

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 2023-25 Budget Cycle. The Report was approved by the BAC at a meeting held on Wednesday, September 13, 2023.

Overview

This report contains the BAC’s comments and recommendations related to the 2023-25 budget process of the recently concluded budget cycle. We review the effectiveness of the budget process and how well the process supports the City’s goals of addressing longer-term priorities, including incorporating community feedback provided during the budget deliberation process, and ensuring accessibility, transparency, outreach, education, and community input into the budget process overall.

Oakland’s Consolidated Fiscal Policy CFP in Section 3, Item 12 asks the BAC to create a report addressing

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 evaluating the opportunities for continually improving the public participation, the CFP indicates the BAC shall consider the following guidelines

- Inclusive design
- Authentic intent
- Transparency
- Inclusiveness and equity
- Informed participation
- Accessible participation
- Appropriate process
- Use of Information: The ideas, preferences, and/or recommendations contributed by community
- Building relationships and community capacity

- Evaluation: Evaluate each public participation process with the collected feedback and learning shared broadly and applied to future public participation requirements.

Following is a summary of our recommendations, some of which are new, and some of which are carried forward from previous BAC reports to the Mayor and Council. A more detailed discussion of each recommendation follows this summary.

OVERALL PROCESS

We believe that the process adopted by the City to inform the public of the deficit had substantial merit. We would like to commend the Administration and City Council on some of the practices that went well this year:

- Racial equity analysis: Requiring each department and the City Council to engage in a comprehensive racial equity analysis to prepare for the budget cycle and process. We recognize that this remains a new practice in the city; we are heartened to know that departments are looking at the budget through this critical lens.
- Budget information: Staff did a great job of explaining how and why the City is experiencing an historic deficit and the budget process overall.
- Budget clarifying process: One of our recommendations from previous years was to explore ways for City Council and staff to engage in the clarifying process in a more efficient manner. This year, staff worked more closely with the City Council to address questions early and City Council met with each department to review their respective budgets. In addition, staff held a public meeting with the City Council to review the budget process. These initial steps helped to increase efficiencies during the budget process.
- Five-year forecast to members of BAC: Presenting the City's five-year forecast to the members of the Budget Advisory Commission was helpful to our members and much appreciated. We have recommendations on how the city can improve the way in which this information is shared, making the materials uniform.

SUMMARY OF RECOMMENDATIONS

Informational Quality of the Proposed Budget

1. Provide a complete picture of the City's budget. We recommend broadening the information shared with the public for a more comprehensive financial picture.
2. Present budget information in a consistent form that allows comparing and contrasting of budget figures and trends.

Engaging Public Impact, Process, and Product

1. Adopt a budget schedule that prioritizes early education and outreach on the budget process and avoids excessive compression late in the budget cycle. Our biennial survey of Oakland residents found that half of the residents surveyed were unsure if the city was facing a budget shortfall or surplus.
2. Share the city's racial equity analysis related to the budget at town halls, a process that involves all city departments as well as each city council member.
3. Ensure town halls are accessible to all individuals by offering interpretation, including ASL interpreters, and translation of all materials.
4. Offer recordings of town halls for district residents who cannot attend.
5. Establish benchmarks related to the consolidation of departments to understand how these changes will influence the daily lives of Oakland's residents and present regular reports to City Council.

Transparency and Open Dialogue

1. Attach all relevant reports regarding the City's Other Post-Employment Benefits (OPEB) demonstrating whether or not the City is complying with the contribution policy in the Budget Book.
2. While OPD overtime spending now has a reporting process, corrective actions will need to be more rigorous. The adopted budget harvests savings from OPD vacancies which have covered overtime overruns in the past.
3. The budget is an expression of the City's collective priorities. We have an open process that encourages City residents to participate in the budget process to hear all voices and ensure full participation. Residents would be better served by being informed of City Council expenditure priorities along with revenue streams for each priority.

Improving Process for the Future

1. Continue to improve community budget engagement, including offering accommodations for non-English speaking and hearing-impaired residents in all districts.

Community Input to the Budget Process

The BAC surveyed Oaklanders before the budget process started to understand the priorities of residents. These findings were reported to the City Council earlier this year, and include the following top items:

- The majority (54%) of those surveyed said they feel that the city is a good place to live; however, this is down five points compared to the last budget survey.

