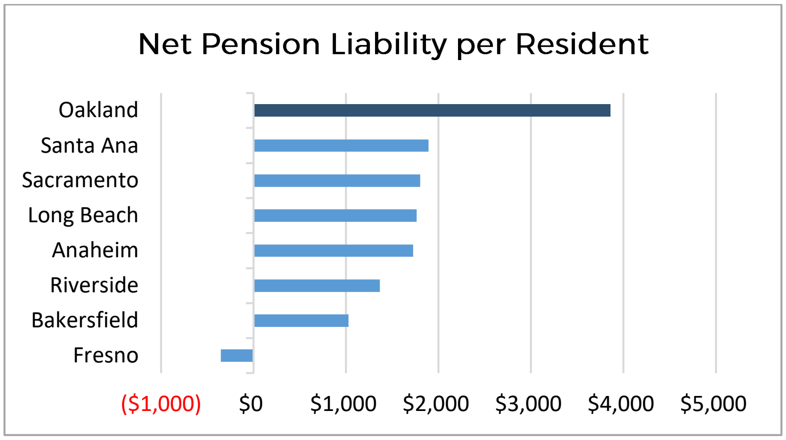
Exhibit 23: Six-year summary of funded ratio for pension plans from FY 2014-15 through FY 2019-20



Source: Oakland ACFRs

Exhibit 24 below shows the net pension liability per resident in FY 2019-20 for Oakland and the benchmarked cities. The City had a $3,856 net pension liability per resident, which is the highest among all the other benchmarked cities which range between $(355) to $1,890.

Exhibit 24: Comparison of other cities' net pension liability per resident for FY 2019-20[14]



Source: Oakland and other cities ACFRs

OPEB Liabilities

Other Post-Employment Benefits (OPEB) are benefits other than pensions that the City provides to its retired employees. The benefits include the opportunity to participate in regional health insurance plans offered through CalPERS, and covers a portion of the health insurance premiums, varying by job classification. Traditionally, the City has paid OPEB benefits using a "pay-as-you-go" system. That is, the City paid for the cost of these benefits from current revenues, instead of allocating funds to pay for future cost of these benefits.

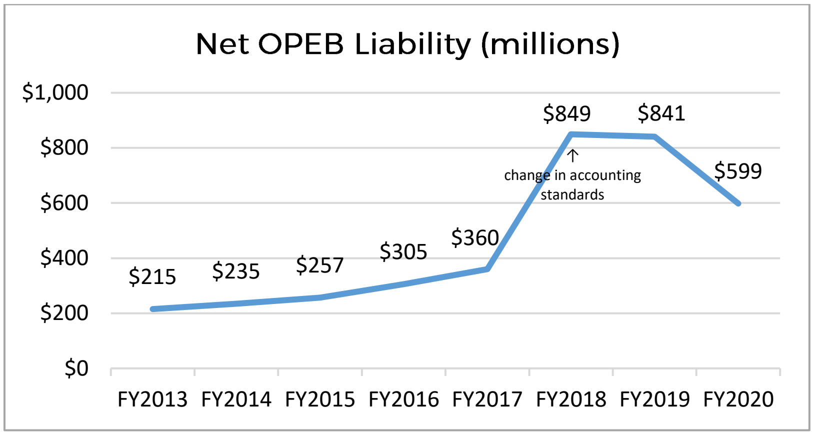
As Exhibit 25 shows, the City's Net OPEB liability has decreased from $841 million in FY 2018-19 to $599 million in FY 2019-20, a 40 percent decrease. This $242 million decrease is mainly due to changes in actuarial assumptions regarding the discount rate and future benefits to be paid. Specifically, in recent years the City has reached agreement with its sworn public safety unions to cap retiree medical benefits for existing employees and retirees effective January 1, 2020, and implement new, lower-cost tiers for employees hired after January 1, 2019. These reforms are expected to provide significant long-term relief to the City's retiree medical program and began to have positive impacts on the City's net position in FY 2019-20, see section 6 in this report.

Additionally, on February 26, 2019, the City Council adopted a resolution establishing the OPEB Funding Policy providing for ongoing pre-funding contributions of 2.5 percent of payroll, equal to approximately $10 million per year. These amounts are in addition to pay-as-you-go requirements and are intended to enhance the sustainability of the City's retiree medical program.

[14] The City of Fresno is the only city in our benchmark sample that does not have an active pension plan administered by CalPERS. Fresno's two pension plans are administered by independent retirement boards.

In response to the financial crisis accompanying the COVID pandemic, the City Council postponed these contributions in June 2020, for FY 2019-20 and FY 2020-21, consistent with emergency provisions in this policy. This directive is expected to impact the City's funded ratio in the upcoming fiscal years. The City plans to resume normal contributions once the City's revenues have recovered.

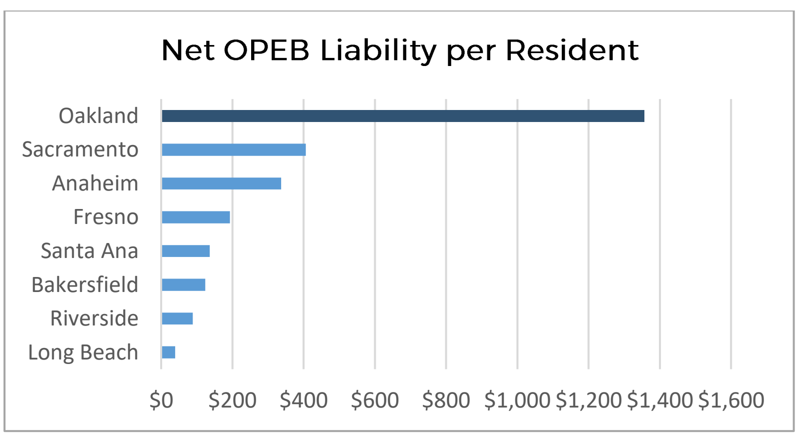
Exhibit 25: Eight-year summary of net OPEB liability (millions)[15]



Source: Oakland ACFRs

As Exhibit 26 below shows Oakland has the highest OPEB liability per resident of the benchmarked cities. In FY 2019-20 Oakland's net OPEB liability per resident was $1,356 and is significantly higher than the other benchmarked cities. The OPEB liability for the benchmarked cities ranged from $39 to $406 per resident. Some of the benchmarked cities like Bakersfield, Fresno, Long Beach and Riverside, have stopped offering this benefit to new employees, while others partially fund their plans.

Exhibit 26: Comparison of other cities' net OPEB liability per resident for FY 2019-20



Source: Oakland and other cities ACFRs

[15] GASB 75 required OPEB liabilities (future benefit payments) to be included on the financial statements as of FY 2017-18

06

FINANCIAL and OPERATING POSITION

What is Financial and Operating Position?

Financial position, also known as net position, measures Oakland's financial standing at a point in time. Operating position indicators measure the City's ability to balance its budget on a current basis, maintain reserves for emergencies, and have sufficient liquidity to pay its bills on time. Measures for net position, liquidity, and reserves are presented below.

Net Position

The statement of net position reports the City's assets, liabilities, and the difference in their totals at a specific point in time, usually at the last day of the fiscal year. The City's assets include resources owned by the City that are restricted to a specific purpose, or are invested in capital assets such as buildings, roads, bridges, etc., and unrestricted assets. Liabilities are amounts owed to lenders, contractors, bond holders, and suppliers.

