



CITY OF OAKLAND'S FINANCIAL CONDITION BETWEEN FISCAL YEARS 2012-13 AND 2021-2022

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October 26, 2023

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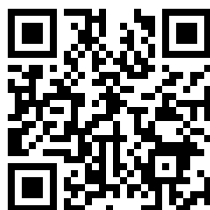
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October 26, 2023

HONORABLE MAYOR
HONORABLE CITY COUNCIL
CITY ATTORNEY
CITY ADMINISTRATOR
RESIDENTS OF OAKLAND

RE: CITY OF OAKLAND'S FINANCIAL CONDITION BETWEEN FISCAL YEARS 2012-2013 AND 2021-2022

Dear Mayor Thao, Council President Bas, Members of the City Council, City Attorney Parker, City Administrator Johnson, and Oakland Residents:

The attached audit report provides information on the City of Oakland's financial activities between fiscal years (FY) 2012-13 and 2021-22. This is the third financial condition audit we have conducted. In 2020, our first financial condition report provided a baseline on the City's financial health prior to the COVID-19 pandemic, and in 2021, our second financial condition report began to quantify the financial impacts of the 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 pandemic highlighted the vulnerabilities in the City's finances. This audit assesses the City's financial condition after the City applied cost cutting measures and received federal American Rescue Plan Act funds to begin to counteract the financial impacts of the pandemic.

Prior to the 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 pension costs for its employees. This audit found that the City's cost cutting measures, use of federal funding, and favorable pension investment results, have helped maintain the City's financial condition, despite the pandemic.

The current report shows that between FYs 2020-21 and 2021-22, governmental revenues increased by \$70 million or 5 percent, though notably, several revenue categories have not recovered to pre-pandemic levels as shown in the exhibit on page 10. The City spent \$1.05 billion in FY 2021-22, which is a 17 percent decrease in expenses from the previous fiscal year. Additionally, the City's General Purpose Fund revenues outpaced expenditures by \$55.3 million in FY 2020-21 and \$51.7 million in FY 2021-22.

This audit shows the City's debt increased while the City's net pension liability decreased. The increased debt is mainly attributed to much needed citywide infrastructure improvements, and the decrease of the City's net pension liability is due primarily to a 33 percent decrease in net investment income from \$1.8 billion to \$1.2 billion between FYs 2020-21 and 2021-22. Despite issuing more debt in FY 2021-22, the City's bond ratings remain categorized as "very strong." In fact, the City has maintained an Aa3 (Moody's) rating or higher on its bond obligations over the last ten years. In September 2023, the City's credit rating was upgraded to AA+ by Standard and Poor's and Aa1 by Moody's. This change puts the City's credit rating just below the highest credit rating level. The City's unrestricted net position's general trend over the audited 10-year period remains negative but has been improving since FY 2019-20 when the City's OPEB liability decreased. The City's ability to pay its bills on time, usually referred to as the City's liquidity ratio, also increased by 17 percent between fiscal years 2020-21 and 2021-22, indicating the City's ability to cover its short-term obligations improved.

The City should be acknowledged for establishing the General Purpose Fund Emergency Reserve subfund in June 2021. This new subfund appropriated 7.5 percent of the FY 2021-22 General Fund appropriations for reserves. As of June 30, 2022, the balance of the General Purpose Fund Emergency Reserve was \$54 million, and when combined with the \$90.6 million unassigned balance of the General Purpose Fund, the total General Fund reserves were \$144.6 million. This marks the first time the City has met the Government Finance Officers Association's recommended reserve requirement, since we began conducting the Financial Condition audit.

The City's lack of an annual citywide capital asset report continues to be an open recommendation that has been called out in every financial condition audit to date. Without quantifying these costs in one place, the City cannot begin to adequately determine future investment needed 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 that provide similar government services. Notably, 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.

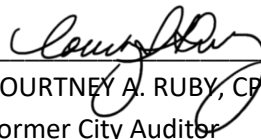
The information and recommendations in this audit are particularly relevant given the City's recent and future financial challenges. In June, the Mayor and City Council had to close a historic \$360 million budget shortfall to pass a balanced 2023-25 Adopted Biennial Budget. Today, the City continues to feel the lingering effects of the pandemic and must confront a 5-year financial forecast that projects expenditures outpacing revenues. The City should implement strategies for shoring up finances, maintaining reserves, and reducing liabilities so it can provide essential services in the future.

This audit contains three recommendations; they are outlined in the report and in the attached Implementation Plan. The City Administration and Finance Department agree with the recommendations and have committed to implementing them.

Respectfully submitted,



MICHAEL C. HOUSTON, MPP, CIA
Acting City Auditor



COURTNEY A. RUBY, CPA, CFE
Former City Auditor

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INTRODUCTION

Audit Overview

This report, our office's third financial condition audit since fiscal year 2018-19 ([Fiscal Years 2012-13 to 2018-19](#)) and ([Fiscal Years 2012-13 to 2019-20](#)), 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 ten-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.

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 2021-2022, ending June 30, 2022.

Defining Financial Condition

Financial condition refers to a government's ability to: (1) generate enough cash 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.

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:

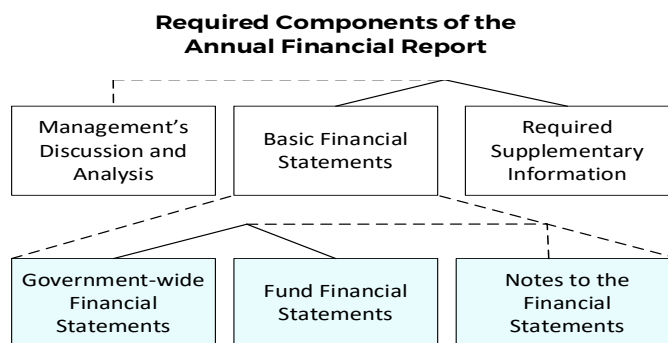
¹ In 2021 the Governmental Accounting Standards Board changed the name of the Comprehensive Annual Financial Report (CAFR) to the Annual Comprehensive Financial Report (ACFR).

- **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.



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 resources (revenues) to perform operations or provide services (expenditures) over a defined period. Oakland has a two-year

Assessing Financial Condition

budget cycle beginning July 1 in odd-numbered years. The next two-year budget cycle begins July 1, 2025 and ends on June 30, 2027.

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 FY 2021-22. For example, the report makes comparisons of FY 2021-22 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. The dollar amounts are expressed in their nominal dollar amounts in each respective fiscal year.

SUMMARY

How Is Oakland's Financial Health?

In FY 2020-21, in response to the COVID pandemic, the City applied cost cutting measures including, but not limited to, freezing spending and hiring, laying off temporary workers, and drawing down reserves. Additionally, the federal government provided \$188 million in American Rescue Plan Act (APRA)² funding of which the City used \$120 million to replace revenue losses in 2021 and 2022. However, in FY 2022-23, the remaining \$68 million in federal funding was fully expended and pre-COVID economic activity has not fully returned, which has further affected the City's revenues. For example, Transit Occupancy Tax, Parking Fees, Charges for Service, and Capital Grants and contribution revenues remain an average of 34 percent below pre-COVID revenue for these categories. The long-term financial effects of the COVID pandemic cannot be determined at this time. In addition, the City continues to be challenged by unfunded pension and Other Post-Employment Benefits

² The American Rescue Plan Act was signed into law on March 11, 2021, and it established the Coronavirus Local Fiscal Recovery Fund which was created to provide support to local governments in responding to the impact of COVID-19 in their communities.

(OPEB) liabilities, and unquantified infrastructure needs.

During our audit, we found:

- Total governmental activities revenue increased by \$70 million, or 5 percent, between FY 2020-21 and FY 2021-22. The revenue growth was due primarily to a 7 percent jump in property taxes, a 22 percent jump in real estate transfer tax, and 9 and 11 percent respective increases in charges for services, and operating grants and contributions.
- Total governmental revenue increases were offset by decreases in three of the 16 revenue categories between FY 2020-21 and FY 2021-22. Business license tax decreased by \$3 million or 2.8 percent, interest and investment income decreased by \$12.9 million, and the other revenue category decreased by \$48.8 million or 61 percent which is due to discontinued one-time revenue.
- The City spent \$1.05 billion in FY 2021-22, a 17 percent decrease in expenses from the previous fiscal year primarily due to a decrease in public safety (\$161 million) and general government (\$41 million) expenses due to reduced pension and OPEB expenses. Overall, City spending was down by \$216.7 million across all major service areas in FY 2021-22.
- The City's General Purpose Fund revenues outpaced expenditures by \$55.3 million in FY 2020-21 and \$51.7 million in FY 2021-22.
- The City's total outstanding bond debt increased 18 percent from \$788.8 million in FY 2020-21 to \$929.2 million in FY 2021-22. This debt increase is due to the issuance of additional Measure KK general obligation bonds for street and road projects as well other investments in City-owned capital facilities.
- The debt related to general obligation bonds increased by 42 percent from \$450 million in FY 2020-21, to \$638 million in FY 2021-22. In FY 2021-22 the City issued \$212 million in general obligation bonds for citywide infrastructure improvements.
- The City's net pension liability decreased by 33 percent from \$1.8 billion to \$1.2 billion between FY 2020-21 and FY 2021-22, due primarily to increased net investment income within the pensions' fiduciary net position.
- The City's unrestricted net position's general trend over the audited 10-year period remains negative but has been improving since FY

2019-20 when the City's OPEB liability decreased. The City's negative unrestricted net position's does not mean 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.

- The deficit in the City's unrestricted net position is primarily the result of underfunding pension and OPEB obligations.
- From FY 2020-21 to FY 2021-22 the City's liquidity ratio – or the City's ability to pay its bills on time – increased by 17 percent indicating the City's ability to cover its short-term obligations improved.
- In June 2021 the City established the General Purpose Fund Emergency Reserve subfund. This new subfund appropriated 7.5 percent of the FY 2021-22 General Fund appropriations for reserves. Previously, the City measured its emergency reserve as the unassigned fund balance in the General Purpose Fund.
- The fund balance of the General Purpose Fund Emergency Reserve was \$54 million as of June 30, 2022. When combined with the \$90.6 million unassigned fund balance of the General Purpose Fund, total General Fund reserves were \$144.6 million.
- The City's unemployment rate dropped from 7.7 percent in FY 2020-21 to 3.5 percent in FY 2021-22, rebounding to the pre-COVID unemployment rate level in FY 2018-19.
- The City received \$188 million in one-time COVID relief funds used to subsidize its operations and replace revenue shortfalls in FY 2020-21 (\$33 million) and FY 2021-22 (\$87 million). The remaining \$68 million was programmed for FY 2022-23 General Fund subsidies. These relief funds are no longer available after FY 2022-23.

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 its future infrastructure needs.

Throughout the report, we have compared Oakland's financial indicators to California cities with similar population size and government services. Oakland does not rank favorably in most 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. In prior financial condition reports we included Bakersfield as a comparable city, however due to Bakersfield's ACFR not being available as of the writing of this report, we were not able to include Bakersfield.

01

REVENUES

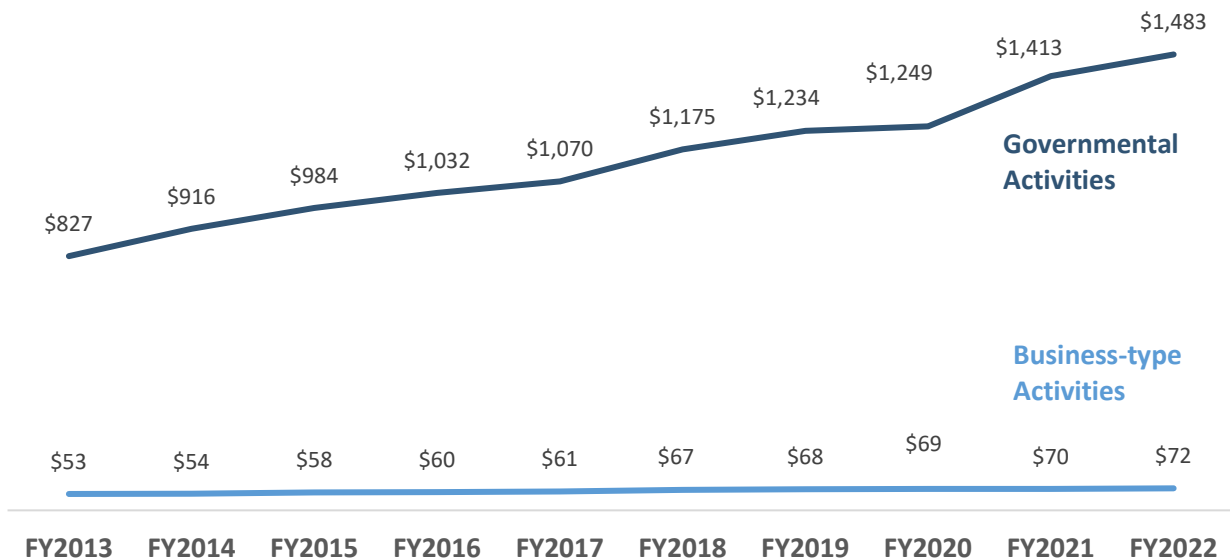
What Are Revenues?

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,³ contributions, and other revenues.

City Revenues

The City's total revenues (governmental activities + business type activities) have increased 77 percent from \$880 million in FY 2012-13 to \$1.555 billion in FY 2021-22. Revenues related to governmental activities have grown 79 percent from \$827 million in FY 2012-13 to \$1.483 billion in FY 2021-22. Business-type activities increased by 34 percent from \$53 million in FY 2012-13 to \$72 million in FY 2021-22, mainly due to sewer-related activities.

