



## ***LIBRARY ADVISORY COMMISSION REPORT***

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**TO:** Library Advisory Commission  
Oakland Public Library

**FROM:** Janelle Veresa,  
Fiscal Manager, OPL

**SUBJECT:** Budget 101– Overview of the  
City of Oakland’s Biennial Budget  
Development Process

**DATE:** February 21, 2023

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### **RECOMMENDATION**

Staff recommends that the Library Advisory Commission (LAC) accept this report, *Budgeting 101 – Overview of the City of Oakland’s Biennial Budget Development Process*, prepared at the request of the LAC in January 2023.

### **EXECUTIVE SUMMARY**

The Chairperson of the Library Advisory Commission requested that Library staff prepare and present to the commission, an overview of the City of Oakland’s budget development process, specifically a “Budget 101 Session,” to better prepare commissioners in their role as advocates for the library.

The attached overview includes a timeline and brief explanation of the key stages of the City’s budget development process, as well as an introduction to terms, concepts, and documents important to the City’s budgetary process.

It is hoped that the information will assist in providing a better understanding of the budget process as a whole.

Respectfully submitted,

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**Janelle Veresa,**  
Library Fiscal Manager

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## BUDGET OVERVIEW

At its core, a local government budget is an approved revenue and spending plan that authorizes a municipality to use public dollars to provide services. A budget is often a reflection of a city's priorities and policies.

The City of Oakland has a two fiscal-year (biennial) budget cycle. For the City of Oakland, the Fiscal Year (FY) begins on July 1 and ends on June 30. This same fiscal year calendar is used by the State of California, and most cities, counties, and school districts. The City's next biennial budget cycle, FY 2023-2025 will begin on July 1, 2023. The City policy of adopting a two-year budget is intended to improve the City's long-term planning, enhance funding stability, and to create greater efficiency in the budget development process. While the City's budget is adopted for a two-year period, appropriations are divided into two one-year spending plans. Toward the end of the first year of the two-year budget cycle, the Mayor and City Council conduct a mid-cycle budget review to address variances in estimated revenues and expenditures, and other changes that may have impacted the City's financial condition.

The City of Oakland's budget presents two principal types of data: projected revenues and planned expenditures. Revenues are monetary resources that the City anticipates will become available during the fiscal year. City revenues can be categorized by type (e.g. property tax, sales tax, business tax, permit fees, etc.). City revenues may also be divided into those that can either be expended on general City activities or those that must be restricted for specific purposes. For example, the City's Measure Q and Measure D funds may be used only for the retention and enhancement of Library services, whereas the City's business tax revenues can be used for all governmental purposes. Expenditures can be divided by type (e.g. salaries, retirement contributions, debt service, supplies, capital projects, etc.), or by the department that spends them (e.g. Police, Fire, Library, Public Works, etc.).

To ensure that restricted revenues are used only for their intended purpose, the City accounts for its financial resources in different "funds." For example, Measure Q parcel tax revenue collected from property owners for Library services are held in a different fund than are revenues from the City's Public Safety & Services Measure. The largest City fund is the General Purpose Fund, which can be used for all public purposes over which the City has jurisdiction. General Purpose Fund revenues are generally unrestricted and include most taxes.

In addition to the Proposed Policy Budget, the City also issues a Proposed Capital Improvement Program (CIP) for City Council consideration. Both documents are later finalized as the Adopted Policy Budget and the Adopted Capital Improvement Program. The Policy Budget is the City's operating budget and includes the projected revenues and expenditures required to provide most City services. For example, the operating budget includes revenues from general taxes which provides funding for police services, fire and emergency medical services, youth and recreation programs, library services, city administration, etc. The CIP, by contrast, presents planned expenditures for projects which will improve the City's infrastructure, buildings, and environment as well as major purchases such as land, buildings and equipment. For example, the CIP includes water quality projects around Lake Merritt, complete repaving of streets and roads, construction of sewer infrastructure, and construction or renovation of City buildings. The CIP is summarized in the Policy Budget in accordance with best practices.