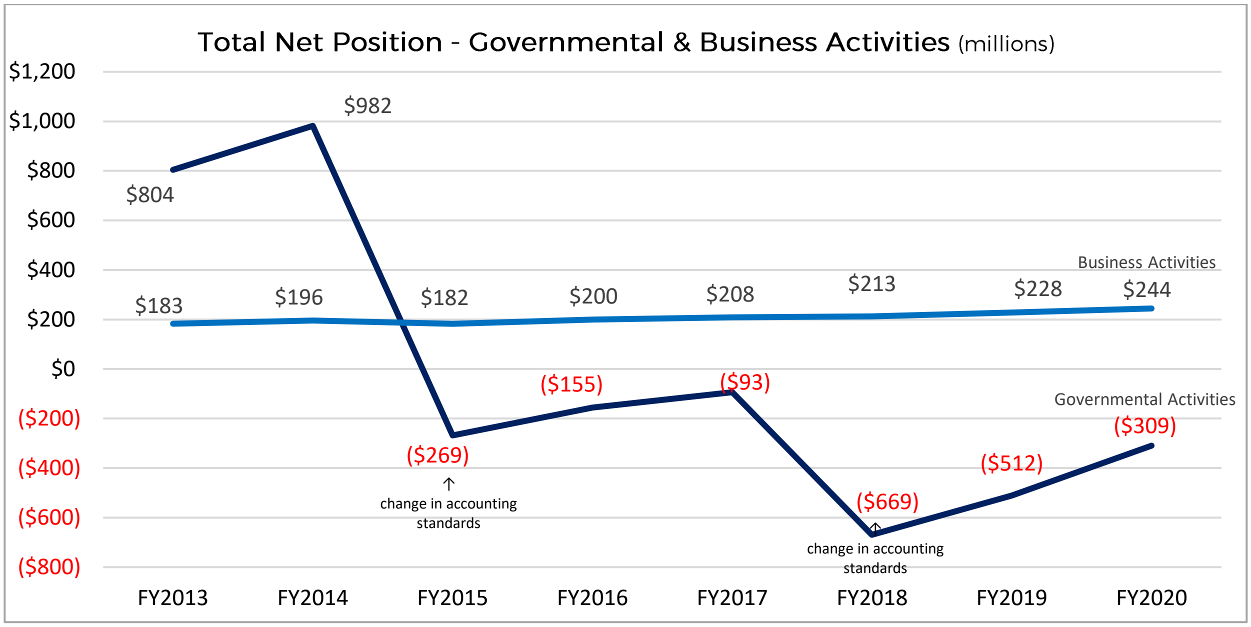
Net position represents the resources remaining for the City to use for providing services after its debts are settled. However, these resources are not always in a spendable form and may have restrictions on how some of the resources can be used. To clarify these, we divided this section into total net position and unrestricted net position.

Total Net Position

Oakland's total net position related to governmental activities (restricted and unrestricted) declined 138 percent from FY 2012-13 to FY 2019-20, from $804 million to $(309) million as shown in Exhibit 27. As mentioned earlier, changes in accounting practices required the City to recognize the unfunded pension and OPEB liabilities in its financial statements. These reporting changes in fiscal years 2014-15 and 2017-18 significantly increased the City's total recorded liabilities and significantly decreased its total net position.

The City's net position improved slightly between FY 2018-19 and FY 2019-20, mostly due to the reduction in the net OPEB liability resulting from the reforms that occurred in FY 2018-19, when the City reached agreement with its sworn public safety (Fire and Police) unions to cap retiree medical benefits for existing employees and implement new, lower-cost tiers for employees hired after January 1, 2019. These reforms provide significant, and much needed, long-term financial relief to the City's retiree medical program.

Exhibit 27: City of Oakland's total net position (governmental and business activities) between FY 2012-13 and FY 2019-20 (millions)



Source: Oakland ACFRs

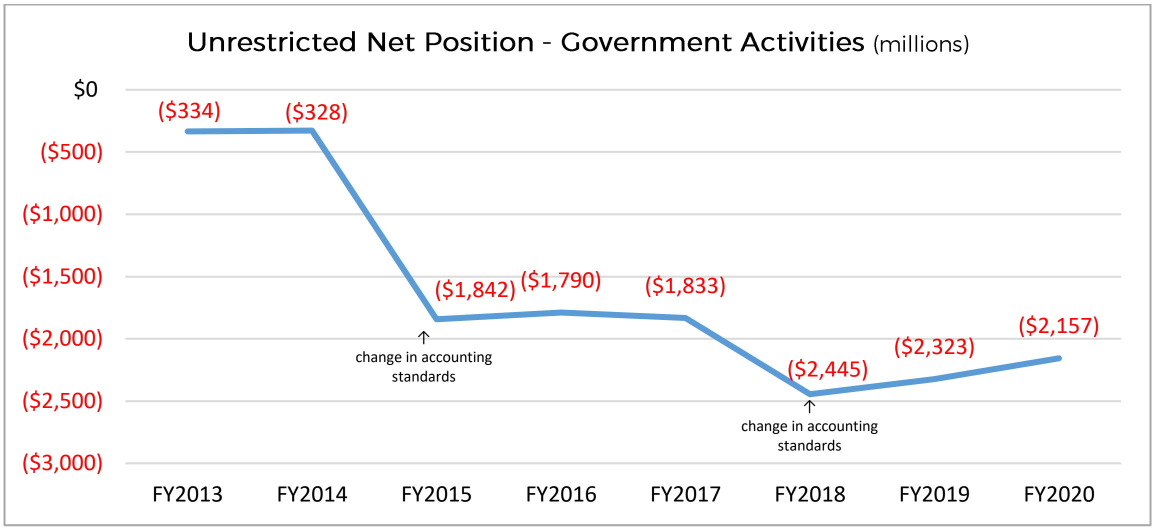
Unrestricted Net Position

Unrestricted net position represents the City's financial position that is not restricted for any project or purpose; it is Oakland's ability to maintain governmental services when faced with unexpected expenses. Unrestricted net position is a more revealing, long range indicator of the City' financial condition.

The calculation of unrestricted net position can include long-term receivables and long-term liabilities. For example, it might include a loan receivable that will not be collected for another three years (which would not currently be available for spending) or a liability for vacation leave (which would not require the use of resources in the near term). Accordingly, those desiring to know what near-term resources are available for spending for general government purposes should refer to Section 3 of the report subtitled, **"In the near term, does the City have the resources to finance its current needs?"** instead of the amount reported as unrestricted net position - governmental activities in the government-wide financial statements.

Exhibit 28 below shows the City's unrestricted net position's general trend over the eight-year period has always been negative. However, an improvement in the unrestricted net position occurred between fiscal years 2018-19 and 2019-20 and is mostly due to the reduction in the OPEB liability. The negative unrestricted net position does not mean that the City does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than its available resources.