Exhibit 1: City revenues for governmental and business-type activities from FY 2012-13 through FY 2021-22 (millions)

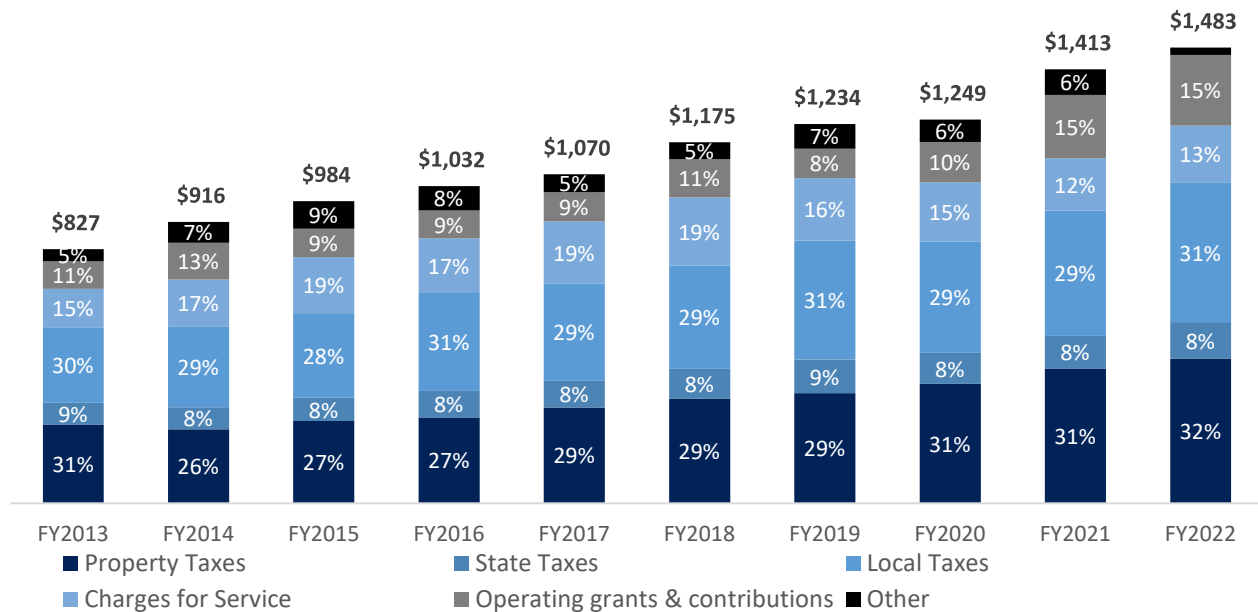


Source: Oakland ACFRs

³ 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.

The City relies heavily on property, state, and local taxes. Between FY 2012-13 and FY 2021-22, combined revenue from property, state and local 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: Ten-year summary of City of Oakland revenues for governmental activities by source from FY 2012-13 through FY 2021-22 (millions)



Source: Oakland ACFRs

Exhibit 2 shows total governmental activities revenue increased by \$70 million or 5 percent between FY 2020-21 and FY 2021-22. The revenue growth was due primarily to a 7 percent jump in property taxes, a 22 percent jump in real estate transfer tax, and an 11 percent increase in operating grants and contributions. These increases were offset by declines in business license taxes, interest and investment income, and other income. Appendix A provides a ten-year summary of revenues by type for governmental activities and percentage changes from FY 2020-21 through FY 2021-22.

The revenue increases and decreases for FY 2021-22 are described below:

Revenue increases

- **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 have grown over the last ten years by 84 percent, or an average of 8.4 percent annually.

In FY 2021-22, property taxes increased by \$32.5 million or 7 percent,

due to increases in assessed values from change in ownership reassessments, inflationary assessed value adjustments, and increases from voter approved measures.

- **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.

In FY 2021-22, RETT revenues increased by \$25 million or 22 percent, based on sales growth for real property.

- **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 2021-22, operating grants and contributions increased by \$23.2 million or 11 percent, primarily due to increased federal funding associated with the COVID-19 pandemic.

Revenue decreases

- **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.

In FY 2021-22, revenue from business license tax decreased by \$2.9 million or 2.8 percent, because of reduced gross receipts from large construction projects.

- **Other Revenues** is composed of several types of miscellaneous revenue.

In FY 2021-22, revenue from other revenues declined by \$48.8 million or 60.9 percent, due to substantial one-time revenues received in the prior year.

Revenue that has not recovered to pre-pandemic levels

There are some revenue types that have not recovered fully from the pandemic. Exhibit 3 below shows the revenues that have not reached their FY 2018-19 levels.

Exhibit 3: Revenue that has not recovered to pre-pandemic levels by type, dollar, and percentage (thousands)

Revenue by Type	FY 2019	FY 2022	\$ Change between FY 2019 & FY 2022	% Change between FY 2019 & FY 2022
Transient Occupancy Tax	\$33,005	\$21,209	(\$11,796)	-35.70%
Parking Tax	\$21,726	\$18,184	(\$3,542)	-16.30%
Charges for Service	\$203,390	\$186,305	(\$17,085)	-8.40%
Capital grants and contributions	\$22,672	\$5,249	(\$17,423)	-76.80%
Interest and investment income	\$26,394	(\$12,832)	(\$39,226)	-148.60%

Source: Oakland ACFRs

As Exhibit 3 shows, the following revenues decreased between FY 2018-19 and FY 2021-22:

- **Transient occupancy tax (TOT) rate** is a 14 percent tax on the hotel rates and is paid by individuals who stay thirty days or less in a hotel located within 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%).

TOT revenue has not recovered to pre-pandemic levels mainly due to a continued reduction in business travel. Between FY 2018-19 and FY 2021-22, TOT revenues decreased by \$11.8 million or 35.7 percent.

- **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. The remaining 10 percent supports general government activities.

Prior to the pandemic, the parking tax was usually a relatively steady and reliable revenue source for the City. However, FY 2021-22 parking tax revenues dropped by \$3.5 million or 16.3 percent from the FY 2018-19 totals.

- **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 is not limited to: licenses and permits, fines and penalties, land rental income, facility rental income, other rental income, concession income, and service charges.

In FY 2021-22, revenues from charges for service decreased by \$17.1 million or 8.4 percent from FY 2018-19 totals.

- **Capital grants and contributions** 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.

Revenues from capital grants and contributions decreased by \$17.4 million or 76.8 percent from FY 2018-19 totals.

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

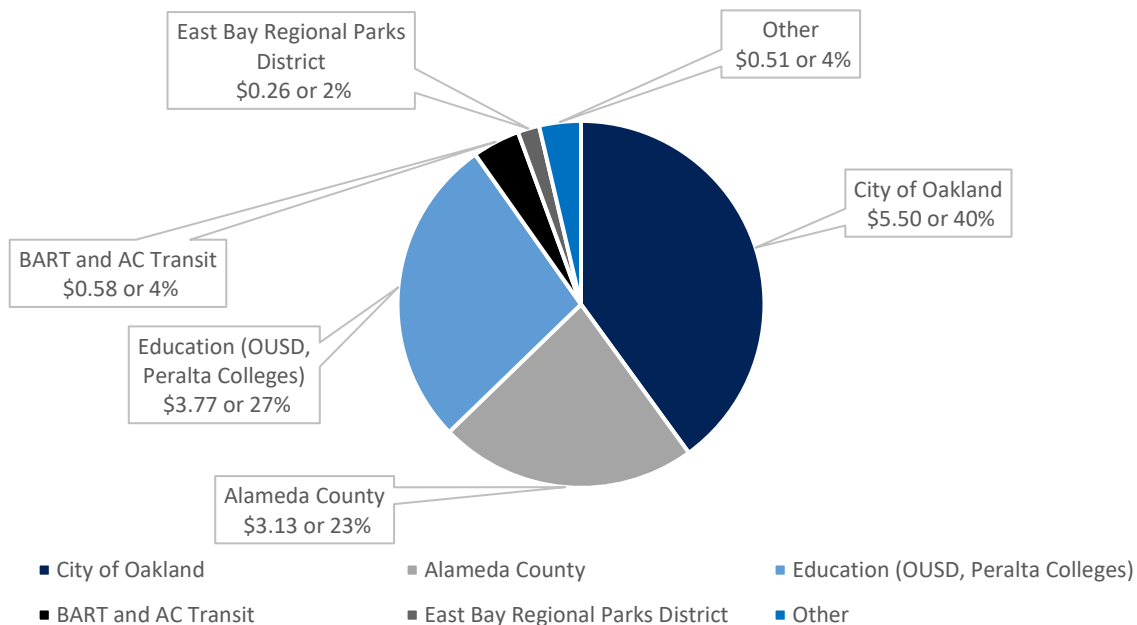
Revenues from interest and investment income decreased by \$39.2 million or 148.6 percent from FY 2018-19 totals. Rising interest rates was a main reason for the decreased market value of pooled investments.

Where Do Your Property Taxes Go?

As noted above, the City relies heavily on property taxes as a revenue stream. In the ten-year period beginning in FY 2012-13, property tax revenues grew by 84 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, including remitting such amounts to the City.

The property tax rate in FY 2021-22 for the City of Oakland was \$13.74 per \$1,000 of assessed value. Property taxes are divided among several government entities as demonstrated in Exhibit 4. The City receives approximately \$5.50, or 40 percent of the total tax collected.⁴

⁴ The City receives approximately 40 percent of total tax collections that is broken down by: (1) Basic Rate (25.4%), (2) Debt Service Fund (3.2%), and 1981 Pension Liability (11.5%).

Exhibit 4: Property tax distribution by government entities

Source: Oakland ACFRs

Over the years, voters have approved special parcel taxes and special assessments that are included on the property owners' tax statement. Citywide, these special taxes include Measures Q - Library Services Retention and Enhancement, Measure Q - Oakland Parks and Recreation Preservation, Litter Reduction, and Homelessness Support Act, Measure D - Oakland Public Library Preservation Act, Measure M - Emergency Medical Services Retention Act, Measure N - Paramedics Services Act, Measure Z - Public Safety and Violence Prevention, Measure W – Vacant Property Tax Act, and the Landscaping and Lighting Assessment District.⁵

Some of the local parcel taxes, such as the pension override tax, increase with assessed property values. Other local parcel taxes, such as the landscaping and lighting district tax 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 parks (Measure Q – 2020), libraries (Measures Q – 2004 and Measure D - 2018), and violence prevention and public safety (Measure Z - 2014). **In FY 2021-22, these citywide special taxes added up to \$611 per 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

⁵ 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.

boundary of the assessment district.

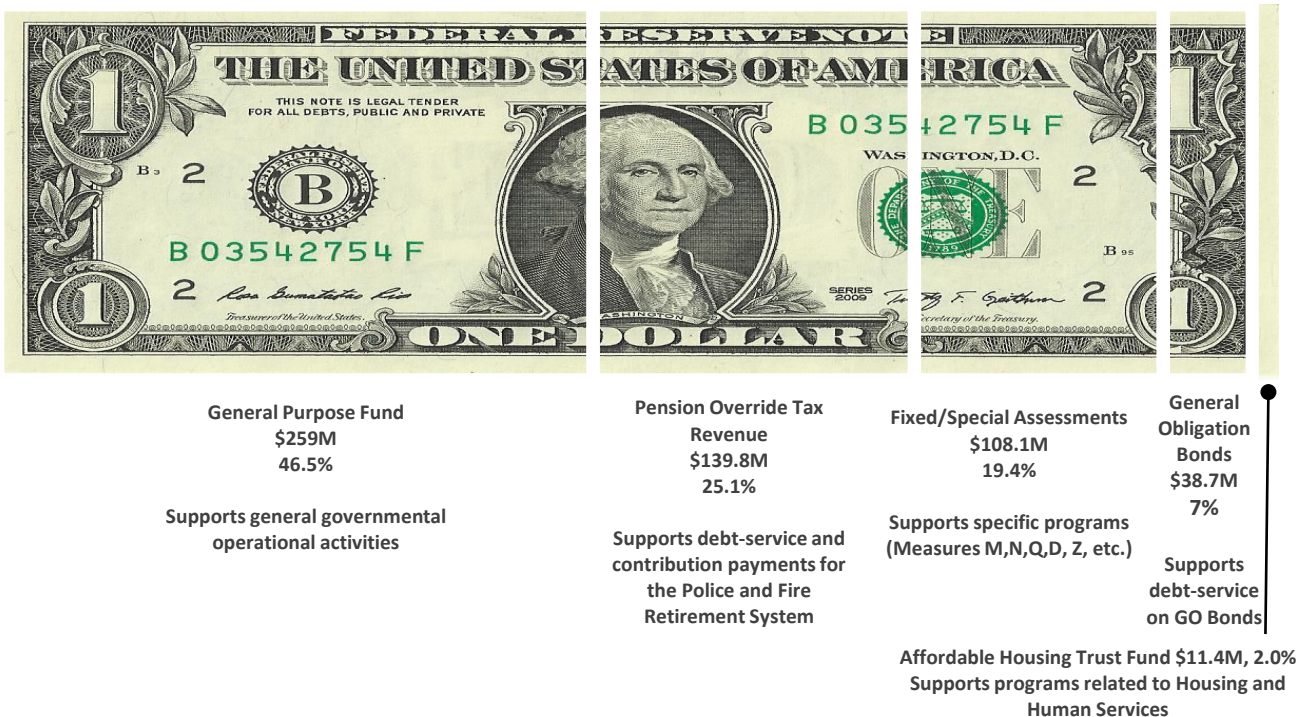
How FY 2021-22 Property Taxes, Special Taxes and Special Assessments Were Spent

In FY 2021-22, the City received approximately \$557 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 (46.5 percent),
- Pension bond payments for the Police and Fire Retirement System (25.1 percent),
- Municipal services such as emergency medical services, paramedic services, library services, public safety and violence prevention services, and homeless services (19.4 percent),
- Debt payments on general obligation bonds (7 percent), and
- Programs under the Affordable Housing Trust Fund⁶ related to housing and human services (2 percent).

Exhibit 5 shows how these taxes were allocated in FY 2021-22.

Exhibit 5: FY 2021-22 allocation of City property tax dollars (\$557 million)



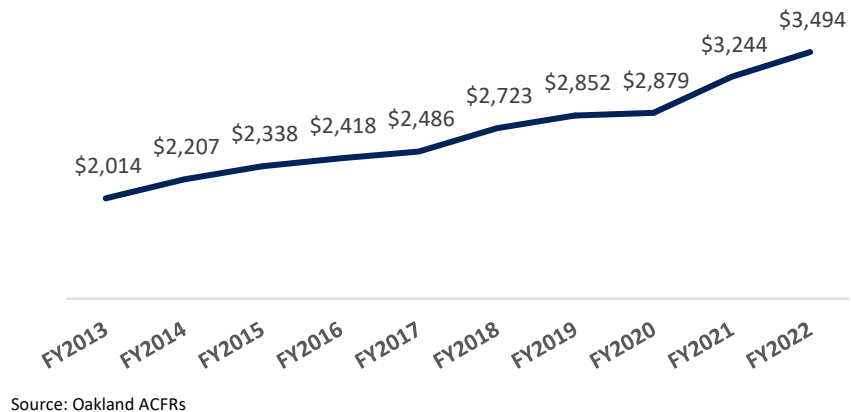
Source: Oakland ACFRs and Oracle Reports

⁶ The Affordable Housing Trust Fund was established to provide assistance in developing and maintaining affordable housing in the city. One of the funding sources for the Affordable Housing Trust Fund is 25% of residual Redevelopment Property Tax Trust Fund (RPTTF) monies.

