

TO: City Council
FROM: Oakland Budget Advisory Commission
SUBJECT: Recommendations for FY 24-25 Mid-Cycle Budget
DATE: June 9, 2024

The Oakland Budget Advisory Commission (BAC) has prepared the attached presentation outlining our recommendations in response to the Mayor's proposed FY 24-25 Mid-Cycle Budget. We recognize that the City is still recovering from the economic effects of COVID-19 while federal pandemic relief funds are winding down.

The BAC offers three recommendations. We were heartened to hear during the May 28, 2024 Budget Town Hall that members of the City Council Finance and Management Committee and the City's Finance Department largely seem aligned with these recommendations.

Recommendation #1

The City and Council should spend the next year identifying evidence-based adjustments to structurally balance the budget by: 1) examining both revenue and expenditures; and 2) learning from experiences of other similar cities in California.

The Mayor intends to spend \$1M on the City's performance management and strategic planning efforts to create a structurally balanced budget that is equitable and mitigates impact of service changes. The BAC recommends using that investment and the additional 4-month budget preparation time to examine where cost reductions would have no to minimal service impact and tangible ways to grow revenue streams equitably. Oakland should seek to learn from the experiences of similar cities in California.

Recommendation #2

Structural budget adjustments should come with clear communication of estimated effect on public priorities: reducing homelessness and improving public safety.

The current Service Output Measures and Equitable Service Delivery Success Standards departments have for each service do not provide insight on the efficacy of the services. We recommend budget priorities made for the FY 25-27 cycle be grounded in evidence on outcome measures, as appropriate, to enable accountability in spending public funds wisely.

Recommendation #3

Oakland should break its habit of waiving limits in the Consolidated Fiscal Policy, establish more discipline in replenishing emergency funds, and be more transparent on the budget's effect on the City's fiscal health.

For example, the budget could come with a "nutrition facts" label that summarizes the budget's effect on the city's fiscal health, with clearly linked and accessible detail.

Recommendations for FY 24-25 Mid-Cycle Budget

Oakland, CA Budget Advisory Commission (BAC)
June 9, 2024



Executive Summary

BAC Budget Analysis

This budget cycle repeats a pattern we've seen for years:

- We start the cycle in a difficult position, using hard-to-justify assumptions (e.g., carryovers) to 'balance' the budget.
- The assumptions do not become reality and we struggle with shortfalls.
- We rely on one-time 'windfalls' as a stopgap.

Oakland now has a structural deficit of over \$100M.

Going into the FY 24-25, we have \$0 in our "rainy day" Vital Services Stabilization Fund reserve. The proposed FY 24-25 budget of \$2.23B assumes \$20.5M growth in a volatile revenue source ([RETT](#)) relative to [projected FY 23-24 actuals](#). In addition, balancing the General Purpose Fund depends on [\\$64M](#) in miscellaneous one-time revenue contributions, \$63M from the Coliseum sale – a one-time windfall.

Recommendation #1

The City and Council should spend the next year identifying evidence-based adjustments to structurally balance the budget by: 1) examining both revenue and expenditures; and 2) learning from experiences of other similar cities in California.

Recommendation #2

Structural budget adjustments should come with clear communication of estimated effect on public priorities: reducing homelessness and improving public safety.

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Oakland should break its habit of waiving limits in the Consolidated Fiscal Policy, establish more discipline in replenishing emergency funds, and be more transparent on the budget's effect on the City's fiscal health

Recommendation #1

The City and Council should spend the next year identifying evidence-based adjustments to structurally balance the budget by: 1) examining both revenue and expenditures; and 2) learning from experiences of other similar cities in California

Since 2019, Oakland has overridden [Consolidated Fiscal Policy \(CFP\)](#) limits on use of one-time revenue or excess RETT for ongoing expenses.

