

CITY OF OAKLAND

BUDGET ADVISORY COMMISSION

Notice is hereby given that a **regular meeting** of the City of Oakland Budget Advisory Commission (BAC) is scheduled for **Wednesday, March 13, 2019** at **6:00 pm** In the **Hearing Room 4, City Hall, 2nd Floor**, at 1 Frank Ogawa Plaza.

Commission Members:

Lori Andrus, Ken Benson, Ed Gerber, Geoffrey Johnson,
Vincent Leung, Kasheica Mckinney, Caitlin Prendiville, Darin Ranahan,
Brenda Roberts, Noelle Simmons, Adam Van de Water, & Danny Wan

City's Representative:

Brad Johnson – *Finance Department*

Meeting Agenda:

1. Administrative Matters
 - i. Welcome & Attendance
2. Update from Noelle on Negative Funds. [20 minutes]
3. Discussion regarding Past BAC Reports and Recommendations and Division of Future Work among BAC members [60 minutes]
4. Preliminary Calendaring of May Special BAC Meetings [15 minutes]
5. Open Forum
6. Discussion of Next Meeting Dates and Subjects
7. Adjournment

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.**

- 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 role 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

- 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.

- *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.*

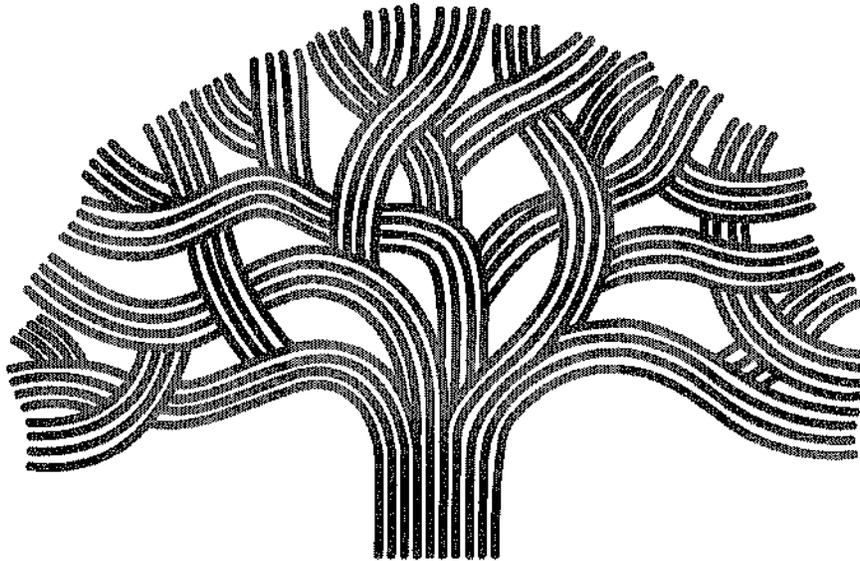
CIP Recommendation #6: Consider a programmatic approach to project selection so that projects taken as a whole or by category (Housing, Facilities or Streets) can meet the City’s goals even if not every individual project does.

- *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

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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

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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

FY 17-19 Budget Commentary

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.

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.

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

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.

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).

Final adopted budget met this obligation.

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

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.

TO: HONORABLE MAYOR & CITY COUNCIL

FROM: The Budget Advisory Commission

SUBJECT: Report on the Mayor's Proposed FY 2017-19 Budget

DATE: May 31, 2017

Pursuant to the Consolidated Fiscal Policy (13279 C.M.S.), the Budget Advisory Commission submits this Report on the Mayor's Proposed FY 2017-19 Budget. The Report was unanimously approved by the BAC at a Special Meeting on May 31, 2017.

BUDGET ADVISORY COMMISSION REPORT

The City's Consolidated Fiscal Policy (13279 C.M.S.) states that the Budget Advisory Commission (BAC) "shall be requested to submit a published, written report to the full City Council regarding the proposed budget with any suggested amendments no later than June 1 in the budget adoption years."

The Mayor's April 28, 2017 transmittal presenting the FY 2017-19 proposed budget states that the primary goal this cycle is to prevent cuts in services, invest in staffing to meet urgent challenges, and improve financial stability.

This report is divided into two parts.

- The BAC provides comments and recommendations to the proposed budget as relates to our three areas of focus for Oakland: 1) strengthening our City's fiscal health; 2) increasing public engagement in the budget process; and 3) improving fiscal transparency and accountability.
- Attachment 1 is a schedule showing the City Administration and Council's progress towards following prior Budget Advisory Commission recommendations.