Exhibit 28: Unrestricted net position for governmental activities between FY 2012-13 and FY 2019-20 (millions)

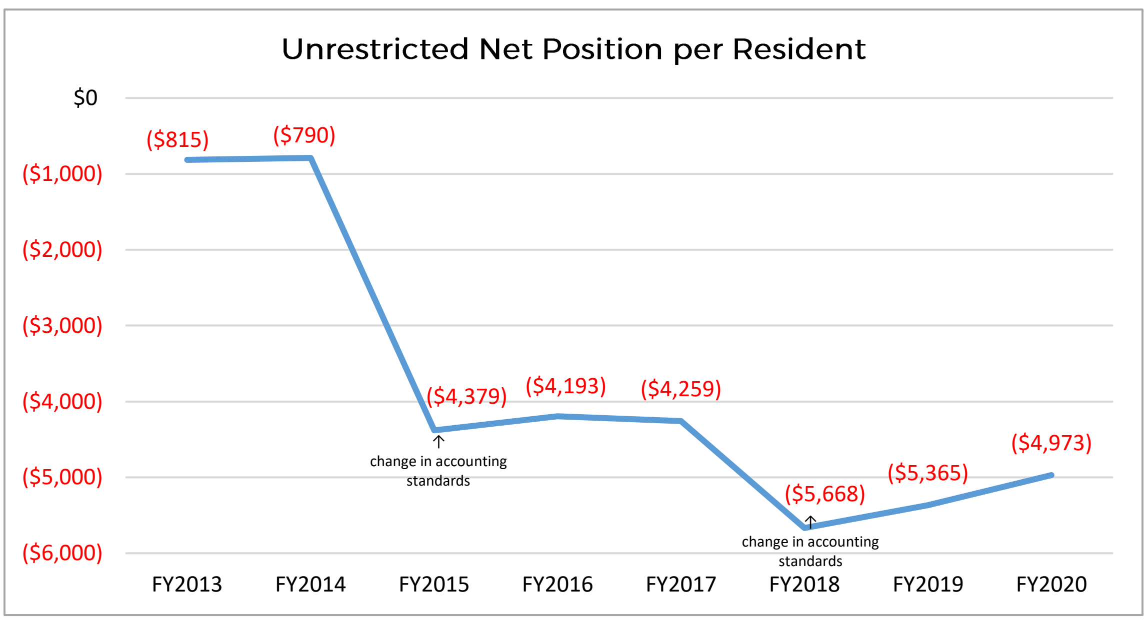


Source: Oakland ACFRs

Unrestricted Net Position Per Resident

One way of placing unrestricted net position in context is to calculate unrestricted net position per resident. The City's total unrestricted net position per resident for governmental activities increased 510 percent from $(815) in FY 2012-13 to $(4,973) in FY 2019-20, as shown in Exhibit 29.

Exhibit 29: Eight-year summary of unrestricted net position per resident for governmental activities from FY 2012-13 to FY 2019-20

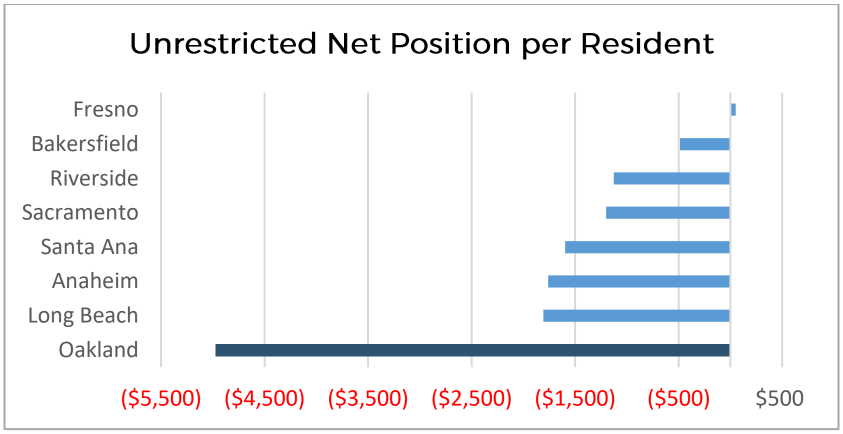


Source: Oakland ACFRs

In FY 2019-20, Oakland's total unrestricted net position was ($4,973) per resident. As Exhibit 30 below shows, Oakland had the worst net position per resident for governmental activities of the benchmarked cities.

Oakland is not the only city with a negative unrestricted net position among the benchmark cities, however, Oakland's negative net position is nearly three times worse than the second lowest city on a per resident basis. The other benchmarked cities unrestricted net position ranged from $51 to ($1,807) per resident.

Exhibit 30: Comparison of other cities' governmental activities unrestricted net position per resident for FY 2019-20



Source: Oakland and other cities ACFRs

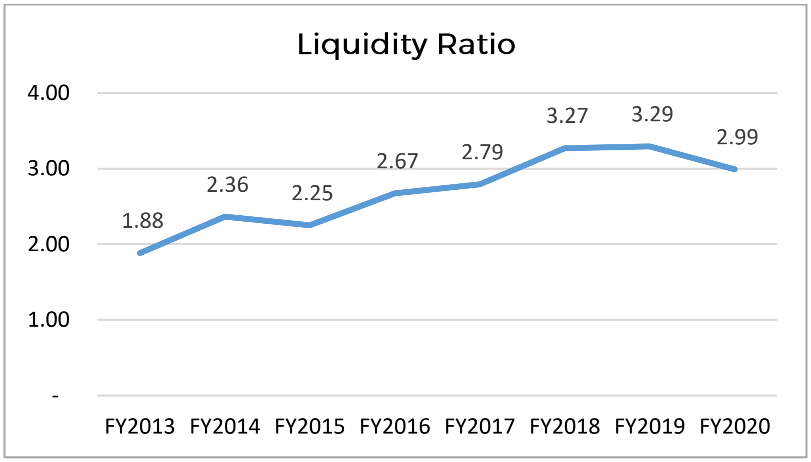
Liquidity

Liquidity is the City's ability to pay its short-term obligations within a year. To measure liquidity the City's cash position (cash on hand, and other assets that can be easily converted to cash, short term investments and accounts receivables) is divided by the City's current liabilities (short-term debt, current portion of long-term debt, accounts payable, accrued and other current liabilities). Typically, a one-to-one ratio is the benchmark whether the City can meet its short-term obligations. A high liquidity ratio means that a City's current assets are higher than liabilities that are due within a year and is considered desirable. Thus, a low or declining ratio can indicate that a City's current liabilities are greater than the City's current assets, signifying greater difficulty for a City to pay its liabilities and/or the City has overextended itself in the long run.

As Exhibit 31 below shows, the City's liquidity ratio for governmental activities was above the ratio of 1:1 and increased from 1.88 to 2.99 during the 8-year period from FY 2012-13 through FY 2019-20.

From FY 2018-19 to FY 2019-20 the City's liquidity ratio for governmental activities declined by 0.3. Although not a significant decrease, the decline may be a sign of the economic impacts of the COVID pandemic.

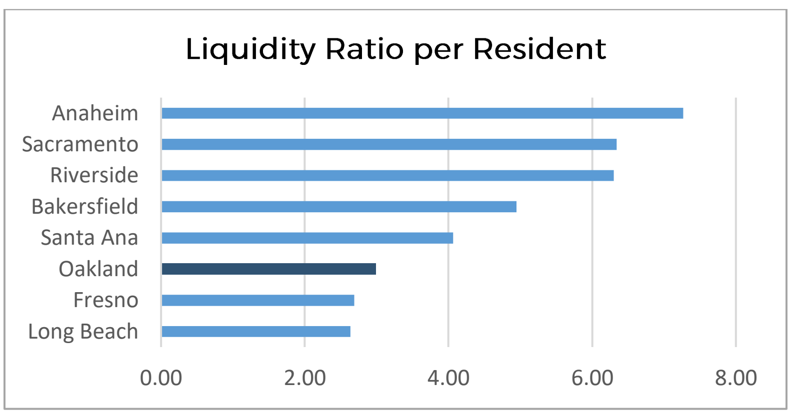
Exhibit 31: Eight-year summary of the City's liquidity ratio for governmental activities



Source: Oakland ACFRs

While Oakland's liquidity ratio was 2.99 in FY 2019-20, its liquidity ratio ranks sixth of the benchmarked cities that have ratios ranging from 4.07 to 7.27 as shown in Exhibit 32. Two cities, Fresno and Long Beach, rank below Oakland with ratios of 2.63 and 2.69.