- Just under two-thirds (63%) of Oaklanders disapprove of the city’s job in providing services. This is a jump of 11 points compared to the last budget survey.
- Half of those who responded (50%) shared that their top priority is homelessness or housing for the city’s budget.

These responses reflect the comments and reactions we heard from the public in the town hall meetings, as well as the City Council meetings.

RECOMMENDATIONS

Informational quality of budget

1.1 Provide a complete picture of the city’s budget.

Oakland is experiencing an historic budget deficit of \$360 million over the two-year 2023-2025 budget cycle and \$758 million projected over 5 years. This was a significant public concern and the primary driver for major department consolidations proposed in the Mayor's budget.

The city’s budget presentation used in the town halls attributed the deficit to two factors: “loss of federal pandemic funding, and a reduction in revenue generated from the real estate transfer tax, and transient occupancy tax.” (See image below.)

The City’s Budget Presentation for Town Halls attributes the historic deficit to loss of one-time COVID funds, and revenue shortfall-

Information Quality of the Proposed Budget: Authentic Intent and Transparency

The City of Oakland is facing the largest budget deficit in its history. The projected shortfall of approximately \$360 million over the next two fiscal years is a result of two factors: the loss of federal pandemic funding and a reduction in revenue generated from the real estate transfer tax and transient occupancy tax.

The graph in the city’s report shows overall Revenue growth is actually expected to continue- though the rate of growth is expected to level off in the short term

The city authorized substantial increases in expenditures through MOU’s approved in July 22. RPA funds had provided one time funding for short term COVID impacts, but have since expired as expected. Increased expense levels now contribute a significant portion of the deficit.

Source: Adapted from the City of Oakland, Budget Basics presentation

However, an analysis of the city’s 5-year revenue projections shows that shortfalls in the categories of real estate transfer tax and transient occupancy tax are projected to fall short by about \$300 million dollars over 5 years; in other words, about 40% of the 5-year \$758 million deficit.

Addendum: Analysis of \$758M 5 Year Deficit: Only \$300M shortfall in ongoing revenue



Prior to starting the FY 23-24 budget process, decisions were made by the City that have contributed to the budget deficit, including negotiating labor union contracts prior to their expiration dates and the use of one-time funding for ongoing expenses. We recommend that all factors be shared with the public about the budget. Transparency would be increased were the City to share all the information that contributes to a budget's deficit and surplus. Community members are better served with more information in which to be able to draw their own conclusions about the City's budget process.

Especially of concern was that during the past fiscal year, city leadership chose to reopen the OPOA contract to give wage increases to the police when the contract was nowhere near expiration. This was done in a way that both avoided public input and impacted the city budget for future years, including the FY 23-25 cycle. The BAC recommends that all summaries of tentative agreements be publicly posted in advance of a vote by City Council.

Impact on Authentic Intent, Transparency, Equity

Decisions on the largest budget components, were made prior to the budget process and avoided public input, equity and race consideration, and contributed to the 2023-2025 budget deficit

The Budget Process as defined by the CFP and described in the city budget presentation

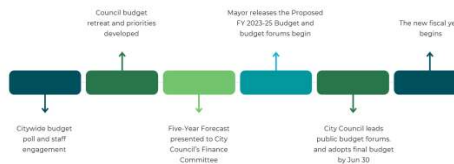
Prior to the Budget Process

Prior to the planned Budget process, in actions completed in July 2022, the city reopened the OPD and OFD contracts to give wage increases to both police and fire when the contracts were nowhere near expiration. This was done in a way that both avoided CFP processes including those for public input and consideration of equity. This contributed to the largest deficit in the history of the city, and thus impacted the city budget for future years, including the FY 23-25 cycle. OFD and OPD are by far, the largest components of the city budget.

MOU's

Budget Process

Community and Council priorities, public engagement, and input from City staff inform the proposed budget that the Mayor and City Administrator present to City Council. The Council then hosts public deliberations and ultimately adopts the final budget.



Source: Adapted from the City of Oakland, Budget Basics presentation

2.1 Present budget information in a consistent form that allows comparing and contrasting of budget figures and trends.

While the five-year forecast information shared with the Budget Advisory Commission proved useful, it would be more helpful if the information were presented in a consistent format. One example: The historical revenue information (trends back to FY 2000) were provided in graphical and not tabular data form. However, on the expense side, data was provided in tabular form with numbers listed, but do not go back in time far enough to analyze recent labor cost increases. This inconsistency creates a challenge when interpreting past trends and future projections. We recommend that materials presented be consistent in format and whenever possible.