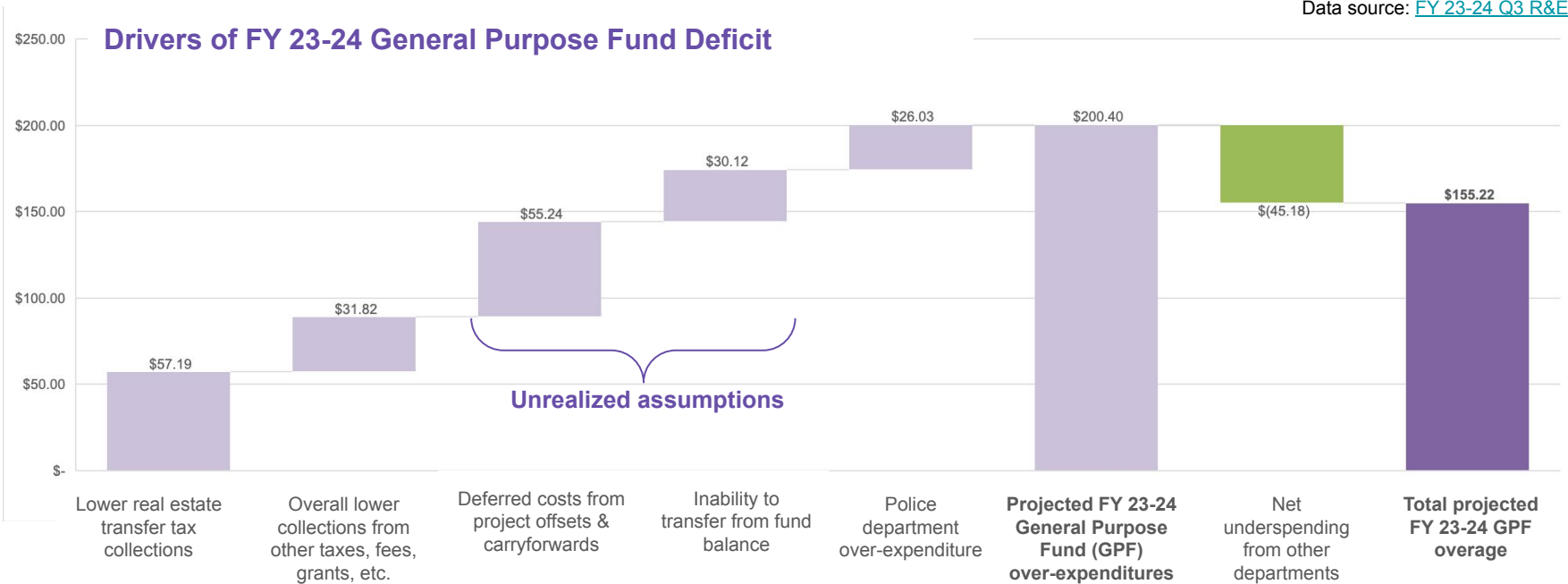
The City has used excess Real Estate Transfer Tax (RETT), Coronavirus Aid, Relief, and Economic Security Act (CARES), and American Rescue Plan Act (ARPA) one-time funds to maintain services post-COVID. CARES funds ended in 2020 and ARPA funds run out Dec 31, 2024.

post-COVID

Adopted Budget	Adhered to Section 1, Part C? <i>Excess RETT should be used for reserves, retiring debt, and funding unfunded long-term obligations</i>	Adhered to Section 1, Part D? <i>Unrestricted one-time revenues should be used for one-time expenses</i>
FY 17-18	✓ Replenished reserves, paid down liabilities	✓ Funded one-time expenses, paid down liabilities
FY 18-19	✓ Replenished reserves, paid down liabilities	✓ Funded one-time expenses, paid down liabilities
FY 19-20	✓ Replenished reserves, paid down liabilities	✗ Waived for parks and paramedics
FY 20-21	● N/A - no excess RETT	✗ Waived for parks and paramedics
FY 21-22	✗ Used for ongoing expenses	✗ Waived for libraries, parks, fire, youth, other funds
FY 22-23	✗ Used for ongoing expenses	✗ Waived for libraries, parks, fire, youth, other funds
FY 23-24	● N/A - no excess RETT	✗ Waived for libraries, parks, fire, youth, other funds
FY 24-25* <i>proposed</i>	● N/A - no excess RETT	✗ Requesting waiver; “accompanying resolution” explaining why could not be found on budget website

Since FY 21-22*, Oakland has also depended on meaningful amounts of assumed fund transfers and carryforwards to balance the budget.