Exhibit 32: Comparison of other cities' governmental activities liquidity ratio per resident for FY 2019-20



Source: Oakland and other cities ACFRs

Reserves

Reserves are the cornerstone of financial flexibility. Reserves help cities weather multi-year economic downturns, provide essential funding during natural disasters, provide for the support of essential City services, and reduces the financing costs through better credit ratings.

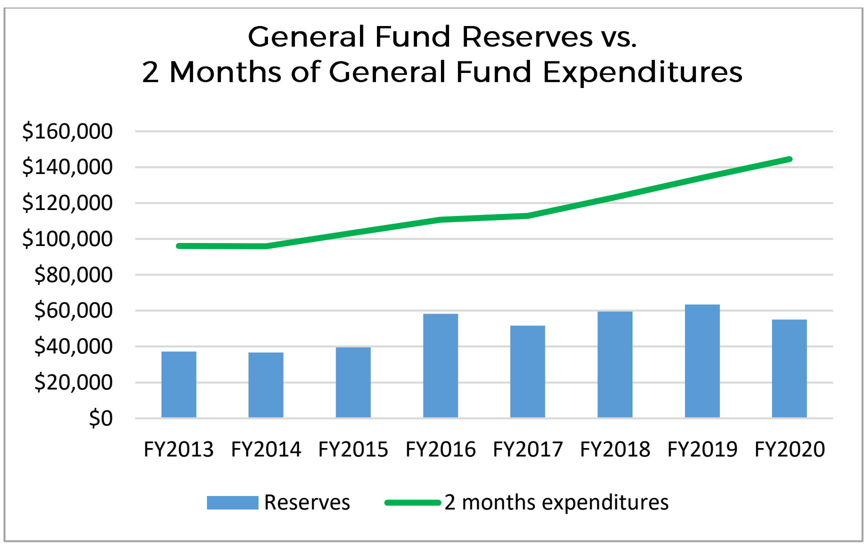
The Government Finance Officer Association (GFOA) has established a recommended reserve policy for governments. The GFOA recommends that governments, regardless of size, maintain an unrestricted budgetary General Fund balance of no less than two months of General Fund operating expenditures.

Furthermore, it emphasizes that each government's situation is different, and governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose, focusing on unassigned fund balance, rather than on unrestricted fund balance.

The City is vulnerable to natural disasters and is dependent on volatile revenue sources. The economic impacts of the COVID pandemic provide an example of why governmental agencies need to set aside significant reserves. Higher reserve levels can protect taxpayers and employees from unforeseen economic impacts. The City currently has two reserve policies, the General-Purpose Fund Reserve[16] and the Vital Services Stabilization Reserve (Rainy Day Policy).

As Exhibit 33 shows, the City's reserves have grown over the previous seven years but declined in FY 2019-20. As of June 30, 2020, Oakland's reserves totaled $55 million, or $90 million[17] less than GFOA's recommended reserve. In other words, the City's reserves do not cover two months of General Fund operating expenditures.

Exhibit 33: Eight-year summary of General Fund reserves compared to two months of General Fund expenditures (thousands)



Source: Oakland ACFRs

In response to the adverse financial conditions caused by the COVID pandemic, in May 2020, the City Council authorized two temporary fiscal policy changes:

- use of excess Real Estate Transfer Tax (RETT) to balance the budget and maintain existing services, thereby suspending the requirement to use a portion of the RETT to fund the OPEB liability, and

[16] The City Administration also refers to it as Economic Contingency Reserve.
[17]Auditor calculation for reserve GFOA requirement: (general purpose fund reserves + vital services stabilization reserves) – (general fund expenditures + general fund transfers)

- use of the Vital Services Stabilization Fund balance of approximately $14.7 million to maintain existing services for FY 2020-21. The City plans to replenish the Vital Services Stabilization Fund from excess RETT, pursuant to the Consolidated Fiscal Policy formula once the City’s revenues have recovered.

07

CONDITION of CAPITAL ASSETS

What Are Capital Assets Indicators?

The City's wealth is invested in its physical assets such as streets, buildings, utility networks and equipment. Capital assets indicators evaluate the condition of the physical assets of the City. If these assets are not maintained, it can result in decreasing usefulness, increasing maintenance and replacement costs, creating large future obligations, and decreasing the attractiveness of the community as a place to live and do business.

Capital Assets

The City manages approximately $1.7 billion (as of FY 2019-20) in total capital assets related to governmental and business type activities. These assets include land, museum collections, intangible assets, construction in progress, facilities and improvements, furniture, machinery and equipment, infrastructure (e.g., streets, streetlights, traffic signals, and parks), sewers, and storm drains. As assets age, their condition declines and the cost of restoring them increases. In the City, the current condition of capital assets varies, and in some cases the condition is unknown.

This report does not include information on the condition of the City's infrastructure, the citywide asset replacement value, or the funding gap for infrastructure needs because the City does not produce an annual citywide capital assets report.

08

DEMOGRAPHIC and ECONOMIC INDICATORS

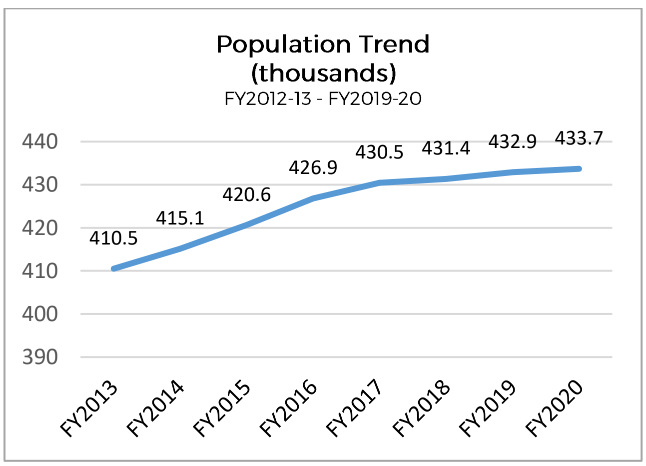
Why Are Demographic and Economic Indicators Important?

Demographic and economic indicators provide information about the needs and resources of the community. Changes in community needs and resources are interrelated in a continuous, cumulative cycle of cause and effect. For example, a decrease in population lowers the demand for housing and can cause a corresponding decline in the market value of housing, and a corresponding reduction in tax revenues. Also, a population decrease can negatively affect retail sales and personal income, causing local government revenues to drop even further. This section presents data on population, unemployment, and property values.

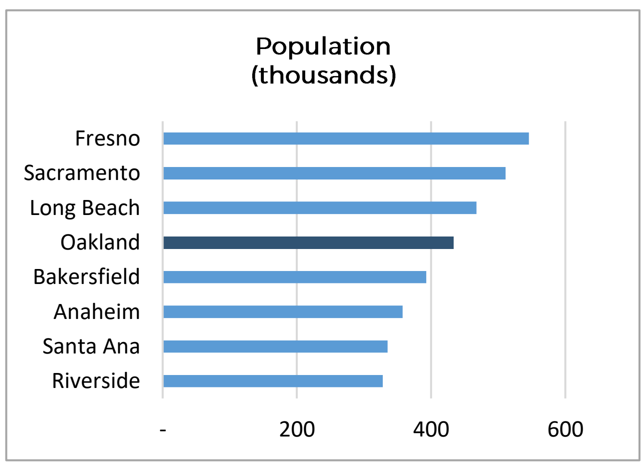
Population

As Exhibit 34 shows, the City of Oakland's population increased by 5.3 percent from FY 2012-13 to FY 2019-20, from 410,511 to 433,697. In 2020, Oakland accounted for about 1.1 percent of California's total population, was the eighth largest city in California, and ranks fourth highest in population of the benchmarked cities.

