



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Budget Advisory Commission (BAC)
Report on the City of Oakland's
Biennial 2021-23 Budget Cycle

DATE: October 20, 2021

City Administrator Approval

Date: Oct 26, 2021

RECOMMENDATION

Staff Recommends That The City Council Receive a Report From The Budget Advisory Commission (BAC) On The City of Oakland's Biennial 2021-23 Budget Cycle.

EXECUTIVE SUMMARY

This report contains the Budget Advisory Commission (BAC) comments and recommendations related to the Biennial 2021-23 Budget Cycle. Staff recommends that the City Council thoughtfully consider the BAC's feedback from the prior budget cycle and note any items of particular interest for further analysis. No further action is requested of the Council by staff.

BACKGROUND / LEGISLATIVE HISTORY

Section 3, item 11 of the City's Consolidated Fiscal Policy Ordinance 13279 C.M.S. requires the BAC submit a report on process feedback and continual improvement of the City's budget process to the Finance & Management Committee

ANALYSIS AND POLICY ALTERNATIVES

The BAC recommendation is presented in BAC's formal report, see **Attachment A**.

FISCAL IMPACT

There are no direct fiscal impacts in the acceptance of this report.

PUBLIC OUTREACH / INTEREST

No public outreach was necessary in the preparation of this staff report. The Budget Advisory Commission discussed their comments and recommendations to the Biennial Fiscal Year 2021-2023 Budget Cycle at public and noticed meetings of that body, prior to adoption.

SUSTAINABLE OPPORTUNITIES

Economic: There are no economic opportunities associated with this report.

Environmental: There are no environmental opportunities associated with this report.

Race & Equity: The implementation of these recommendations should improve the accessibility of Budget Information and decision making to disadvantaged groups and the general public.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends that the City Council receive a report from the BAC on comments and recommendations on the Biennial 2021-23 Budget Cycle for continual improvement of the budget process.

For questions regarding this report, please contact Brad Johnson, Budget Acting Administrator, at 510-238-6119.

Respectfully submitted,



Erin Roseman (Oct 26, 2021 09:20
PDT)

Erin Roseman
Finance Director

Reviewed by:

Brad Johnson, Acting Budget Administrator
Rina Stabler, Assistant Budget Administrator

Prepared by:

Tiffany Kirkpatrick, Budget & Mgmt. Analyst
Finance Department, Budget Bureau

Attachments (1):

(A) Budget Advisory Commission Report on the City of Oakland's Biennial 2021-2023
Budget Cycle

City of Oakland

Budget Advisory Commission

Report on the City of Oakland's Biennial 2021-23 Budget Cycle

September 2021

Pursuant to the Consolidated Fiscal Policy ("CFP") (13279 C.M.S.), the Budget Advisory Commission ("BAC" or "Commission") submits this Report on the City of Oakland's Biennial 2021-23 Budget Cycle. The Report was approved by the BAC at a meeting held on September 8, 2021.

Executive Summary

This report contains the BAC's comments and recommendations related to the 2021-23 budget.

With regards to process, the CFP has been in use now for four budget cycles, and the BAC believes that it has generally worked to improve transparency and increase the predictability and reliability of the budget process for the public. Based on our observations, however, and in accordance with the BAC's mandate to look for "opportunities for improving the process in future years," now is a good time to make adjustments and improvements to the process and to the policies that guide the development and adoption of the biennial budget.

Following is a summary of our recommendations, some of which are new, and some of which are carried forward from the BAC's September 2019 and June 2021 report to the Mayor and Council. A more detailed discussion of each recommendation follows this summary.

1. **Strengthening of Vital Services Stabilization Fund.** (VSSF) and setting a multi-year calendar to achieve full funding as recommended in our report of Sept. 25, 2019. (See Section 3)
2. **Avoiding Assuming County Responsibility Services:** The need to avoid assuming services that are a responsibility of Alameda County. (See Section 3)

3. **One Time Revenues Funding on Going Programs:** Careful management of the extensive use of one-time funds which have been used extensively to fund ongoing programs. (See Section 3)
4. **Funding of Police Overtime:** Police overtime is both a tool for budget control and a source of concern. Simply cutting budgeted Oakland Police Department (OPD) overtime will not solve the issue if Oakland continues to request the same or a higher level of services from the OPD. (See Section 3)
5. **Funding of Other Post-Employment Benefits (OPEB):** Explore additional/new efforts to reduce the long-term OPEB liability. (See Section 3)
6. **State Budget actions:** Develop improved systems for evaluating and anticipating the effects of state budget actions so that they may be incorporated into the budget. (See Section 3)
7. **Unexpected Additional Revenues:** If/when added revenues occur as a result of unexpected occurrences or voter action, dedicate a significant portion of these revenues to increasing long term financial stability. (See Section 3)
8. **Ongoing Additional Revenues:** Continued efforts to develop additional revenue sources. We recommend examining the relationship with the Port of Oakland to determine if significant additional revenues can be obtained. We further recommend that the Council request the Port to retain an independent consultant to review and report upon the legal and fiscal aspects of the Port providing additional support to the General Purpose fund. This is discussed in more detail below. (See Section 3)
9. **Budget Accessibility:** The new budget format presented some initial challenges but, in the long term, will be a significant improvement in promoting accessibility to Oakland residents.
10. **Post-COVID Changes in Service Delivery:** Evaluate the potential effects of changed service delivery resulting from changed post COVID actions and modify City service delivery as appropriate.
11. **Review Budget Calendar:** Review the budget calendar to ensure the consideration of collateral reports such as the Auditor's performance report of June 14, 2021.
12. **Reinstitute Public Meetings:** As appropriate and timely reinstitute the public meetings required by the CFP which were held in abeyance due to COVID.
13. **Long-Term Debt Consideration:** Clear information and consideration of long-term debt in the process of budget adoption, as previously recommended.
14. **Five-Year Forecast Process:** Include BAC in the 5-year budget forecast process, as previously recommended.
15. **New Revenue Sources:** We support the Council's positive actions to consider the revenue side of the budget and new funding sources. (See Section 3)

The Budget Process

A. Overview:

This portion of the Budget Advisory Commission's report will focus not on the content of the Adopted Policy Budget, but rather on the process of the recently concluded budget cycle, and how effective the process has been to support the goals of addressing the longer-term priorities of the City, to incorporate into the Adopted Policy Budget the community feedback provided during the budget deliberation process, and finally, ensuring accessibility, transparency, outreach, education and community input into the budget process overall.

B. Overall Process:

In light of unprecedented and evolving changes, and great uncertainty, with regard to the City's financial condition, (due not only to the economic crisis brought on by the COVID pandemic, but also due to evolving crises around homelessness, significant proposed changes in the structure and delivery of public safety services, and lastly, significant financial relief from the federal government), the FY 2021-23 budget process itself seems to have gone relatively smoothly this cycle.

The BAC would like to commend the administration on some of the innovations in budgeting practices undertaken this year.

1. **Open Gov:** First, moving the budget information and accessibility to the OpenGov platform has enabled a degree of transparency to Oakland's budgeting process that largely did not exist in prior budget cycles. The ability to access and visualize greater levels of detail to the City's budget has been very helpful.
2. **Equity Analysis:** Second, we support the efforts to look at the budget through an equity lens working with the Department of Race and Equity and leveraging the equity analysis tool.
3. **Zero-Based Budgeting:** The BAC supports the practice of zero-based budgeting to ensure that a fresh look is taken at all existing programs to ensure their ongoing usefulness and relevance to support the City's overall priorities.
4. **Service Inventory:** The BAC supports the exercise of conducting a service inventory within each department to help clarify which constituent group each department is supporting (whether internal or external) to help ensure alignment between departmental activity and broader policy goals and outcomes.
5. **Re-Building the OPD Budget:** We support the exercise undertaken this year to re-examine in detail the OPD budget. We feel that the effort to adequately address overtime costs, and to systematically examine resource needs and spending trends will provide the necessary transparency to support future conversations around re-examining how public safety services are delivered to the residents and taxpayers of Oakland.

C. Community Input to the Budget Process:

The BAC would like to share the following feedback on the budget town hall process, as of mid-late May 2021. For context, one or more BAC members attended 6 of the 8 Councilmembers' budget town hall meetings, and would like to share the following feedback and observations:

1. **Accessibility:** Given the restrictions of the COVID pandemic, most of these meetings took place virtually via Zoom, Facebook live, and similar channels. One Councilmember conducted her meeting outside and in-person at a City park. We observed only one Councilmember offering translation services in languages other than English and would recommend that making translation available (in the more commonly spoken languages across Oakland, e.g., Spanish, Mandarin, Vietnamese, Arabic) be a standard practice wherever possible.
2. **Structure:** Overall, the BAC felt the meetings were well structured, with time for the Councilmembers to share their priorities, to explain the budget process, to give an overview of the Mayor's Proposed Policy Budget (MPPB) and finally for attendees to provide feedback either via direct questions, or questions submitted via chat channels on the online forums.
3. **Content:** The content offered during the meeting was helpful and accessible to those residents who may not follow the City's budget on a regular basis. We found the PowerPoint visual aids to be helpful in explaining budget process, content, timelines, and choices to residents. Most town hall meetings took the time to explain to attendees how to use and navigate the new online tools on OpenGov. We did observe, in a couple of meetings, a tendency toward either campaigning or pushing a particular policy agenda and would advocate for keeping the discussions as balanced and neutral as possible.
4. **Public Meetings:** When appropriate and timely reinstitute, the public meetings required by the CFP which were in abeyance due to COVID.

D. Councilmember and Constituent Group Clarifications: The BAC would like to highlight a trend that we have observed in recent cycles, around the number and frequency of questions posed by Councilmembers, (and certain constituent groups) and the volume of information in the responses provided by the budget staff. Please see a summary of our observations below.

BUDGET CYCLE YEARS:	Number of City Council QUESTIONS Addressed by Staff			Number of PAGES of Staff Response Document		
	FY 2017-19	FY 2019-21	FY 2021-23	FY 2017-19	FY 2019-21	FY 2021-23
Staff Response #1	33	17	5	17	7	9
Staff Response #2	43	40	16	23	19	11
Staff Response #3	48	7	69	21	6	24
Staff Response #4	1	38	43	1	12	48
Staff Response #5	10	33	60	6	15	78
Staff Response #6	None	10	13	None	5	9
Supplemental Revenue Report	None	0	None	None	13	None
Staff Response #7	None	4	None	None	34	None
TOTAL:	134	149	206	69	111	179

Sources: BAC analysis of documentation posted to <https://www.oaklandca.gov/topics/fiscal-year-2021-2023-budget>, and prior BAC reports to Council.

While we fully support Council's ability to ask clarifying questions of staff in order to make fully informed decisions around the policy budget, we would welcome the opportunity to engage with Councilmembers and with staff to explore possible ways to achieve greater efficiencies in this

clarification process, in a way that would place less of a demand on staff time and effort during budget deliberations.

III. The Adopted Policy Budget.

A. Strengthening of Vital Services Stabilization Fund.

The Vital Services Stabilization Fund played an important role in first responding to the economic downturn caused by the Pandemic. We support the effort in this budget to again begin replenishing this Fund in the amount of \$4.83m.

However, it is essential to take action as soon as fiscally prudent to further strengthen the Fund. To accomplish this, we recommend adopting a policy to a multi-year calendar to set aside a greater portion of excess RETT funds and dedicating 25% of any unexpected revenues in excess of \$1m to the account.

B. One Time Revenues for the Funding of Ongoing Programs

The Proposed Budget makes significant use of one-time revenues to fund ongoing programs. We estimate this to be over \$200m. We recommend that all such actions be clearly identified in the Budget. We further recommend that, at the time of each quarterly financial report, the Council review the financial situation to determine if funding can be transferred to an ongoing financing source and the one-time funds be used to either fund one-time programs or to further strengthen the financial stability of the City. We also note that the resolution required as to one-time revenues did not appear to have been publicly adopted with the budget.

C. Avoiding Assuming County Responsibility Services.

Oakland is faced with structural changes in a number of areas to meet challenges in areas such as Homelessness, Housing, Reimagining Public Safety, Public Health, alcohol, and drug services. The County of Alameda has a significant responsibility in many of these areas and significantly greater resources. We recognize the uncertainties around Measure W, but, assuming the validation of this measure, very significant monies would become available for homeless services. Similarly, the Mobile Assistance Community Responders of Oakland (MACRO) program utilizes mental health services, which in many cases are a primary county responsibility. We recommend that Oakland establish a working relationship with Alameda County at all levels.

D. Funding of Police Overtime.

Year after year, OPD spends millions more than its allotted budget on overtime spending. Police overtime is both a tool for budget control and a source of concern. While the Police Department does have an overtime policy in place since December 2020, higher than budgeted overtime is an ongoing issue. Given the expense of permanent staffing levels, overtime can effectively leverage the level force. As Oakland re-tasks the OPD (see Implementing Reimagining Public Safety), we believe that the level of OPD service may be transferred, and cost reduced. There

may be some offset in overall City expenses as services are moved to other departments. The goal of this is not only reduced cost but to increase the effectiveness of Oakland's service response. Until Oakland is able to decrease the service demands of the OPD, excess overtime will be a chronic condition. This cannot be cured without the transfer of service demands or an increase in OPD staffing. Simply cutting budgeted OPD overtime will not solve the issue if Oakland continues to request the same or a higher level of services from the OPD.

E. Funding of OPEB

We support continued efforts to fund the OPEB deficit to reduce that long- term liability.

F: Unexpected Additional Revenues:

If additional revenues become available, they should be dedicated to the Vital Services Stabilization Fund, reduction of the OPEB or other long-term liabilities.

G: Consideration of Additional Revenues:

We support the Council's action in regard to consideration of a progressive business tax, review of potential revenues from the Port of Oakland (please see additional commentary below), or other potential new revenue sources.

H. State Budget actions:

In our prior report of June 2021, we commented "that it is probable that the state budget will contain funding for some of the City programs which are significantly challenged such as housing and homelessness. We recommend that, when possible, such funding be used to bring further stability to various affected City programs. Such a situation did occur resulting in numerous budget amendments that were often confusing to the public." We recommend developing improved systems for evaluating and anticipating the effects of state budget actions so that they may be incorporated into the adopted budget rather than numerous post adoption amendments. This may require revision of the budget calendar, including a possible charter amendment.

I. Implementing Reimagining Public Safety:

Due to timing, this budget has not aligned with the recommendations of the Reimagining the Oakland Police Force Task Force (Task Force). Task Force recommendations focused on the management of the OPD overtime budget, the thoughtful transitions from the OPD budget to social and other City services, and the cessation of certain OPD activities.

We anticipate that there will be significant proposals to implement the recommendations to reimagine public safety. We recommend that, when services are proposed to be shifted, it be done either in a zero-sum manner or there be recognition that there will be added transition

costs during that time. Understanding and changing the demands on police services is critical managing the OPD budget (overtime and otherwise).

J. Long term Liabilities

The proposed budget recognizes long term liabilities of \$2.658 billion. We recommend that every possible action be taken to manage and reduce that liability.