City Revenues Per Resident

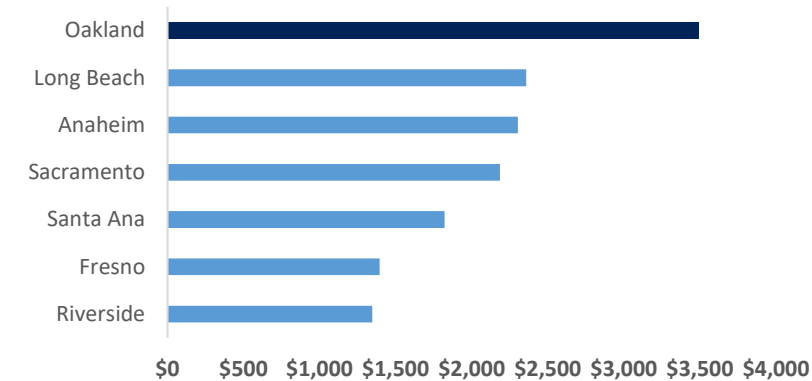
Another way of reviewing revenue is on a per resident basis. Oakland's population grew by 3 percent over the last ten years. As population increases, revenues and the need for services may increase proportionately with population growth. If revenues decrease, the City may be unable to maintain existing service levels unless it finds new revenue sources or reduces costs. Over the last ten years, annual revenue per resident increased 73 percent from \$2,014 to \$3,494, as Exhibit 6 below shows.

Exhibit 6: Ten-year summary of governmental activities revenue per resident



Additionally, the revenue per resident was compared with California cities with similar population size and government services provided. As Exhibit 7 demonstrates, Oakland has higher revenues per resident than the cities benchmarked. In FY 2021-22, Oakland's revenue per resident was \$3,494. The other benchmark cities' revenues per resident ranged from \$1,346 to \$2,357.

Exhibit 7: Comparison of other cities' governmental activities revenues per resident for FY 2021-22

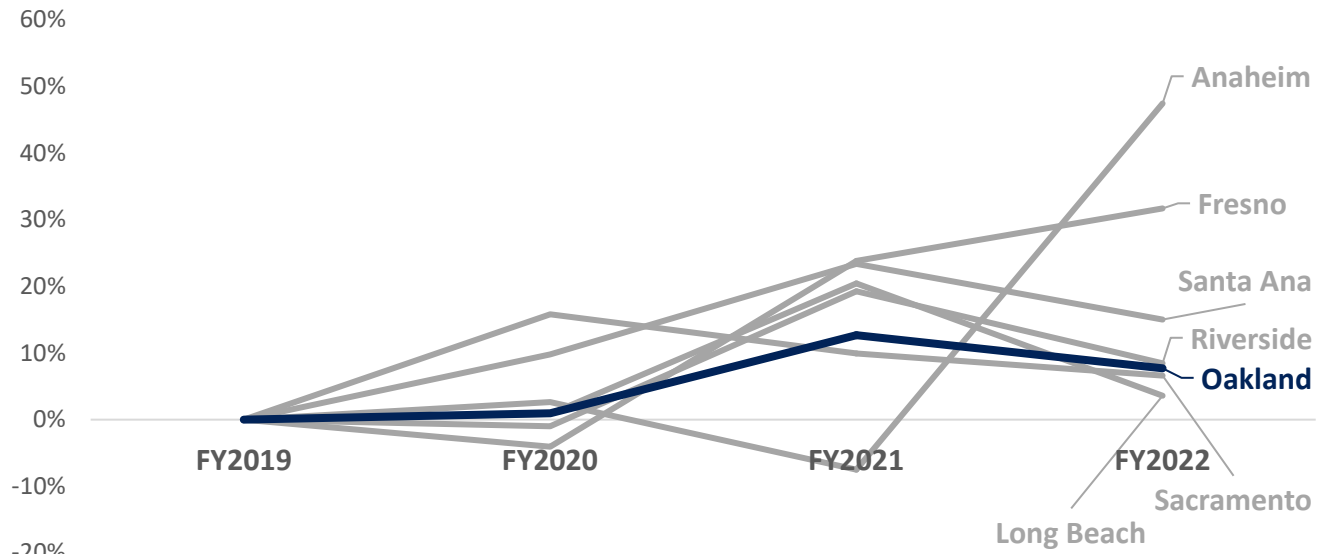


Even though Oakland has the highest revenue per resident of the cities benchmarked in FY 2021-22, the percent year-over-year growth over the

past four years has not been as high as other benchmark cities.

Exhibit 8 below shows the percentage year-over-year change among benchmark cities.

Exhibit 8: Comparison of year-over-year revenue change of revenues per resident between FY 2018-19 and FY 2021-22 among benchmark cities



Source: Oakland and other cities ACFRs

02

EXPENSES

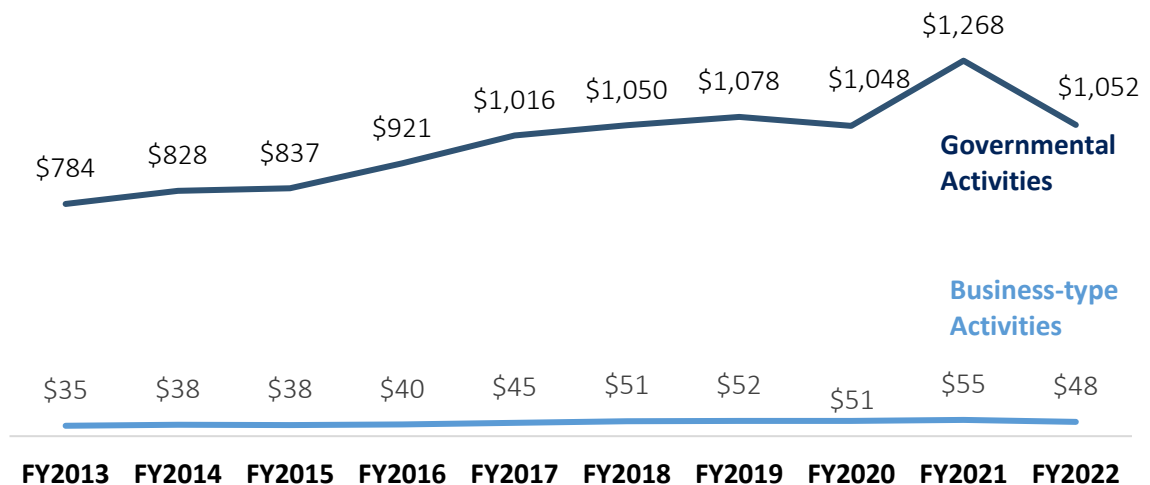
What Are Expenses?

Expenses are the City's costs for providing city 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 expenses are personnel and operations and maintenance (O&M). Personnel expenses pay for past and current City employees providing city 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 expenses are used to pay for anything other than personnel and are expended through the contracting, purchasing, and payables systems. O&M expenses include contracts for services, supplies and materials, utilities, equipment purchases, and debt payments.

City Expenses

As shown in Exhibit 9, the City spent \$1.05 billion in FY 2021-22, a 17 percent decrease in expenses from the previous fiscal year, but almost the same amount spent in FY 2019-20. 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 \$216.7 million allocated across all major service areas.

Expenses related to governmental activities increased 34 percent from FY 2012-13 through FY 2021-22. Expenses related to business-type activities increased by 36 percent. 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 2021-22 (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 and Human Services, Community and Economic Development, Public Works and Transportation, and Interest on Long Term Debt.

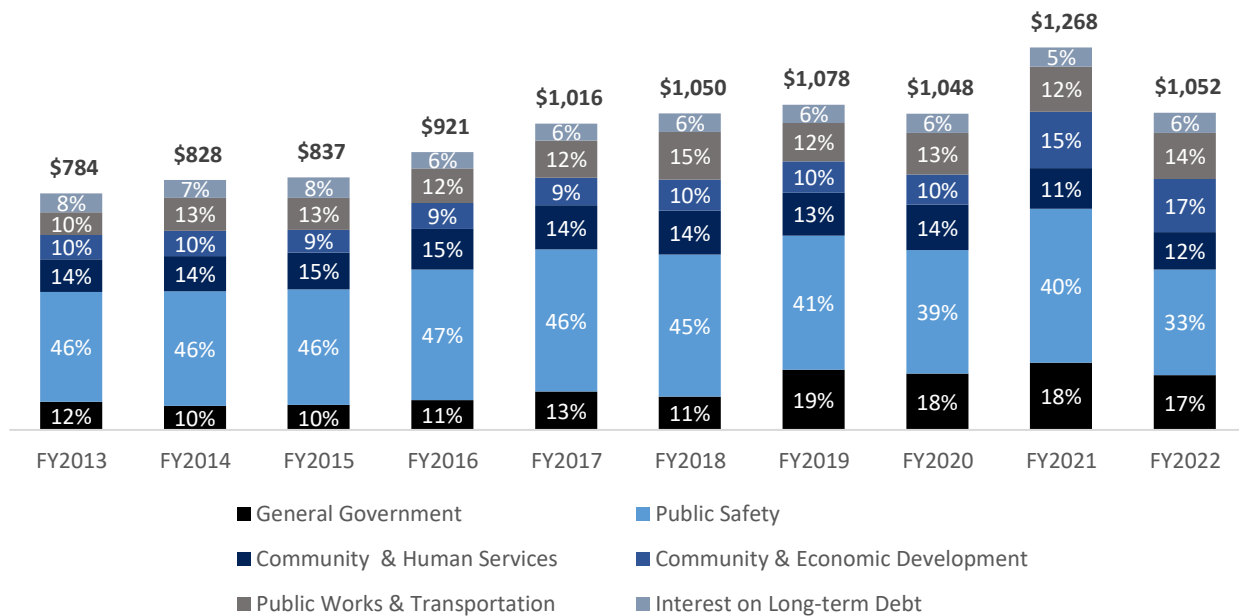
Expenses related to governmental activities decreased 17 percent and expenses related to business-type activities decreased 13 percent between FY 2020-21 and FY 2021-22. Of the six expense categories, only two categories had increases between FY 2020-21 and FY 2021-22. Public Works and Transportation expenses increased by \$2.4 million or 1.6 percent, primarily due to budgeted increases in personnel costs, offset by reductions in pension and OPEB expense. Interest on Long Term Debt increased by \$3.2 million or five percent.

The bulk of the decreases were in public safety, general government, and Community and Human Services.

Public safety is related to the Police and Fire Departments and accounted for the largest decrease in expenses of \$161.1 million, or 31.5 percent. This was primarily due to reduced pension and OPEB expenses. The decline in pension expense is primarily attributable to PFRS investment gains while the decrease in OPEB expense results from a change in the discount rate used for actuarial estimates of OPEB expense.

General government expenses decreased by \$41 million or 18.4 percent, primarily due to reductions in pension and OPEB expenses.

Community and Human Services expenses decreased by \$10.3 million or 7.7 percent, primarily due to reduced pension and OPEB expenses.

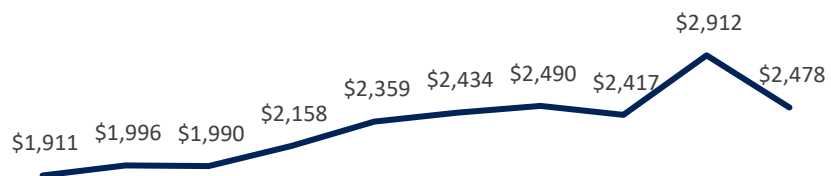
Exhibit 10: City of Oakland expenses for governmental activities by source from FY 2012-13 through FY 2021-22 (thousands)

Source: Oakland ACFRs

For a ten-year summary of expenses for governmental activities by type and the percentage change from FY 2012-13 through FY 2021-22, see Appendix B.

City Expenses Per Resident

The City's expenses per resident related to governmental activities increased by 30 percent from \$1,911 in FY 2012-13 to \$2,478 in FY 2021-22, 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.

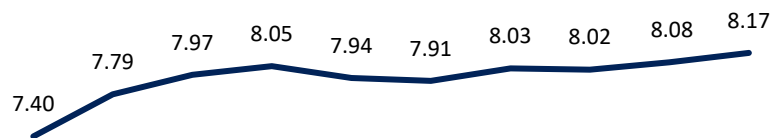
Exhibit 11: Ten-year summary of expenses per resident

FY2013 FY2014 FY2015 FY2016 FY2017 FY2018 FY2019 FY2020 FY2021 FY2022

Source: Oakland ACFRs

Between FYs 2012-13 and 2021-22, the number of City of Oakland fulltime employees (FTEs)⁷ per 1,000 residents increased slightly from 7.4 to 8.17, as shown in Exhibit 12.

Exhibit 12: City of Oakland's fulltime employees per 1,000 residents from FY 2012-13 through FY 2021-22

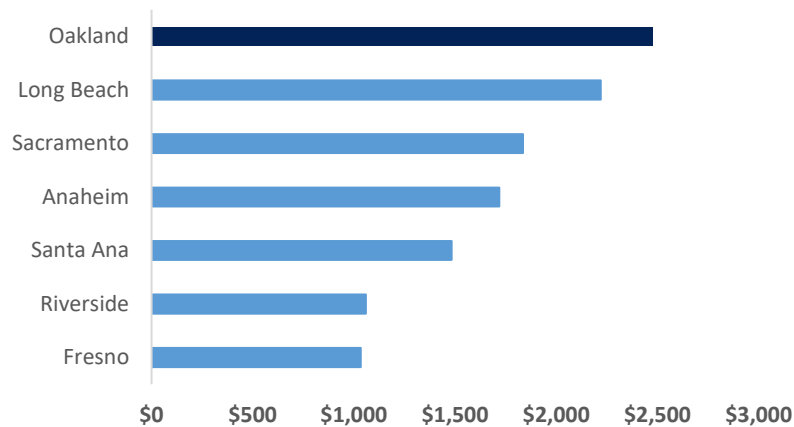


FY2013 FY2014 FY2015 FY2016 FY2017 FY2018 FY2019 FY2020 FY2021 FY2022

Source: Oakland ACFRs

As Exhibit 13 shows, Oakland has the highest expenses per resident of the benchmarked cities. In FY 2021-22, Oakland's expenses per resident was \$2,478, while the benchmarked cities' expenses per resident ranged from \$1,034 to \$2,218.