Exhibit 34: Eight-year population trend and comparison of population of the benchmarked cities for FY 2019-20



Source: Oakland ACFRs

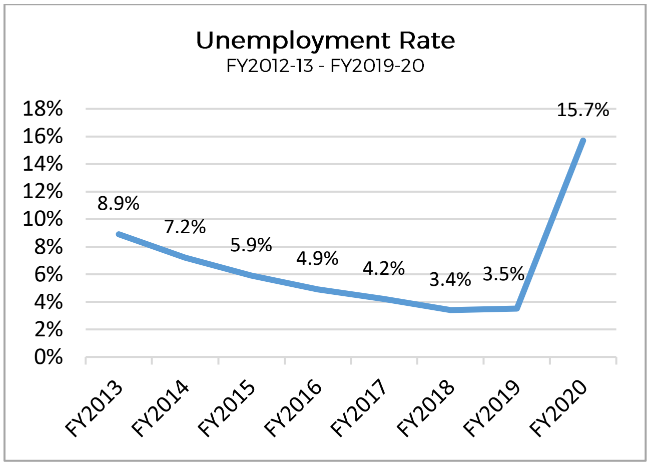


Source: Oakland and other cities ACFRs

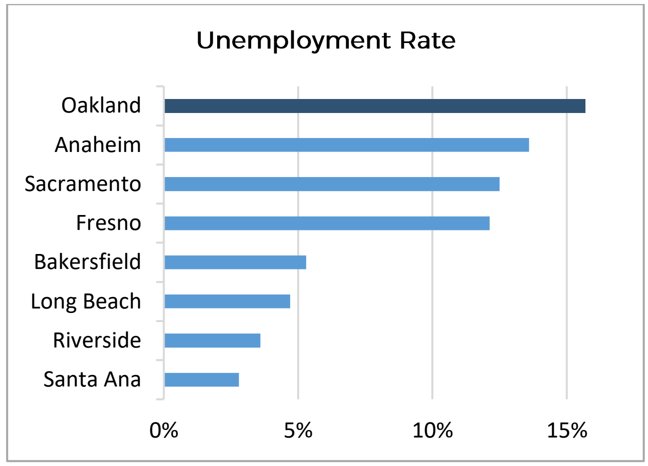
Unemployment

Exhibit 35 highlights the jump in the unemployment rate during the COVID pandemic. The City's unemployment rate skyrocketed from 3.5 percent in FY 2018-19 to 15.7 percent in FY 2019-20, nearly a five-fold increase. Such a jump a could pose significant policy and fiscal implications for the City in the near future. The City also had the highest unemployment rate of the benchmarked cities in FY 2019-20.

Exhibit 35: Eight-year trend for unemployment rate and comparison between cities for FY 2019-20



Source: Oakland ACFRs

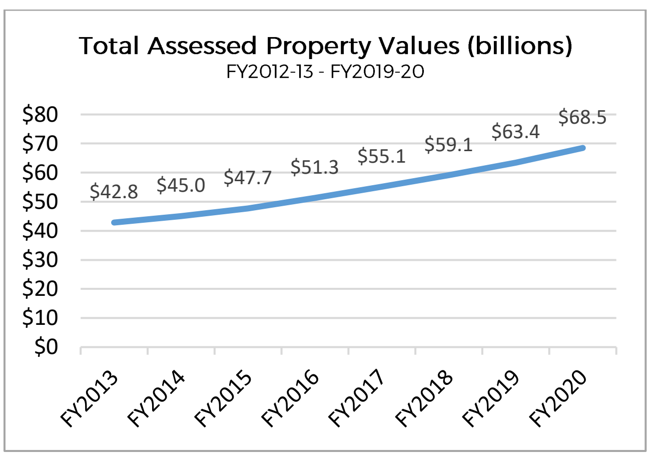


Source: Oakland and other cities ACFRs

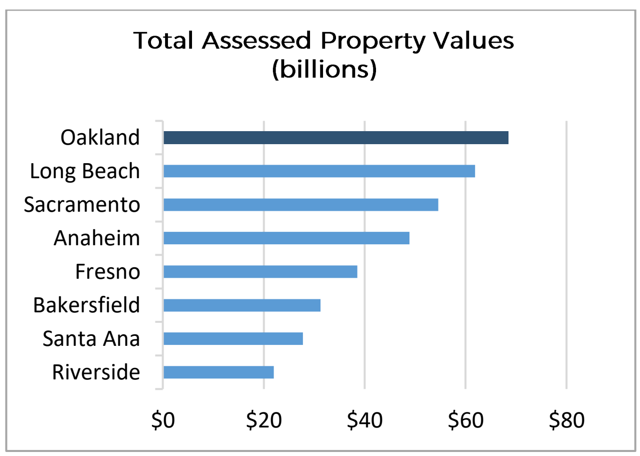
Property Values

Assessed property values in the City of Oakland increased 48 percent from FY 2012-13 to FY 2019-20, from $42.8 billion to $68.5 billion as shown in Exhibit 36 below. The assessed value of properties in Oakland is the highest of any of the benchmarked cities in California.

Exhibit 36: Eight-year trend for assessed property values and comparison between cities for FY 2019-20



Source: Oakland ACFRs



Source: Oakland and other cities ACFRs

RECOMMENDATIONS

The recommendations from the prior year's Financial Condition report remain, and are as follows with a modification to include near-term financial analysis (denoted in *italics*):

1. The City Council should do the following to address the City's unfunded pension and OPEB liabilities:

- Convene a retirement advisory group to gather, evaluate, and organize information for a comprehensive solution to address Oakland's unfunded pension and OPEB liabilities. This Advisory Group will be tasked with designing a plan to impact retirement liabilities on three levels:
    - State/Federal — what legislative changes, if any, are needed to be proposed so that the municipalities may be in better control of their financial future as it relates to pensions and OPEB.
    - CalPERS — does CalPERS serve the needs of all its member agencies and how can Oakland and other municipalities have a greater impact on CalPERS policies.
    - Oakland — what changes may be made now within the restrictions of CalPERS and State Law, and which of these changes can be agreed to by all stakeholders.

  This process should be convened publicly and have clearly defined processes for stakeholder input, including citizens, unions and employees. The Advisory Group should be comprised of a broad cross section of stakeholders, for example, the City should strongly consider including:

    - Academia and pension/OPEB experts.
    - An independent financial consultant with no ties to the City to perform analysis on potential reforms as they are recommended by the Advisory Group.
    - An independent law firm with no ties to the City to evaluate the legality of potential reforms as they are recommended by the Advisory Group.
- Form a coalition of cities to find common ground to support comprehensive solutions at the state level and CalPERS.

2. The City's Finance Department should provide the City Council with an annual analysis of how the City's long-term *and near-term* financial position could be strengthened.

3. The City should develop a reserve policy that is consistent with the GFOA recommendations to maintain unrestricted budgetary General Fund balance of no less than two months of General Fund operating expenditures.

4. The City should have a centralized report of fixed assets to be able to monitor changes in the condition of the assets and evaluate cost associated with maintaining repairing, and replacing them.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to examine the City's financial well-being by calculating financial ratios, analyzing trends in the City's financial data over the past eight-year period, and comparing the results to other cities of similar size.