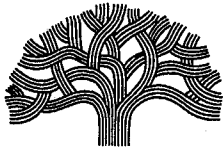
K. Port Revenues

We recommend that the Mayor, City Administrator, and the Council review the current City Charter and specifically the provision for the Port of Oakland that stipulates the sources and uses of monies from the Port of Oakland, and request that the Port of Oakland hire a consultant to assist in looking for increasing transfer of revenues to the City of Oakland.

The Port of Oakland, which is established within the City Charter and is in fact an entity governed by the City's Charter and its appointed Port Commissioners, is the 5th busiest container Port in the United States, and the Oakland Airport which is entertaining an expansion has grown over time to a busy regional and now international gateway for both business and pleasure travel, and for additional cargo handling. Both the Maritime Port and the Airport are one of the largest job engines within the overall San Francisco Bay Area.

A study funded by the Port to hire a consultant should be taken to see what it would take within the existing Charter, or with Charter Amendments, to increase the availability and consistency of the transfer of revenues from the City of Oakland Port Operations to the City's Budget. This needs to include looking at what restrictions currently exist, but which could be lifted and or changed, and this should be done in a coordinated way with the Port of Oakland in its budget and financial planning.

Recognizing the complexity of these issues, we recommend that the Council request the Port to retain an independent consultant to review and report upon the legal and fiscal aspects of the Port providing additional support to the General-Purpose fund.



CITY OF OAKLAND

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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Adam Benson
Finance Director

SUBJECT: Budget Advisory Commission (BAC)
Budget Process Recommendations

DATE: October 21, 2019

City Administrator Approval

Date:

10/31/19

RECOMMENDATION

Staff Recommends That The City Council Receive A Report From The Budget Advisory Commission (BAC) On Recommendations For Continual Improvement Of The Budget Process, And Staff Response To Those Recommendations.

EXECUTIVE SUMMARY

Staff is generally in agreement with the recommendations of the Budget Advisory Commission (BAC) regarding improvements to the budget process and associated documents (see analysis section). Staff notes that many of the recommended changes will require amendments to the Consolidated Fiscal Policy (CFP). Some BAC recommendations cannot be accomplished without additional staffing or contract services and thus cannot be implemented until funding is allocated to support these activities. No further action is requested of the Council by staff.

BACKGROUND / LEGISLATIVE HISTORY

Section 3, Item 11 of the City's Consolidated Fiscal Policy Ordinance 13279 C.M.S. requires the Budget Advisory Commission submit a report on process feedback and continual improvement of the City's budget process to the Finance & Management Committee. That report is included as **Attachment A**. Historically, staff has provided responses, where appropriate, to BAC's recommendations.

ANALYSIS AND POLICY ALTERNATIVES

The following table presents the summarized recommendations of BAC and staff's response to that specific recommendation. Additional detail regarding each BAC recommendation is presented in BAC's formal report, see **Attachment A**.

Item: _____
Finance & Management Committee
November 12, 2019

<u>BAC Recommendation</u>	<u>Staff Response</u>
1) Adopt a 5- to 10-year formula to provide full funding of the Vital Services Stabilization Fund.	Staff agrees that the excess Real Estate Transfer Tax (RETT) policy should be routinely reexamined based upon data and performance.
2) Establish a new and adequate funding source for the Landscape and Lighting Assessment District (LLAD).	Staff is in the process of working with the City Council to explore a revenue measure for LLAD related services.
3.1) Analyze the demographics of who is paying the taxes and fees that fund City services to ensure that the revenue streams align with Oakland's values.	Staff lacks the capacity to perform this analysis. Additional resources for a study of this item would be required.
3.2) Explore additional revenue sources for unfunded liabilities such as Other Post Employment Benefits (OPEB) and pension costs.	Staff is aware that the Police and Fire Retirement System (PFRS) must be fully funded on an actuarial basis by 2026. Staff is continuing to explore the revenue mechanisms to address the OPEB unfunded liability.
3.3) Retain a consultant to assist both Finance Staff and the Council in identifying alternative revenues, approaches, and practices. City and staff should consider additional polling for acceptance of, and reactions to, alternatives for revenue generation.	Substantial additional resources for consulting and polling services would need to be identified to conduct this analysis.
3.4) Finance staff should regularly seek advice and counsel on revenue and revenue approaches from BAC.	Staff will update BAC on milestones if the resources are identified for recommendation 3c.
3.5) Staff and Council should work on an acceptable cadence and projection policy approach for a timelier agreement on 3 rd quarter revenues and longer-term projections including consideration of revenue downturns and/or projections of possible recessionary impacts.	Staff needs to more fully consider how to implement this recommendation and BAC's additional recommendation to adopt official revenue estimates no later than May 30 th . Changes to the revenue forecasting timeline may require amendments to the CFP.
4.1) Budget presentation should include the Finance Department's most recent information memoranda to the City Council – including any third party actuarial analyses or attachments- regarding the City's unfunded liabilities.	Staff plans to implement updates to the City's website consistent with BAC's recommendation over the next year.

<u>BAC Recommendation</u>	<u>Staff Response</u>
4.2) Budget presentation should state that the City has little or no control over what it pays to CalPERS and should incorporate valuations, analyses, or presentations from CalPERS or third parties.	Staff plans to make information related to CalPERS valuations more easily accessible via the City's website.
4.3) Budget presentation should clearly state that the PFRS has a dedicated source of revenue in the form of Pension Override Tax Revenues (POTR) which are expected to resolve the City's unfunded PFRS balance by 2026. Furthermore, the presentation should spell out the uses of any excess POTR beyond what is required for PFRS debt service.	Staff has noted BAC's recommendation regarding the dedicated funding for PFRS. The City Charter requires that PFRS be fully funded on an actuarial basis by 2026. However due to various assumptions and external factors (portfolio performance, beneficiary longevity, etc.) staff cannot guarantee that the dedicated revenue source (POTR) will be sufficient to resolve the unfunded liability by 2026 without GPF support. Further beyond 2026 changes to assumptions and external factors may require additional funding. Thus staff will continue to disclose this unfunded liability in total.
4.4) Budget presentation should provide a summary listing of the City's outstanding debt.	Staff plans to make information related to outstanding debt more easily accessible via the City's website and will include high level summary information in presentations where applicable.
4.5) City should revisit the derived figure of "more than \$2 billion in the next 5 years" tied to "deferred maintenance and other unfunded capital needs" and provide a summary table estimating the needs, extent to which such needs are funded, and sources of such funds.	Staff agrees that the deferred maintenance and unfunded capital needs estimates should be revised in advance of the next biennial CIP process.
4.6) Budget presentation should clearly state whether there are any unallocated GPF balances in the current or previous budget cycle, and how such balances are being used.	Staff will clarify the use of Fund Balance and GPF adherence in future presentations where appropriate.
5) Attach all relevant reports regarding the City's OPEB liability to the budget and disclose the difference between the City's OPEB contribution of the year and its Actuarially Determined Contributions (ADC).	Staff plans to make information related to OPEB more easily accessible via the City's website and will note the difference between the budgeted OPEB contribution the ADC.

BAC Recommendation	Staff Response
6) Include BAC in the Five-Year Forecast process as performed by staff to promote BAC feedback and input.	Staff will provide BAC with an informational update on the components of the forecast prior to publication and will present the forecast to BAC at its regular meeting following publication.
7) Consult with any City Commission that has a responsibility to make recommendations on spending of a revenue source to minimize the risk of diverging priorities.	Staff will work with subject matter commissions to the extent possible prior to the presentation of a proposed budget.
8) Adopt a Policy Directive to create transparency and reporting of departmental spending for overtime, in addition to requirements in the recently amended CFP.	Staff does not believe a policy directive is necessary and notes that reports on overtime spending from the Oakland Police and Fire Departments include information on the top drivers of overtime.
9) Adopt a budget schedule which prioritizes early decision making and avoids excessive compression late in the budget cycle.	<p>Staff strongly agrees with this recommendation and believes that additional early attention at dedicated City Council sessions early in the budget process will improve subsequent deliberations. Changes to budget timeline may involve adjustments to the CFP.</p> <p>Staff is fully in agreement with BAC's recommendation to: 1) Hold a full day Council Budget Retreat no later than February, 2) Devote significant Council time to reviewing the Five-Year Forecast, and 3) Encourage early submission of councilmember questions.</p> <p>Staff needs to more fully consider how to implement BAC's recommendation to adopt official revenue estimates no later than May 30th.</p>
10) Work to improve Council-Staff working relationships.	Staff agrees with this recommendation.
11) Staff review the overall sequencing/timing of events in regard to consideration of the President's budget and provide a report to the Council for consideration within the next six (6) months.	Staff will review the timeline specified in the CFP and recommend to the City Council any suggested alternations.
12) Expand the Budget Ambassador Program as a means of providing more budget information to Oaklanders.	Staff will work with the Mayor's office to provide the similar budget tools/process to councilmembers who wish to employ them.

<u>BAC Recommendation</u>	<u>Staff Response</u>
13) Continue to improve Community Budget engagement as detailed on pp 2-4 of BAC report of May 30, 2019 and contained in Attachment A to the September 25, 2019 report with specific reference to meeting ground rules, elected officials as policymakers and, accommodations for non-English speaking and hearing-impaired residents.	Staff will continue to explore improvements to the Community Budget forums and agrees with BAC's recommendations for ground rules, and language accommodations.
14) Continue to strengthen the centralized budget page on the City website and develop other electronic methods to communicate budget information such as Facebook, Nextdoor, etc.	Staff plans to implement updates to the City's website consistent with BAC's recommendation over the next year; and will explore greater use of social media.
15) Support establishment of performance management program which should include sufficient staff for implementation, and personnel vacancy rates should be considered as part of such a program.	Staff agrees with BAC's recommendation that any new management programs include sufficient staff and other resources to ensure effective implementation of such a program.

FISCAL IMPACT

There are no direct fiscal impacts in the acceptance of this report. There are no substantial fiscal impacts to the City of adopting those measures noted in staff's responses to BAC's recommendations which can be implemented administratively.

PUBLIC OUTREACH / INTEREST

No public outreach was necessary in the preparation of this staff report. The Budget Advisory Commission discussed their recommended changes to the Budget process at numerous public and noticed meetings of that body, prior to adoption.

SUSTAINABLE OPPORTUNITIES

Economic: There are no economic opportunities associated with this report.

Environmental: There are no environmental opportunities associated with this report.

Race and Equity: The implementation of these recommendations should improve the accessibility of Budget information and decision making to disadvantaged groups and the general public.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council receive a report from the Budget Advisory Commission (BAC) on recommendations for continual improvement of the budget process, and staff response to those recommendations.

For questions regarding this report, please contact Brad Johnson, Principal Budget & Management Analyst, at 510-238-6119.

Respectfully submitted,



Adam Benson
Finance Director

Prepared by:
Bradley Johnson, Principal Budget &
Management Analyst
Finance Department, Budget Bureau

Attachments (1):

(A): Budget Advisory Commission (BAC): Report on the Biennial 2019-21 Budget Cycle

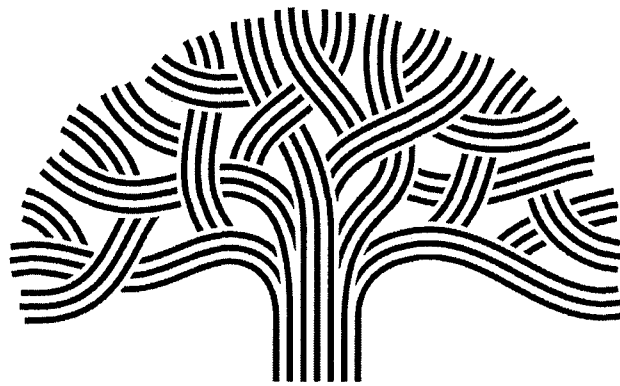
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City of Oakland

Budget Advisory Commission

Report on the City of Oakland's Biennial 2019-21 Budget Cycle



September 25, 2019

Pursuant to the Consolidated Fiscal Policy (“CFP”) (13279 C.M.S.), the Budget Advisory Commission (“BAC” or “Commission”) submits this Report on the City of Oakland’s Biennial 2017-19 Budget Cycle. The Report was approved by the BAC at a meeting held on September 25, 2019.

Executive Summary

This report contains the BAC’s comments and recommendations related to the 2019-21 budget.

With regard to process, the CFP has been in use now for three budget cycles, and the BAC believes that it has generally worked to improve transparency and increase the predictability and reliability of the budget process for the public. However, based on our observations, and in accordance with the BAC’s mandate to look for “opportunities for improving the process in future years,” now is a good time to make adjustments and improvements to the process and to the policies that guide the development and adoption of the biennial budget.

Following is a summary of our recommendations, some of which are new, and some of which are carried forward from the BAC’s September 2017 and May 2019 report to the Mayor and Council (marked with an asterisk (*) below). A more detailed discussion of each recommendation follows this summary.

1. Adopt a 5- to 10-year formula to provide full funding of the Vital Services Stabilization Fund.
2. Establish a new and adequate funding source for the Landscape and Lighting District. *
3. Continue to explore the revenue side of the budget, as recommended in our prior reports. *
4. Provide transparent, clear, and understandable information about the City’s debts and obligations.
5. Attach all relevant reports regarding the City’s Other Post-Employment Benefits (OPEB) liability to the budget and disclose the difference between the City’s OPEB contribution for the year and its Actuarially Determined Contributions (ADC). *
6. Include the BAC in the Five-Year Forecast process as performed by staff to promote BAC feedback and input.
7. Consult with any City Commission that has a responsibility to make recommendations on spending of a particular revenue source to minimize the risk of diverging priorities. *
8. Adopt a Policy Directive to create transparency and reporting of departmental spending for overtime, in addition to requirements in the recently amended CFP.

9. Adopt a budget schedule which prioritizes early decision making and avoids excessive compression late in the budget cycle (see charts, discussion, and specific recommendations below).
10. Work to improve Council-Staff working relationships.
11. Staff review the overall sequencing/timing of events in regard to consideration of the President's budget and provide a report to the Council for consideration within the next 6 Months.
12. Expand the Budget Ambassador Program as a means of providing more budget information to Oaklanders. *
13. Continue to improve Community Budget engagement as detailed on pp 2-4 of the BAC report of May 30, 2019 and contained in Attachment A to this report with specific reference to meeting ground rules, elected officials as policymakers and accommodations for non-English speaking and hearing-impaired residents. *
14. Continue to strengthen the centralized budget page on the City website and develop other electronic methods to communicate budget information such as Facebook, Nextdoor, etc.
15. Support establishment of performance management program which should include sufficient staff for implementation, and personnel vacancy rates should be considered as part of such a program.*

A detailed explanation of the BAC's Comments and Recommendations follows:

1. Adopt a 5- to 10-year formula to provide full funding of the Vital Services Stabilization Fund.

The Council, in the CFP, has established a Vital Services Stabilization Fund (VSSF) with a target funding of 15% of the General Purpose Fund revenues. The purpose of the VSSF is to protect Oakland against service cuts and layoffs when the inevitable economic downturn occurs. The VSSF is funded from excess Real Estate Transfer Tax revenues or other one-time revenues. Using the current budget as a standard, the VSSF could have a balance of \$102 million, yet it only contains \$14,423,168, or 14% of optimal funding levels. This means that, when an economic downturn occurs, there will be very limited protection against service cuts and layoffs. The current budget added only \$100,440 to the VSSF.