## THE BUDGET PROCESS

The budget process is the procedure through which the City formally develops, deliberates and adopts its budget. The budget process consists of several important stages: 1) Budget Development, 2) Budget Adoption, and 3) Budget Amendment. The City's Consolidated Fiscal Policy, Ordinance 13279 CMS, provides the legal framework that guides the budget process, and mandates that the City pass and adopt a balanced budget. The Adopted Policy Budget provides a framework through which the City's goals and objectives are achieved in line with the Mayor and Council priorities.

The following outlines the typical budget process for a biennial budget for the City of Oakland:

### **Budget Development**

<b>Nov-Dec: Baseline Budget Development</b>	In the fall, the Finance Department develops a " <b>baseline budget</b> ," which is a preliminary two-year budget that forecasted revenues and expenditures assuming the City maintained its current level of staffing, program funding and policies. The baseline budget is the foundation upon which the proposed budget is developed. The Finance Department works in conjunction with all City departments to create the baseline budget, considering the latest economic projections and information on likely expenditure increases, such as fringe benefit rates for retirement and health care. This forecast of expected revenue and expenditures in the baseline budget helps the City identify whether there will be an operating surplus or the need to address a funding shortfall.
<b>February-March: Five-Year Financial Forecast Report</b>	The completed baseline budget becomes the foundation for development of the City's Five-Year Financial Forecast. The Five-Year Financial Forecast is a planning level estimate of future revenues and expenditures and identifies potential budget issues based upon the assumed future financial environment. The Five-Year Financial Forecast assumes no policy changes will be made to the baseline budget, other than those already prescribed by law.
<b>January-February: Departmental Budget Development</b>	After the development of the baseline budget, the City Administrator's Office directs the departments, through "budget instructions," to submit requests for changes to their respective departmental baseline budgets to the Budget Office. Departmental requests include changes such as new programs, increased revenues, reduced expenditures, reorganizations, reduced and/or enhancement of staff or shifting appropriations from one program or service to another.
<b>February-March: Budget Office Analysis</b>	The Budget Office then reviews each departmental budget request submitted, conducting in-depth analyses of each budget request in order to assess its value, fiscal feasibility, as well as its service and equity impacts. They also follow-up with each department to resolve any issues and/or answer questions. The findings of the Budget Office analyses are then provided to the City Administrator as recommendations.

**February-March:  
Internal Budget  
Hearings**

Internal budget hearings are held by the Mayor, City Administrator, City Administrator Staff, and the Budget Office with department directors and their staff to advocate for and discuss their department's budget proposals. At these internal meetings, discussions occur about program priorities and resource requirements for the next two years; budget recommendations and questions from the Mayor, City Administrator and Budget Office are also discussed; Based on the outcomes of the internal budget hearings, as well as any necessary follow-up discussions and /or additional analysis by staff, preliminary budget decisions were made by the Mayor and City Administrator.

**February-March:  
Community &  
Council Input**

In accordance with the City's Consolidated Fiscal Policy, an assessment of stakeholder needs, concerns and priorities are conducted prior to the finalization of the Proposed Budget. This takes the form of a statistically valid poll developed in conjunction with the City's Budget Advisory Committee. The Councilmembers are also invited to provide a list of key expenditure priorities for the Mayor's consideration for the Proposed Policy Budget.

**March-April:  
Proposed Budget  
Finalized**

The City Administrator provides a preliminary budget proposal to the Mayor. The Mayor weighs options, conducts additional analysis, considers City Council, community, and other stakeholder input, and makes modifications, which culminates into the Mayor's Proposed Policy Budget that is sent to the City Council in late April.

**May-June:  
Community Input**

The City Council, together with City Administration hold several Community Budget Forums, scheduled at different times and locations throughout the City. These meetings provide a forum for City Councilmembers to obtain input from constituents regarding their budget priorities and to address questions and concerns they may have regarding the Mayor's Proposed Policy Budget.