Goal #1: Strengthening Our City's Fiscal Health

The Proposed FY 17-19 budget is submitted by the Mayor to the City Council and should provide guidance on how to achieve fiscal stability and improve the sustainability of service delivery. The BAC acknowledges progress in several areas, including the reduction in negative fund balances, the reduced reliance on one-time funds to support ongoing expenditures, and the maintenance of the Emergency Reserve Fund at an amount equal to 7.5% of General Purpose Fund (GPF) appropriations, as required by the Consolidated Fiscal Policy (CFP). Room for further improvement exists in other areas noted below.

- **The BAC recommends (1) that the City refrain from funding ongoing services with one-time funding sources, and (2) that the City make statutorily mandated deposits of excess real estate transfer tax (RETT) revenues into the Vital Services Stabilization Fund (VSSF), as indicated in the Council-adopted Consolidated Fiscal Policy (CFP).** 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. The proposed budget falls short in this regard.
 - First, while reliance on one-time funding to support ongoing services has been reduced, the budget continues this practice (examples from the Mayor's budget include, funding the ASSETS program and park maintenance using one-time revenues) even as it reduces existing services (examples from the Mayor's budget include the Shotspotter program, Eastmont Child Development Center, WIOA programs) that cannot be sustained due to exhaustion of the one-time funding sources that paid for them in the current year.
 - Second, the proposed budget does not adhere to Section 1, Part C of the CFP, which calls for 25% of excess RETT (calculated to total \$17.2M) to be transferred to the VSSF. The Mayor proposes to suspend the transfer of \$4.3M in excess RETT to the VSSF "in order to preserve critical services". While the use of VSSF funds to preserve services is allowable under Section 2, Part B(2) of the CFP, it is fiscally imprudent. The intent of the two CFP sections referenced above are to provide protection against a time when revenues drop due to circumstances beyond the control of the City of Oakland, to take advantage of the good times to protect against the bad. The FY16-17 3rd Quarter Revenue & Expenditures Report notes that the current year set-aside and reserve amounts are equivalent to approximately one month of (GPF) operating expenditures, as compared to the recommended standard of two months (Government Finance Officers Association).
 - Third, assure that adequate funds (i.e., at minimum \$6M) are held in the Capital Improvements Reserve Fund per CSF Section 2, Part C. At the time of budget publication, the reserve fund balance was still being analyzed.
 - Finally, provide a reference table in the Budget document that summarizes the extent to which the proposed budget 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.
- **The BAC recommends a major effort to adopt a policy to reduce unfunded liabilities.** As of July 1, 2016, Oakland's total unfunded liability is close to \$2.6 billion. This 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) for Other Post-Employment Benefits (OPEB). However, the unfunded liability is immense and Oakland does not have a long-term plan to solve this problem. As the budget states, "We must find an ongoing funding solution to meet our ARC (Actuarially Required Contribution) payments, so future required contributions do not paralyze the City's operations." (p. 4).

- **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:
 - The Mayor has set aside Measure HH revenues pending the recommendations of the Measure HH Advisory Committee and further Council action. In assessing the Advisory Committee's recommendations, 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.

- **The BAC recommends that appropriations for overtime be clearly listed in the Budget.** The FY 16-17 3rd Quarter Revenue & Expenditure Report revealed that current year expenditures on overtime (\$54.07M) are projected to exceed the budgeted amount (\$33.22M) by 63 percent. The budget document does not include departmental line items for overtime, making it difficult to assess whether the proposed budget reflects reasonable assumptions regarding its use.

Goal #2: Increasing Public Engagement in the Budget Process

The FY15-17 budget process saw deeper and wider efforts to engage the public with the budget process. This effort continues in the FY17-19 budget process as illustrated by open data portal and the numerous public meetings by the Mayor and City Council. These recommendations are intended to further increase the ability of residents and stakeholders of Oakland to have meaningful participation in helping to shape the budget. These recommendations are based on review of the public outreach process from the April 28, 2017 release of the Mayor's Proposed Budget through May 17, 2017, including five community budget forums.