We recommend that the Council make funding of the VSSF a higher priority by adjusting the formula for allocation of RETT funds to insure a minimum deposit of \$10 million per budget cycle or adopt a formula which will accomplish full funding of the VSSF over 5-10 years.

2. Establish a new and adequate funding source for the Landscape and Lighting District.

We fully support action by the Council to resolve this issue.

3. Continue to explore the revenue side of the budget, as recommended in our prior reports.

BAC has in the past recommended that more time be spent on reviewing the revenue side of the budget. In our prior reports, we have recommended seeking greater public engagement in revenue analysis and even-year in-depth examination of various revenue scenarios. These recommendations have included analyzing the equity impact of revenue-generating measures and measures under consideration (to assess communities within Oakland benefitting from these sources), analyzing novel revenue generation methods employed by other Charter cities, sponsoring public forums on various revenue sources, sharing independent analyses of revenue projections with the public, benchmarking Oakland's revenue performance to other jurisdictions and considering a split roll real estate transfer tax, among others. (*See BAC Report September 29, 2017.*)

3.1 Equity Analysis - For example, with respect to an equity analysis, the BAC notes that the City relies on a variety of revenue streams that range from progressive (e.g. graduated real estate transfer tax) to regressive (e.g. sales tax). To ensure that revenues are raised in an equitable manner, the BAC recommends that the budget analyze the demographics of who is actually paying the taxes and fees that fund City services. For example, the City could look at the demographics of who pays property tax, and how much they pay (e.g., x% is from commercial properties, y% is from residential properties, of the amount from residential properties, z% is from census tracts where the average household income was below \$50,000). Oakland should aim to have revenue streams that align with its values, and the first step in making that a possibility is to have current, credible and verifiable data to see where the money comes from.

3.2 Unfunded Liabilities - In addition, given the City's recent focus on tackling unfunded liabilities, the BAC recommends that the City explore additional revenue sources for unfunded OPEB and pension costs. The BAC notes that pension override tax revenues ("POTR"), which have been in place since 1976, are set to expire in 2026. Expiration of the POTR may offer an opportunity to institute a replacement revenue stream for addressing unfunded liabilities without increasing current tax burden.

3.3 Revenue Consultant and Polling - The City Council should instruct the City Administrator and Finance Director to consider retaining a consultant to assist both the Finance Staff and the Council in identifying alternative revenues and approaches as well

as reviewing revenue practices from other California Charter and League Cities. In addition to the CFP-required Public Opinion survey/poll on budget priorities, the City and Finance Staff should consider additional polling for acceptance of, and reactions to, alternatives for revenue generation. Now that impact fees, and other development-related sources are a part of the City's revenue repertoire, a review of effectiveness and options could augment the exploration of alternative revenue approaches.

3.4 Consultation with the BAC - The BAC further recommends that Finance Staff regularly seek advice and counsel on revenue and revenue approaches from the BAC and that it makes regular and timely reporting on its efforts once a consultant is retained, as well as during and after the recommended polling on acceptance of various revenue approaches.

3.5 Revenue Forecasting - This past two-year budget cycle had its curious revenue 'squabbling' and consideration of whether the City and Finance Staff is too conservative in its revenue forecasting and projections. In the mid-cycle, perhaps Staff and Council can work on an acceptable cadence and projection policy approach to avoid future 'squabbles' and to arrive in a more timely and early enough agreement on both 3rd Quarter Revenues and also in the longer-term revenue projections and estimates. And, though this Revenue focus of the BAC is a reiteration of prior recommendations, it may also be relevant to staff, the Mayor, and to the Council that some consideration and or process be construed that allows for revenue downturns and/or projections of possible recessionary impacts, unlike the current practice.

4. Provide transparent, clear, and understandable information about the City's debts and obligations.

The BAC commends the City for including an informative "Long-Term Liabilities" section starting on page E-127 of the Budget Presentation. The BAC also recommends that future Budget Presentations include the following disclosures:

4.1 Additional Attachments or References. The BAC recommends that the Budget Presentation include, either directly, via hyperlink, or by other reference, the Finance Department's most recent informational memoranda to the City Council - including any third-party actuarial analyses or attachments - regarding the City's unfunded liabilities, which include its California Public Employees' Retirement System ("CalPERS"), Other Post-Employment Benefits ("OPEB"), and Police and Fire Retirement System ("PFRS") obligations.

Currently, these memoranda are indexed online as part of City Council meeting minutes. They are difficult for the general public to find unless they know the specific meeting dates and agenda items involved. If attaching such memoranda and analyses adds too many

pages to the Budget Presentation, then the BAC suggests that the City provide a robust web portal for the Budget that includes clearly listed and organized hyperlinks to these documents.

4.2 CalPERS. Although the Budget Presentation discloses the City's expected contributions to CalPERS in the new budget cycle, the BAC also recommends that the Budget Presentation state that the City has little to no control over what it pays to CalPERS. In particular, future assessments depend on CalPERS's financial performance and on its use of discount rates, which is a subjective method of converting future expenses into today's dollars. Therefore, the true extent of future CalPERS payments is difficult to predict.

Incorporating valuations, analyses, or presentations from CalPERS or third parties into the Budget Presentation, either directly, by hyperlink, or by reference, would provide the public with clearer disclosure of the extent of the City's unfunded CalPERS liability and the uncertainty of the City's future CalPERS obligations.

4.3 PFRS/POTR. Although the Police and Fire Retirement System ("PFRS") has an unfunded balance, the BAC recommends that the Budget Presentation more clearly state, on page E-128 and elsewhere, that the PFRS has a dedicated source of revenue in the form of Pension Override Tax Revenues ("POTR"). These POTR are expected to resolve the City's unfunded PFRS balance by 2026, without any incremental impact on the GPF.

The BAC also recommends that the Budget Presentation spell out the uses of any excess POTR beyond what is required for PFRS debt service.

4.4 Debt Service. The BAC also recommends that the Budget Presentation provide a summary listing of the City's outstanding debt. While many debt issuances appear in the Budget Presentation under "Budget Terminology" beginning on page J-1 or as part of "Fund Sources and Descriptions" beginning on page E-37, a summary table that lists all debt issuances would be informative to members of the public.

The BAC notes that many tables and disclosures can be repurposed from the City's Comprehensive Annual Financial Report to minimize the extra work required of City staff in preparing the Budget Presentation.

4.5 Deferred Maintenance and Other Capital Needs. On page 10, the Budget Presentation notes that "deferred maintenance and other unfunded capital needs" combine "for a total of more than \$2 billion in the next five years." The BAC recommends that the City revisit this figure and the Budget Presentation provides a summary table estimating the City's deferred maintenance and capital needs, the extent to which such

needs are funded, and the sources of such funds. The BAC notes that relevant sections of the Capital Improvement Program could be repurposed as part of this disclosure.

4.6 GPF Balances. In accordance with the CFP, the BAC recommends that the Budget Presentation clearly state whether there are any unallocated GPF balances in the current or previous budget cycle, and how such balances are being used.

5. Attach all relevant reports regarding the City's Other Post-Employment Benefits (OPEB) liability to the budget and disclose the difference between the City's OPEB contribution for the year and its Actuarially Determined Contributions (ADC).

The BAC commends the Council and Mayor for implementing an OPEB policy in the new budget cycle. The BAC also recommends that the Budget Presentation disclose the difference between the City's contributions to OPEB under its new policy and its actuarially determined contributions. The latter are the payments the City truly needs to make in order to make concrete progress towards fully funding its OPEB liabilities.

As mentioned previously, attaching the most recent Finance Department memoranda and third-party valuation regarding OPEB, either directly or by reference, would be informative to members of the public.

6. Include the BAC in the Five-Year Forecast process as performed by staff to promote BAC feedback and input.

The Five-Year Forecast ("Forecast") is a critical work product, written primarily by City staff. It is updated regularly and is the basis for developing the City's Budget every 2 years. Staff should present the Forecast to the BAC each year, to inform the Commission of key and important factors and trends that could affect the financial health of the City, and to obtain feedback from the BAC for ongoing improvement of the forecast process.

We recommend staff provide the BAC with an annual update presentation once the primary work of the Forecast is complete. The intent is to inform the BAC of key outputs of the Forecast and to engage the Commissioners, a group of professionals with experience in finance, operations and technology, in the continuous work of the Forecast. Since the Forecast represents the foundation for developing the City's budget, BAC's advisory capacity should be extended to the Forecast process as well.

7. Consult with any City Commission that has a responsibility to make recommendations on spending of a revenue source to minimize the risk of diverging priorities.

The BAC recommends that, where a City commission has within its charge to make recommendations on City spending, the Mayor's Office and administration work

collaboratively with the commission far in advance of the budget cycle to minimize the risk of diverging priorities. If the budget does not adopt the recommendations of such commissions, it should so state.

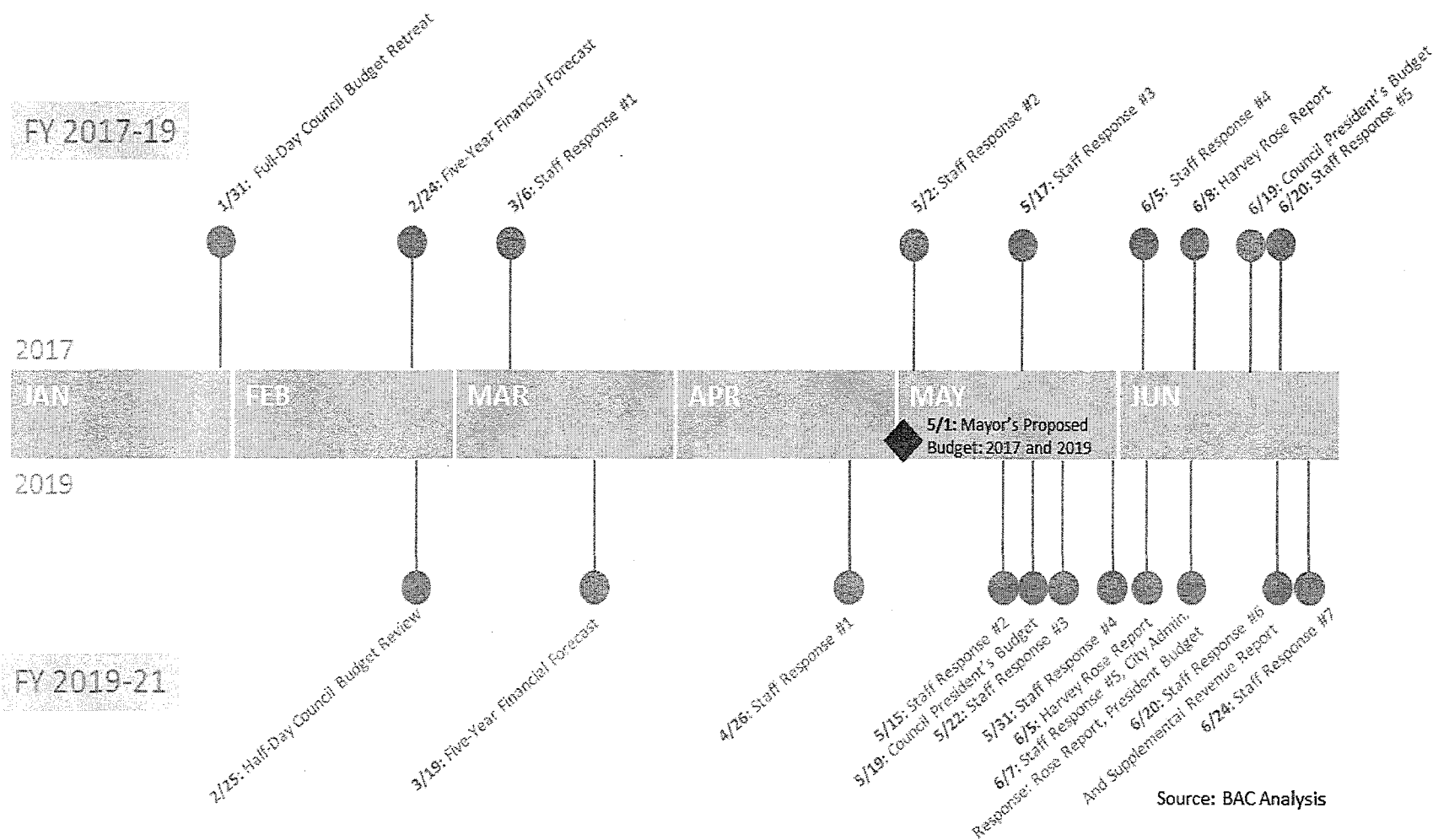
8. Adopt a Policy Directive to create transparency and reporting of departmental spending for overtime, in addition to requirements in the recently amended CFP.

The BAC recommends consistent enforcement of departmental requirements addressing overtime expenditures. The CFP currently requires that departments projected to overspend in the GPF by more than 1% develop a corrective action plan to bring their budget into balance in order to improve expenditure controls for personnel and non-personnel costs, including overtime. Additionally, the BAC recommends the corrective action plan include a detailed analysis of the top drivers of the overtime expenditure, justification for the deviation, and a list of the ten employees receiving the greatest dollar amount of overtime during that period.

9. Adopt a budget schedule which prioritizes early decision making and avoids excessive compression late in the budget cycle.

Adoption of the FY 2019-21 was characterized by SPUR as a “rancorous two-month long process.” (<https://www.spur.org/news/2019-07-30/time-rethink-how-oakland-passes-budgets>) We believe much of the conflict was the result of compressing the significant decision making into the last 30 days rather than the more measured process seen in prior budget deliberations. Following are charts which compare and illustrate this difference:

Comparison of Staff Input/Response Between FY2017-19 and FY2019-21 Budget Cycles



Comparison of Staff Responses Between FY2017-19 and FY2019-21 Budget Cycles

	Number of City Council Questions Addressed by Staff		Number of Pages of Staff Response Document	
	FY 2017-19	FY 2019-21	FY 2017-19	FY 2019-21
Staff Response #1	33	17	17	7
Staff Response #2	43	40	23	19
Staff Response #3	48	7	21	6
Staff Response #4	1	38	1	12
Staff Response #5	10	33	6	15
Staff Response #6	N/A	10	N/A	5
Supplemental Revenue Report	N/A	0	N/A	13
Staff Response #7	N/A	4	N/A	34
TOTAL:	135	149	68	111

Source: BAC Analysis

In order to avoid this in future budget deliberations we recommend the following:

1. Hold a full day Council Budget Retreat no later than February 1 and use that Council retreat to define Council Priorities.
2. Devote significant Council time to reviewing the Five-Year Forecast when it is released in mid-March. A major focus should be upon reviewing revenues and financial uncertainties.
3. Encourage early Council member submission of questions for staff review and response.
4. Receive a detailed report on 3rd Quarter revenues and expenditures in early May and adopt official revenue estimates no later than May 30th.

10. Work to improve Council-Staff working relationships.

We believe a professional relationship between the Council and Staff is essential to development and adoption of the Budget. We have noted several occasions in which budget participants have engaged in public criticism of one another. This is undesirable in that it: (1) undermines staff morale, (2) interferes with a sound working relationship between and Council and Staff, and (3) undermines public trust in the budget process overall.