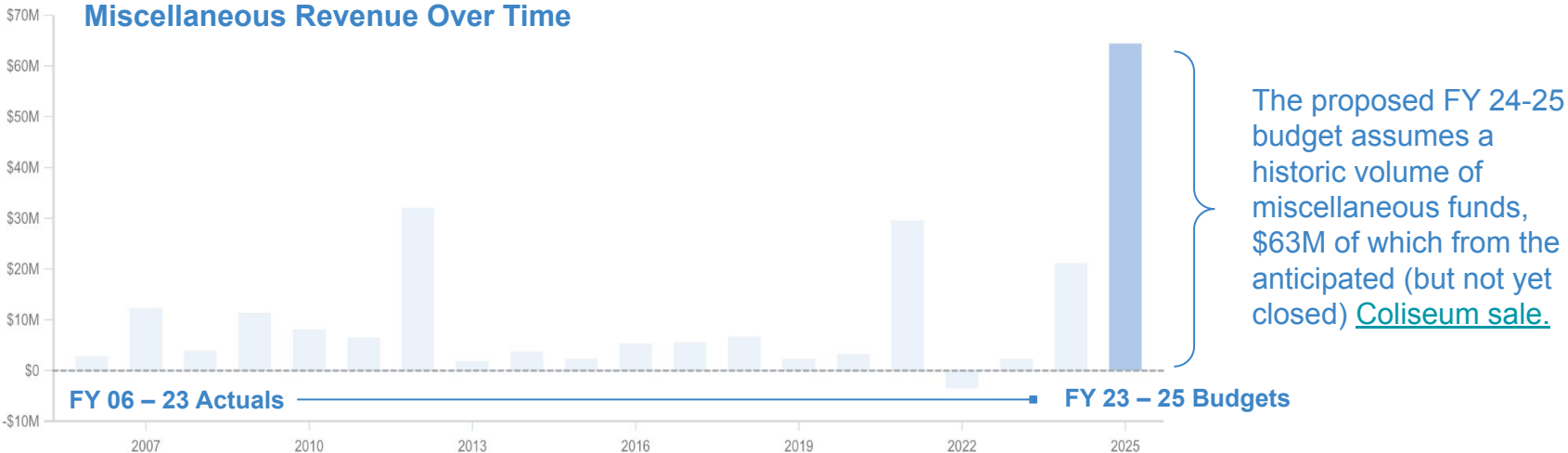
These unrealized assumptions account for \$85M in FY 23-24, which is 55% of the current FY 23-34 General Purpose Fund (GPF) shortfall.



* Data source: [R&E reports](#)

The proposed FY 24-25 mid-cycle budget continues these unsustainable practices, with miscellaneous one-time funds expected to cover \$64M, or 7% of the proposed \$898M General Purpose Fund.

As a reference point, in the current FY 23-24 budget year, we are still trying to close a 19% GFP shortfall.



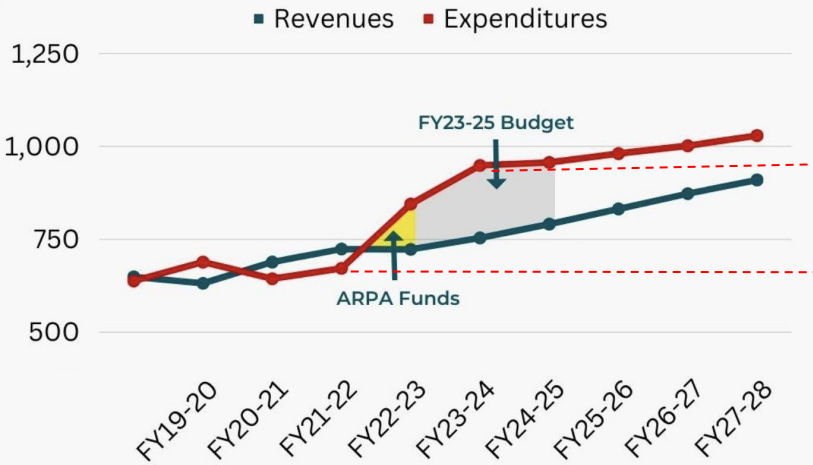
Data source: [FY 24-25 Proposed Policy Budget](#)

Oakland has also significantly increased ongoing expenses in the last two fiscal years, exceeding approved budgets as a result.

Combined with the revenue shortfalls, Oakland now has a structural deficit of over \$100M.

General Purpose Fund

FY 19-22 Actuals and FY 23-28 Forecast (\$)



As shared in the [FY 23-25 Budget Community Forums presentations held in June 2023](#), ongoing General Purpose Fund expenses jumped in FY 22-23 and again in FY 23-24. A big driver is [city leadership's choice to open the Oakland Police Officers contract](#) when it was nowhere near expiration, granting wage increases to the police.

Graph source: [FY 23-25 Budget Community Forums PPT](#)

BAC Recommendation: City and Council should spend the next year of “bought time” to identify evidence-based adjustments to structurally balance the FY25-27 biennial budget.

The Mayor intends to spend \$1M on the City’s performance management and strategic planning efforts to create a structurally balanced budget that is equitable and mitigates impact of service changes. The BAC recommends using that investment and the additional 4-month budget preparation time to examine:

How to grow revenue streams

- How can Oakland attract more businesses, including local businesses, to increase more stable revenue streams?
- How can Oakland attract more residents to increase local consumption?