While we recognize that each Budget Forum will be unique and directed by each Councilmember's desires, common elements we would like to see at each Budget Forum include:

Budget Basics and Budget Trends and Comparisons

- At some meetings there was a helpful primer on how government budgeting works in California, including issues specific to Oakland, e.g., Oakland's two-year budget cycle, the difference between the general fund and restricted funds, unfunded liabilities, what responsibilities belong to Alameda County, etc. **The BAC urges City staff to include similar presentations at every community budget forum**, as a basic understanding of the process would enhance community members' ability to engage with the budget process. The Mayor's multi-colored "Budget Facts 2017" handout is a good example of how to communicate budget priorities in top-level manner that is easy to understand, but was not available at all forums.
- A repeated concern of attendees was a desire to understand budget trajectories over time, as well as how our budget compares to similarly situated cities in California. **The BAC urges staff to make such trends and comparisons available** in either handouts shared at the forums or in the PowerPoint presentation itself, or refer the audience to where that information can be found.

Council Priorities

- The priorities of attending Councilmembers were difficult, or, in some cases, impossible, to determine at the community budget forums. The BAC encourages the Council to bring handouts and/or prepare presentations to discuss their budget priorities, including changes they intend to propose to the Mayor's proposed budget. **Councilmember priorities should be posted on the budget website and contained within the budget document.**

Community Input

- The forums this budget cycle allowed significant time for resident and constituent input, an improvement over the last budget cycle. However, there was no clear method for community members to express their feedback on budget priorities, aside from an open mic at each forum. **The BAC urges City Council and City staff to clearly communicate how community members may provide feedback on the budget**, whether through an online poll, cards to be filled out by attendees, or other means. Similarly, there was no clear communication from City staff regarding what the follow-up would be to public input.

Ground Rules and Timekeeper

- **The BAC urges staff to clearly communicate ground rules** for the open mic portion of each meeting, including time limits, and to gently enforce such ground rules. For time-limited meetings with large numbers of attendees, such as the District 1 meeting, certain speakers took a disproportionate amount of the limited time for comment, to the detriment of other participants. One suggestion that could be considered for future forums would be to recruit a community member to serve as timekeeper.

In addition, we recommend consideration of the following:

Publicity

- There were two more public budget forums than the previous two-year budget process. We see this as a move in a positive direction and hope City Staff and the City Council work on increasing public forums and public participation.
- Publicity of community budget forums should be an area of greater focus for City staff in future budget cycles. In the Budget Advisory Committee's May 26, 2015 report on the 2015-17 budget cycle, we recommended "Even More Outreach and Communication on the Budget Forums, involving extensive social media outreach and a network of partner organizations with bases, to help spread the word about the range of opportunities to participate." In the 2017-19 budget cycle, the sort of sustained, focused outreach necessary to publicize these forums did not take place. For example, to the BAC's knowledge, City Council and staff made little utilization of Facebook, Eventbrite, Nextdoor, or other commonly used methods for publicizing events. These services have the added advantage of allowing City staff to assess likely turnout and adjust the location as necessary.
- Designating clear, publicly disclosed lines of responsibility for organizing these meetings would lend itself to greater transparency in the process. The BAC does not present any recommendation as to who should bear ultimate responsibility, but suggests consideration of both the practical efficiencies of centralizing organization in a single staff member and the independent role of City Councilmembers in setting the City budget under the City Charter.
- Publicity and siting efforts should encourage attendance that is as representative of the forums' respective district demographics as possible, with additional outreach to traditionally unrepresented and marginalized populations as necessary.

Location

- The forums took place at various community centers and religious facilities spread throughout Oakland. However, there was no advertised method for determining last-minute location changes. For example, the May 8, 2017 meeting changed locations, but there was no set method for advertising the change, short of showing up at the meeting and being redirected elsewhere.
- Select forums locations that are accessible to all with easy access to public transportation.

Goal 3: Improving Fiscal Transparency & Accountability

The FY15-17 budget process saw improvements in transparency and accountability. So far during the FY17-19 budget process this effort has continued as illustrated by the online Budget Explorer tool and the significant increase in the number of Budget Forums. The BAC **looks forward to a separate Capital Improvement Program Budget exploration feature on the open data portal in the future.**

Capital Improvement Program (CIP)

On April 21, 2017 the BAC submitted a memo to the Mayor and City Council detailing eleven recommendations on implementation of the Infrastructure Bond and establishing a Capital Planning Working Group. On May 9, 2017, the BAC presented these recommendations to the Finance Committee who forwarded them to the full Council with recommendation. If approved by the full Council, three of these recommendations would require action as part of the annual budget process:

BAC 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 FY18-19 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.