We strongly recommend that means be developed to resolve such conflicts in a constructive manner and, as appropriate, in Executive Session.

11. Staff review the overall sequencing/timing of events in regard to consideration of the President's budget and provide a report to the Council for consideration within the next 6 Months.

The 2019-21 Budget deliberations were very different from past budget deliberations due to the introduction of a Council President's Proposed Budget, which proposed very significant changes to the Mayor's Proposed Budget. The result was to introduce a much more robust discussion of many aspects of the budget. Since this was the first time that such a discussion occurred, we do not know if this will be a continuing practice. However, if it is, then we believe the budget calendar may need to be significantly revised. Such revision must ensure that the Council, Staff, Consultants, and, most importantly, the Public can meaningfully participate. We recommend that Staff review the overall sequencing/timing of events and provide a report to the Council for consideration within the next 6 Months.

12. Expand the Budget Ambassador Program as a means of providing more budget information to Oaklanders.

The BAC commends the introduction of the Budget Ambassador Program this year, wherein the Mayor's office recruited and trained residents to conduct their own budget informational sessions (e.g. house parties) for fellow residents. The BAC recommends continuing and expanding this program by providing similar budget tools to Council Members, other City officials and employees.

13. Continue to improve Community Budget engagement as detailed on pp 2-4 of the BAC report of May 30, 2019 and contained in Attachment A to this report with specific reference to meeting ground rules, elected officials as policymakers and, accommodations for non-English speaking and hearing-impaired residents.

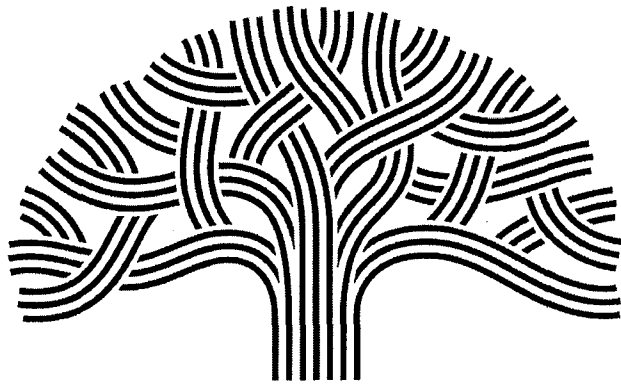
14. Continue to strengthen the centralized budget page on the City website and develop other electronic methods to communicate budget information such as Facebook, Nextdoor, etc.

15. Support establishment of performance management program which should include sufficient staff for implementation, and personnel vacancy rates should be considered as part of such a program.

The BAC first made this recommendation in its May 30, 2019 report to the Mayor and Council. The BAC recommends that Council adopts Policy Directives to ensure this program will be successfully implemented.

City of Oakland
Budget Advisory Commission

**Review of Budget Process and
the Mayor's Proposed
Policy Budget for FY 2019-2021**



May 2019

Budget Advisory Commission Review of Budget Process and the Mayor's Proposed Policy Budget for FY 2019-2021

The Budget Advisory Committee ("BAC") provides this review of the budget process and of the Mayor's Proposed Policy Budget ("MPPB") for Fiscal Years 2019-2021.

A summary of the BAC's observations and primary recommendations is set forth in the Executive Summary. These observations and recommendations are explained in greater detail in Parts II and III of this report.

I. Executive Summary.

Overall, the BAC commends the continued outreach efforts by the Mayor's office and Councilmembers to promote budget literacy, and encouraging public participation in the budgeting process. In Part II we make several recommendations for improving the process. We particularly recommend formalizing the Budget Ambassador (or similar) program and expanding budget literacy efforts throughout the year.

With respect to the MPPB, we highlight the following five recommendations in Part III:

- A. One-Time Funds.** The BAC notes that the MPPB backslides from the 2017-19 budget in its use of one-time revenues to fund ongoing expenditures, and recommends that the final budget explore ways to reduce or eliminate reliance on such revenues for ongoing expenditures, focusing one-time revenues on paying down unfunded liabilities.
- B. Landscaping and Lighting Assessment District (LLAD).** The BAC recommends the City pursue options for an appropriate revenue replacement for LLAD to resolve the problem described in the MPPB.
- C. Revenues.** The BAC reiterates its recommendation that more time be spent exploring the revenue side of the budget. Recognizing that the budget is both a revenue and expenditure program we have in the past recommended that significantly more time be spent on reviewing the revenue side of the budget. In our prior reports we have recommended seeking greater public engagement in revenue analysis and even year in-depth examination of various revenue scenarios.
- D. Other Post-Employment Benefits ("OPEB").** The BAC commends the City for establishing and following its OPEB policy. However, it recommends that the budget document analyze the difference between the City's contributions under the OPEB policy and its actuarially determined OPEB contributions to

maintain public awareness of the need for continued public action on this subject.

E. Consultation with City Commissions and Disclosure of Divergence. The BAC recommends that, where a city commission has within its charge to make recommendations on City spending, the Mayor's Office and administration work collaboratively with the commission far in advance of the budget cycle to minimize the risk of diverging priorities. If the budget does not adopt recommendations, it should so state.

II. The Budget Process.

The BAC is providing feedback on the Mayor's proposed budget and on the community outreach process undertaken during this budget cycle. To that end, we have attended the Mayoral and Councilmember forums that took place around Oakland during the months of April and May 2019. Our commentary and recommendations are below.

A. Improved and Expanded Community Engagement.

This budget cycle is the third consecutive cycle in which budget forums to solicit community input on budget priorities took place in all seven council districts in addition to the 4-5 budget workshops held by the Mayor around the city. The BAC commends the Mayor and Councilmembers for continuing to hold these forums geographically across the city and making them available to a broader group of Oakland residents. Other positive aspects that the BAC noted from our attendance at a majority of the Councilmember sessions include:

- Having the Councilmember present at the meetings;
- Having highly knowledgeable Budget Bureau staff ~~ee~~-present and answering questions from the audience;
- Having an informative and illustrative PowerPoint to visualize and reinforce the topics being discussed; and
- Having at least one mechanism at the meetings to capture community feedback, an open mic for attendees to voice their questions and concerns, passing out index cards to capture questions from the audience, or having a large piece of paper on the wall to capture ideas and concerns raised by audience attendees.

B. Establish Clear Ground Rules at the Beginning of Each Meetings.

The BAC recommends that Councilmembers, as part of their opening comments at the forum, establish clear ground rules for asking questions, when those questions can be asked, and how long each audience member should limit themselves to when asking a question. For example, imposing a one-minute limit to questions would greatly facilitate the ability of all persons to be heard. Ideally, a trained neutral facilitator could assume this role, better ensuring that all community voices are heard, both by Councilmembers, staff, and other residents. The BAC supports the use of question cards, as being particularly effective as a means of categorizing questions, where applicable.

C. Establish Elected Officials' Roles as Policy-Makers.

The BAC noted at some forums the Councilmembers clearly articulated their role as policy-makers, responsible for setting priorities and making the budget allocation decisions. Making this distinction at the beginning of each forum can help residents direct any policy and priority-related questions to elected officials, whereas budget bureau staff may be better positioned to answer any definitional or procedural budget questions posed by residents.

D. Better Accommodations for Non-English Speaking and Hearing-Impaired Residents.

In the spirit of continuing to expand and improve outreach to the community, the BAC recommends ensuring that budget overview literature in Spanish, Chinese, (and possibly other commonly spoken languages as well) be made readily available at all forums. Additionally, the BAC supports the availability (where applicable and practical) of real-time translation in other common languages, enabled by the use of headsets so that non-English speaking residents can follow the presentation in real time. The BAC recommends providing sign-language translation for hearing-impaired residents. Better and more consistent prior notice of the availability of translation services at the forums should be provided.

E. Help Residents Understand Budgeting Basics.

The BAC recommends that future presentations help explain in more detail some core concepts around budgeting (e.g. GPF vs. restricted funds, negative fund balances, unfunded actuarial liabilities, etc.) that might help audience members better understand how decisions are made and what tradeoffs need to be evaluated. Added explanations of these subjects should be developed in the budget and budget handouts. This could be accomplished with enhanced use of visual aids, promoting the Mayor's online videos, use of key terms in the budget's glossary, and frequently asked questions (FAQ) sheet. In addition,

the BAC recommends conducting budget overview sessions with the public during the off-year (i.e. mid-cycle years) to help citizens better understand basic budget concepts, policies and practices.

F. Budget Ambassador Program.

The BAC commends the introduction of the Budget Ambassador Program this year, wherein the Mayor's office recruited and trained residents to conduct their own budget informational sessions (e.g. house parties) for fellow residents. The BAC recommends continuing and expanding this program, where practical.

G. Continue to Publicize and Promote Budget Information and Documentation.

The BAC encourages continued use of a centralized budget page on the City's website (i.e. www.oaklandca.gov/budget), as an easy-to-remember online location for residents and taxpayers for information about the budget, about Councilmember priorities, and about the overall budgeting process. Additionally, we recommend enhanced use of popular social media platforms (e.g. Facebook, Twitter, etc.) by the Mayor's office and Councilmembers to further promote and share this budget information with residents.

III. The Mayor's Proposed Policy Budget.

A. One-Time Funds.

The BAC notes that the MPPB backslides from the 2017-19 budget in its use of one-time revenues to fund ongoing expenditures and recommends that the final budget explore ways to reduce or eliminate reliance on such revenues for ongoing expenditures, focusing one-time revenues on paying down unfunded liabilities.

In our September 2017 report, we recommended that future documents summarizing the adopted budget include an exhibit that clearly itemizes one-time sources and uses. *See* BAC's Report on the City of Oakland's Biennial 2017-19 Budget Cycle 4-5 (Sept. 2017).

This year's MPPB purports to "limit[] the use of one-time resources for ongoing expenditures . . ." May 1, 2019 Transmission Letter at 11. However, it includes substantial reliance on one-time funding for ongoing expenditures. *See* MPPB at E-131-32; *see, e.g., id.* at B-2 ("[a]ppropriate one-time funding of \$100,000 in FY 2019-20 for Phase I of the Healthy Home Rental Inspection Program"); *id.* ("[a]ppropriate \$480,000 in one-time funding (\$240,000 per each fiscal year) for Last Saturday Free Dump Days"); *id.* at B-3 ("[s]ustains funding for emergency medical supplies using one-time funds in Measure N"); *id.* at E-8, E-11, E-13-14, G-58, G-61, G-70, G-76. This use of one-time funding for ongoing expenditures appears to outstrip the use of one-time funding for ongoing expenditures in

the FY 2017-19 budget. See S. Landreth Transmission Letter, FY 2017-19 Adopted Policy Budget 1 (Oct. 2017).

The Consolidated Financial Policy (“CFP”) notes that one-time revenues shall be used for one-time expenditures, debt retirement, or unfunded long-term obligations such as negative fund balances and PFRS/CalPERS/OPEB liabilities. It also recommends that any remaining one-time revenues remain as available fund balances. Other uses must be authorized by City Council resolutions that explain the need for using such one-time funds in contravention of CFP, and the plan to return to using such one-time funds in accordance with CFP.

The MPPB highlights two instances where one-time revenues are used to fund ongoing services. Moreover, in the May 7, 2019 City Council meeting, City staff (“Staff”) presented two resolutions to enable these exceptions to the CFP.

In the first, \$4.0M in annual funds for ongoing parks and recreation costs comes from one-time sources. Funding for parks and recreation services normally comes, in part, from Landscape & Lighting Assessment District (“LLAD”) revenues, which have remained unchanged for over 30 years. To align with the CFP, the Budget Resolution authorizes and directs the City Administrator to pursue a ballot measure that will eliminate the use of such one-time funds in the future.

In the second, \$0.2M in annual funds for medications and supplies used by the Oakland Fire Department (“OFD”) in emergency medical services (“EMS”) comes from Measure N. OFD is usually the first responder in EMS situations in Oakland which may require the use of medications. Alameda County’s new Ambulance Contract no longer provides for County ambulances to replace medications used by local fire department paramedics in EMS situations. To align with the CFP, the Budget Resolution authorizes and directs the City Administrator to pursue revenue enhancements, negotiations with Alameda County, and additional fiscal adjustments to provide permanent and ongoing revenue for paramedic services.

While the BAC recognizes that the City cannot necessarily foresee changes in County policy that will necessitate filling in gaps, it urges the City whenever possible to avoid using one-time funds for ongoing services, lest such practice result in a worsening structural deficit.

B. The Landscaping and Lighting Assessment District.

The BAC recommends the City pursue options on an appropriate revenue replacement for the Landscaping and Lighting Assessment District (LLAD).

Oakland property owners pay through property taxes into Oakland’s LLAD fund. These property tax revenues support services for the more than 130 City parks, community

centers and to maintain street lights. Established more than thirty years ago, LLAD revenues have not kept up with the increased costs to service these facilities as it never had a mechanism to adjust costs and payrolls as they increased over time. The City must identify a means to amend the LLAD to maintain existing service levels.

C. Other Revenue Sources.

The BAC reiterates its recommendation that more time be spent exploring the revenue side of the budget.

Recognizing that the budget is both a revenue and expenditure program we have in the past recommended that significantly more time should be spent on reviewing the revenue side of the budget. In our prior reports we have recommended seeking greater public engagement in revenue analysis and even year in-depth examination of various revenue scenarios. These recommendations have included analyzing the equity impact of revenue generating measures and measures under consideration (to assess communities within Oakland benefitting from these sources), analyzing novel revenue generation methods employed by other charter cities, sponsoring public forums on various revenue sources, sharing independent analyses of revenue projections with the public, benchmarking Oakland's revenue performance to other jurisdictions, and considering a split role real estate transfer tax, among others. See BAC Report September 29, 2017.

Given the City's recent focus on tackling unfunded liabilities, the BAC recommends that the City explore additional revenue sources for unfunded OPEB and pension costs. The BAC notes that pension tax override revenues (PTOR), which have been in place since 1976, are set to expire in 2026. Expiration of the PTOR may offer an opportunity to institute a replacement revenue stream for addressing unfunded liabilities without increasing current tax burden.

D. Other Post-Employment Benefits.

The BAC commends the City for establishing and following its OPEB policy. However, it recommends that the budget document analyze the difference between the City's contributions under the OPEB policy and its actuarially determined OPEB contributions.

The BAC commends the City for adopting an OPEB Funding Policy to set aside 2.5% of payroll ("Additional OPEB Payments") towards its unfunded OPEB obligations in addition to its existing pay-as-you-go expenses. These additional OPEB Payments are projected to be \$10 million in each of FY2019-20 and FY2020-21.

In a report prepared for the City on January 14, 2019 by PFM Group Consulting LLC, the City's pay-as-you-go expenses are projected to be \$31.4M in FY2019-20 and \$33.6M in

FY2020-21. Meanwhile, the City's actuarially determined OPEB contributions ("ADC") are expected to be \$83.5M for FY2019-20 and \$87.9M for FY2020-2021. The ADC is the amount the City ought to pay to ensure sufficient funds for future benefits. It includes the City's pay-as-you-go expense as well as an amortization payment towards its unfunded OPEB liability.