Scope and Methodology

We based our methodology for this report primarily on Evaluating Financial Condition: *A Handbook for Local Government by the International City/County Management Association*. We also reviewed background information on fiscal sustainability from the Governmental Accounting Standards Board.

Information for the report came mostly from the City's independently audited ACFRs from fiscal years 2012-13 to 2019-20, as well as unaudited financial records of the first 6 months of FY 2020-21. Other sources were also used. The primary sources for each area of the report care listed in the following table.

Data Sources

Report Sections	Source(s)

Revenues
• City Revenues
• Revenues by Source
• Revenues per Resident
• Property Taxes
	City of Oakland Annual Comprehensive Financial Reports (ACFRs)
	• Government-Wide Statement of Activities
	• Statement of Revenues, Expenditures, and Changes in Fund Balances
	• Statistics:
	  ○ Direct and Overlapping Property Tax Rates
	  ○ Demographic and Economic
	City of Oakland Oracle System

Expenses
• City Expenses
• Expenses by Service Area
• Expenses per Resident
• City Employees
	City of Oakland Annual Comprehensive Financial Reports (ACFRs)
	• Government-Wide Statement of Activities
	• Statistics:
	  ○ Full Time City Employees by Function/Program
	  ○ Demographic and Economic
	City of Oakland Oracle System

Governmental Funds	City of Oakland Annual Comprehensive Financial Reports (ACFRs) • Statement of Revenues, Expenditures, and Changes in Fund Balances City of Oakland Oracle System

<table>
<tr><th>Report Sections</th><th>Source(s)</th></tr>
<tr><td>Debt
City Debt
Debt per Type
Debt per Resident</td><td>City of Oakland Annual Comprehensive Financial Reports (ACFRs)
Notes to the Basic Financial Statements
Statistics:
Ratios of General Bonded Debt Outstanding
Demographic and Economic
Management's Discussion and Analysis</td></tr>
<tr><td>Pension Obligations
Pension Liabilities
PERS Liability
OPEB Liabilities</td><td>City of Oakland Annual Comprehensive Financial Reports (ACFRs)
Schedule of Changes in Net Pension Liability and Related Ratios
Schedule of Employer Pension Contributions
Notes to the Basic Financial Statements
Schedule of Changes in Net OPEB Liability and Related Ratios
Schedule of Employer OPEB Contributions
Statistics:
Demographic and Economic</td></tr>
<tr><td>Financial and Operating Position
Citywide Net Position
City Liquidity
Reserves</td><td>City of Oakland Annual Comprehensive Financial Reports (ACFRs)
Government-Wide Statement of Net Position
Balance Sheet
Statement of Revenues, Expenditures, and Changes in Fund Balances
Fund Balances, Governmental Funds
Statistics:
Demographic and Economic</td></tr>
<tr><td>Demographic and Economic
Population
Unemployment
Property Values</td><td>City of Oakland Annual Comprehensive Financial Reports (ACFRs)
Statistics:
Demographic and Economic</td></tr>
<tr><td>Other City Comparisons
Revenue per Resident
Expense per Resident
Long-term Liabilities per Resident
Net Pension Liability per Resident
Net OPEB Liability per Resident
Unrestricted Net Position per Resident
Liquidity Ratio
Population
Unemployment Rate
Property Values</td><td>City ACFRs and budget documents
Cities with fiscal years that begins on July 1 and end on June 30 – Anaheim, Bakersfield, Fresno, Sacramento, Santa Ana and Riverside
City with fiscal year that begins on October 1 and end on September 30 – Long Beach
* Long Beach's ACFR and budget documents are for FY 2018-19</td></tr>
</table>

The audit did not review:

- Component units of Oakland, such as the Port of Oakland activities. The government-wide financial statements include the primary government of the City and the Port of Oakland (Port), as a discrete component unit, however, financial information for the Port is reported separately from that presented for the primary government.
- Fiduciary Funds, which are comprised of private purpose and pension trust funds, because these funds are not included in the government-wide financial statements.

We reviewed information for reasonableness and consistency. We researched data that was not reasonable or needed additional explanation. We did not, however, audit the accuracy of source documents or the reliability of the data in computer-based systems. As nearly all financial information presented is from the City’s ACFRs, we relied on the work performed by the City’s external financial auditors.

We chose comparison cities due to their similar population size and government services provided.

STATEMENT OF COMPLIANCE AND DISCLAIMER

Statement of Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Disclaimer

Our review of data was not intended to give absolute assurance that all information was free from error. Rather, our intent was to provide reasonable assurance that the reported information presented a fair picture of the City's financial health. In addition, while the report offers financial highlights, it does not thoroughly determine the reasons for negative or positive performance. More analysis may be needed to provide such explanations.

This report was independently developed by the Office of the City Auditor and is intended for the public as a high-level report. This report is the result of a performance audit and was not part of the City's annual financial audit on the City's financial statements. Expressions of opinion in the report are not intended to guide prospective investors in securities offered by the City and no decision to invest in such securities should be made without referencing the City's audited ACFRs and official disclosure documents relating to a specific security.

For additional information on the City of Oakland's finances, please visit the following website:
https://www.oaklandca.gov/departments/finance-department

APPENDIX A

Eight-year summary of revenues for governmental activities by type for FYs 2012-13 through 2019-20 and percentage change from FY 2018-19 through FY 2019-20 (thousands)

	Revenue by Type	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	% Change between FY 2019 & FY 2020
Local Taxes	Property Tax	256,333	240,779	267,534	279,764	312,078	340,573	358,446	388,322	8.3%
	Business License Tax	60,371	62,905	66,677	75,504	75,840	86,107	99,733	98,036	-1.7%
	Utility Consumption Tax	50,752	50,422	50,594	51,006	52,618	52,047	49,599	49,831	0.5%
	Real Estate Transfer Tax	47,406	59,060	62,665	89,594	79,070	77,663	104,905	91,534	-12.7%
	Transient Occupancy Tax	15,831	18,468	21,569	25,671	29,049	30,039	33,005	24,920	-24.5%
	Parking Tax	15,565	16,661	18,398	20,175	20,886	21,137	21,726	17,312	-20.3%
	Voter Approved Taxes	38,247	38,835	37,443	37,793	37,962	50,469	59,682	61,492	3.0%
	Franchise Tax	16,035	16,666	18,150	18,609	18,763	19,124	19,340	19,774	2.4%
State Taxes	Motor Vehicles in-lieu Tax	-	-	177	166	189	224	206	343	66.5%
	Gas Tax	10,004	13,085	12,030	8,653	7,974	10,867	16,409	17,320	5.6%
	Sales and Use Tax	60,494	58,912	63,718	77,365	79,866	85,500	92,319	83,678	-9.4%
Program Revenues	Charges for Service	126,831	152,674	182,293	178,309	203,153	221,719	203,390	192,693	-5.3%
	Operating grants & contributions	89,424	119,063	92,865	90,090	95,032	124,238	95,198	130,396	37.0%
	Capital grants & contributions	26,179	42,148	70,322	54,043	34,911	750	22,672	2,446	-89.2%
	Interest and investment income	6,358	6,653	6,362	4,596	3,046	11,762	26,394	24,126	-8.6%
	Other	7,076	19,671	12,745	20,987	19,935	42,362	31,457	46,373	47.4%
	Total	**826,906**	**826,906**	**983,542**	**1,032,325**	**1,070,372**	**1,174,581**	**1,234,481**	**1,248,596**	**1.1%**

Source: Oakland ACFRs

Property Tax: The property tax is ad valorem, which means the tax paid on a property is proportional to the property's value. There are exemptions to certain portions of property values and certain types of properties that are regulated by the State and administered by the County, such as Proposition 13. The property tax assessed value (net after any exemption) is collected by the County and is distributed to various public entities in accordance with a complex formula.