Exhibit 13: Comparison of other cities' governmental activities expenses per resident for FY 2021-22



Source: Oakland and other cities ACFRs

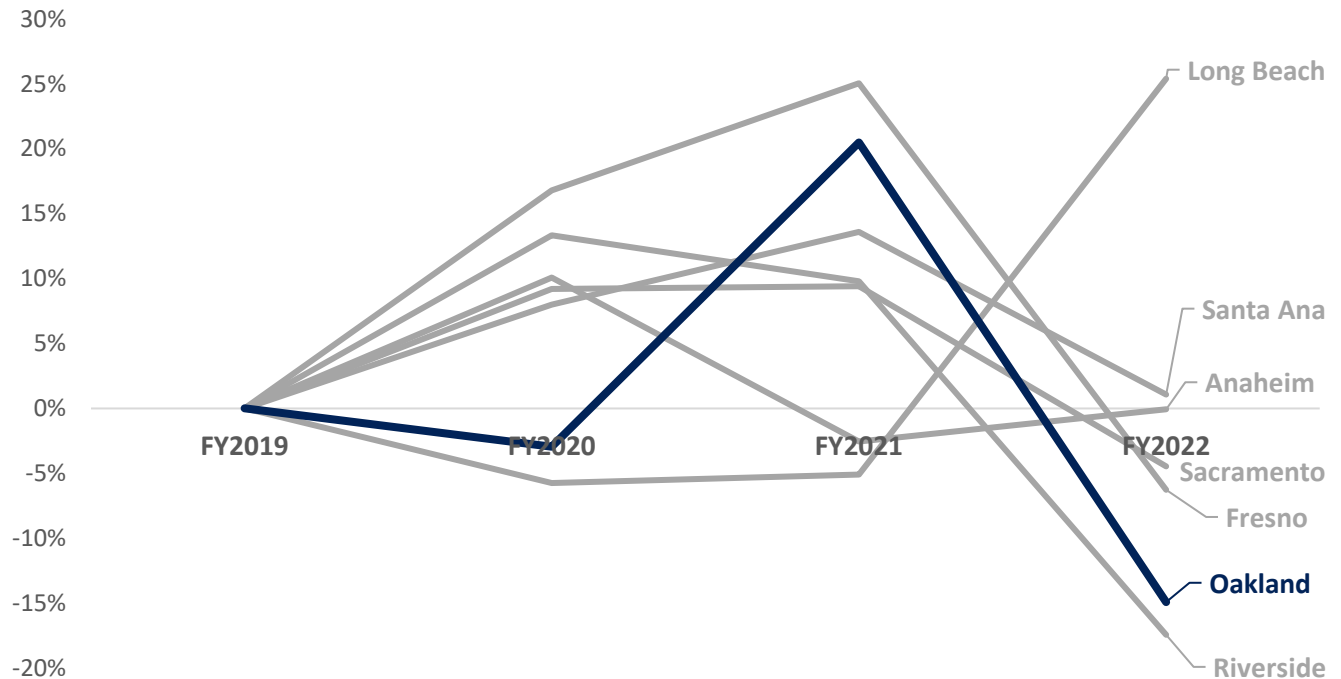
Even though Oakland has the highest expense per resident of the cities benchmarked in FY 2021-22, the percent year-over-year growth over the

⁷ 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.

past four years has averaged lower than other benchmark cities.

Exhibit 14 below shows the percentage year-over-year change among benchmark cities.

Exhibit 14: Comparison of year-over-year revenue change of expenses per resident between FY 2018-19 and FY 2021-22 among benchmark cities

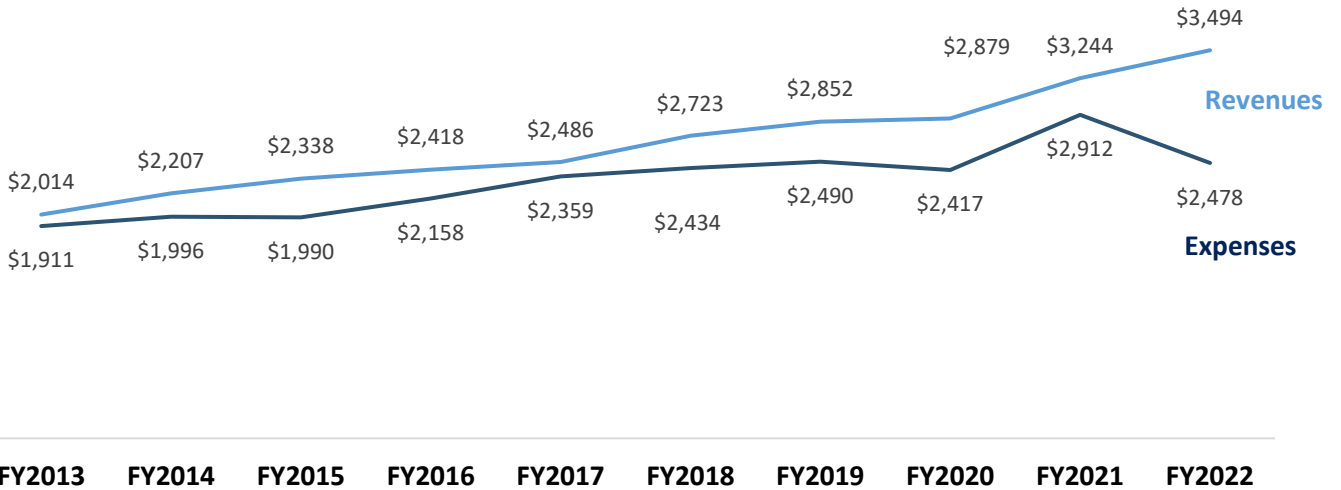


Source: Oakland and other cities ACFRs

City Revenues Compared to Expenses

Revenue related to governmental activities have exceeded expenses annually for the last ten years as shown Exhibit in 15. The City's revenue per resident related to governmental activities increased by 73 percent from FY 2012-13 to FY 2021-22, while expenses per resident related to governmental activities increased by 30 percent during the same period. The trend in revenues exceeding expenses is in part due to property tax growth, real estate transfer tax growth, reduced pension and OPEB expenses, and increased federal funding associated with the COVID-19 pandemic.

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 15: Revenue and expenses per resident for governmental activities between FY 2012-13 and FY 2021-22

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.⁸ 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 Comprehensive Financial Report (ACFR) includes government-wide financial statements and governmental fund financial statements, and each have 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 near-term 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 outflows⁹ 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 current year expenditures and short-term financial commitments, and are therefore 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

⁸ 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.

⁹ Near-term 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

obligations. This approach is known as the modified accrual basis of accounting.

Government accounting is far more complex than normal accounting 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 use, 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 City's discretion to spend Governmental Funds on City services. The funnels in Exhibit 16 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 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.

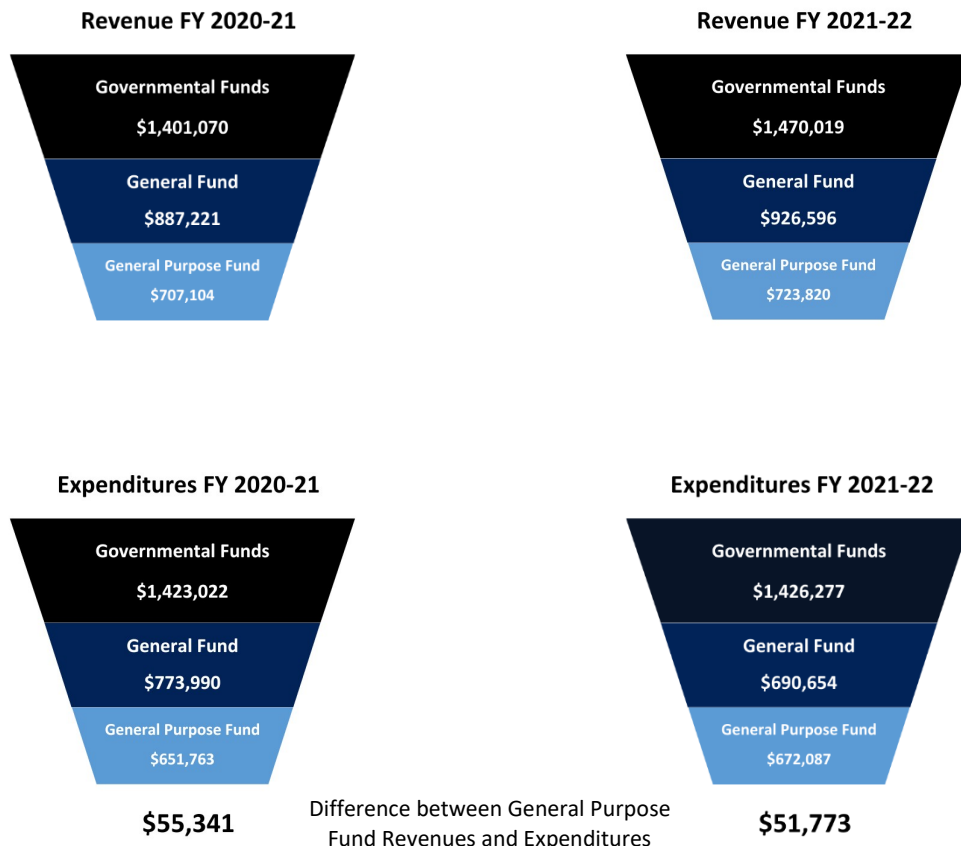
During the budget process, the City focuses on the General Purpose Fund revenues because its revenues are not restricted for specific purposes and activities. This fund provides policymakers flexibility on how to appropriate its revenues to address the City's most pressing needs.

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 16 below shows revenues and expenditures by Governmental Funds, General Funds, and the General Purpose Fund for FY 2020-21 and FY 2021-22. This exhibit is designed to illustrate the restrictions on funding.

Exhibit 16: Summary of revenues and expenditures by fund level for FY 2020-21 and FY 2021-22 (thousands)



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

The City Council has full discretion only over the use of General Purpose Fund revenues, which accounted for \$707 million, or 50 percent of the \$1.4 billion of the total revenues collected in FY 2020-21; and \$724 million, or 49 percent of the \$1.5 billion in revenues collected in FY 2021-22, as Exhibit 16 shows.

Exhibit 16 also shows overall Governmental Funds revenue **increased** by \$69 million, General Fund revenues **increased** by \$39 million, and General Purpose Fund revenues **increased** by approximately \$17 million during the

same period from FY 2020-21 to FY 2021-22. The increase in Governmental Funds revenue was attributed to increases in property taxes, an increase in local taxes, and federal and state grants. Some of those funds are restricted revenues.

The overall increase in General Fund revenues is due to property taxes increasing by \$32.9 million, real estate transfer tax by \$25 million, transient occupancy tax by \$6.1 million, parking tax by \$3.3 million, and utility consumption tax by \$6.1 million. General Fund revenues saw the biggest decrease in the *interest and other* category, which decreased by \$39.6 million.

Exhibit 16 shows that expenditures **increased** in Governmental Funds and in the General Purpose Fund, but **decreased** in the General Fund.

Governmental Funds expenditures increased by \$3 million, General Fund expenditures decreased by \$43 million, and the General Purpose Fund's expenditures increased by \$20 million during the same period between FY 2020-21 and FY 2021-22. The General Fund decrease in expenditures are attributed mainly to a \$44.4 million decrease in public safety costs from transferring expenditures to the Federal/State Grant Fund. The General Fund also saw a \$31.7 million decrease in general government expenditures due to a reorganization of Animal Services and Parking Operations, as well as staffing vacancies, and reduced election costs. The General Fund did see increases in some categories. Community and human services increased by \$18.2 million or 39 percent, primarily due to budgeted increases for the Department of Violence Prevention and the transfer of Animal Services expenditures to this function. Community and economic development increased by \$2.8 million or 18 percent, primarily due to budgeted increases in funding for community organizations. Public works and transportation increased by \$12.1 million or 33.3 percent, primarily due to the transfer of Parking Operations to this function and budgeted increases for maintenance and repairs of City facilities.

It is important to note the City's General Fund has received \$188 million in support from the American Rescue Plan Act (ARPA). In FY 2020-21, \$33 million of those funds were used to replace revenue shortfalls and subsidize General Fund expenditures. In FY 2021-22, \$87 million was used for similar purposes. The remaining \$68 million was programmed for FY 2022-23 General Fund subsidies.

Lastly, Exhibit 16 highlights that General Purpose Fund revenues outpaced expenditures by \$55.3 million in FY 2020-21, and by \$51.7 million in FY 2021-22.

As we mentioned in our previous [report](#) published on June 14, 2021, General Purpose Fund expenditures exceeded General Purpose Fund

revenues in FY 2019-20. Whenever General Purpose Fund expenditures exceed revenues, 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. Most 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 17:

Exhibit 17: City of Oakland bond types as of FY 2021-22

Bond Type	Used to Support or Fund	Funded by
<i>General obligation bonds</i>	Infrastructure improvements (e.g., Measure KK for improved public safety and finance transportation infrastructure improvements, affordable housing, and neighborhood services, Measure DD for clean water, safe parks, and open space trust for the City, Measure G to fund the Oakland Zoo, Museum and Chabot Space and Science Center improvements)	Property Taxes
<i>Lease revenue bonds</i>	Payment for improvements on the Oakland Administration Buildings	Lease payments made by the City's General Fund
<i>Pension obligation bonds</i>	A portion of the City's unfunded actuarial accrued liability for retirement benefits to members of the Police and Fire Retirement System (PFRS)	Funded by property taxes
<i>Special assessment district bonds</i>	Improvements in specific assessment districts. (e.g., underground utilities in Piedmont Pines neighborhood)	Assessments levied on real property within specific assessment districts

Source: Auditor summary of information gathered from bond issuance documentation

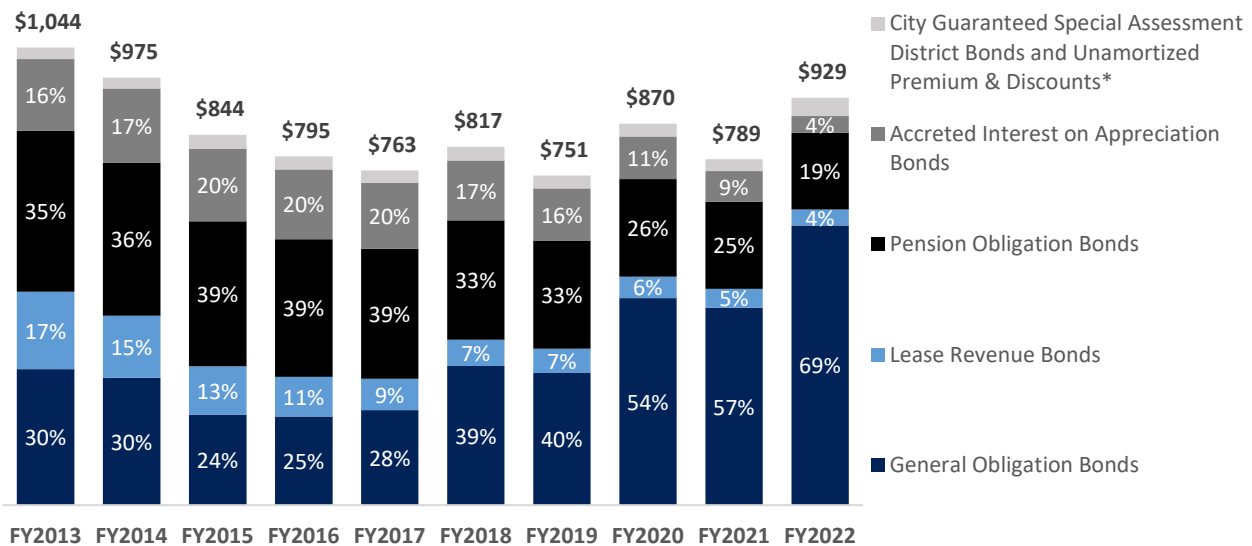
How Much Long-Term Debt Does the City Have?