## **Budget Adoption**

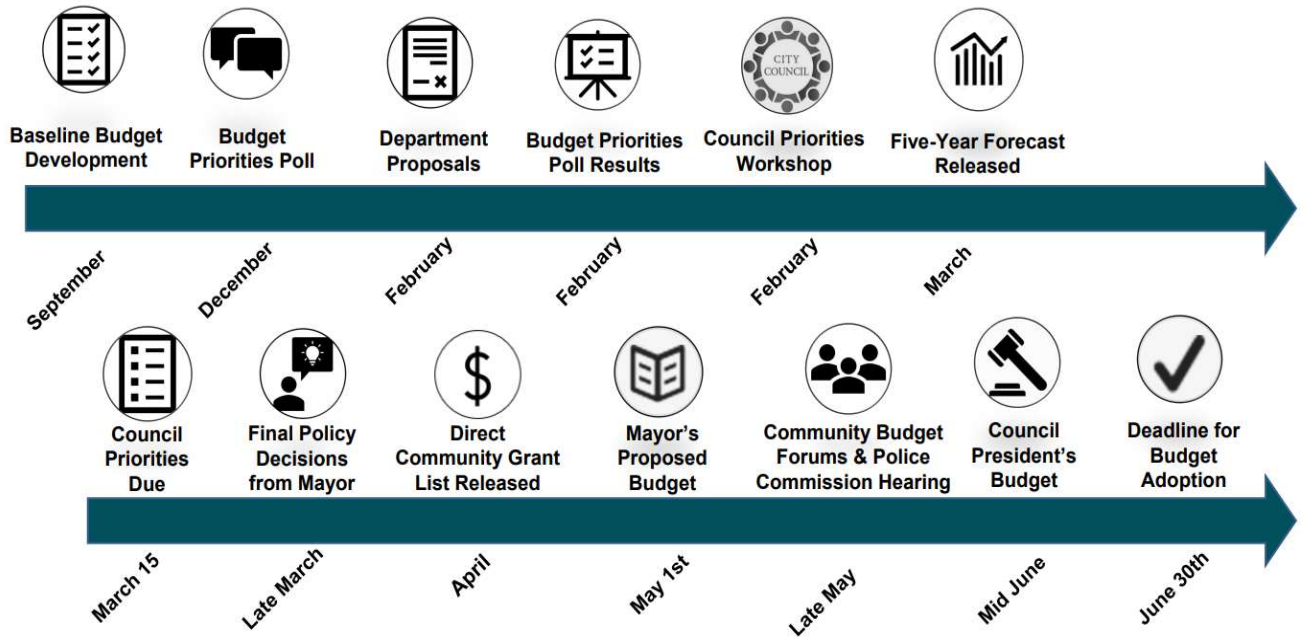
**May-June:  
Council Deliberations**

After receiving the Mayor's Proposed Budget, the City Council holds a series of public hearings, wherein they consider, discuss, and receive additional information and responses to questions they have about the Mayor's Proposed Budget. Councilmembers then introduce several amendments, which if adopted by the City Council, results in modifications being made to the Proposed Budget.

**June:  
Council Budget  
Adoption**

The City Charter requires the adoption of a balanced budget by the June 30<sup>th</sup>, preceding the start of the new fiscal year that commences on July 1. By adopting the proposed budget, Council authorizes a two-year appropriation for all funds.

# The Budget Process



## PLANNING FOR THE CITY OF OAKLAND'S TWO-YEAR BUDGET

### Planning for the Two-Year Budget

As indicated previously, the City's biennial budget process begins over a year in advance of the actual adoption of the two-year budget. During this advance planning process, the City identifies factors (known or anticipated) that may have a significant effect on future revenues, expenditures, or staffing levels. This analysis is based on actual City revenue and expenditure trends, general and relevant economic trends and outlooks, input from the City Departments who oversee those specific expenditure and revenue streams, and input from outside economists and revenue experts.