Business License Tax: The business license tax is composed of three primary components: normal business gross receipts, gross receipts from construction activity, and business tax from the rental of residential and commercial property.

Utility Consumption Tax: This tax is imposed upon the consumption of telephone communication, alternative fuel, cable television, electric, and gas by the utility user. The utility company usually collects this tax as part of the regular customer billing procedures and remits the payment to the City.

Real Estate Transfer Tax (RETT): The RETT is assessed whenever there is a change in ownership of real property.

Transient Occupancy Tax (TOT): The transient occupancy tax (TOT) rate is 14 percent of the hotel rate and is paid by individuals who stay thirty days or less in a hotel located within the City of Oakland. This tax is collected and remitted by hotel operators. Of the revenues collected, 11 percent goes to the City's General Fund and 3 percent goes to the following: Oakland Convention and Visitors Bureau (50%), Oakland Zoo (12.5%), Oakland Museum of California (12.5%), Chabot Space and Science Center (12.5%), and Cultural Arts Programs and Festivals (12.5%).

Parking Tax: The parking tax is a tax imposed on the occupant of an off-street parking space. The tax rate is 18.5 percent and is collected by parking operators. Of this, 8.5 percent supports voter-approved Measure Z - Violence Prevention and Public Safety activities and is allocated to a separate fund and the remaining 10 percent supports general government activities.

Voter-Approved: Sugar-Sweetened Beverage Tax, Lighting and Landscaping Assessment Tax, Bedroom Tax, Measure M, Measure N, Measure Q, Measure D, Wildland Fire Prevention Assessment District, Rockridge Library Assessment District, Vacant Property Tax, and Wood Street Community Facilities District.

Franchise Tax: Franchise Tax revenue is derived from a fee paid to a municipality from a franchisee for "rental" or "toll" for the use of city streets and rights-of-way. These taxes apply to four utilities for the use of City rights of way: PG&E for gas and electric; Waste Management of Alameda County for garbage collection; East Bay Municipal Utility District for water; and Comcast for cable television.

Motor Vehicle In-Lieu: Since 2004, the State of California swapped additional property tax revenues in exchange for city and county vehicle license fee revenue (VLF). The property tax payment provided in-lieu of the VLF grows proportionally to a city's assessed value.

Gas Tax: Under the provision of the Streets and Highways Code, the State gas tax revenues are restricted to uses related to local streets and highways and would include acquisitions of real property, construction and improvements, and repairs and maintenance of streets and highways.

Sales & Use Tax: The sales and use tax applies to the retail sale or use of tangible personal property. The total sales tax percentage in the City of Oakland is 9.25 percent. For example, on a $1 taxable purchase, the sales tax paid is 9.25 cents. The City receives 1 percent of the total sales tax revenues– meaning 1 cent on a $1 purchase. The remaining 8.25 percent is allocated to the State and local taxing districts.

Charges for Services: These are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. This category includes but not limited to licenses and permits, fines and penalties, land rental income, facility rental income, other rental income, concession income and service charges.

Program-Specific Operating Grants and Contributions: These are revenues received from other governments, organizations, or individuals that are restricted for use in a City program. An example is a business grant to provide a scholarship for staff training.

Program-Specific Capital Grants and Contributions: These are grants and contributions that consist of capital assets or resources that are restricted for capital purposes, such as purchasing, constructing, or renovating capital assets associated with a specific program. An example is a grant to purchase a fire engine.

Interest and Investment Income: Income that comes from interest payments, dividends, capital gains collected upon the sale of a security or other assets, and any other profit made through an investment vehicle of any kind.

Other: Miscellaneous revenue is primarily comprised of property sales, equipment financing, and litigation recoveries.

APPENDIX B

Eight-year summary of expenses for governmental activities by type for FYs 2012-13 through 2019-20 and percentage change from FY 2018-19 through FY 2019-20 (thousands)

Expenses by Type	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	% Change between FY 2019 & FY 2020
General Government	93,942	79,806	82,493	99,183	127,344	110,486	199,697	186,580	-6.6%
Public Safety	363,597	379,809	383,904	432,862	470,798	471,378	444,400	409,740	-7.8%
Community Services	107,779	116,961	121,740	134,799	146,398	144,763	142,719	150,513	5.5%
Community and Economic Development	81,182	83,657	75,268	85,396	92,048	103,328	103,099	99,995	-3.0%
Public Works and Transportation	75,158	109,177	105,619	114,597	122,540	158,610	127,597	137,937	8.1%
Interest on Long-Term Debt	62,744	59,026	68,033	54,335	56,471	61,505	60,432	63,438	5.0%
Total	**784,402**	**828,436**	**837,057**	**921,172**	**1,015,599**	**1,050,070**	**1,077,944**	**1,048,203**	**-2.8%**

Source: Oakland ACFRs

General Government: These expenses are attributed to the Mayor's Office, Council Offices, Attorney's Office, Auditor's Office, Administrator's Office, Clerk's Office, Finance Department, Human Resources Department, Information Technology Department, Contracting, and Purchasing Department.

Public Safety: These expenses are attributed to the Police and Fire Departments.

Community Services: These expenses are related to Parks and Recreation, Library, Museum and Human Services Departments.

Community and Economic Development: These expenses are related to activities in Planning and Building, Economic and Workforce Development, and Housing and Community Development.

Public Works and Transportation: These expenses are attributed to the Department of Public Works and the Department of Transportation.

Interest on Long-Term Debt: This expense includes the amount of interest on outstanding long-term debt issued.

APPENDIX C

Six-year summary of pension plan participants from FYs 2014-15 through 2019-20

Participant Types		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
CalPERS Miscellaneous Plan	Active employees	2,446	2,558	2,620	2,646	2,673	2,741
	Inactive employees entitled to but not yet receiving benefits	1,555	1,616	1,679	1,728	1,800	1,881
	Inactive employees or beneficiaries	3,201	3,324	3,411	3,512	3,616	3,718
	Total CalPERS Miscellaneous Plan Participants	**7,202**	**7,498**	**7,710**	**7,886**	**8,089**	**8,340**
CalPERS Public Safety Plan	Active employees	1,034	1,145	1,200	1,226	1,181	1,184
	Inactive employees entitled to but not yet receiving benefits	366	375	385	400	407	414
	Inactive employees or beneficiaries	922	1,061	1,135	1,199	1,254	1,298
	Total CalPERS Public Safety Plan Participants	**2,322**	**2,581**	**2,720**	**2,825**	**2,842**	**2,896**
Police and Fire Retirement System	Active employees	-	-	-	-	-	-
	Inactive employees entitled to but not yet receiving benefits	-	-	-	-	-	-
	Inactive employees or beneficiaries	961	929	886	837	798	798
	Total Police and Fire Retirement System Participants	**961**	**929**	**886**	**837**	**798**	**798**

Source: Oakland ACFRs

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CITY OF OAKLAND

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City Administrator TDD (510) 238-3254

June 7, 2021

Honorable Courtney Ruby
Oakland City Auditor
1 Frank Ogawa Plaza, 4th Floor
Oakland, CA 94612

RE: City Administrator's Response to the City of Oakland's Financial Condition Performance Audit for Fiscal Years 2012-13 to 2019-2020

Dear City Auditor Ruby:

The City Administrator's Office and the Finance Department appreciate the City of Oakland's Financial Condition Performance Audit for Fiscal Years 2012-13 to 2019-2020 which finds that:

1. The City Council should address the City's unfunded pension and OPEB liabilities.
2. The City's Finance Department should provide the City Council with an annual analysis of how the City's long-term *and near-term* financial position could be strengthened.
3. The City should develop a reserve policy that is consistent with the GFOA recommendations to maintain unrestricted budgetary General Fund balance of no less than two months of General Fund operating expenditures.
4. The City should have a centralized report of fixed assets to be able to monitor changes in the condition of the assets and evaluate the costs associated with maintaining and repairing them.