The City's total outstanding bond debt increased 18 percent from \$789 million in FY 2020-21 to \$929 million in FY 2021-22. Exhibit 18 shows the changes in the composition of the City's bond debt between FY 2020-21 and FY 2021-22.

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 42 percent from \$450 million in FY 2020-21 to \$638 million in FY 2021-22. This debt increase is the result of the City issuing \$212 million in general obligation bonds associated with Measure KK for citywide infrastructure improvements in FY 2021-22.
- Debt from pension obligation bonds decreased by 12 percent from \$199 million in FY 2020-21 to \$175 million in FY 2021-22.
- Debt from lease revenue bonds decreased by 15 percent from \$43 million in FY 2020-21 to \$37 million in FY 2021-22.

Exhibit 18: Ten-year summary of City of Oakland debt by type (thousands)¹⁰



Source: Oakland ACFRs

Note: *The categories City Guaranteed Special Assessment District bonds and Unamortized Premium & Discounts are combined and these categories represent between 3 and 5 percent of Total Bonds Payable from FY 2012-13 and FY 2021-22

Credit Ratings

Maintaining a strong credit rating reduces borrowing costs because investors consider the debt less risky. For the last ten 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 2021-22, the City's bond ratings remain categorized as "very strong" as

¹⁰ 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.

Exhibit 19 below shows.

Exhibit 19: City of Oakland bond ratings as of FY 2021-22

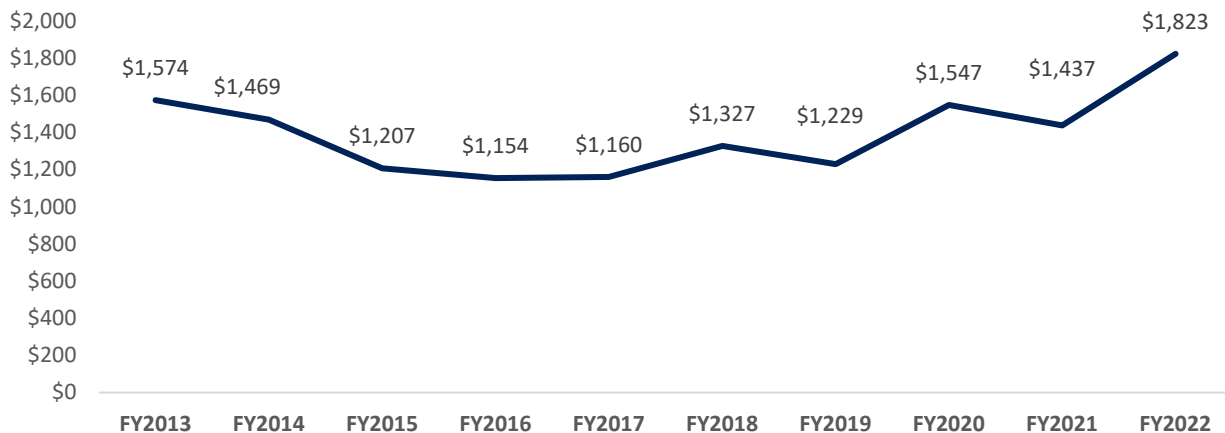
Type	% of City Total Debt ¹¹	Moody's Rating	Credit Quality
General Obligation Bonds	75%	Aa1	Very Strong
Lease Revenue Bonds	4%	Aa2	Very Strong
Pension Obligation Bonds	21%	Aa2	Very Strong

Source: Oakland ACFRs

City General Bonded Debt Per Resident

As Exhibit 20 shows, the City's debt backed by property taxes, including general obligation and pension obligation bonds (general bonded debt) per resident increased by 27 percent, from \$1,437 in FY 2020-21 to \$1,823 in FY 2021-22.

Exhibit 20: Ten-year summary of general bonded debt per resident from FY 2012-13 through FY 2021-22

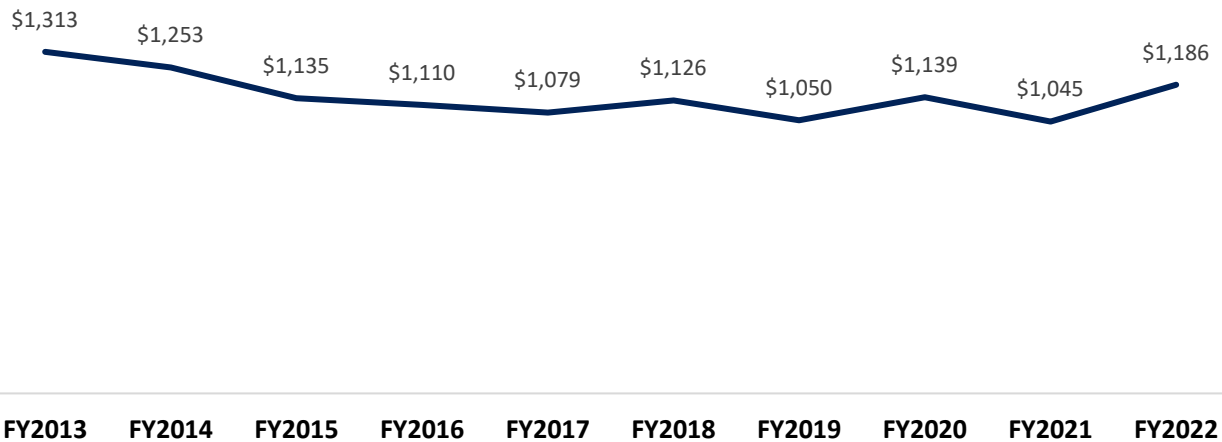


Source: Oakland ACFRs

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.

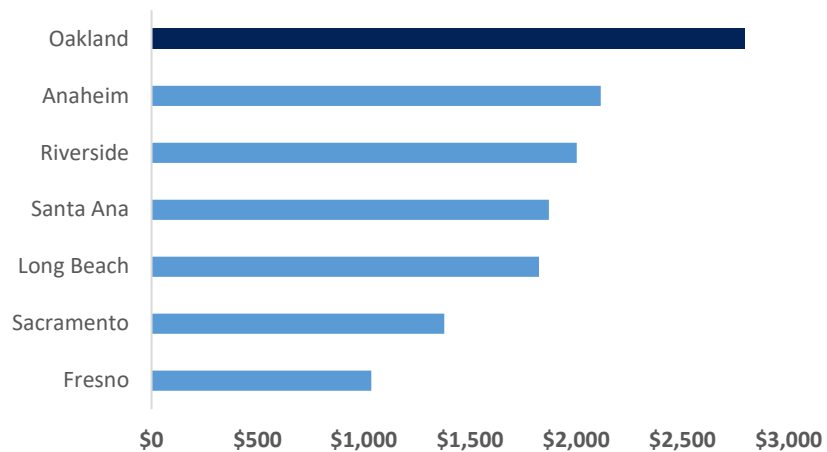
Exhibit 21 shows the City has increased its total long-term liabilities associated with governmental activities from \$1.05 billion in FY 2020-21 to \$1.2 billion in FY 2021-22. This 13 percent increase is due to the issuance of Measure KK bonds which will pay for street and road projects as well other investments in City-owned capital facilities.

¹¹Percentage 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.

Exhibit 21: Ten-year summary of long-term liabilities for governmental activities (millions)

Source: Oakland ACFRs

The City's long-term liabilities per resident is higher than any of the benchmarked cities. Exhibit 22 indicates in FY 2021-22 Oakland's long-term liability was \$2,794 per resident, while the other benchmarked cities ranged from \$2,115 to \$1,035.

Exhibit 22: Comparison of other cities' long-term liabilities (excluding pension and OPEB) per resident for FY 2021-22

Source: Oakland and other cities ACFRs

05

PENSION and OTHER POST-EMPLOYMENT BENEFITS LIABILITIES

This section describes the City's pension and Other Post-Employment Benefits (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),¹²
- California Public Employees Retirement System (CalPERS) Miscellaneous Plan, and
- CalPERS Safety Plan (CalPERS).¹³

For defined benefit retirement plans, 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 employees' salaries and years of service at retirement. See Appendix C for details on the number and type of participants reported in each plan between fiscal years 2014-15 and 2021-22.

Accounting changes in FY 2014-15 and FY 2017-18 required 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

¹²PFRS 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 per the City Charter by June 30, 2026. It should be noted that funding the plan on an actuarial basis does not guarantee the plan will be fully funded, nor can the funding level of the plan be determined until an actuarial valuation is completed after the July 1, 2026, funding date.

¹³ 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.

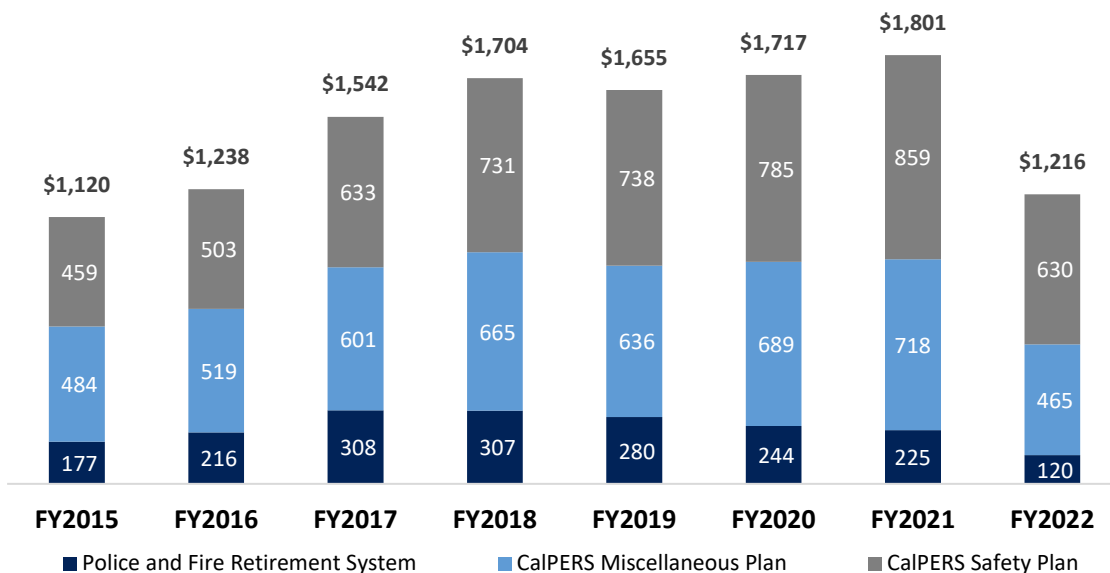
position). The difference between the two amounts is the net pension liability (total pension liability - fiduciary net position = net pension liability). If the resources held in trust are less than the pension liability, a pension shortfall exists. In other words, the employer and employee contributions to the plan, combined with investment earnings, are not enough to cover the anticipated payments due retirees.

As of June 30, 2022, the total net pension liability was \$1.2 billion.¹⁴ The City's net pension liability was allocated as follows:

- PFRS - \$120 million
- CalPERS Miscellaneous plan - \$465 million
- CalPERS Safety plan - \$630 million

Exhibit 23 below shows the change in the net pension liability for PFRS, CalPERS Miscellaneous, and CalPERS Safety plans from FY 2014-15 through FY 2021-22.¹⁵ As Exhibit 23 shows, the City's total pension liability has grown by approximately \$95 million over the last eight years, but fell by approximately \$585 million between FY 2020-21 and FY 2021-22. The reason for the dramatic drop in net pension liability was mainly due to an increase in the net investment income in each plan's fiduciary fund.

Exhibit 23: Eight-year summary of the City's net pension liability by pension plan from FY 2014-15 through FY 2021-22 (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

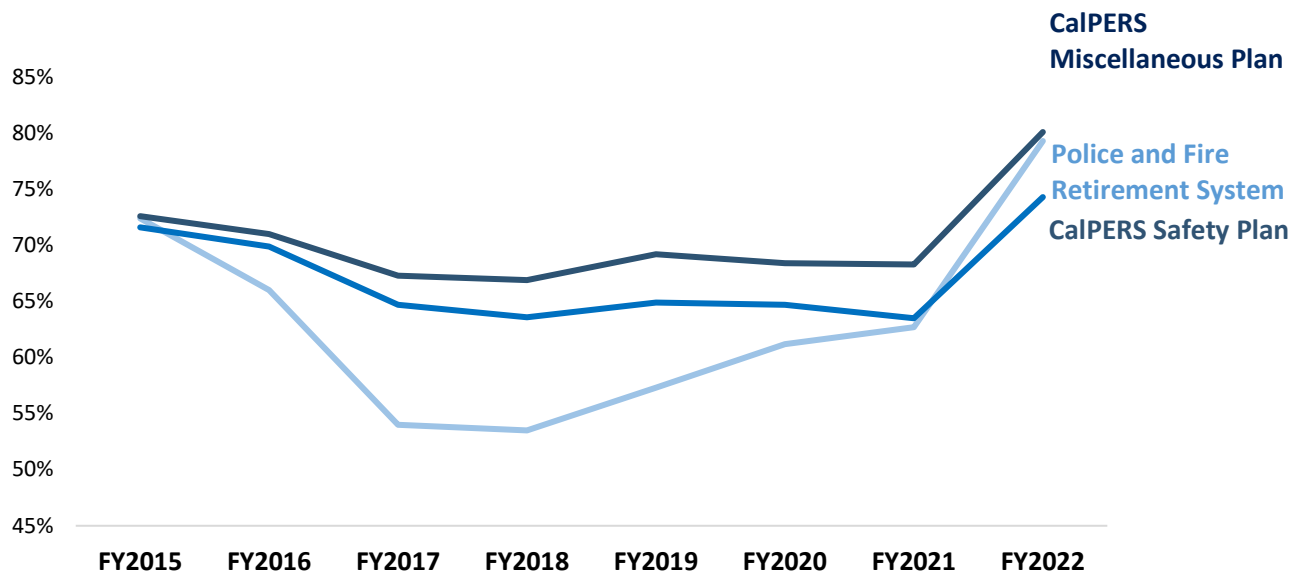
¹⁴ Total Net Pension Liability excludes the Port of Oakland pensions.