Even though the City recently negotiated benefit packages with its employees that will reduce its total unfunded OPEB liability in the long term, and even though \$10M in additional OPEB Payments in each of FY2019-20 and FY2020-21 are an improvement over previous longstanding City practices, such payments will **not** be sufficient to bridge the gap between the City's ADC and pay-as-you-go expenses, which will be \$52.1M in FY2019-20 and \$54.3M in FY2020-21.

The BAC recommends that the City expand its OPEB discussion in the budget to note that \$10M in Additional OPEB Payments will still be insufficient to cover the City's ADC in FY2019-20 and FY2020-21.

E. Consultation With City Commissions and Disclosure of Divergence.

The BAC recommends that, where a city commission has within its charge to make recommendations on City spending, the Mayor's Office and administration work collaboratively with the commission far in advance of the budget cycle to minimize the risk of diverging priorities. Where the budget diverges from such recommendations, it should so state.

The BAC understands that the MPPB does not follow recommendations made by the Sugar Sweetened Beverage (SSB) Community Advisory Board as to expenditure of Measure HH funds. While the Board's recommendations are advisory, deviation from them could undermine public confidence in future revenue-generating measures that rely on general taxes with accompanying advisory boards, a structure necessitated by state law. Accordingly, the BAC recommends that the Mayor's Office and administration work collaboratively with the Board, as well as any other similar bodies with advisory authority over City spending, well in advance of the budget cycle to minimize the risk of diverging priorities on spending. If the budget diverges from such recommendations, it should so state.

F. Performance Management Program.

The BAC recommends that any performance management program include sufficient staff for implementation and that personnel vacancy rates be considered as part of such a program.

We note in the MPPB the proposal by CM Taylor to establish a Performance Management Program. We support this proposal which is consistent with our prior recommendations to

include “comparative analytics.” This program will place an added workload on staff. Such data should include continuing reports on personnel vacancy rates. We therefore recommend that such a program include the provision of necessary staff. We further recommend that the Council consider the workload placed upon staff by its regular actions requiring additional reports on matters it is considering and provide necessary staff to meet this workload.

G. General Purpose Fund Emergency Reserves.

The BAC recommends the City Administrator confirm the General Purpose Fund Emergency Reserves were not appropriated during the year.

The City accumulated a reserve fund in accordance with the Reserve Fund Balance of 7.5% of the General Purpose Fund as of June 30, 2018. The policy requires approval of any appropriations of funds from the Emergency Reserves. Appropriations from the fund, if any, and reasons for appropriations made during the prior fiscal year, or a statement that no appropriations were made, should be included in MPPB under *Financial Summaries – Consistency with the Consolidation Fiscal Policy*.

H. Councilmember Priorities.

The BAC commends the inclusion of Councilmember priorities, but recommends priorities be ranked in order of importance and that revenue suggestions be included.

We are pleased to note that this MPPB includes a statement of priorities by all Council members. The CFP invites “up to seven expenditure priorities in ranked and/or weighted order” including revenue suggestions. However submissions were not always in priority order. We recommend the inclusion of priority ranking. In addition, we recommend that Council members suggest potential revenue streams to pay for listed priorities.

I. Negative Fund Balances.

The BAC commends the City on its progress in addressing negative fund balances and urges the City to stay the course.

Addressing negative fund balances has long been a priority of the BAC. *See* September 2017 BAC Report at 4; May 2017 BAC Report at 2. The MPPB identifies negative fund balances in the amount of \$60 million, \$32.3 million with a repayment plan, \$27.7 million of which are reimbursement funds, and \$0.2 million of which are funds with no repayment plan. MPPB E-127. For example, the Capital Improvements Reserve Bond Fund (Fund 5510) is a negative fund which is on a repayment schedule in the amount of \$123,000 for retirement by 2028-29. These are trending downward from the FY2017-19 budget, which showed

negative funds of \$73 million, \$26.9 million with a repayment plan, \$31.8 million of which were reimbursement funds, and \$14.2 million with no repayment plan; and accrued leave of \$47.1 million. FY 2017-19 Budget E-131.

The BAC commends the City for making progress on these unfunded long-term liabilities, and refers the Council back to their Fall 2018 letter to Council for addressing negative fund balances.

J. Sick and Vacation Leave Liabilities.

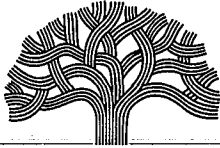
The BAC recommends that the budget separate sick and vacation leave liabilities.

The MPPB identifies as a liability accrued vacation and sick leave of more than \$49 million as of June 30, 2018. MPPB E-127. Regarding accrued vacation and sick leave, the BAC recommends breaking apart these two amounts in the budget document for transparency's purpose, given the different legal status of these respective liabilities.

K. Inclusion of an Index.

The BAC recommends that the budget document include an index.

Navigating the MPPB, particularly the hard copy, is difficult due to lack of an index. The BAC recommends that, to the extent feasible, Budget Bureau staff include an index to facilitate review of the budget.



CITY OF OAKLAND

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2017 NOV 21 PM 3:43

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Finance Director

SUBJECT: Budget Advisory Commission (BAC)
Budget Process Recommendations

DATE: November 13, 2017

City Administrator Approval

Date:

11/24/17

RECOMMENDATION

Staff Recommends That The City Council Receive A Report From The Budget Advisory Commission (BAC) On Recommendations For Continual Improvement Of The Budget Process, And Staff Response To Those Recommendations.

EXECUTIVE SUMMARY

Staff is generally in agreement with the recommendations of the Budget Advisory Commission regarding improvements to the budget process and associated documents. The only disagreements exist in the areas of translation of the budget source documents and transition to program based budgeting. No further action is requested of the Council by staff.

BACKGROUND / LEGISLATIVE HISTORY

Section 3, Item 11 of the City's Consolidated Fiscal Policy (CFP) Ordinance 13279 C.M.S. requires the Budget Advisory Commission (BAC) submit a report on process feedback and continual improvement of the City's budget process to the Finance & Management Committee. That report is included as **Attachment A**. Historically, staff has provided responses, where appropriate, to BAC recommendations.

ANALYSIS AND POLICY ALTERNATIVES

The following table presents the summarized recommendations of the BAC and staff's response to that recommendation. Additional detail regarding each BAC recommendation is presented in the BAC's formal report, see **Attachment A**.

<u>BAC Recommendation</u>	<u>Staff Response</u>
1a) The public survey should occur in the Fall of even numbered years.	Staff agrees that earlier completion of the survey would facilitate better discussion of policy priorities.

Item: 11
Finance & Management Committee
December 5, 2017

BAC Recommendation	Staff Response
1b) All City Council members should submit their budget priorities to the Mayor and the City Administrator in adherence with CFP Section 3.4.	Staff agrees that the CFP should be followed, and the submission of Council priorities according to the CFP timeline would improve the Budget Process.
1c) City staff should continue to use easy-to-understand presentations to explain the Mayor's proposed budget.	Staff intends to continue to use presentations, charts, and graphics to explain the Mayor's proposed budget. Staff will continue to explore attentional graphics to improve the understandability of the City's budget.
1d) The Community Budget Forums should occur between May 15 and June 10.	Staff agrees that the Community Forums should be held following the production of all explanatory materials and documents to ensure all residents that participate in forums benefit from these presentations.
1e) Improving Community Budget Forums (7 forums, additional publicity)	Staff agrees with the BAC's recommendation that Council members attend and help facilitate forums, and present their statements of priorities. The City has conducted seven forums during each of the prior two budget cycles and staff can continue to conduct seven forums in the future.
1f) Amendments to the Mayor's Proposed Budget should be published three days in advance	Staff agrees that amendments should be published and made widely available to the public in advance of City Council budget hearings.
1g) The BAC's Informational Report should go to the full City Council.	Staff agrees that the BAC's report should be forwarded to the full City Council, however, staff recommends that it should first go to the Finance & Management Committee for deeper discussion.
1h) The City should hold Community Budget Forums during even numbered years.	Staff agrees that a limited number of community forums should be held prior to Midcycle revisions, however, for capacity reasons staff does not recommend a full seven forums, instead two or three forums should be held.
2) The City of Oakland must undertake a major effort to adopt a policy to reduce and manage unfunded liabilities including, but not limited to, Other Post Employment Benefits (OPEB).	Staff agrees with the BAC's assessment that the City should develop a strategy to address unfunded liabilities including Other Post Employment Benefits (OPEB). The Administration will be developing a proposal to help facilitate funding the OPEB liability.
3) Implementation of the Vital Services Stabilization fund must continue to be a high priority.	Staff agrees that the maintenance of a healthy Vital Services Stabilization Fund is desirable and will help the City maintain critical staffing and services during the next economic downturn.
4) The City should refrain from funding ongoing services with one-time funds.	Staff agrees that the City should continue to follow the best practice of funding ongoing expenses with ongoing revenues, thus maintain a structurally balanced budget.

<u>BAC Recommendation</u>	<u>Staff Response</u>
5) The budget process should give greater focus to public exploration of the revenue side of the budget.	Staff agrees that the public and Council and public may benefit from additional informational presentations regarding City revenues. Staff agrees that thorough analysis of the revenues and fees is necessary in the near future, but doing so will require supplementary funding for a consultant or additional staff to support this effort.
6) When the City invests in areas traditionally considered to be the service domain of another government entity it should do so in close coordination with that entity.	Staff agrees that intergovernmental collaboration and coordination is critical to effect service delivery, and that leveraging existing programs can yield useful economies of scale.
7) The City should adopt a policy to guide consideration of the creation of new city departments.	Staff agrees that prior to the creation of new Departments the questions outlined by the BAC should be addressed.
8) The Council should continue to employ a consultant to independently review the Mayor's proposed budget. We further recommend that in advance of the next budget cycle the Council deliberate and provide direction to the consultant on specific questions or areas of interest that the next review should focus on.	Staff disagrees with the recommendation to employ a consultant to review the Mayor's proposed budget. Due to the complexity of the City's budget staff believes that such resources would be better allocated to increasing staff's ongoing capacity, or conducting targeted supplemental analyses to enhance revenues or improve City operations. Further staff believes that hiring an ongoing budget analyst position in the Office of the City Council would be preferable to hiring an independent consultant.
9) Appropriations for overtime should be clearly listed in the Budget.	Staff agrees. Per City Council approved policy directives overtime allocations will be identified for each Department in future budget cycles.
10) All budget documents should contain a reference table that summarizes the extent to which it complies with the requirements of CFP Sections 1(B), 1(C) and 1(D), and identifies the balances of all reserve funds identified in CFP Section 2.	Staff agrees that future budget documents should clearly identify the balances in mandated reserve funds, and confirms adherence to the CFP sections regarding the use of one-time funds and excess real estate transfer tax.
11) The implementation of the CIP should follow the detailed recommendations previously made by the BAC, which are amended and restated in this report.	Staff remains committed to following the BAC's advice in improving the Capital Improvement Process including efforts to ensure the delivery of capital projects toward equitable outcomes in the community.

FISCAL IMPACT

There are no direct fiscal impacts in the acceptance of this report. There are no substantial fiscal impacts to the City of Adopting staff's recommendations.

PUBLIC OUTREACH / INTEREST

No public outreach was necessary in the preparation of this staff report. The Budget Advisory Commission discussed their recommended changes to the Budget process at numerous public and noticed meetings of that body, prior to adoption.

SUSTAINABLE OPPORTUNITIES

Economic: There are no environmental opportunities associated with this report.

Environmental: There are no environmental opportunities associated with this report.

Social Equity: The implementation of these recommendations should improve the accessibility of Budget information and decision making to disadvantaged groups and the general public.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive A Report From Finance Department Regarding The Budget Advisory Commission's (BAC) Recommendations For Continual Improvement Of The Budget Process, And Staff Response To Those Recommendations.

For questions regarding this report, please contact Brad Johnson, Assistant to the City Administrator at 510-238-6119.

Respectfully submitted,



KATANO KASAINÉ
Finance Director

Prepared by:
Bradley Johnson, Assistant to the City Administrator
Finance Department, Budget Bureau

Attachments (3):

- (A): Budget Advisory Commission (BAC): Report on the Biennial 2017-19 Budget Cycle
- (A1): BAC's recommended changes to the Consolidated Fiscal Policy
- (A2): BAC Detailed commentary on adherence to the Consolidated Fiscal Policy

Item: _____
Finance & Management Committee
December 5, 2017

To: Honorable Mayor and City Council
From: The Budget Advisory Commission
Subject: Report on the City of Oakland's Biennial 2017-19 Budget Cycle
Date: September 29, 2017

Pursuant to the Consolidated Fiscal Policy (CFP) (13279 C.M.S.), the Budget Advisory Commission (BAC) submits this Report on the City of Oakland's Biennial 2017-19 Budget Cycle. The Report was approved by the BAC at a meeting held on September 27, 2017.

SUMMARY

This report contains the BAC's comments and recommendations related to the 2017 budget process and to the policies that guide the development and adoption of the biennial budget.

With regard to process, the CFP has been in use now for two budget cycles, and the BAC believes that it has generally worked to improve transparency, and increase the predictability and reliability of the budget process for the public. However, based on our observations, and in accordance with the BAC's mandate to look for "opportunities for improving the process in future years," now is a good time to make adjustments and improvements. The BAC's recommended changes to the Consolidated Fiscal Policy are contained in Attachment 1, in redline form.

With regard to content, the BAC commends the Mayor and City Council on the adoption of a final budget that complies with the CFP regarding the use of Excess Real Estate Transfer Tax Revenues and one-time resources, and that includes required funding for the City's Vital Services Stabilization Fund. See Attachment 2 for more detailed commentary on the budget's adherence to the CFP.

Immediately below is a summary of our recommendations, some of which are new and some of which are carried forward from the BAC's May 31, 2017 report to the Mayor and Council. A more detailed discussion of each recommendation follows.

BAC Recommendations on Budget Process and Policy

- 1) **Amend the timelines and requirements of Section 3 of the Consolidated Fiscal Policy in order to bring future budget cycles into greater alignment with the guiding principles set forth in CFP Section 3.11, including but not limited to inclusivity, accessibility and transparency.**
- 2) **The City of Oakland must undertake a major effort to adopt a policy to reduce and manage unfunded liabilities including, but not limited to, Other Post Employment Benefits (OPEB).**
- 3) **Implementation of the Vital Services Stabilization fund must continue to be a high priority.**

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- ~~4) The City should refrain from funding ongoing services with one-time funds.~~
 - 5) The budget process should give greater focus to public exploration of the revenue side of the budget.
 - 6) When the City invests in areas traditionally considered to be the service domain of another government entity it should do so in close coordination with that entity.
 - 7) The City should adopt a policy to guide consideration of the creation of new city departments.
 - 8) The Council should continue to employ a consultant to independently review the Mayor's proposed budget. We further recommend that in advance of the next budget cycle the Council deliberate and provide direction to the consultant on specific questions or areas of interest that the next review should focus on.
 - 9) Appropriations for overtime should be clearly listed in the Budget.
 - 10) All budget documents should contain a reference table that summarizes the extent to which it complies with the requirements of CFP Sections 1(B), 1(C) and 1(D), and identifies the balances of all reserve funds identified in CFP Section 2.
 - 11) The implementation of the CIP should follow the detailed recommendations previously made by the BAC, which are amended and restated in this report.