The two-year budget projections are also aided by preparing a *Five-Year Financial Forecast* according to the City's Consolidated Fiscal Policy. The *Five-Year Financial Forecast* is presented to the City Council at a budget workshop held prior to receipt of the Proposed Policy Budget. At that workshop, the City Council is provided with information regarding the status of the local economy and an update on the City's financial situation, including a Year-to-Date Revenue and Expenditure Report and the *Five-Year Financial Forecast*. Based on the information provided, the budget priorities and policies for the next two-year period are discussed and set by the City Council.

## REVENUE AND EXPENDITURE FORECAST

The City prepares revenue and expenditure forecasts for its biennial budget. The forecasts are based on current expenditure spending and revenue collection trends, historical budgetary performance, prevailing general economic conditions and department input. A detailed forecast is prepared for the General Purpose Fund (GPF), and for other selected funds.

To prepare the forecast, a comprehensive analysis of the City's revenues and expenditures is performed. These major components are projected into the two-to-five-year period on the basis of various relevant assumptions. For example, projections for property tax, the single largest source of revenue for the City's General Purpose Fund (GPF), are made based on the projected growth in the net assessed value of local property and projected changes to the tax delinquency rate. Similarly, a forecast of expenditures is performed by separately analyzing individual expenditure categories (e.g. salaries, retirement, benefits, utility expenses) based on projected cost increases (e.g. pay/step increases, PERS retirement rates, benefit cost inflation, energy prices, etc.).

### Revenue Forecast

Citywide revenues are projected using dynamic forecasting that anticipates changes in revenues triggered by new economic development, economic growth, changes in the levels of service of departments and agencies, (in the case of Master Fee Schedule changes approved by the City Council), changes in governmental policies at the state or federal level, and various economic and demographic changes. The purpose of this dynamic forecast is to demonstrate the potential impact of various events and actions on the selected revenue sources. Under this scenario:

- **Tax Revenues** are projected to grow at rates that are responsive to dynamic forces in the economy. Generally, the assumption is the local economy will be affected by national and state trends, with some deviation expected due to specific characteristics of regional businesses and labor markets.



- **Fee increases** will likely follow projected inflation and changes in the local population due to increased service costs and changes in demand.
- Any known or anticipated changes in revenues as a result of potential changes in state revenue streams and/or legislation are reflected in the analysis.

The revenue forecast takes into consideration a number of *economic factors and trends*, including changes in economic growth, income, sales and Consumer Price Index (CPI), among other factors. Anticipated changes in State or local policy are also considered.

### **Expenditure Forecast**

Forecasting the City's expenditures involves analyzing future costs, at the department level and by category. The expenditure forecast begins with the baseline budget, which represents the cost of maintaining the current level of services, while taking into account all unavoidable costs necessary to continue at that current level. Examples of unavoidable costs are pre-negotiated MOU salary levels, as well as health care and retirement costs that the City pays on behalf of its employees.

The baseline budget is then modified to reflect changes to programs and services that the Mayor and the City Administrator recommend as part of the Proposed Budget. These modifications might include additions or reductions in any of the categories discussed above. Changes to debt service are made based on changes in the City's debt payment schedules.

The expenditure forecast follows the guidance of the Government Finance Officers Association (GFOA), which recommends that expenditures be grouped into units of analysis that are meaningful to the organization, such as departments and standard budget categories of expenditures. As such, staff grouped proposed budget expenditures by department and by expenditure category consistent with the City's chart of accounts. Future expenditures are forecasted from the Proposed Budget. This forecast generally assumes that expenditures will only grow due to inflationary cost escalation. Costs also change due to changes in service or staffing levels, as described in the "Significant Changes" summary for each department and "Service Impacts" section of this document.