Note: It is difficult to determine from the proposed FY17-19 budget document how many new positions are being added to support implementation of bond projects.

BAC 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.

BAC 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 five-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.

Note: In accordance with this recommendation, the proposed FY 17-19 Capital Improvement Program expedites completion of the current five-year street repaving plan and focuses on shovel-ready projects that can for the most part be completed within the next two years.

Another four recommendations require near term Council action to successfully implement the Infrastructure Bond within the coming fiscal year following budget adoption:

BAC 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 have suffered historic disinvestment in infrastructure and/or have incomes levels below City of Oakland averages.

Note: Appendix A of the proposed Capital Improvement Plan acknowledges the equity mandate of Measure KK and makes an initial attempt to analyze proposed investments through an equity lens.

BAC 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.

BAC 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.

BAC Recommendation #7: **Designate the BAC as the public bond oversight committee** to ensure funds are spent in accordance with the law and the intent of Measure KK. Consider accomplishing this by *filling vacancies, as they occur, to ensure representative membership on the BAC for its expanded duties.*

Conclusion

The BAC welcomes the opportunity to offer these recommendations to the Council, as you work with the Mayor to finalize the budget for FY 2017-19. We look forward to further discussion and debate as we all work towards greater fiscal health, transparency, and public engagement in Oakland.

The BAC is also requested to submit, by September 30th following budget adoption, an Informational Report to the Council's Finance and Management Committee containing an analysis of the budget adoption process. Many of the items contained in this report address these issues and it is our intention to more fully develop these ideas at that time as well as present additional items for your consideration.

Progress on Implementation of 2015 Budget Advisory Committee Recommendations

On May 26, 2015, the Budget Advisory Committee submitted a report on the Mayor's proposed FY2015-17 Budget. The following is a brief summary of the recommendations and progress made on those items.

Strengthen the City's Financial Health

Recommendations included strengthening public safety and racial justice and equity; prioritizing investments in housing, streets, jobs, homelessness, youth, and public transit; and enacting new labor laws and tenant protections. The following were accomplished:

- Passage of Measure Z
- Addition of police academies
- Implementation of Ceasefire Violence Prevention Strategies
- Creation of the Department of Race and Equity
- Passage of Measure KK the Infrastructure Bond
- Creation of a Department of Transportation
- Enactment of additional Tenant protections
- Unfunded liabilities continue to be reduced
- Enactment of Measure HH, "the Soda Tax"
- Enactment of Measure JJ fees for the Rent Adjustment Program

However, restoring support for public input through Commissions still needs attention.

Increase Public Engagement in the Budget Process

Recommendations in this area included: expanding the professional survey of public priorities and eliminating the distinct Mayor's separate survey; expanding the use and format and advertising of the budget forums; and introducing more translation and interpreters at public events related to the budget. The Committee notes the following on the implementation of these recommendations:

- The professional survey used all Oakland residents as one of two survey populations, the other being all registered voters, which was an improvement.
- Very clear notice of public budget forums in the budget submission itself.
- However social media and other means were not utilized well for outreach about Budget Forums.

Improve Fiscal Transparency and Accountability

Recommendations in this priority included commitment to open budget data, consistent use by Councilmembers of standardized budget submission templates, use of performance metrics of each city department, and other suggestions to make the budget document more accessible and understandable to the public. The Committee notes the following in the implementation of these recommendations:

- The Mayor's proposed budget is well indexed and organized, including page numbers for easy reference (on the electronic pdf only).
- The Budget continues to make progress in providing data. The addition of the open data Budget Explorer link is a significant improvement. (<http://budgetdata.oaklandca.gov/#!/year/default>)
- Councilmembers are to submit up to seven priorities by March 15 per the Consolidated Fiscal Policy. As of the deadline, only three Councilmembers submitted priorities and these were not made available in a single location in the budget or on the website.
- There is still an absence of performance measures from Departments of goals and outcomes. It would be helpful to have measures of service levels or dollars invested per impact.
- Lack of trend data (prior year data) on the number of positions or FTEs. Each table in the budget should include trend year-over-year percentage changes so that readers have points of reference.
- Neither the city's legacy nor beta budget web pages contain archives of prior Revenue and Expenditure reports or budget outlook messages or a budget calendar/timeline, and we look forward to these enhancements.