¹⁵ Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only eight years of information is shown.

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.

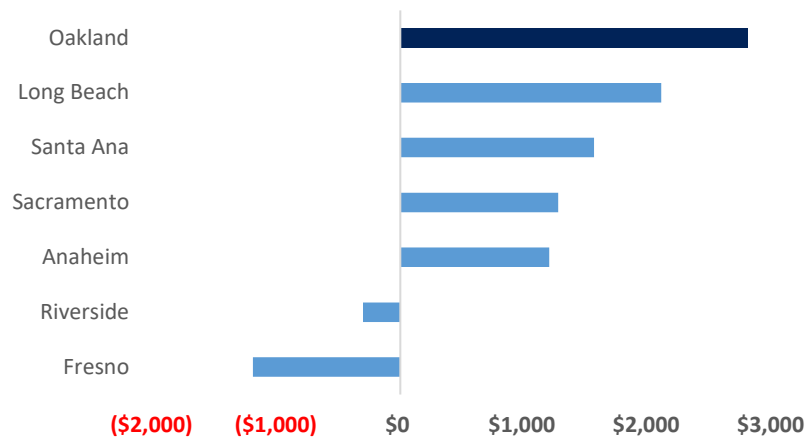
Since FY 2014-15, the funded ratio of each of the City's three pension funds have both increased and decreased as Exhibit 24 demonstrates. After hitting a low point in FY 2017-18, each of the funded ratios either increased or remained relatively constant until FY 2021-22, when the funded ratios in each pension fund increased dramatically. The PFRS funded percentage increased from 63 percent in FY 2020-21 to 79 percent in FY 2021-22. The CalPERS Miscellaneous plan increased from 68 percent in FY 2020-21 to 80 percent in FY 2021-22. CalPERS Safety Plan's funded ratio increased from 64 percent in FY 2020-21 to 74 percent in FY 2021-22.

Exhibit 24: Eight-year summary of funded ratio for pension plans from FY 2014-15 through FY 2021-22



Source: Oakland ACFRs

Exhibit 25 below shows the net pension liability per resident in FY 2021-22 for Oakland and the benchmarked cities. The City had a \$2,794 net pension liability per resident, which is the highest among all the other benchmarked cities which range between \$(1,185) to \$2,097.

Exhibit 25: Comparison of other cities' net pension liability per resident for FY 2021-22¹⁶

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 varying portions of health insurance premiums, based on 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. 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. However, in response to the financial crisis accompanying the pandemic, in June 2020, the City Council postponed these contributions for FY 2019-20 and FY 2020-21, consistent with emergency provisions in this policy. The contributions resumed in FY 2021-22.

As Exhibit 26 shows, the City’s Net OPEB liability has decreased from \$843 million in FY 2020-21 to \$617 million in FY 2021-22, a 27 percent decrease.

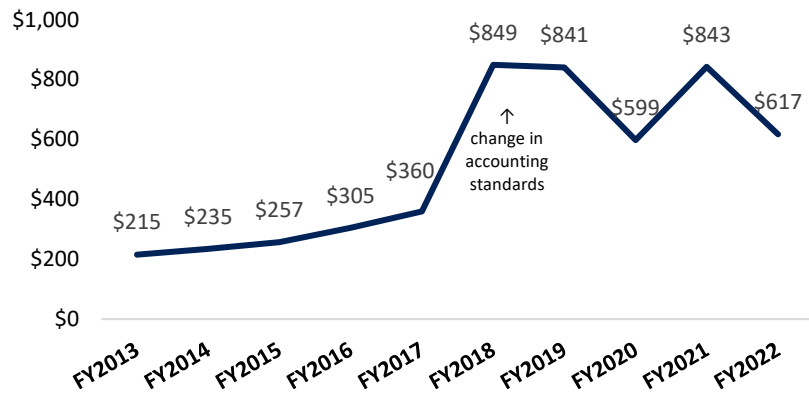
This \$226 million decrease is mainly due to changes in the discount rate for actuarial assumptions, which was increased following the resumption of contributions. In recent years, the City reached agreement with its sworn public safety unions to cap retiree medical benefits for existing employees and retirees effective January 1, 2020, and implement new, lower-cost tiers for employees hired after January 1, 2019. These reforms are expected to

¹⁶ 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.

provide significant long-term relief to the City's retiree medical program.

This directive is expected to impact the City's funded ratio in the upcoming fiscal years.

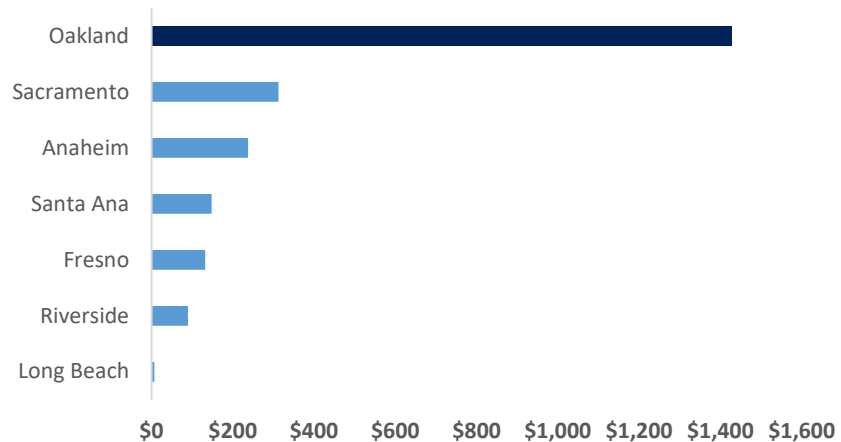
Exhibit 26: Ten-year summary of net OPEB liability (millions)¹⁷



Source: Oakland ACFRs

As Exhibit 27 below shows, Oakland has the highest OPEB liability per resident of the benchmarked cities. In FY 2021-22, Oakland's net OPEB liability per resident was \$1,428 and was significantly higher than the other benchmarked cities. The OPEB liability for the benchmarked cities ranged from \$7 to \$312 per resident. Some of the benchmarked cities like Fresno, Long Beach, and Riverside have stopped offering this benefit to new employees, while others partially fund their plans.

Exhibit 27: Comparison of other cities' net OPEB liability per resident for FY 2021-22



Source: Oakland and other cities ACFRs

¹⁷ 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.

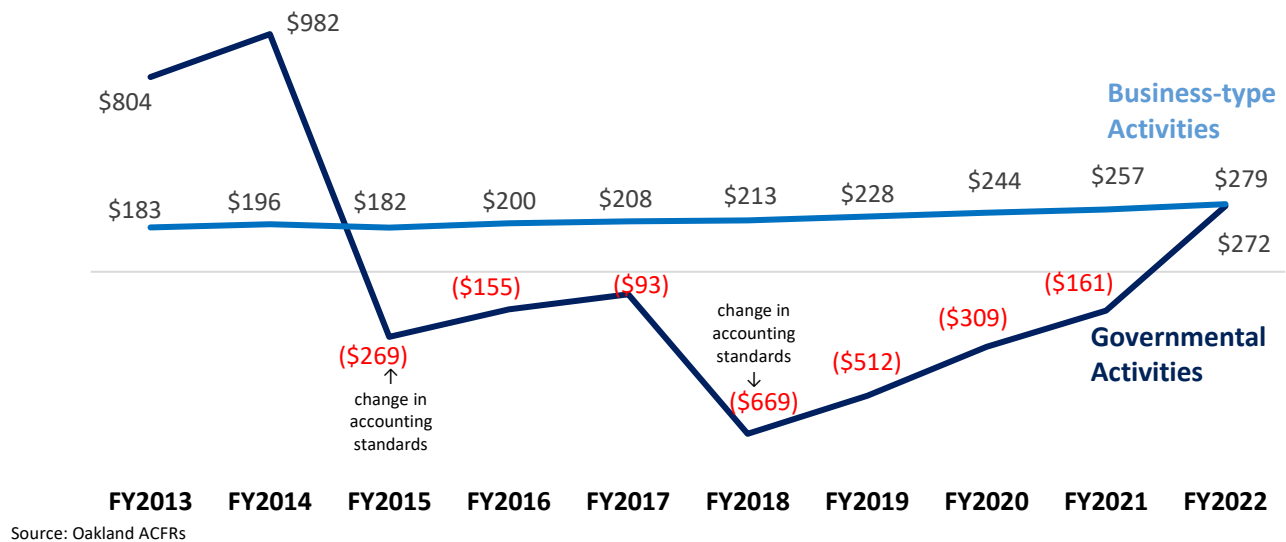
Net position represents the resources remaining for the City to use for providing services after its debts are settled. However, these resources are not always in a spendable form and may have restrictions on how some of the resources can be used. To clarify these, we divided this section into total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

Total Net Position

Oakland's total net position related to governmental activities (restricted and unrestricted) declined 66 percent from FY 2012-13 to FY 2021-22, from \$804 million to \$272 million as shown in Exhibit 28. 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 significantly between FY 2020-21 and FY 2021-22, due to total assets increasing by \$404.5 million, the Net Pension Liability decreasing by \$568.4 million, and the Net OPEB liability decreasing by \$221 million. As mentioned in Chapter 5, the Net Pension liability saw large gains in the net investment income and the Net OPEB liability saw an increase in the discount rate used for actuarial estimates. These significant decreases in liability helped the City achieve its first positive net position in governmental activities since FY 2013-14.

Exhibit 28: City of Oakland's total net position (governmental and business activities) between FY 2012-13 and FY 2021-22 (millions)



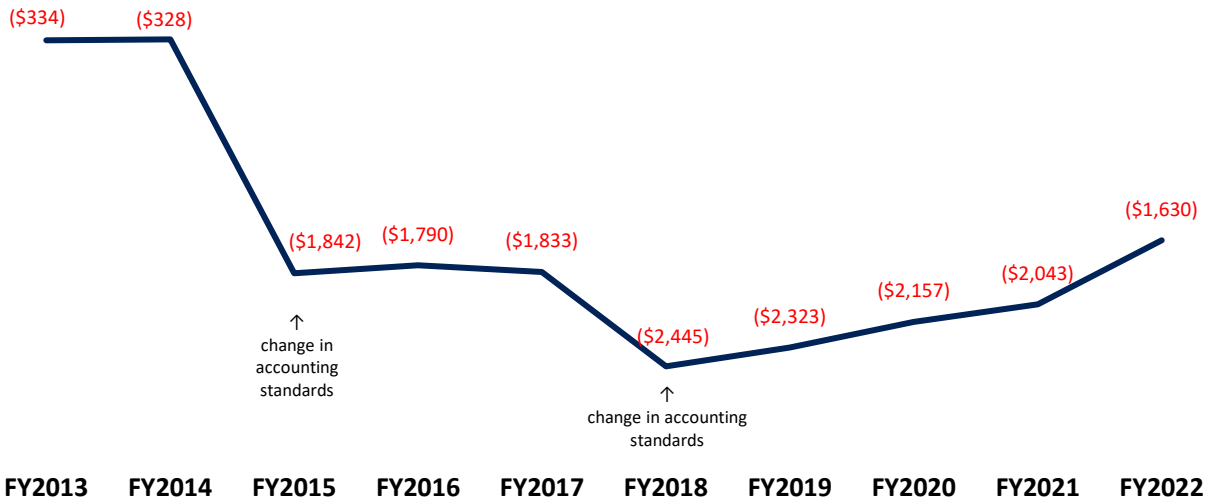
Unrestricted Net Position

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's 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 related to governmental activities in the government-wide financial statements.

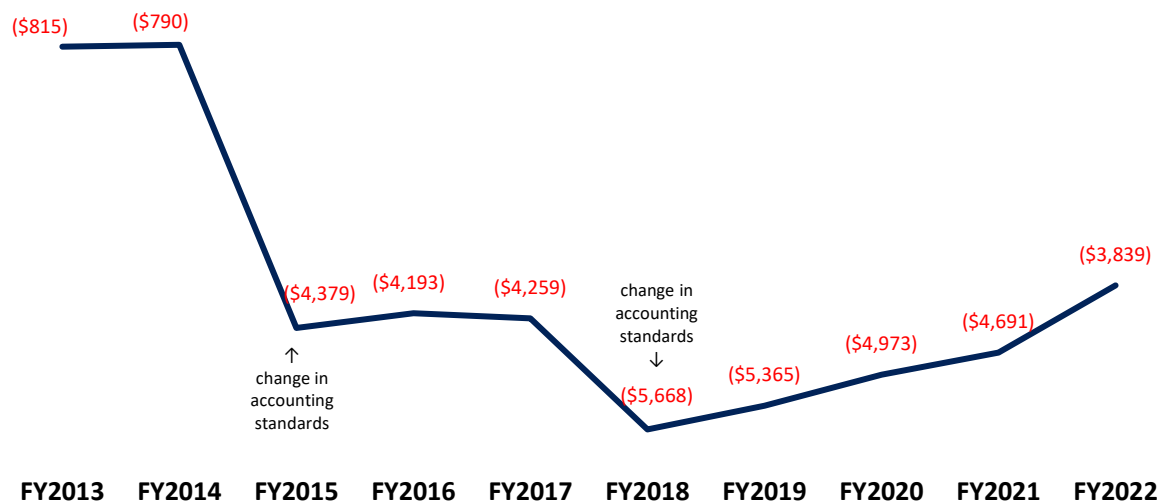
Exhibit 29 below shows the City's unrestricted net position's general trend over the ten-year period has always been negative. However, a noticeable improvement in the unrestricted net position occurred between fiscal years 2020-21 and 2021-22, mostly due to the reductions in the Net Pension and OPEB liabilities. 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 29: Unrestricted net position for governmental activities between FY 2012-13 and FY 2021-22 (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 371 percent from (\$815) in FY 2012-13 to (\$3,839) in FY 2021-22, as shown in Exhibit 30.