Attached is management's response to the report's recommendations.

I want to thank you and your staff for the open communication during this audit. Management was kept up to date on all progress. This valuable service keeps the City running smoothly and efficiently.

Sincerely,

Edward D. Reiskin
City Administrator

cc: Erin Roseman, Finance Director Attachment: City Administration's Recommendation Implementation Plan Matrix

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date to Complete

1	The City Council should do the following to address the City's unfunded pension and OPEB liabilities:
	• Convene a retirement advisory group to gather, evaluate, and organize information for a comprehensive solution to address Oakland's unfunded pension and OPEB liabilities. This Advisory Group will be tasked with designing a plan to impact retirement liabilities on three levels:
	  • State/Federal — what legislative changes, if any, are needed to be proposed so that the municipalities may be in better control of their financial future as it relates to pensions and OPEB.
	  • CalPERS — does CalPERS serve the needs of all its member agencies and how can Oakland and other municipalities have a greater impact on CalPERS policies.
	  • Oakland – what changes may be made now within the restrictions of CalPERS and State, and which of these changes can be agreed to by all stakeholders.
	
	This process should be convened publicly and have clearly defined processes for stakeholder input,
			March 2020: City Council (to be discussed when report is presented to City Council).
			
			June 2021 Update: City Council (to be discussed when report is presented to City Council).	

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date to Complete
	including citizens, unions and employees. The Advisory Group should be comprised of a broad cross section of stakeholders, for example, the City should strongly consider including: • Academia and pension/OPEB experts. • An independent financial consultant with no ties to the City to perform reforms as they are recommended by the Advisory Group. • An independent law firm with no ties to the City to evaluate the legality of potential reforms as they are recommended by the Advisory Group. • Form a coalition of cities to find common ground to support comprehensive solutions at the State level and CalPERS.			
2	The City's Finance Department should provide the City Council with an annual analysis of how the City's long-term *and near-term* financial position could be strengthened.	**March 2020**: The Finance Department regularly reports to the City Council and/or publishes reports on the Finance Department's website on the financial condition of the City. These include quarterly reports on revenues and expenditures, quarterly cash and investment reports, and actuarial reports on pensions and OPEB. In addition, the Finance Department brings the Comprehensive Annual Financial Report (ACFR) to the	**March 2020**: Finance Department **June 2021 Update**: Finance Department	**March 2020**: This item will require annual, ongoing reporting. Staff anticipates discussing

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date to Complete
		City Council upon completion of the annual audit. While the ACFR presentation largely focuses on a summary of the year-end results, it can include a more detailed discussion of strategies for improving the City's long-term financial position. **June 2021 Update**: Management agrees with the recommendation to provide the City Council with annual analysis of how the City's long-term and near-term financial position could be strengthened. Currently, the Finance Department regularly reports to the City Council and/or publishes reports on the Finance Department's website on the financial condition of the City. Current financial condition reports include: 1. Budgetary Reports on revenues and expenditures, 2. Five Year Financial Forecast 3. Cash and Investment reports, 4. Actuarial reports on pensions and OPEB. 5. An audited Comprehensive Annual Financial Report (ACFR) These reports can be augmented to provide enhanced information providing greater financial literacy for the City Council and discussions in laypersons terms.		long term strategies to strengthen the City's financial position when the ACFR is brought to the City Council each year (usually in January or February). **June 2021 Update**: June 2022 and ongoing

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date to Complete
		The Finance Department can provide the City Council with an Annual Retreat to discuss, in-depth, the health of the City and provide addition financial literacy to the City Council following the report of the ACFR but prior to Five-year Financial Forecast. The Finance Department will provide additional policy recommendations in line with GFOA best practices, such as financial benchmarks that assist with understanding the financial health of the City so that Council has additional tools in decision making.		
3	The City should develop a reserve policy that is consistent with the GFOA recommendations to maintain unrestricted budgetary General Fund balance of no less than two months of General Fund operating expenditures.	**March 2020**: The City currently has two General Purpose Fund (GPF) reserves: 1) the Economic Contingency Reserve; and 2) the Vital Services Stabilization Fund (VSSF). The Economic Contingency Reserve maintains a balance that is equal to 7.5% of GPF appropriations. The VSSF has a target balance of 15% of GPF appropriations and is funded through the City's use of "excess" real estate transfer tax revenues. Once the VSSF achieves its target balance of 15%, the City's total available reserves (22.5%) will exceed the GFO recommendation (16.7%).	**March 2020** Finance Department **June 2021 Update**: Finance Department	**March 2020:** Monitoring of reserves is ongoing. Staff anticipates bringing recommended CFP amendments in April 2020.

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date to Complete
		June 2021 Update: Management agrees with the recommendation to develop a reserve policy that is consistent with the GFOA recommendations to maintain unrestricted budgetary General Fund balance of no less than two months of General Fund operating expenditures. The City currently has two General Purpose Fund (GPF) reserves: 1) the Economic Contingency Reserve; and 2) the Vital Services Stabilization Fund (VSSF). The Economic Contingency Reserve maintains a balance that is equal to 7.5% of GPF appropriations. The VSSF has a target balance of 15% of GPF appropriations and is funded through the City's use of "excess" real estate transfer tax revenues. Once the VSSF achieves its target balance of 15%, the City's total available reserves (22.5%) will exceed the GFOA recommendation (16.7%). However, management recommends modifying the currently policy by strengthening the policy language to provide for reserve funding to be first priority in budgetary discussions and adoptions.		**June 2021 Update**: June 2022 and ongoing

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date to Complete
4	The City should have a centralized report of fixed assets to be able to monitor changes in the condition of the assets and evaluate cost associated with maintaining, repairing, and replacing them.	**March 2020**: Staff are currently exploring options, including the potential for a new software system, to monitor and track the conditions of fixed assets and long-term leases. **June 2021 Update**: Management agrees with the recommendation to centralized report of fixed assets to be able to monitor changes in the condition of the assets and evaluate cost associated with maintaining and repairing them. Current GASB pronouncements require that the Government Agencies report on the amount of fixed assets. The City currently meets that requirement at its most basic meaning. The Finance Department recommends augmenting Staff resources within the Finance Department and across various departments to procure and implement a new software system for the tracking, reporting, and maintenance of the conditions of fixed assets and long-term leases. This would be a multi-departmental effort utilizing resources from, Finance Department, Department of Public Works, Department of Transportation, Information Technology Department, and the Economic and Workforce Development Department.	**March 2020**: Finance Department / Oakland Public Works / Economic & Workforce Development **June 2021 Update**: Finance Department, Department of Public Works, Department of Transportation, Information Technology Department Economic and Workforce Development Department	**March 2020**: TBD. Staff anticipates that reporting will be ongoing. **June 2021 Update**: June 2023 and ongoing