Where cost reductions would have no to minimal service impact

- Which programs have little to no evidence suggesting positive impact?
- What business process improvements can be made to measurably reduce cost for operations?



BAC Recommendation: Oakland should seek to learn from the experiences of similar cities in California.

The BAC recommends examining practices of and benchmarking against cities with similar population size, diversity, and community priorities (e.g. reducing homelessness, improving public safety).

Example benchmarking cities

- Fresno (545K)
- Long Beach (449K)
- Bakersfield (413K)
- Stockton (319K)
- Fremont (226K)
- Hayward (155K)

Recommendation #2

Structural budget adjustments should come with clear communication of estimated effect on public priorities: reducing homelessness and improving public safety

In the [2022 City of Oakland Budget Priorities Survey](#), the most frequently named issues residents said to prioritize in the budget were reducing homelessness and improving public safety.

Reducing Homelessness

- 36% of polled residents named reducing homelessness as their first priority.
- The proposed FY 24-25 budget [adds a net \\$21M and 8 FTE](#) for housing security and homelessness solutions.

Improving Public Safety

- 18% of polled residents indicated improving public safety as their first priority.
- The proposed FY 24-25 budget [adds 11 FTE](#) to the Department of Violence Prevention

BAC Recommendation: As the City and Council identify structural fixes to balance the budget from FY 25-26 onward, they should clearly communicate the estimated effect on reducing homelessness and improving public safety.

The current budget lists the Service Output Measures and Equitable Service Delivery Success Standards departments have for each service (example: [Department of Violence Prevention information](#)). These measures do not provide insight on the efficacy of the services.

Examples of how service efficacy can be determined and communicated →

- Define outcome measures, as appropriate, to enable accountability in spending public funds wisely
- Analyze effect on key outcome measures through methods such as: randomized control trials (when practical and ethical); difference-in-difference analysis; or regression analysis
- Cite research published by similar programs run in other municipalities

Recommendation #3

Oakland should break its habit of waiving limits in the Consolidated Fiscal Policy, establish more discipline in replenishing emergency funds, and be more transparent on the budget's effect on the City's fiscal health

Oakland's Consolidated Fiscal Policy requires exceptions to use of RETT and one-time funds be authorized by City Council resolution.

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 as any amount of projected RETT revenues that exceed 15% of General Purpose Fund Tax Revenues (inclusive of RETT).
2. The excess Real Estate Transfer Tax, 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 total General Purpose Fund revenues over the coming fiscal year; and
 - b. At least 25% shall be used to fund debt retirement and unfunded long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post-Employment Benefits (OPEB) unfunded liabilities; and
 - c. The remainder shall be used to fund one-time expenses or to augment reserves.
3. **Use of the excess RETT revenues for purposes other than those established in this section must be authorized by City Council resolution.** The resolution shall explain the need for using excess RETT revenues for purposes other than those established in this section. The resolution shall also include steps the City will take to return to using excess RETT revenues pursuant to this section.
4. Following the completion of the annual audit, excess RETT revenues will be analyzed to determine whether the transfers to the Vital Services Stabilization Fund or expenditures to fund debt retirement and unfunded long-term obligations were sufficient. If insufficient funds were transferred, a true-up payment shall be made in the next fiscal year. If the transfers exceed the actual requirement, the amounts in excess may be credited against allocations in the next fiscal year.

Part D. Use of One-Time Revenues

1. One-time revenues are defined as resources that the City cannot reasonably expect to receive on an ongoing basis, such as proceeds from asset sales and debt refinancing. This part shall not apply to the use of excess RETT revenues pursuant to Section 1. Part C.
2. Fiscal prudence requires that any unrestricted one-time revenues be used for one-time expenses. Therefore, one-time revenues shall be used in the following manner, unless they are legally restricted to other purposes: to fund one-time expenditures, to fund debt retirement and unfunded long-term obligations such as negative fund balances, Police and Fire Retirement System (PFRS) unfunded liabilities, CalPERS pension unfunded liabilities, paid leave unfunded liabilities, and Other Post-Employment Benefits (OPEB) unfunded liabilities; or shall remain as fund balance.
- 3.

Exhibit 1

3. **Use of one-time revenues for purposes other than those established in in this section must be authorized by City Council resolution.** The resolution shall explain the need for using one-time revenues for purposes other than those established in this section. The resolution shall also include steps the City will take to return to using one-time revenues pursuant to this section.

This requirement is inadequate, leaving much room for improvement on budget transparency.