DETAILED DISCUSSION OF RECOMMENDATIONS

- 1) Amend the timelines and requirements of Section 3 of the Consolidated Fiscal Policy in order to bring future budget cycles into greater alignment with the guiding principles set forth in CFP Section 3.11, including but not limited to inclusivity, accessibility and transparency.
 - a. **Section 3.3 of the Consolidated Fiscal Policy (CFP): The public survey should occur in the Fall of even numbered years.** Presently, the survey must be completed by February 15 of the budget development year (odd-numbered years), per CFP Section 3.3. By that time, the Mayor and the City Council will have already begun discussing the City's budget priorities during the Bi-Annual Budget Workshop, which is held in January of the budget development year, per CFP Section 3.1. The Mayor, City Council Members and the City Administrator should have the results of the public survey for review in advance of the Bi-Annual Workshop. Otherwise, residents' input cannot be incorporated into the priority-setting exercise. BAC thus recommends that CFP Section 3.3 be revised to schedule the assessment of stakeholder needs, concerns and priorities for the Fall of even-numbered years.

Specifically with respect to timing: The draft public survey should be presented to the BAC for consideration in advance of their September meeting in even numbered years. The BAC should have the opportunity to revise the public survey at its October meeting, after the Mayor's State of the City address occurs. The public survey should be conducted/ completed after the November election,

and before December 5. At its meeting in December, the BAC will review the results of the survey, which will then be shared with the Finance & Management Committee and City Council at the first opportunity after the BAC's December meeting.

The results of the public survey should be made widely available, shared on social media, and published on the City's Budget website.

- b. Section 3.4 of the CFP: All City Council members should submit their budget priorities to the Mayor and the City Administrator in adherence with CFP Section 3.4.**
- c. Section 3.6 of the CFP: City staff should continue to use easy-to-understand presentations to explain the Mayor's proposed budget.** The BAC appreciated the FY 2017-2019 Proposed Policy Budget PowerPoint presented at the May 16, 2017 Special City Council Meeting and the 4 Budget Facts 2017 bi-fold color brochure presented at some of the Community Forums. (These documents were developed pursuant to CFP Section 3.6.) The PowerPoint presentation, in particular, provided an excellent overview of the proposed budget and tied specific budget items to Oakland's budget priorities. The BAC recommends the creation/publication of similarly easy-to-understand presentations in future budget cycles. These explanatory documents should be made widely available, shared on social media, and published on the City's Budget website.
- d. Section 3.7 of the CFP: The Community Budget Forums should occur between May 15 and June 10.** CFP Section 3.7 sets a timeframe of May 1 through June 10 for the Community Budget Forums to occur. Because the Fact Sheet and other explanatory documents are not completed until May 15 (per CFP Section 3.6), the residents attending early Community Budget Forums this year did not have the benefit of these helpful documents. The BAC recommends that in future budget cycles, Community Budget Forums be scheduled after the preparation of the explanatory documents.
- e. Section 3.7 of the CFP: Improving Community Budget Forums.** CFP Section 3.7 should be amended to: a) require at least one forum in each City Council district; b) strongly recommend Council members to attend at least one forum and present their Statement of Priorities; c) strongly recommend greater promotion of the forums; d) strongly recommend consistent Fact Sheets and handouts be distributed at the forums.
- f. Section 3.10 of the CFP: Amendments to the Mayor's Proposed Budget should be published three days in advance.** CFP Section 3.10 should be amended to reflect that proposed amendments to the Mayor's proposed budget must be

published three days in advance of the final meeting at which the budget is to be adopted.

- g. Section 3.11 of the CFP: The BAC's Informational Report should go to the full City Council.** Presently, the BAC's Informational Report (due Sept. 30 following budget adoption), goes only to the Finance and Management Committee. The BAC recommends that their report also go to the entire City Council.
 - h. Section 3.12 of the CFP: The City should hold Community Budget Forums during even numbered years.** To improve residents' budget literacy, and to inform the public of the mid-cycle revisions to the budget, the BAC recommends that the City hold Community Budget Forums in May and June during even numbered years.
- 2) The BAC recommends a major effort to adopt a policy to reduce unfunded liabilities, including but not limited to OPEB.** The Council ordinance authorizing the FY17-19 budget notes that as of July 1, 2015 the City was carrying an unfunded actuarial liability for Other Post-Employment Benefits (OPEB) of approximately \$829.9 million and that as of December 2016 only \$4.0 million had been invested into the California Employee's Retiree Benefit Trust (CERBT) to begin funding the OPEB obligations. Moreover, as of July 1, 2016, Oakland's *total* unfunded liability (including but not limited to OPEB) is close to \$2.6 billion.

The FY17-19 budget takes desirable but modest steps to address this challenge by pre-paying the negative balance in the Facilities fund (\$5.73 million) and increased payments (\$20 million over two years) for OPEB. However, a \$10M annual OPEB payment does not meet the annual required contribution, and the current pay-as-you-go approach does little to alleviate uncertainty about the City's commitment and ability to meet its future obligations to retirees.

Oakland's unfunded liability is immense and there is no long-term plan to solve this problem. As the Mayor's proposed budget stated, "We must find an ongoing funding solution to meet our Actuarially Required Contribution payments, so future required contributions do not paralyze the City's operations."

- 3) The BAC recommends that building and protecting the Vital Services Stabilization Fund continue to be a high priority.** The Budget Transmittal Letter acknowledges the possibility of an economic contraction but assumes continued (albeit slower) revenue growth on top of a revenue base that has already exhibited steady growth for 8 consecutive years. Sound fiscal practice dictates that during periods of sustained growth the city should do all it can to prepare for inevitable future downturns.
- 4) The BAC recommends that ongoing services not be funded with one-time funds and that an exhibit summarizing one time sources and uses be created to accompany the**

final adopted budget transmittal packet. In a memo to the Council dated July 18, 2017, the City's Finance Director states that the adopted FY 17-19 budget complies with the CFP provisions related to the use of one-time funds to support ongoing services. The BAC applauds this outcome and recommends that future documents summarizing the adopted budget include an exhibit that clearly itemizes one-time sources and uses.

- 5) **The BAC recommends that budget review and adoption place greater focus on revenues.** The primary focus of the budget adoption process is often on proposed expenditures, whereas the equally critical revenue side of the ledger is less well understood by the public and subject to less external scrutiny.

The most comprehensive review of city revenues is published by the City Administrator's Office in its biennial Five-Year Financial Forecast, which summarizes major revenues sources, reports prior and current year actual collections, and projects future revenue generation. City staff develops revenue forecasts, and the report notes that staff consult with "independent budget and economic experts to confirm the soundness of the assumptions and analysis."

To improve transparency and enable a broader understanding of the budget's underlying revenue assumptions, the BAC recommends that such independent analyses of City revenue projections be shared with the Council and the public. This could be achieved through an annual public forum at which relevant subject matter experts evaluate the performance of key City revenues, assess the validity and level of risk inherent in City staff projections and offer informed recommendations and fresh perspective to City staff and elected officials for consideration.

Additionally, the BAC recommends that the City Administrator's Office implement a schedule for conducting deeper analysis of specific questions related to major revenue sources. Examples might include:

- A benchmarking study that compares Oakland's tax rate structures (for, e.g., business tax, property transfer tax, impact fees) and the revenue they generate to other comparable jurisdictions
- Analysis of the pros and cons of moving from a flat real estate transfer tax to a split rate for residential and commercial properties
- Thorough cost-recovery analysis of significant fees
- Inclusion of an analysis of impact fee revenues and expenditures in the Five Year Financial forecast
- Analysis of the foregone revenues and countervailing benefits that result from exempting owners of low and moderate-income housing from payment of the Business License Tax and Parcel Tax
- Scenario-based analysis of the City's risk exposure as relates to its heavy reliance on property tax and real estate transfer tax revenues

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- An equity assessment of who is impacted by the City's current revenue generating measures and any measures under consideration
 - Analysis of novel revenue generation methods employed by other charter cities and their potential application in Oakland

6) The BAC recommends that when the city invests in areas traditionally considered to be in the service domain of another government entity, it do so in close coordination with the lead entity, leveraging existing programs and service delivery systems wherever possible rather than creating parallel ones. Specifically:

- We urge the Council to avoid duplicating county and school district programs and service delivery systems to the fullest extent possible.
- The 2017 Budget Priorities Survey found that respondents showed significant and increased interest in funding homeless services. We recommend that investments be coordinated with Alameda County in order to leverage County-provided services such as public health, mental health, social services, and other services.

7) The BAC recommends that the Council adopt a standard Procedure for the Creation of New City Departments that supports and encourages sound fiscal policy. This policy should require that a report analyzing the fiscal impact of creating a new department be prepared and submitted to the Council. The report should consider at least the following information:

- A clear statement of the rationale for the creation of the department.
- A clear mission statement for the proposed new department.
- A specific listing of the duties to be performed. If some of the proposed duties are to be transferred from an existing department, this should be described.
- An organization chart for the proposed department.
- A listing of the proposed staffing with an estimate of their proposed salaries.
- An estimate of all other costs that will be incurred by the departments.
- An estimate of potential revenues to be generated by and/or appropriated to support the new department.
- An accounting of the support that will be required from other City Departments.
- An estimate of the department's initial budget.

8) The BAC supports the independent review of the Mayor's Proposed Budget commissioned during this budget cycle. For the first time in recent history, in 2017 the City Council procured an independent analysis of the proposed budget. The BAC supports this decision and recommends that this practice be continued in future years. We further recommend that in advance of the next budget cycle the Council deliberate and provide direction to the consultant on specific questions or areas of interest that the next review should focus on.

9) **The BAC recommended in its May 31, 2017 report to the Mayor and Council, that appropriations for overtime (OT) be clearly listed in the budget.** Policy Directives adopted by the Council along with the FY 17-19 budget act on this recommendation by requiring that the City Administrator include an overtime line item for each department in future proposed budgets.

10) **The BAC recommends that future iterations of the Mayor's proposed budget and the final adopted budget documents contain a reference table that summarizes the extent to which it complies with the CFP Sections 1(B), 1(C) and 1(D), and that identifies the balances of all reserve funds identified in CFP Section 2.** For example, see Attachment 2.

11) **The BAC recommends that implementation of the CIP in FY 2017-2019 follow the detailed recommendations previously made by the BAC, as amended and restated in this report.**

CIP Recommendation #1: Identify, fund, and budget for key staff (as well as consulting services as needed) in project management, contracting, engineering, design and community engagement within the FY17-19 budget so that the City has time and realistic resources to build the necessary internal capacity to provide smooth and effective project delivery throughout the life of the bond's implementation.

- *The adopted budget adds 2.0 FTE as Coordinator positions within the Project/Overhead Clearing Fund (7760) to support the infrastructure bond and grant projects at a cost of roughly \$0.50 million per year, which is offset by reducing contingency and increasing project recovery. It is not possible to assess the adequacy of these additional staff from the budget document.*

CIP Recommendation #2: Direct City staff to sequence bond issuances and project start dates to align with the capacity of this increased staffing level and to develop additional staffing plans that align with future bond tranches and project delivery expectations.

- *Improvements to roads, sewers, public buildings, and park facilities were sequenced in the FY 17-19 capital budget.*

CIP Recommendation #3: Utilize the first tranche of bond funds to complete existing designed and Council-approved project lists – such as the remaining approximately \$23 million in projects from the City's 5-year paving plan adopted in 2014 – to demonstrate early progress, avoid cost escalation, clear backlogs of designed and approved projects and highlight any existing contracting, staffing, and/or project management bottlenecks. This should include strong communication with the public on the value of initiating projects without further delay even as the City finalizes any additional processes regarding project selection and prioritization.

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- *The FY 17-19 Capital Plan conforms to this recommendation. The adopted budget also allocates an additional \$55 million for Affordable Housing Projects as part of the 2017-2018 budget revenues.*

CIP Recommendation #4: Explicitly define Equity not as simple geographic dollar allocations but rather as a means of serving populations or geographies with acute public service needs (high public transit reliance, open space deficits or City service utilization, for example), that has suffered historic disinvestment in infrastructure and/or has incomes levels below City of Oakland averages.

- *This recommendations remains to be completed. In public testimony during the most recent budget cycle, City staff confirmed the need to define equity more specifically and to clarify how it will be applied within the planning, sequencing, and financing of CIP, and stated that this would be addressed within the current fiscal year.*

CIP Recommendation #5: Weight the new Equity, Resilience and Mobility categories in such a way that they collectively account for a meaningful portion of the total CIP score but do not displace the preservation of life safety as the City's paramount concern.

- *This recommendation remains to be completed.*

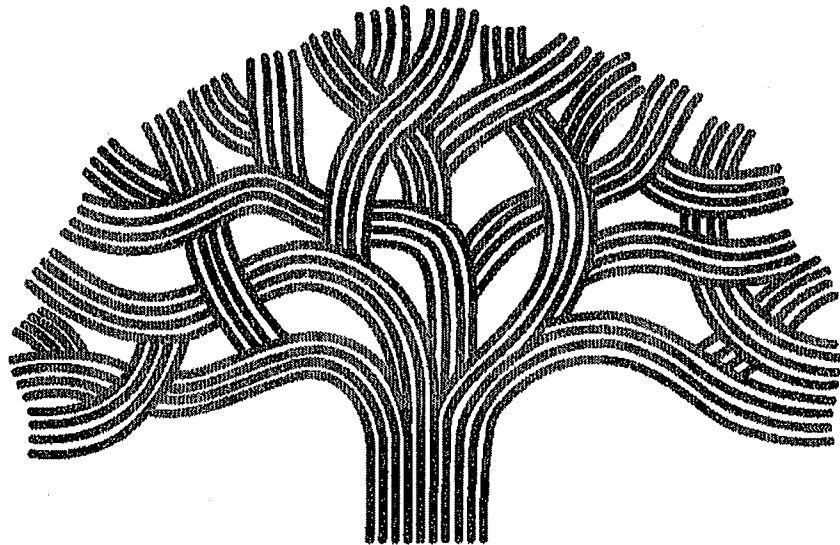
CIP Recommendation #6: Consider a programmatic approach to project selection so that projects taken as a whole or by category (Housing, Facilities or Streets) can meet the City's goals even if not every individual project does.

- *The FY 17-19 capital budget appears to have used a programmatic approach to project selection, focusing on shovel ready projects that were largely already in queue. Over the next two years, staff will be working with the community and the City Council to develop a new approach to selecting capital projects that will be used to inform development of the FY 19-21 CIP.*

CIP Recommendation #7 (new): When public bond funds are used to supplant another revenue source, a clause that clearly describes that transaction should be included in the relevant ordinance or resolution.

- *The adopted FY 2017-2019 budget enacted a swap of Measure KK affordable housing funds to support expenditures previously paid for using Boomerang funds, thereby freeing up that revenue source to pay for an expansion of homeless services. Without prejudice to the specifics of this action, the BAC makes this recommendation in the interest of greater public transparency around the use of voter-approved bond funds.*

**CITY OF OAKLAND
CONSOLIDATED
FISCAL POLICY**



Section 1. Budgeting Practices

Part A. General Provisions

The City's Fiscal Year shall run from July 1st through June 30th of the subsequent year and the Budget shall be adopted by resolution as provided by the City charter.

The City shall adopt a two-year (biennial) policy budget by July 1st of odd-numbered calendar years. The City shall amend its biennial policy budget (midcycle) by July 1st of even-numbered years.