Engaging Public Impact Process and Product

1.1 Adopt a budget schedule that prioritizes education and outreach to City residents.

The City's current budget timeline gives the public little time to become familiar with the budget process, including understanding the budget and identifying how and when to provide input to the City on the budget.

We believe that it would be in the City's best interest to begin the educational process around the budget earlier in the year. We recommend that staff present information on the budget process (dates for town halls, decision-making deadlines, historical budget information, General Fund expenditures and revenues vs. specific funds, how revenue is generated) at the beginning of the year, prior to the Mayor's budget release, to prepare residents for the budget deliberations. This would relieve pressure related to the budget decision-making and create space for individuals and City leaders to understand more deeply how the budget process works and a timetable that gives residents more time to absorb information and share their priorities and perspectives related to the budget.

2.1 Share the City's racial equity analysis related to the budget at town halls, a process that involves all City departments as well as each City Council member.

We support the efforts to analyze the City's budget through a racial equity lens, a process that involves all City departments and City Council. We recommend that the City's residents be informed of this process so that they fully understand the internal workings of each department in relation to the budget. We understand that the City of Oakland is asked to share its racial

equity process with other cities in the country, but our own residents are not aware of this important work.

2.2 We recommend that the City provide analysis on which communities are carrying the greatest burden when it comes to paying for services. For example, are our revenue sources placing an undue burden on the City's lowest income residents, and if so, how does the City plan to address this discrepancy? We would also like to see regular reports to update residents on the City's progress towards its racial equity goals.

3.1 Ensure town halls are accessible to all individuals by offering interpretation, including ASL interpreters, and translation of all materials.

We observed one town hall that had interpretation available, but no ASL. We believe that if residents know that there will be interpretation and translated materials available as a default, a more diverse sample of the city will attend and participate in the budget town halls. We would like to see translated materials on the website so that all our residents can be fully informed of the budget and the process to adopt a budget.

4.1 Offer recordings of town halls for district residents who cannot attend.

Make these video recordings easily available to residents. We found two video recordings of town halls; one recording was so poor that it was difficult to hear any information presented and the other was edited to cut out half of the Q&A portion of the meeting. We recommend recording all the town halls and making them higher quality so they can be viewed by residents and prove useful.

5.1. Report on how consolidation of departments impacts residents.

We recommend careful management of the consolidation of departments. It would be helpful to develop criteria to measure the success of department consolidation and provide regular updates on progress to City Council. BAC is especially concerned about how consolidation will impact the City's residents. Already, the Commission has heard from members of the public that are concerned with consolidation; they cite previous experiences with service mergers (i.e., vegetation management from OFD to OPW). Residents shared that institutional knowledge gained by decades of interaction between many community groups and OFD were lost in the transition, resulting in a great deal of confusion across the city about the scope of parcel clearance.

Transparency and Open Dialogue

1.1 Attach all relevant reports regarding the City's Other Post-Employment Benefits (OPEB) liability to the budget. Note whether or not the city is complying with the stated OPEB contribution in the Budget Book. This is a recommendation that BAC offered the City last year and continues to be of concern.

2.1 While OPD overtime spending now has a reporting process, corrective actions will need to be more rigorous because the adopted budget assumes savings from vacancies.

The adopted budget assumes savings from OPD vacant positions making it critical to manage police overtime. In the past, savings from OPD vacancies have offset OPD overtime exceedances. But, this is no longer possible since OPD vacancy savings have already been assumed in the budget. We recommend careful management of OPD overtime to not contribute further to our budget deficit.

3.1 The budget is an expression of the City's collective priorities. We have an open process that encourages City residents to participate in the budget process to hear all voices and ensure full participation.

Residents are asked to provide input on expenditures related to the General Fund, not the City's total budget. We recommend staff be clear about this portion of our budget. It makes up about 40% of the total budget while the other half is comprised of revenue and expenditures tied to specific services and projects and cannot be used for anything outside of the original intention.

The City Council meetings related to the budget made the budget process more transparent to community members. The Budget Advisory Commission encourages Councilmembers to demonstrate their desired budget appropriations or allocations through visual and numerical breakouts, using the Mayor's proposed budget as reference. We also recommend that each expenditure priority is accompanied by how that expenditure will be covered, i.e., from which fund or revenue source. We believe this will add greater transparency to the budget process.