Exhibit 30: Ten-year summary of unrestricted net position per resident for governmental activities from FY 2012-13 to FY 2021-22

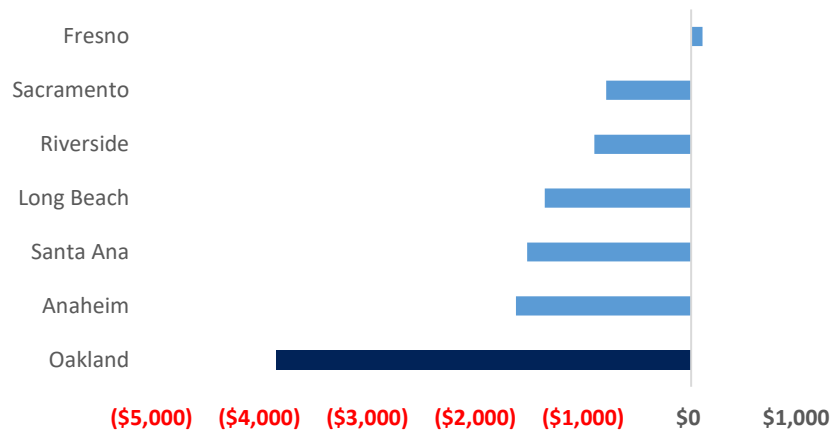
Source: Oakland ACFRs

In FY 2021-22, Oakland's total unrestricted net position was (\$3,839) per resident. As Exhibit 31 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 over two times worse than the second lowest city on a per resident basis. The other benchmarked cities' unrestricted net position ranged from \$105 to (\$1,623) per resident.

Exhibit 31: Comparison of other cities' governmental activities unrestricted net position per resident for FY 2021-22



Source: Oakland and other cities ACFRs

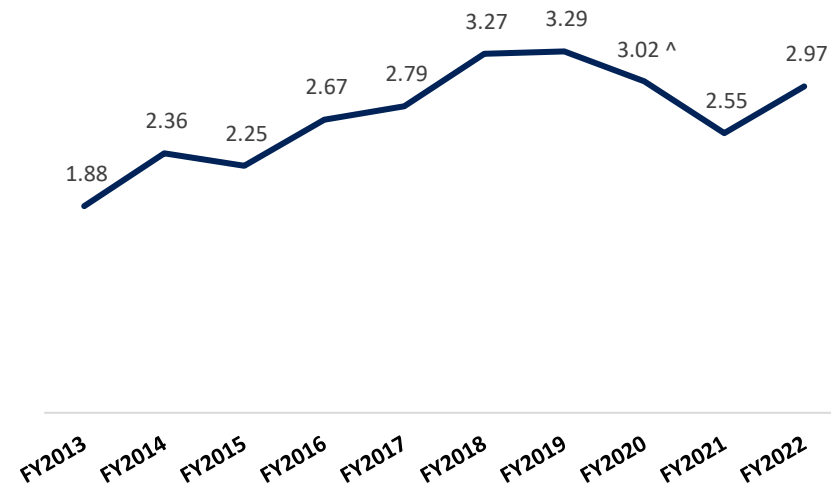
Liquidity

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 indicates 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. A low or declining ratio can indicate that a city's current liabilities are greater than its 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 32 below shows, the City's liquidity ratio for governmental activities was above the ratio of one-to-one and increased from 1.88 to 2.97 during the 10-year period from FY 2012-13 through FY 2021-22.

From FY 2020-21 to FY 2021-22, the City's liquidity ratio for governmental activities increased by 0.43, indicating the City is even better situated to cover its short-term obligations.

Exhibit 32: Ten-year summary of the City's liquidity ratio for governmental activities

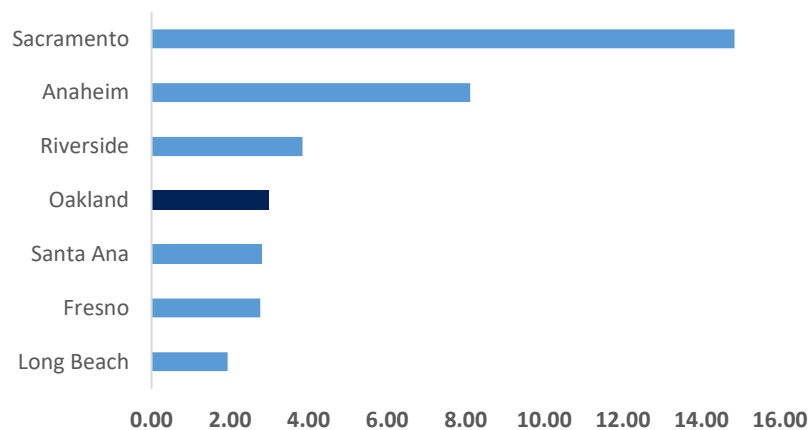


Source: Oakland ACFRs

^Incorrectly reported as 2.99 in the past report

While Oakland's liquidity ratio was 2.97 in FY 2021-22, its liquidity ratio ranks fourth of the seven benchmarked cities that have ratios ranging from 1.94 to 14.84 as shown in Exhibit 33.

Exhibit 33: Comparison of other cities' governmental activities liquidity ratio per resident for FY 2021-22



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 disasters, provide for the support of essential City services, and reduce the financing costs through better credit ratings.

The City is vulnerable to natural disasters and is dependent on volatile revenue sources. The economic impacts of the 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 hardships.

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.

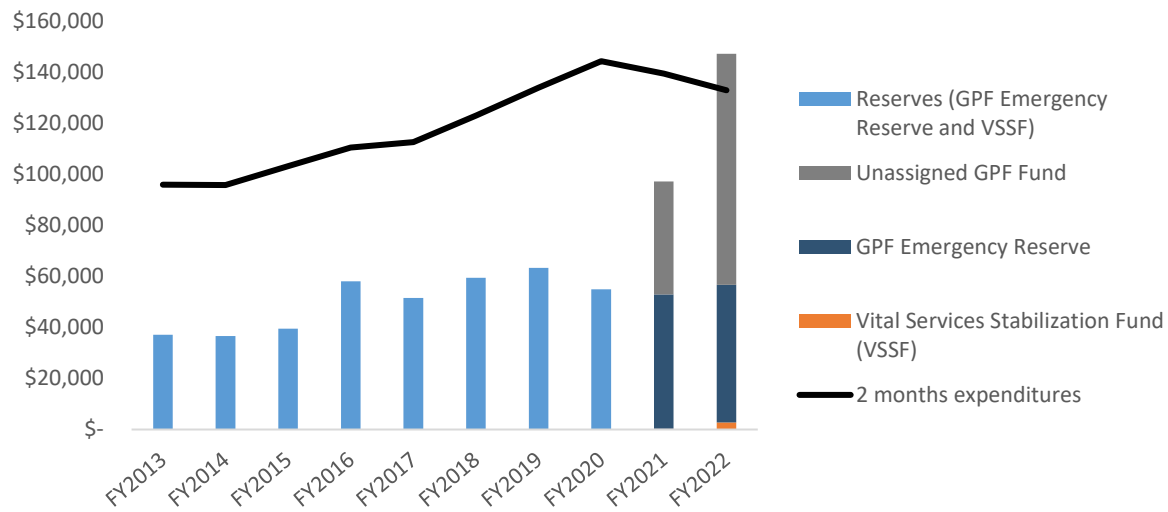
Furthermore, the GFOA emphasizes that each government's situation is different, and governments may deem it appropriate to exclude from consideration, resources that have been committed or assigned to some other purpose, focusing on unassigned fund balance, rather than on unrestricted fund balance.

For years, the City of Oakland maintained reserves in the General Purpose Fund Emergency Reserve, which was measured from the unassigned General Purpose Fund balance. The General Purpose Fund Emergency Reserve Fund balance was required to be at least 7.5 percent of that fiscal year's appropriations. In addition, the Vital Services Stabilization Fund (VSSF) was established in FY 2014-15 and is primarily funded by excess Real Estate Transfer taxes, and had a target funding level equal to 15 percent of General Purpose Fund revenues. At the end of FY 2021-22, the unassigned General Purpose Fund and Vital Services Stabilization Fund Reserve had a combined balance of \$93.4 million.

On June 24, 2021, the City Council approved a new standalone General Purpose Fund Emergency Reserve subfund and appropriated 7.5 percent of FY 2021-22 General Purpose Fund appropriations to this new subfund. At the end of FY 2021-22, the balance of the new subfund was \$54 million.

Exhibit 34 combines the balances of the General Purpose Fund Emergency Reserve and VSSF to present the City's reserves between FYs 2012-13 and 2019-20 and combines total reserve balances, including balances of the new subfund for FY 2020-21, and for FY 2021-22, when reserves totaled \$147 million, which was \$14 million more than the GFOA's recommended reserve.

Exhibit 34: Ten-year summary of General Fund reserves compared to two months of General Fund expenditures (thousands)



Source: Oakland ACFRs

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 2021-22) 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 and their condition declines, the cost of restoring them increases. In the City, the current condition of capital assets varies, and in some cases their 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

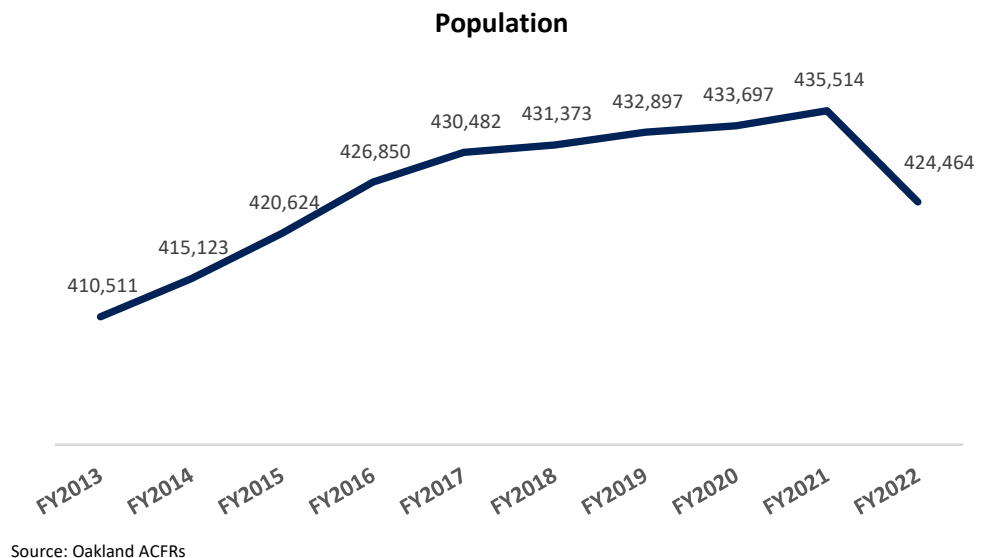
Why Are Demographic and Economic Indicators Important?

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.

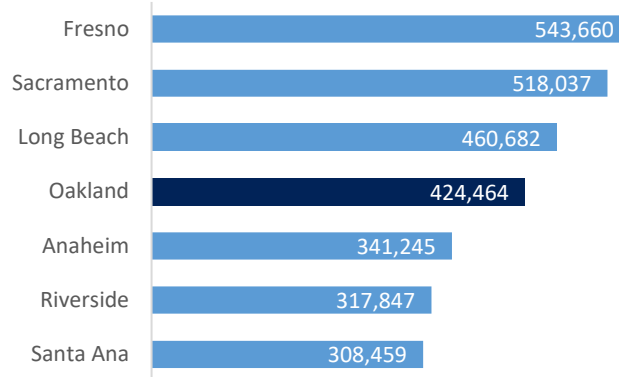
Population

As Exhibit 35 shows, Oakland's population increased by 3.4 percent from FY 2012-13 to FY 2021-22, from 410,511 to 424,464. However, in FY 2021-22, Oakland saw a 2.5 percent drop in the population size.

Exhibit 35: Ten-year population trend and comparison of population of the benchmarked cities for FY 2021-22



Population



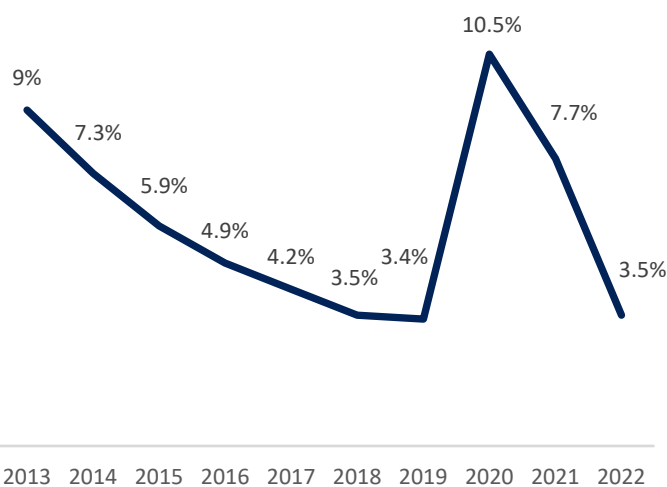
Source: Oakland and other cities ACFRs

In 2022, Oakland accounted for about 1.1 percent of California's total population, was the eighth largest city in California, and ranked fourth highest in population of the benchmarked cities.

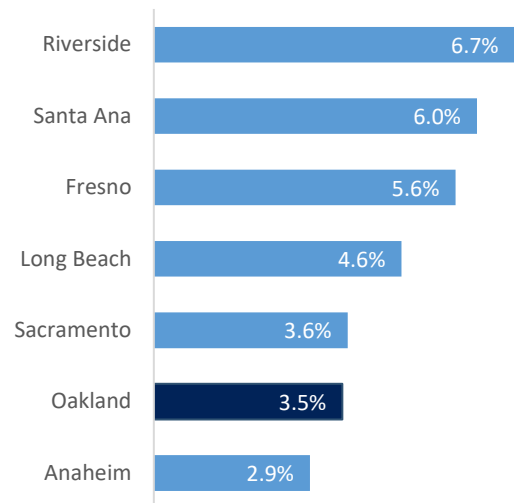
Unemployment

Exhibit 36 highlights the jump in the unemployment rate during the pandemic. The City's unemployment rate skyrocketed from 3.4 percent in 2019 to 10.5 percent in 2020, a three-fold increase. Since then, Oakland has seen a return to the pre-pandemic unemployment rate. The city had the second lowest unemployment rate of the benchmarked cities in 2022.