Reason #1: “Accompanying” resolutions are difficult to find

For example, the proposed [FY 24-25 budget states](#) “*The resolution accompanying the Budget contains the necessary explanations for the need to use one-time revenues for purposes other than those established in the CFP.*” **This resolution is not linked to in the budget and the Budget Advisory Council was not able to find the resolution when searching any of the recent or future agendas for City Council or the Finance & Management Committee on Legistar.**

Reason #2: One-time revenue streams are not clearly identified in the budget

Oakland’s budgets have not clearly distinguished one-time vs. ongoing revenues and expenses since [FY 20-21 budget](#). Furthermore, the detailed budget data are not available on Oakland’s open data portal and CSV exports from the budget book only provide aggregate summaries. As a result, it is difficult and time-consuming to discern the dependency of the proposed budget on one-time revenue streams and other uncertain assumptions.

BAC Recommendation: Oakland should break its habit of waiving limits in the Consolidated Fiscal Policy, establish more discipline in replenishing emergency funds, and be more transparent on the budget’s effect on the City’s fiscal health.

For example, the budget could come with a “nutrition facts” label. Illustrative design:

Nutrition Facts	
Total budget	\$X.XXB
<hr/>	
GFP budget	
Amount added to reserves	
Number of major assumptions	
<hr/>	
% ongoing expenses funded by one-time sources	
\$ from offsets and carryforwards	
<hr/>	
CFP RETT limit waived?	
CFP one-time use limits waived?	
Reserves used?	

The thought process for how **much funding is being allocated to reserves** should be explained in the budget, including a trade-off analysis of (re)building a rainy-day fund, deferring maintenance, and continuing services.

High-impact assumptions affecting the budget should be outlined in a single page within the budget book for easy reference and scrutiny. These assumptions include asset sales, policy changes, balance fund use, and growth in volatile revenue sources like RETT.

Budgets should clearly **distinguish one-time vs. ongoing revenue sources and expenditures**. For each case City Council overrides CFP policy of not using one-time funding to support continuing cost commitments, the budget should include a clear statement of the reasons for doing so, describe where the ongoing funding is expected to come from, and what the contingency plan is if that funding source does not come through.

Reasons for waivers / suspensions of Consolidated Fiscal Policy terms should be summarized directly within proposed and adopted budget books, with hyperlinks to accompanying resolutions.

Appendix A

BAC FY24-25 Ad Hoc Workgroup Focus Areas

Over the next fiscal year, the BAC will take the following actions to prepare targeted recommendations to City Council (1/3)

Ad Hoc Committee	Key Actions
Community engagement	Explore strategies to strengthen community engagement and promote trust by residents in the city's budget processes
Houselessness	<ol style="list-style-type: none"><li data-bbox="620 576 1634 656">1. Identify which programs designed to prevent and reduce houselessness have the highest return on investment<li data-bbox="620 710 1692 882">2. Identify potential funding sources and partnerships with community organizations, non-profits, state and federal government funding, and private donors that are invested in addressing the houselessness crisis

Over the next fiscal year, the BAC will take the following actions to prepare targeted recommendations to City Council (2/3)

Ad Hoc Committee	Key Actions
Economic and workforce development	<ol style="list-style-type: none"><li data-bbox="450 452 1740 576">1. Work with Oakland Economic Development staff to identify and support initiatives to promote revenue growth through growing businesses and jobs in Oakland.<li data-bbox="450 634 1798 716">2. Work with Oakland Chamber of Commerce to identify and support initiatives to promote revenue growth through growing businesses and jobs in Oakland.<li data-bbox="450 768 1798 850">3. Promote a positive image of Oakland as a great place to eat, stay and play, for example to increase hotel occupancy tax revenues.<li data-bbox="450 903 1760 984">4. Focus on collections for the new Oakland business tax, especially for large businesses, to gather the estimated \$50 million in outstanding annual revenue.

Over the next fiscal year, the BAC will take the following actions to prepare targeted recommendations to City Council (3/3)

Ad Hoc Committee	Key Actions
Public safety	<ol style="list-style-type: none">1. Promote fiscal and overtime management as factors for selection of the Oakland Police Department Chief and assessment of their performance.2. Gather objective data on what investments, policies, and conditions have the strongest correlation with crime reduction in Oakland, including:<ul style="list-style-type: none">● Public Safety Ambassadors● Ceasefire program● Employment/unemployment rate● Economic development● Income disparity● Number of OPD officers● Impact of “Patrol Draw” policy on effectively assigning resources to the shifts and locations w the most crime3. Examine long-term approaches to consolidate county ambulance services with Oakland’s Fire Department’s non-fire emergency response as other cities have effectively done.