Part B. Policy on Balanced Budgets

The City shall adopt balanced budgets, containing appropriated revenues equal to appropriated expenditures. This policy entails the following additional definitions and qualifications:

1. The budget must be balanced at an individual fund level.
2. City policies on reserve requirements for individual funds must be taken into account. The appropriated expenditures to be included in the balanced budget equation must include the appropriations necessary to achieve or maintain an individual fund's reserve target.
3. Appropriated revenues can include transfers from fund balance where such fund balance is reasonably expected to exist by the end of the fiscal year preceding the year of the adopted budget. Transfers from fund balance are not to be counted as revenue if the fund balance is not reasonably expected to exist by the end of the fiscal year preceding the year of the adopted budget. (Note: The precise definition of 'fund balance' will vary from fund to fund, depending on the fund's characteristics and accounting treatment.)
4. Appropriated expenditures can include transfers to fund balance or to reserves.

The City Administrator shall be responsible for ensuring that the budget proposed to the City Council by the Mayor, adheres to the balanced budget policy.

From time to time the City Council may present changes in policy and consider additional appropriations that were not anticipated in the most recently adopted budget. Fiscal produced required that prior to Council approval of such actions the following occur:

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1. Identification of a new or existing viable funding source whose time span reflects the timing of the expenditure or lasts until the approval of the next biennial budget.
 2. The budget must be amended in such a way as to maintain a balanced budget where appropriated revenues are equal to appropriated expenditures.

Each fiscal year, once prior year information has been made available, the City Administrator shall report to the Council how actual year-end revenues and expenditures compared to budgeted revenues and expenditures in the General Purpose Fund and such other funds as may be deemed necessary.

Part C. Use of Excess Real Estate Transfer Tax (RETT) Revenues

To ensure adequate levels of the General Purpose Fund reserves and to provide necessary funding for municipal capital improvement projects and one-time expenses, the City shall require that excess Real Estate Transfer Tax revenues be defined and used as follows:

1. The excess Real Estate Transfer Tax (RETT) revenue is hereby defined: Any amounts of projected RETT revenues whose value exceeds 14% of corresponding General Purpose Fund Tax Revenues (inclusive of RETT).
2. The excess Real Estate Transfer Tax collections, as described in this section, shall be used in the following manner and appropriated through the budget process.
 - a. At least 25% shall be allocated to the Vital Services Stabilization Fund. Until the value in such fund is projected to equal to 15% of General Purpose Fund revenues over the coming fiscal year.
 - b. At least 25% shall be used to fund accelerated debt retirement and unfunded longterm obligations: including negative funds balances, to fund the Police and Fire Retirement System (PFRS) liability, to fund other unfunded retirement and pension liabilities, unfunded paid leave liabilities, to fund Other Post-Employment Retirement Benefits (OPEB).
 - c. The remainder shall be used to fund one-time expenses; augment the General Purpose Fund Emergency Reserve, and to augment the Capital Improvements Reserve Fund.

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3. Use of the "excess" RETT revenue for purposes other than those established above may only be allowed by a super majority vote (6 out of 8) of the City Council through a separate resolution.
 - a. The resolution shall be supported by a statement explaining the necessity for using excess RETT revenues for purposes other than those established above and;
 - b. The resolution authorizing expenditures using excess RETT revenue for proposes other than those above shall include a finding of necessity by the City Council; and
 - c. The resolution shall also include steps the City will take in order to return to utilizing one-time RETT revenues as described above.
 4. Following the completion of the annual audit, audited revenues will be analyzed to determine whether the appropriate value was transferred to the Vital Services Stabilization Fund and to fund accelerated debt retirement and unfunded long-term obligations. If is found that insufficient funds were transferred then a true-up payment shall be made as a part of the next fiscal year's budget process. If the transfers exceeded the actual required amounts, then the amounts in excess may be credited against future allocations in the next fiscal year's budget process.

Part D. Use of One Time Revenues

1. From time to time, the City may receive "one time revenues", defined as financial proceeds that will not likely occur on an ongoing basis, such as sales of property or proceeds from the refinancing of debt, but not including additional Real Estate Transfer Tax revenues discussed in Section "B" above.
2. Fiscal prudence and conservancy requires that one time revenues not be used for recurring expenses. Therefore, upon receipt of one time revenues, such revenues shall be used in the following manner, unless legally restricted to other purposes: to fund one time expenditures, to fund accelerated debt retirement and unfunded long-term obligations: including negative funds balances, to fund the Police and Fire Retirement System (PFRS) liability, to fund other unfunded retirement and pension liabilities, unfunded paid leave liabilities, to fund Other Post- Employment Retirement Benefits (OPEB);or shall remain as fund balance in the appropriate fund.

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3. Use of the "one time revenues" for purposes other than those established above may only be allowed by a super majority vote (6 out of 8) of the City Council through a separate resolution
 - a. The resolution shall be supported by a statement explaining the necessity for using one-time revenues for purposes other than those established above; and
 - b. The resolution authorizing expenditures utilizing one-time revenue for proposes other than those above shall include a finding of necessity by the City Council; and
 - c. The resolution shall also include steps the City will take in order to return to utilizing one-time revenues as described above.

Part E. Use of Unallocated General Purpose Fund Balance.

Any unallocated General Purpose Fund balance, as projected based upon the 3rd Quarter Revenues and Expenditures forecast, and not budgeted for other purposes, shall be used in accordance with Part D.

Part F. Analysis of Payments for Debt or Unfunded long-term obligations from certain revenues

When allocating funds to fund accelerated debt retirement and unfunded long-term obligations from excess Real Estate Transfer Tax and One Time Revenues the City Administrator shall present his or her analysis and recommendations to the Council based on the best long-term financial interest of the City. The term Unfunded long-term obligations shall be clearly defined, as part of the budget process.

Part G. Criteria for Project Carryforwards and Encumbrances in the General Purpose Fund.

Previously approved but unspent project appropriations ("cam/forwards"), as well as funding reserved to fund purchases or contracts that are entered into in the current year, but are not paid for until the following year ("encumbrances"), draw down funding from reserves. Fiscal prudence requires that such drawdowns be limited in the General Purpose Fund (GPF). Therefore:

1. Funding for non-operating projects and purchases shall be restricted within the General Purpose Fund.
2. In cases when non-capital, operating projects and purchases must be funded

in the General Purpose Fund, these shall be included in an annual budget and supported with new annual revenues.

3. Carryover of unspent project carryforwards and encumbrances in the GPF from one year into the next, with no new funding, will be allowed only on an exception basis.
4. In the beginning of each fiscal year, before project carryforwards and encumbrances are carried over from the prior year, and no later than September 1:

The Budget Director shall liquidate all unspent project carryforwards and encumbrances in the GPF and advise affected City departments of said action.

The Budget Director shall provide a report of all unspent project carryforwards and encumbrances to the City Council for review and direction.

5. Departments may request to retain some or all of the liquidated GPF carryforwards and encumbrances only if and when such balances are deemed essential to the delivery of city projects, programs and services, and only if the liquidation of such balances would be in violation of legislative or legal requirements, could lead to health or safety issues, and/or would greatly impact essential City projects, programs and services.
6. A request to retain some or all of the liquidated GPF carryforwards or encumbrances must be submitted in writing to the Budget Director within five (5) working days of receiving an advisory from the Budget Director about said liquidations, and must detail specific reasons necessitating such a request, including but not limited to those stated in item (3) above.
7. The Budget Director, upon review of a department's request, shall recommend an action to the City Administrator within five (5) working days of receiving the department's request.
8. The City Administrator, in consultation with the Budget Director, shall make a final determination of any and all requests for exceptions by departments, by September 20, and all requesting departments should be so notified by September 30.

Part H. Grant Retention Clauses

Prior to the appropriation of revenues from any grant outside of the budget process, the City Council shall be informed of any retention clauses that require the City to retain

grant-funded staff, services, programs, or operations beyond the term of the grant. The fiscal impacts of such retention clauses shall be disclosed. During the biennial budget process staff shall report to the Council the ongoing projected fiscal impacts of such retention clauses.

Part I. Alterations to the Budget

Substantial or material alterations to the adopted budget including shifting the allocation of funds between departments, substantial or material changes to funded service levels, shall be made by resolution of the City Council.

Part J. Transfers of Funds between accounts.

The City Administrator shall have the authority to transfer fund between personnel accounts, and between non-personnel accounts within a department. The City Administrator shall have the authority to transfer funds allocated to personnel accounts to non-personnel accounts within a department provided that cumulative transfers within one fiscal year do not exceed 5% of the original personnel account allocation of that department. The City Administrator shall have the authority to transfer funds from non-personnel accounts to personnel accounts within a department. For the purposes of this section accounts for the provision of temporary personnel services shall be considered personnel accounts.

Part K. Pay-Go Account Expenditures & Grants and Priority Project Fund Expenditures & Grants

The City Council hereby finds and determines that it is in the public interest to spend Pay-go account fund to facilitate and support programs & services of the City of Oakland, capital improvement projects of the City of Oakland, and programs & capital improvement projects of the public schools and other public entities within the City of Oakland. The Council authorizes Pay-Go account funds to be used for the following purposes:

Capital Improvements:

1. To pay for or augment funding for a City of Oakland capital improvement project including planning and pre-construction services for projects such as, but not limited to, feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and

decorative elements of the project; and

2. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or other public entity for use on capital improvement project within the City of Oakland, including planning and pre-construction services for projects such as, but not limited to, feasibility studies and design, landscaping, architectural and engineering services and all services and materials needed to construct a capital improvements such as, but not limited to, contractor services, lumber, concrete, gravel, plants and other landscape materials, fountains, benches, banners, signs, affixed artwork and any other design and decorative elements of the project; and

Furniture, Equipment:

3. To pay for or augment funding for purchase of furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the City of Oakland; and
4. To provide a grant to a public school, including a school chartered by the State of California or Oakland Unified School District, or another public entity to be used for furniture and equipment, including computer equipment and software, to be used by participants in a program operated by the public school or public entity.

Pay-go purposes stated above shall operate as restrictions on Pay-go expenditures or Pay-go grants, regardless of the Pay-go account funding source.

Pay-go purposes stated above shall apply to any and all Pay-go expenditures or grants made by the Mayor and each City Councilmember.

All Pay-go expenditures and grants shall be administered by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

In accord with the City Council's motion approving the initial allocation of Councilmember Priority Project funds on June 8, 2006, the City Councilmembers must obtain City Council approval for all Priority Project expenditures.

All Priority Project fund grants approved by the City Council and shall be administered and executed by the City Administrator on behalf of the city, and grant agreements shall be required for all such grants.

Section 2. Reserve Funds

Part A. General Purpose Fund Emergency Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland to provide in each fiscal year a reserve of undesignated, uncommitted fund balance equal to seven and one-half (7.5%) of the General Purpose Fund (Fund 1010) appropriations for such fiscal year (the "General Purpose Fund Emergency Reserve Policy").
2. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the General Purpose Funds Emergency Reserve to the City Council and on the adequacy of the of the 7.5% reserve level. If in any fiscal year the General Purpose Fund Reserve Policy is not met, the City Administrator shall present to Council a strategy to meet the General Purpose Funds Emergency Reserve Policy. Each year, the City Administrator shall determine whether the 7.5% reserve level requires adjustment and recommend any changes to the City Council.
3. The amounts identified as the General Purpose Funds Emergency Reserve may be appropriated by Council only to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council, or (2) by a majority vote of the City Council.
4. Prior to appropriating monies from the General Purpose Funds Emergency Reserve, the City Administrator shall prepare and present such analysis to the City Council. Upon review and approval of the proposed expenditure by the City Council, and appropriate fiscal emergency declaration necessary for the use of GPF reserve, the City Administrator will have the authority to allocate from the reserves.

Part B. Vital Services Stabilization Fund Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Vital Services Stabilization Fund.
2. In years when the city projects that total General Purpose Fund revenues for the upcoming fiscal year will be less than the current year's revenues, or anytime service reductions (such as layoffs or furloughs) are contemplated due to adverse financial conditions, use of this fund must be considered so as to maintain existing service levels as much as possible, and to minimize associated impacts; and the adopted budget may appropriate funds from the

Vital Services Stabilization Fund to preserve city operations; however, the budget may not appropriate more than sixty percent of the reserve balance in any year.

The Mayor and City Administrator and/or their designees will meet and discuss the key features of the Mayor's proposed draft budget with the labor unions, which represent City employees as duly authorized representatives for their respective bargaining units, in accordance with applicable state labor law, provided the labor unions can respond within the timeline required.

The timeline may be restricted and may require short notice. Reasonable notice shall be provided to the labor unions. Further, information contained in the Mayor's budget prior to release is in draft form and subject to change before a final version is released to the City Council and the public.

3. Any deviations from this policy, including the need to address unusual and temporary increases in baseline expenditures, must be made by Resolution requiring a minimum of 6 votes. The Resolution must include (1) a statement explaining the necessity for the deviation and (2) a plan for replenishing the reserve.

Part C. Capital Improvements Reserve Fund

1. Council hereby declares that it shall be the policy of the City of Oakland to maintain a Capital Improvements Reserve Fund.
2. On an annual basis, an amount equal to \$6,000,000 shall be held in the Capital Improvements Reserve Fund. Revenue received from one time activities, including the sale of Real Property, shall be deposited into the Capital Improvements Reserve Fund, unless otherwise directed by a majority vote of the City Council. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein.
3. Monies on deposit in the Capital Improvements Reserve Fund may be appropriated by Council to funds unexpected emergency or major capital maintenance or repair costs to City-owned facilities and to fund capital improvement projects through the Five-Year Capital Improvement Program.
4. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the Capital Improvements Reserve Fund. If in any fiscal year the Capital Improvements Reserve Fund threshold of \$6,000,000 is not met, the City Administrator shall present to Council a strategy to meet said threshold.

Section 3. Budget Process, Fiscal Planning, Transparency, and Public Participation

Unless otherwise noted, timelines apply only to budget development years, normally odd numbered years and not to mid-cycle revisions to an adopted two-year budget.

1. Council Initial Budget Briefing and Priorities Discussion

Timeline: January.

Requirements: The Mayor and City Council will hold a bi-annual budget workshop soon after the commencement of the Council term. The workshop will include briefings on estimated baseline expenditures, revenue projections and an overview of the City's budgeting process. The workshop will provide the Mayor and Council with the opportunity to begin discussing priorities for the next budget year based on preliminary projected increases or decreases in the next budget.

2. Five Year Forecast

Timeline: Produced and heard by the Council's Finance & Management Committee in February. Forecast Fact Sheets should be distributed to City community centers and Forecast data should be available on Open Data Portal within two weeks of the Committee hearing.

Requirements: Each Budget Cycle, the City Administrator must prepare a Five Year Forecast.

The Five-Year Financial Forecast ("Forecast") is a planning tool that estimates the City's likely revenues and expenditures over a future period of at least five-years, based on appropriate financial, economic, and demographic data. The purpose of the Forecast is to surface all major financial issues and estimate future financial conditions to support informed long-term planning and decision making regarding issues such as expenditures, labor negotiations, economic development policies, and revenue policies. Such planning provides for greater financial stability, signals a prudent approach to financial management, and brings the City into compliance with current best practices of other governmental entities.