Exhibit 36: Ten-year trend for unemployment rate and comparison between cities for calendar year 2022



Source: Oakland ACFR 2022

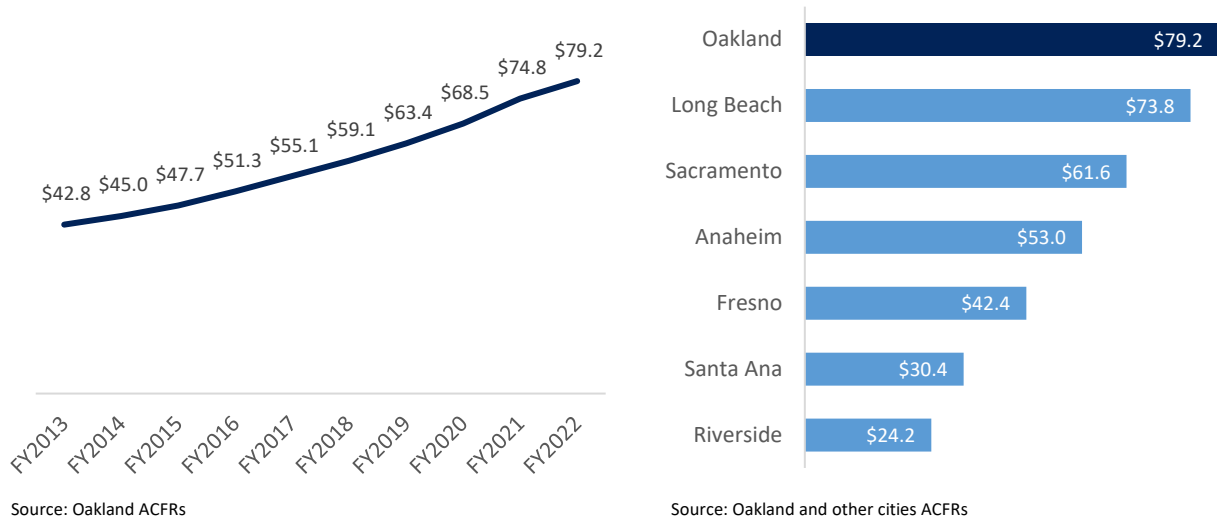


Source: Oakland and other cities ACFRs

Property Values

Assessed property values in Oakland increased 48 percent from FY 2012-13 to FY 2021-22, from \$42.8 billion to \$79.2 billion, as shown in Exhibit 37 below. The assessed value of properties in Oakland is the highest of any of the benchmarked cities in California.

Exhibit 37: Ten-year trend for assessed property values and comparison between cities for FY 2021-22



RECOMMENDATION FOLLOW-UP

The following recommendation from the previous Financial Condition report is no longer recommended due to improved funding position and negotiated reforms:

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.

The following recommendations remain from the previous Financial Condition report:

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 costs associated with maintaining and repairing 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 ten-year period, and comparing the results to other cities of similar size.

Scope and Methodology

We based our methodology for this audit 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 audit came mostly from the City's independently audited ACFRs from fiscal years 2012-13 to 2021-22. Other sources were also used. The primary sources for each area of the report are listed in the following table.

Data Sources

Report Sections	Source(s)
Revenues <ul style="list-style-type: none"> • City Revenues • Revenues by Source • Revenues per Resident • Property Taxes 	City of Oakland Annual Comprehensive Financial Reports (ACFRs) <ul style="list-style-type: none"> • Government-Wide Statement of Activities • Statement of Revenues, Expenditures, and Changes in Fund Balances • Statistics: <ul style="list-style-type: none"> ○ Direct and Overlapping Property Tax Rates ○ Demographic and Economic City of Oakland Oracle System
Expenses <ul style="list-style-type: none"> • City Expenses • Expenses by Service Area • Expenses per Resident • City Employees 	City of Oakland Annual Comprehensive Financial Reports (ACFRs) <ul style="list-style-type: none"> • Government-Wide Statement of Activities • Statistics: <ul style="list-style-type: none"> ○ 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) <ul style="list-style-type: none"> • Statement of Revenues, Expenditures, and Changes in Fund Balances City of Oakland Oracle System

Report Sections	Source(s)
Debt <ul style="list-style-type: none"> • City Debt • Debt per Type • Debt per Resident 	City of Oakland Annual Comprehensive Financial Reports (ACFRs) <ul style="list-style-type: none"> • Notes to the Basic Financial Statements • Statistics: <ul style="list-style-type: none"> ○ Ratios of General Bonded Debt Outstanding ○ Demographic and Economic • Management's Discussion and Analysis
Pension Obligations <ul style="list-style-type: none"> • Pension Liabilities • PERS Liability • OPEB Liabilities 	City of Oakland Annual Comprehensive Financial Reports (ACFRs) <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ Demographic and Economic
Financial and Operating Position <ul style="list-style-type: none"> • Citywide Net Position • City Liquidity • Reserves 	City of Oakland Annual Comprehensive Financial Reports (ACFRs) <ul style="list-style-type: none"> • Government-Wide Statement of Net Position • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances • Fund Balances, Governmental Funds • Statistics: <ul style="list-style-type: none"> ○ Demographic and Economic
Demographic and Economic <ul style="list-style-type: none"> • Population • Unemployment • Property Values 	City of Oakland Annual Comprehensive Financial Reports (ACFRs) <ul style="list-style-type: none"> • Statistics: <ul style="list-style-type: none"> ○ Demographic and Economic
Other City Comparisons <ul style="list-style-type: none"> • 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 	City ACFRs and budget documents <ul style="list-style-type: none"> • Cities with fiscal years that begins on July 1 and end on June 30 – Anaheim, Fresno, Sacramento, Santa Ana, and Riverside • City with fiscal year that begins on October 1 and end on September 30 – Long Beach

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, 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

Ten-year summary of revenues for governmental activities by type for FYs 2012-13 through 2021-22 and percentage change from FY 2020-21 through FY 2021-22 (thousands)

Revenue by Type		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	% Change between FY 21 & FY 22
Local Taxes	Property Tax	\$256,333	\$240,779	\$267,534	\$279,764	\$312,078	\$340,573	\$358,446	\$388,322	\$438,237	\$470,778	7.40%
	Business License Tax	\$60,371	\$62,905	\$66,677	\$75,504	\$75,840	\$86,107	\$99,733	\$98,036	\$104,232	\$101,290	-2.80%
	Utility Consumption Tax	\$50,752	\$50,422	\$50,594	\$51,006	\$52,618	\$52,047	\$49,599	\$49,831	\$51,801	\$57,930	11.80%
	Real Estate Transfer Tax	\$47,406	\$59,060	\$62,665	\$89,594	\$79,070	\$77,663	\$104,905	\$91,534	\$113,359	\$138,396	22.10%
	Transient Occupancy Tax	\$15,831	\$18,468	\$21,569	\$25,671	\$29,049	\$30,039	\$33,005	\$24,920	\$13,497	\$21,209	57.10%
	Parking Tax	\$15,565	\$16,661	\$18,398	\$20,175	\$20,886	\$21,137	\$21,726	\$17,312	\$11,590	\$18,184	56.90%
	Voter Approved Taxes	\$38,247	\$38,835	\$37,443	\$37,793	\$37,962	\$50,469	\$59,682	\$61,492	\$93,151	\$96,444	3.50%
	Franchise Tax	\$16,035	\$16,666	\$18,150	\$18,609	\$18,763	\$19,124	\$19,340	\$19,774	\$19,901	\$20,226	1.60%
State Taxes	Motor Vehicles in-lieu Tax	-	-	\$177	\$166	\$189	\$224	\$206	\$343	\$318	\$503	58.20%
	Gas Tax	\$10,004	\$13,085	\$12,030	\$8,653	\$7,974	\$10,867	\$16,409	\$17,320	\$17,322	\$18,842	8.80%
	Sales and Use Tax	\$60,494	\$58,912	\$63,718	\$77,365	\$79,866	\$85,500	\$92,319	\$83,678	\$88,888	\$99,255	11.70%
Program Revenues	Charges for Service	\$126,831	\$152,674	\$182,293	\$178,309	\$203,153	\$221,719	\$203,390	\$192,693	\$170,468	\$186,305	9.30%
	Operating grants & contributions	\$89,424	\$119,063	\$92,865	\$90,090	\$95,032	\$124,238	\$95,198	\$130,396	\$206,509	\$229,733	11.20%
	Capital grants & contributions	\$26,179	\$42,148	\$70,322	\$54,043	\$34,911	\$750	\$22,672	\$2,446	\$3,178	\$5,249	65.20%
	Interest and investment income	\$6,358	\$6,653	\$6,362	\$4,596	\$3,046	\$11,762	\$26,394	\$24,126	\$18	(\$12,832)	-71,389%
	Other	\$7,076	\$19,671	\$12,745	\$20,987	\$19,935	\$42,362	\$31,457	\$46,373	\$80,250	\$31,403	-60.90%
Total		\$826,906	\$916,002	\$983,542	\$1,032,325	\$1,070,372	\$1,174,581	\$1,234,481	\$1,248,596	\$1,412,719	\$1,482,915	5%

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 to the City 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: Measure HH – Sugar-Sweetened Beverage Tax, Lighting and Landscaping Assessment Tax, Bedroom Tax, Measure M – Emergency Medical Services Retention Act, Measure N - Paramedics Services Act, Measure Q – Oakland Parks and Recreation Preservation, Litter Reduction, and Homelessness Support Act, Measure Q-Library Services Retention & Enhancement, Measure D - Oakland Public Library Preservation Act, Wildland Fire Prevention Assessment District, Rockridge Library Assessment District, Measure W – 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 10.25 percent. For example, on a \$1 taxable purchase, the sales tax paid is 10.25 cents. The City receives 1 percent of the total sales tax revenues— meaning 1 cent on a \$1 purchase. The remaining 9.25 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 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.

Note: The document source of each of these revenue categories are intentionally categorized as represented in the ACFR.

APPENDIX B

Ten-year summary of expenses for governmental activities by type for FYs 2012-13 through 2021-22 and percentage change from FY 2020-21 through FY 2021-22 (thousands)

Expenses by Type	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	% Change between FY 21 & FY 22
General Government	\$93,942	\$79,806	\$82,493	\$99,183	\$127,344	\$110,486	\$199,697	\$186,580	\$222,718	\$181,671	-18.40%
Public Safety	\$363,597	\$379,809	\$383,904	\$432,862	\$470,798	\$471,378	\$444,400	\$409,740	\$511,184	\$350,096	-31.50%
Community Services	\$107,779	\$116,961	\$121,740	\$134,799	\$146,398	\$144,763	\$142,719	\$150,513	\$134,097	\$123,748	-7.70%
Community and Economic Development	\$81,182	\$83,657	\$75,268	\$85,396	\$92,048	\$103,328	\$103,099	\$99,995	\$186,777	\$176,985	-5.20%
Public Works and Transportation	\$75,158	\$109,177	\$105,619	\$114,597	\$122,540	\$158,610	\$127,597	\$137,937	\$149,611	\$152,049	1.60%
Interest on Long-Term Debt	\$62,744	\$59,026	\$68,033	\$54,335	\$56,471	\$61,505	\$60,432	\$63,438	\$63,964	\$67,132	5.00%
Total	\$784,402	\$828,436	\$837,057	\$921,172	\$1,015,599	\$1,050,070	\$1,077,944	\$1,048,203	\$1,268,351	\$1,051,681	-17.10%

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 Management, Information Technology Department, Public Ethics Commission, Race and Equity Department, Workplace & Employment Standards, and other.

Public Safety: These expenses are attributed to the Police Fire Department, and Police Commission.

Community Services: These expenses are related to Parks and Recreation, Library, Department of Violence Prevention, Animal Services, 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

Eight-year summary of pension plan participants from FYs 2014-15 through 2021-22

Participant Types		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
CalPERS Miscellaneous Plan	Active employees	2,446	2,558	2,620	2,646	2,673	2,741	2,797	2,760
	Inactive employees entitled to but not yet receiving benefits	1,555	1,616	1,679	1,728	1,800	1,881	1,890	1,942
	Inactive employees or beneficiaries	3,201	3,324	3,411	3,512	3,616	3,718	3,807	3,891
	Total CalPERS Miscellaneous Plan Participants	7,202	7,498	7,710	7,886	8,089	8,340	8,494	8,593
CalPERS Public Safety Plan	Active employees	1,034	1,145	1,200	1,226	1,181	1,184	1,167	1,151
	Inactive employees entitled to but not yet receiving benefits	366	375	385	400	407	414	439	455
	Inactive employees or beneficiaries	922	1,061	1,135	1,199	1,254	1,298	1,340	1,392
	Total CalPERS Public Safety Plan Participants	2,322	2,581	2,720	2,825	2,842	2,896	2,946	2,998
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	768	723
	Total Police and Fire Retirement System Participants	961	929	886	837	798	798	798	723

Source: Oakland ACFRs



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Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date of Complete
1	<p>The City Council should do the following to address the City's unfunded pension and OPEB liabilities:</p> <ul style="list-style-type: none">• 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. <p>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:</p> <ul style="list-style-type: none">• Academia and pension/OPEB experts.	<p>We consider this recommendation closed. It is no longer recommended due to improved funding position and negotiated reforms.</p>		



CITY OF OAKLAND

Office of the City Auditor

City of Oakland's Financial Condition Between Fiscal Years 2012-13 and 2021-2022

City Administration's Recommendation Implementation Plan

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date of Complete
	<ul style="list-style-type: none">• 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 <i>and near-term</i> financial position could be strengthened.	<p>October 2023 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.</p> <p>Currently, the Finance Department regularly reports to the City Council the financial condition of the City, all reports as of calendar year 2023 have been agendized and presented to the Finance and Management Committee (FMC).</p> <p>Current financial condition reports include:</p>	<p>October 2023 Update: Finance Department</p>	<p>October 2023 Update: June 30, 2024</p>



**CITY OF
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**City of Oakland's Financial Condition Between Fiscal Years
2012-13 and 2021-2022**

City Administration's Recommendation Implementation Plan

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date of Complete
		<p>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)</p> <p>Additionally, The Finance Department provided a comprehensive presentation on the City's Finances for the new City Council Orientation.</p> <p>And these reports have been augmented to provide enhanced information providing greater financial literacy for the City Council and discussions in laypersons terms.</p> <p>The Finance Department and a presentation of the City Financial health was incorporated into the City Council Budget Priority Retreat.</p> <p>Finally, the Finance Department is working to provide comprehensive</p>		



CITY OF OAKLAND

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City of Oakland's Financial Condition Between Fiscal Years 2012-13 and 2021-2022

City Administration's Recommendation Implementation Plan

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date of Complete
		recommendations to the Consolidated Fiscal Policies (CFP) that 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.	October 2023 Update: Management agrees with the recommendation, the Finance Department is working to provide comprehensive recommendations to the Consolidated Fiscal Policies (CFP) that will provide additional policy recommendations in line with GFOA best practices, so that Council has additional tools in decision making.	October 2023 Update: Finance Department	October 2023 Update: June 30, 2024
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 costs associated with maintaining and repairing them.	October 2023 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	October 2023 Update: Finance Department	October 2023 Update: December 2024



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City Administration's Recommendation Implementation Plan

Finding	City Auditor's Recommendations	Management Action Plan	Responsible Party	Target Date of Complete
		amount of fixed assets. The City currently meets that requirement at its most basic meaning. The Finance Department has augmented Staff resources within the Finance Department and is working towards Oracle system upgrades to implement a new software module system for the tracking, reporting, and maintenance of the conditions of fixed assets and long-term leases.		