## **OVERVIEW OF BUDGET TERMS & CONCEPTS**

The following section is intended to familiarize commissioners with the most relevant terms, concepts, and documents important to the City's budgetary process. Knowledge and a basic understanding of these items should provide commissioners with a better understanding of the information presented in the Adopted Budget(s) and other similar documents produced by the City.

### **Budgets & Fiscal Years**

Budgets are plans for how organizations intend to use projected resources (revenues) for payment to perform operations or provide services (expenditures), over a defined period of time. Budgets are prospective planning tools and must be balanced between revenues and expenditures within the defined time period. The key period of time for the City of Oakland's Budget (and other financial reports) is the fiscal year (FY). The City's fiscal year begins on July 1st and ends on June 30th of the following year. Fiscal years are generally expressed as follows: the fiscal year which begins July 1, 2022 and will end June 30, 2023 is FY 2022-2023. Fiscal Years may also be divided into quarters or monthly periods for reporting purposes. It is important to note that grants awarded to the City may or may not synchronize with the City's fiscal year, and often are based on the granting agency's fiscal

period or other predetermined period as determined by the grant agreement.

## **Revenues**

Revenues can be generally understood as the sources of income for the City and are divided into several categories or fund types. Tax revenues are largely unrestricted and are allocated to the General Purpose Fund. Grant revenues are restricted by the grant agreement and often require matching contributions from other sources. Special revenues include voter-approved measures and are restricted for a specific purpose. Revenue from fines and penalties are largely unrestricted and result from enforcement activities. Based on best practices and Council policy, one-time revenues (e.g. land sales) should not be used to support ongoing expenditures. Fee and Service Charge revenues support many City functions. The rate charged for fees and service charges is regulated by state law. Generally, fees may not exceed the cost of providing a service, with a few exceptions. Fees are listed in the City's Master Fee Schedule, which is approved annually through a City Ordinance, but can be modified at any time with City Council's approval. Revenues are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories, such as property tax, fines & penalties, or service charges.

## **Expenditures**

Expenditures reflect the costs associated with the provision of services and performance of operations by the City. There are two key categories of expenditures: personnel expenditures and operations & maintenance (O&M) expenditures. Personnel expenditures include the cost for City employees to perform various functions and provide services to the public, which are expended through the City's payroll and benefits systems. These costs include salaries, overtime, retirement, and healthcare costs. O&M expenditures include non-labor related costs and are processed through the City's contracting, purchasing, and accounts payable systems. O&M expenditures include items such as contracts for services, supplies and materials, utilities, equipment purchases and debt payments. Expenditures are budgeted and recorded into many detailed accounts. These accounts are aggregated for reporting purposes into broader categories that include salaries, retirement, debt payments, or capital expenditures, among others.

## **Funds**

Funds are groups of revenue and expenditure accounts that must be individually balanced. The City's Budget contains over 100 funds, the largest of which is the General Purpose Fund. The General Purpose Fund is unrestricted in its use. Other Funds normally have restrictions on the types of activities they support. These restrictions may be established by local ordinance, the City Charter, federal or state law, or grant agreements. The Policy Budget will often summarize information by General Purpose Fund and All Funds, which is the sum of the General Purpose Fund and all other special funds.

## **Fund Balances**

At the end of each fiscal year, each fund's revenue collections are compared against incurred expenditures. If there were greater expenditures than revenues, then that difference is reduced from the "fund balance." A negative fund balance occurs when cumulative fund expenditures exceed cumulative fund revenues. By contrast a positive fund balance exists when cumulative revenues exceed cumulative fund expenditures. If there were revenues in excess of expenditures, a surplus occurs, which is added to that fund's fund balance.