The Forecast shall contain the two-year baseline budget for the forthcoming two-year budget period, clearly reflecting projected expenditures to maintain existing service levels and obligations, plus at least an additional three- year forecast of revenues and expenditures. The Baseline Budget shall consist of projected expenditures necessary to maintain existing staffing and service levels, plus an estimate of anticipated revenues for the two-year period.

The Forecast shall also contain information on the variance between prior forecasts and actual amounts, including the factors that influenced these variances. Revenue

estimates shall be based on the most current data available; minimally revenue projections shall take into account projected revenue for the current fiscal year, as reflected in the 2nd quarter Revenue and Expenditure Report, with appropriate trending into future years and an explanation as to how such revenue projections were derived.

The report shall include a Five Year Forecast "Fact Sheet" document, which summarizes the Forecast's key findings with simplified text and graphics so as to make this important budgetary information more accessible to the general public. Within two weeks after the Forecast is accepted by the City Council, the City Administrator shall print and distribute the Forecast Fact Sheet to all City libraries, recreation centers and senior centers, including in languages required by Oakland's Equal Access Ordinance. The full Forecast shall also be posted on the City of Oakland's website. Forecast data shall be available in open data format on Oakland's data portal.

3. Assessment of Stakeholder Needs, Concerns and Priorities

Timeline: Budget Advisory Committee review prior to survey release. Survey completion by December 5th of even-numbered years. Results publicly available within two weeks of survey's close.

Requirements: Prior to Budget Adoption of a budget adoption year, the City Administrator should develop or secure a statistically valid survey for assessing the public's concerns, needs and priorities. Whenever feasible, the City should conduct a professional poll administered to a statistically relevant and valid sample of residents that is representative of Oakland's population in terms of race, income, neighborhood, age, profession, family size, homeownership/renter-ship, etc. If that's not possible, then demographic information should be collected and reported out with the survey results.

Prior to release, the survey questions shall be submitted to the Budget Advisory Committee by September 1st of even numbered years for review of bias, relevance, consistency in administration, inclusion of benchmark questions, and ability to assess concerns, needs and priorities. The survey instrument, method of dissemination, and any instructions for administration shall be publicly available. The survey should be conducted following the November election and before December 5.

If the City cannot afford a professional survey, an informal survey shall be made available for broad dissemination by the Mayor and Councilmembers through community list serves and other communication channels. A list of those dissemination channels should be publicly available along with survey results. Survey results should be publicly available within two weeks of the survey closes. Survey results should be made widely available, shared on social media, and published on the City's Budget website.

In the event that City's statistically valid survey has been completed, the Mayor and

City Administrator shall include in their proposed budget a summary of the survey data and a statement regarding how the data was or was not incorporated into the final proposed budget. Informal surveys and their results shall be made public but not included in their proposed budget document.

The City Administrator shall also create an email address, a phone number with voicemail service, and a web-based engagement platform to collect resident input prior to budget development. Furthermore, the City Administrator shall take steps to promote participation, such as issuing a Flyer promoting participation in the survey and methods of participation (survey internet link, email, phone number) and posting such Fliers near publicly available computers in all City libraries, Recreation Centers, and Senior Centers.

4. Statement of Councilmember Priorities

Timeline: Written submission due by March 15th.

Requirements: City Council Members will have the opportunity to advise the Mayor and City Administrator publicly of their priorities. Each Councilmember shall submit up to seven expenditure priorities in ranked and/or weighted order for changes to the baseline budget as presented in the Five Year Forecast. Councilmember priority statements must be submitted as part of a report to be heard by the City Council and/or in a publicly available writing to the Mayor and City Administrator by March 15. In addition to the priorities, Councilmembers may also submit other suggestions, including revenue suggestions.

5. Administrator's Budget Outlook Message & Calendar Report

Timeline: Heard by City Council before April 15th.

Requirements: The City Administrator shall bring as a report to the City Council a Budget Outlook Message & Calendar no later than April 15th that provides an overview of the budget development process and lists all key dates and estimated dates of key budget events, including, but not limited to the release of the Mayor and Administrator's Proposed Budget, Community Budget Forums, Council meetings, and formal budget passage dates. This publication shall be posted on the City's website and by other means determined by the City Administrator.

6. Release of Mayor & Administrator's Proposed Budget & Fact Sheet

Timeline: Published and publicly available by May 1st. Heard by City Council and Fact Sheet distributed by May 15th.

Requirements: The Proposed Budget must be released by May 1st and shall clearly indicate any substantive changes from the current baseline budget, including all changes to service levels from the current budget. The Proposed Budget shall indicate staffing by listing the number of positions in each classification for each

Department, including a listing of each position proposed for addition or deletion. The Council shall hold a public meeting to present the Proposed Budget no later than May 15th in budget adoption years. The full proposed budget document shall be made available online from the City's website, and printed copies shall be available in all City libraries. Additionally, the proposed budget data shall be available in open data format on the City's open data portal by May 1st. Every effort should be made to thoroughly respond to any public request for departmental budget details, such as line item budgets. The requested information shall also be made available on the City's website and open data portal within a reasonable time period following the request.

The Proposed Budget must include a Budget Fact Sheet with easy-to-understand graphics and text explaining the City's overall finances, the Proposed Budget and that year's Budget Calendar. The Fact Sheet shall be published in languages required by Oakland's Equal Access Ordinance. The Fact Sheet shall be printed and made available in all City Recreation Centers and Senior Centers as well as all City libraries by May 15th or the presentation to the Council, whichever is sooner.

7. Community Budget Forums

Timeline: Between May 15th and June 10th

Requirements: The Administration and Council shall hold at least one (1) Community Budget Forum at varied times in each council district during budget development (odd-numbered years). These forums, organized by the City Administrator's Office in partnership with Councilmembers shall be scheduled so as to maximize residents' access. These forums must include sufficient time for a question and answer period that efficiently uses that time to allow maximum community participation as well as a presentation of budget facts by City staff. One or more of the forums must be scheduled in the evening. One or more of the meetings must be scheduled on the weekend. Every member of the City Council shall make their best effort to attend the forum in their council district.

These forums should be publicized both in local print media and on social media. Publicity should be linguistically and culturally appropriate for the various communities in the district within which each forum is held. City Council staff shall work with community-based, faith-based, identity-based, and district-specific organizations to ensure sufficient opportunity for a broad swath of residents that is representative of the demographics of each district to be aware of and encouraged to attend the forum.

At each forum the following information should be distributed or made available through electronic links shared on a printed card (in recognition of the paperless policy): 1) the Five-Year Forecast, 2) all PowerPoint presentation slides used at the forum, 3) the Assessment of Stakeholder Needs, Concerns and Priorities Survey, and 4) the Mayor's and Administrator's Budget Fact Sheet. Councilmembers must attend their Community Budget Forum, present their Statement of Council Priorities, and produce a link to their information at the Forum

Members of the Budget Advisory Commission shall be requested to attend at least one forum. Translators will be provided by request with forty-eight hours advance notice, per Oakland's Equal Access Ordinance. Forums shall be held in ADA accessible facilities served by public transit (BART stop, frequently running bus line, etc.). Every effort shall be made to record the meeting via video or audio.

The City Administrator shall prepare an Informational Report summarizing the Community Budget Forum process, to be heard by the City Council at its the next available budget discussion following the final forum. The summary memo shall attempt to identify key areas of public agreement and disagreement, as well as respond to the most commonly asked questions.

8. Budget Advisory Commission's Report

Timeline: June 1st

Requirements: The Budget Advisory Committee (BAC) shall be requested to submit published, written report to the full City Council regarding the proposed budget with any suggested amendments no later than June 1 in budget adoption years. If submitted, the statement shall be published as part of the next budget report to the City Council. The BAC is encouraged to provide similar statements during the mid-cycle budget revise and any other significant budget actions.

9. Council President's Proposed Budget

Timeline: June 17th

Requirements: The City Council President, on behalf of the City Council, shall prepare a proposed budget for Council consideration to be heard at a Special City Council Budget Hearing occurring before June 17th. The Council President may delegate the duty to prepare a budget proposal to another member of the Council. A costing analysis request for any proposed amendments must have been submitted to the City Administrator at least five working days prior to the Special City Council Budget Hearing. The City Council may schedule additional Special City Council Budget Hearings or Workshops as needed.

10. Council Budget Amendments

Timeline: No later than up to three days prior to final budget adoption

Requirements: In addition to the Council President's proposed budget, any Councilmember or group of Councilmembers may submit proposed budget amendments at any time during the budget process. However, the adopted budget shall not contain substantive amendments made on the floor by Councilmembers at the final meeting when the budget is adopted. All substantive amendments must have been published in the City Council agenda packet and posted on the Budget of Oakland website for at least three days prior to the budget's final adoption. This three-day noticing requirement may be waived by a vote of at least six Councilmembers upon a

finding that (1) new information impacting the budget by at least \$1 million dollars came to the attention of the body after the publication deadline making it not reasonably possible to meet the additional notice requirement and (2) the need to take immediate action on the item is required to avoid a substantial adverse impact that would occur if the action were deferred to a subsequent special or regular meeting, such as employee layoffs. Councilmembers will present their proposed amendments in an easy to understand, standard format that allows a direct comparison to the Mayor's proposed budget and to the other councilmembers' proposed amendments with a "reductions" and "additions" section. Each line item should be published and costed ahead of time, recognizing that during final budget negotiations, budget changes will be made.

Additionally, a costing analysis request for the proposed budget amendment must have been submitted to the City Administrator at least five working days prior to the budget's final adoption.

11. Process Feedback & Continual Improvement

Timeline: September 30th following budget adoption

Requirements: The Budget Advisory Commission (BAC) shall be requested to submit an Informational Report to the Council's Finance and Management Committee and the City Council containing their analysis of the budget adoption process including, but not limited to: 1) the informational quality of the Proposed Budget; 2) the City Administration's and City Council's attention to engaging the public and its impacts on the budget process and product; 3) the level of transparency and open dialogue in all public meetings dedicated to the budget; and 4) opportunities for improving the process in future years. In assessing opportunities for continually improving public participation in the budget process, the Administration, City Council and BAC shall be requested to consider the following guiding principles:

- **Inclusive Design:** The design of a public participation process includes input from appropriate local officials as well as from members of intended participant communities. Public participation is an early and integral part of issue and opportunity identification, concept development, design, and implementation of city policies, programs, and projects.
- **Authentic Intent:** A primary purpose of the public participation process is to generate public views and ideas to help shape local government action or policy.
- **Transparency:** Public participation processes are open, honest, and understandable. There is clarity and transparency about public participation process sponsorship, purpose, design, and how decision makers will use the process results.
- **Inclusiveness and Equity:** Public participation processes identify, reach out to, and encourage participation of the community in its full diversity. Processes

respect a range of values and interests and the knowledge of those involved. Historically excluded individuals and groups are included authentically in processes, activities, and decision and policymaking. Impacts, including costs and benefits, are identified and distributed fairly.

- **Informed Participation:** Participants in the process have information and/or access to expertise consistent with the work that sponsors and conveners ask them to do. Members of the public receive the information they need, and with enough lead time, to participate effectively.
- **Accessible Participation:** Public participation processes are broadly accessible in terms of location, time, and language, and support the engagement of community members with disabilities.
- **Appropriate Process:** The public participation process uses one or more engagement formats that are responsive to the needs of identified participant groups; and encourage full, authentic, effective and equitable participation consistent with process purposes. Participation processes and techniques are well-designed to appropriately fit the scope, character, and impact of a policy or project. Processes adapt to changing needs and issues as they move forward.
- **Use of Information:** The ideas, preferences, and/or recommendations contributed by community members are documented and given consideration by decision-makers. Local officials communicate decisions back to process participants and the broader public, with a description of how the public input was considered and used.
- **Building Relationships and Community Capacity:** Public participation processes invest in and develop long-term, collaborative working relationships and learning opportunities with community partners and stakeholders. This may include relationships with other temporary or ongoing community participation venues.
- **Evaluation:** Sponsors and participants evaluate each public participation process with the collected feedback and learning shared broadly and applied to future public participation efforts.

12. Ongoing Public Education

Timeline: During the months of May and June in Even-Numbered Years

Requirements: The Administration and Council shall hold at least three (3) Community Budget Education Presentations at varied times in different neighborhoods away from City Hall. The purpose of these presentations is to increase budget literacy among Oakland residents.

Consolidated Fiscal Policy

Section 1 Part C: Use of Excess RETT Revenue

RETT revenues in excess of 14% of other GPF tax revenues are to be used in prescribed manner.

At least 25% of excess RETT is required to be allocated to the Vital Services Stabilization Fund.

At least 25% of excess RETT is required to pay down debt and unfunded long-term obligations (including negative funds balances, Police and Fire Retirement System liability, other unfunded retirement and pension liabilities, unfunded paid leave liabilities and Other Post-Employment Retirement Benefits).

Balance required to go to one time expenses, Capital Fund or Emergency Reserve

FY 17-19 Budget Commentary

The excess RETT amount was approximately \$17M total in FY17-19. However, the budget document itself did not include a calculation of the excess amount, which made it difficult for interested parties to determine whether this section of the CFP was being adhered to.

Final adopted budget met this obligation. The Council resolution authorizing the budget directed the City Administrator to calculate and set aside the amount required to meet this obligation.

Final adopted budget met this obligation.

Final adopted budget met this obligation.

Consolidated Fiscal Policy

FY 17-19 Budget Commentary

Section 1 Part D & E: Use of One Time Revenue & Use of Unallocated GPF Balance

Requires that one time revenues - including unallocated GPF fund balance - be used in a specified manner, i.e., to fund one time expenditures, to pay down debt and unfunded long-term obligations (including negative funds balances, Police and Fire Retirement System liability, other unfunded retirement and pension liabilities, unfunded paid leave liabilities and Other Post-Employment Retirement Benefits), or to remain as fund balance in the appropriate fund.

Final adopted budget met this obligation.

Section 2 Part A: GPF Emergency Reserve

Requires that an Emergency Reserve equal to 7.5% of GPF appropriations be set aside each year

The Council resolution authorizing the budget directed the City Administrator to calculate and set aside the amount required to meet this obligation.

Section 2 Part B: Vital Services Stabilization Fund (Rainy Day Fund)

The City is required to maintain a Vital Services Stabilization Fund. In years where there is a projected decrease in GPF revenues or when service reductions are contemplated, use of VSSF is to be considered to preserve services.

Final adopted budget met this obligation.

Appropriating more than 60% of the VSSF in any year is prohibited.

Final adopted budget met this obligation.

Consolidated Fiscal Policy

FY 17-19 Budget Commentary

Section 2 Part C: Capital Improvements Reserve Fund

The City is required to maintain a Capital Improvements Reserve Fund with an annual balance of \$6M.

The fund balance is calculated at year end close, but the Council resolution authorizing the budget directed the City Administrator to calculate and set aside the amount required to meet this obligation.

Requires revenue from one time activities such as property sales to go into fund unless otherwise authorized by the Council.

Could not tell from budget documents whether this requirement was met.

Fund may be used for emergency repairs, maintenance of facilities or capital improvement projects that are part of the 5-year CIP.

Could not tell from budget documents whether this requirement was met.