## Internal Service Funds

Internal Service Funds charge departments for services to allow for centralized support functions between City departments. Internal Service Funds operate by recording an expenditure in the budgeted fund(s) of the City department for which the services are performed, and recording those expenditures as revenue in the Internal Service Fund for the City department providing the service. For example, the Oakland Public Library includes 18 libraries and AAMLO; however, the maintenance of those 19 Library facilities (the Main Library, 17 Branch libraries and AAMLO) is provided centrally by the Oakland Public Works Department (OPW). To reflect these library related costs, internal service charges are budgeted as a Library expenditure. This library “expense” is then recovered by an internal service revenue account in the City’s Facilities Fund (Fund 4400). This revenue pays for OPW’s facilities maintenance expenditures (e.g. custodial services, PG&E, maintenance, etc.) within the Facilities Fund. Each Internal Service Fund apportions costs across departments and non-restricted Funds based on the nature of these costs.

## Department & Organizational Structures

The City of Oakland is organized into various departments as defined in Section 2.29 of the Oakland Municipal Code. These departments are responsible for delivering the various external and internal services of the City. Departments are generally established by City Ordinance approved by the City Council. Several departments were established by the City Charter itself and generally include the name "Office" in the title. These include the Mayor's Office, the City Attorney's Office, and the City Administrator's Office. Because departments are not funds, departmental revenue and expenditures may be contained in and/or attributed to one or more funds. Likewise, one or more departments may have revenue and expenditures contained in and/or attributed to a certain fund.

## Budget Balancing

The term “balanced” refers to a budget or forecast document where all projected revenues are equal to all projected expenditures. If projected revenues exceed projected expenditures, then the budget or forecast is said to have a projected surplus. If projected expenditures exceed projected revenues, then there is a projected shortfall. By policy, the City Council must adopt a balanced budget.

A structural imbalance occurs when there is a difference between ongoing revenues and expenditures. A budget that uses one-time revenues to pay for ongoing expenditures may be balanced over the fiscal period, but suffers from a structural imbalance; in this case a structural deficit (shortfall). By contrast if ongoing revenues exceed ongoing expenditures, a budget may have a structural surplus.

## Modified Accrual Basis of Accounting

The City of Oakland's basis of budgeting for its major fund groups (General Funds, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Capital Project Funds) are the Generally Accepted Accounting Principals (GAAP), and the modified accrual basis of accounting.

**Revenues** are budgeted according to when they are both measurable and available. Revenues are considered to be available when they are collected within the fiscal current year, or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available for the year levied if they are collected within 60 days of the end of the current fiscal year. All other revenues are considered to be available if they are collected within 120 days of the end of the current fiscal year.

**Expenditures** are budgeted according to when the liability is incurred, regardless of the timing of related cash flows. The exceptions are debt service, compensated absences, claims and judgments, which are budgeted as expenditures according to when the payments are due.

### **Financial Reports & Actuals**

"Actuals" are recorded revenues and expenditures that have occurred over a defined period. While budgetary values are projected prior to the close of a fiscal period, actuals are recorded after the fact. A financial report is a statement of actuals and accruals. Actuals can be divided into two categories: unaudited and audited. Unaudited actuals include those items reported in the City's quarterly Revenue & Expenditure Reports. This financial data is distinguished from audited actuals in that they have not been evaluated by an independent financial auditor. The City has an independent financial audit conducted following the close of each fiscal year to provide an independent opinion as to whether the City's financial statements are stated in accordance with General Accepted Accounting Principles (GAAP). The audited actuals are presented in the Comprehensive Annual Financial Report (CAFR).

### **OpenGov Online Platform**

In an effort to increase transparency, the City is utilizing the OpenGov platform to present its entire budget in an online interactive website. Most tables and graphs on the platform allow the reader to drill-down, pivot, and even extract budget data. The OpenGov platform will support the public monitoring of the City's finances, including analyzing its spending and revenue-generating trends. During the next biennial budget, the City will implement OpenGov solutions to allow for deeper exploration of the Capital Improvements Program.

The Oakland Public Library's FY 22-23 Adopted Budget on the OpenGov Online Portal can be found here: [F-18A - Library - Dept. Page - Adopted FY22-23 \(opengov.com\)](#)