

# CITY OF OAKLAND

## BUDGET ADVISORY COMMISSION

Notice is hereby given that a **special meeting (date & time)** of the City of Oakland Budget Advisory Commission (BAC) is scheduled for **Wednesday, May 29, 2019** at **6:00 pm** In the **Hearing Room 4, City Hall, 2<sup>nd</sup> Floor**, at 1 Frank Ogawa Plaza.

### **Commission Members:**

Lori Andrus, Jay Ashford, Ken Benson, Ed Gerber, Travis George, Geoffrey Johnson, Sarah Lee, Vincent Leung, Kasheica Mckinney, Caitlin Prendiville, Darin Ranahan, Brenda Roberts, Marchon Tatmon, Adam Van de Water, & Danny Wan

### **City's Representative:**

Brad Johnson – *Finance Department*

### **Meeting Agenda:**

1. Administrative Matters
  - i. Welcome & Attendance
2. Discussion and action on submission to the City Council of a report regarding the FY 2019-21 budget and budget process. [90 minutes]
3. June and July BAC Meeting Dates [15 minutes]
4. Open Forum
5. Adjournment

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

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

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

**I. Executive Summary.**

Overall, the BAC commends the continued outreach efforts by the Mayor's office and Councilmembers to promoting budget literacy and encourage public participation in the budgeting process. In Part II we have made several recommendations for improving the process.

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

- A. One-Time Funds.** The BAC notes that the MPPB backslides from the 2017-19 budget in its use of one-time revenues to fund ongoing expenditures and recommends that the final budget explore ways to reduce or eliminate reliance on such revenues for ongoing expenditures, focusing one-time revenues on paying down unfunded liabilities.
  
- B. Landscaping and Lighting Assessment District (LLAD).** The BAC recommends the City conduct a further study of an appropriate revenue replacement for LLAD.
  
- C. Revenues.** The BAC reiterates its recommendation that more time be spent exploring the revenue side of the budget.
  
- D. Other Post-Employment Benefits ("OPEB").** The BAC commends the City for establishing and following its OPEB policy. However, it recommends that the budget document analyze the difference between the City's contributions under the OPEB policy and its actuarially determined OPEB contributions.
  
- E. Consultation with City Commissions.** The BAC recommends that, where a city commission has within its charge to make recommendations on City spending, the Mayor's Office and administration work collaboratively with the commission far in advance of the budget cycle to minimize the risk of diverging priorities.

**Commented [1]:** Subject to discussion and decision by the BAC.

## **II. The Budget Process**

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

### **A. Improved and Expanded Community Engagement.**

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

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

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

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

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

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

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

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

**E. Help Residents Understand Budgeting Basics.**

The BAC recommends that future presentations help explain some core concepts around budgeting (e.g. GPF vs. restricted funds, negative fund balances, unfunded actuarial liabilities, etc.) that might help audience members better understand how decisions are made and what tradeoffs need to be evaluated. This could be accomplished with enhanced use of visual aids, promoting the Mayor’s online videos, use of key terms in the budget’s glossary, and frequently asked questions (FAQ) sheet. In addition, the BAC recommends it would might be helpful to conducting budget overview sessions with the public during the off-year (i.e. mid-cycle years) to help citizens better understand basic budget concepts, policies and practices.

**F. Budget Ambassador Program.**

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

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

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

### III. The Mayor's Proposed Policy Budget.

#### A. One-Time Funds

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

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

This year's MPPB purports to "limit[] the use of one-time resources for ongoing expenditures . . ." May 1, 2019 Transmission Letter at 11. However, it includes substantial reliance on one-time funding for ongoing expenditures. *See* MPPB at E-131-32; *see, e.g., id.* at B-2 ("[a]ppropriate one-time funding of \$100,000 in FY 2019-20 for Phase I of the Healthy Home Rental Inspection Program"); *id.* ("[a]ppropriate \$480,000 in one-time funding (\$240,000 per each fiscal year) for Last Saturday Free Dump Days"); *id.* at B-3 ("[s]ustains funding for emergency medical supplies using one-time funds in Measure N"); *id.* at E-8, E-11, E-13-14, G-58, G-61, G-70, G-76. This use of one-time funding for ongoing expenditures appears to outstrip the use of one-time funding for ongoing expenditures in the FY 2017-19 budget. *See* S. Landreth Transmission Letter, FY 2017-19 Adopted Policy Budget 1 (Oct. 2017).

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

The MPPB highlights two instances where one-time revenues are used to fund ongoing

services. Moreover, in the May 7, 2019 City Council meeting, City staff (“Staff”) presented two resolutions to enable these exceptions to the CFP.

In the first, \$3.0M in annual funds for ongoing parks and recreation costs comes from a one-time source: the State Gas Tax Fund. Funding for parks and recreation services normally comes from Landscape & Lighting Assessment District (“LLAD”) revenues, which have remained unchanged for over 30 years. To align with the CFP, Council Resolution [#\_\_] authorizes and directs the City Administrator to pursue a ballot measure that will eliminate the use of such one-time funds in the future.

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

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

#### **B. The Landscaping and Lighting Assessment District**

**The BAC recommends the City conduct a further study of an appropriate revenue replacement for the Landscaping and Lighting Assessment District (LLAD).**

Oakland property owners pay through property taxes into Oakland’s LLAD fund. These property tax revenues support services for the more than 130 City parks, community centers and to maintain street lights and traffic signals. Established more than thirty years ago, LLAD revenues have not kept up with the increased costs to service these facilities as it never had a mechanism to adjust costs and payrolls as they increased over time. The City must identify a means to amend the LLAD to maintain existing service levels.

#### **C. Other Revenue Sources**

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

Recognizing that the budget is both a revenue and expenditure program we have in the past recommended that significantly more time be spent on reviewing the revenue side of the budget. In our prior reports we have recommended seeking greater public engagement

in revenue analysis and even year in-depth examination of various revenue scenarios. These recommendations have included assessing the equity impact of revenue generating measures and measures under consideration (i.e. who is impacted by each revenue source), analyzing novel revenue generation methods employed by other charter cities, sponsoring public forums on various revenue sources, sharing independent analyses of revenue projections with the public, benchmarking Oakland's revenue performance to other jurisdictions, and considering a split role real estate transfer tax, among others. See BAC Report September 29, 2017.

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

#### **D. Other Post-Employment Benefits**

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

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

In a report prepared for the City on January 14, 2019 by PFM Group Consulting LLC, the City's pay-as-you-go expenses are projected to be \$31.4M in FY2019-20 and \$33.6M in FY2020-21. Meanwhile, the City's actuarially determined OPEB contributions ("ADC") are expected to be \$83.5M for FY2019-20 and \$87.9M for FY2020-2021. The ADC is the amount the City ought to pay to ensure sufficient funds for future benefits. It includes the City's pay-as-you-go expense as well as an amortization payment towards its unfunded OPEB liability.

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

The BAC recommends that the City expand its OPEB discussion in the budget to note that

\$10M in Additional OPEB Payments will still be insufficient to cover the City's ADC in FY2019-20 and FY2020-21.

#### E. Consultation With City Commissions

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

The BAC understands that the MPPB does not follow recommendations made by the Sugar Sweetened Beverage (SSB) Community Advisory Board as to expenditure of Measure HH funds. While the Board's recommendations are advisory, deviation from them could undermine public confidence in future revenue-generating measures that rely on general taxes with accompanying advisory boards, a structure necessitated by state law.

Accordingly, the BAC recommends that the Mayor's Office and administration work collaboratively with the Board, as well as any other similar bodies with advisory authority over City spending, well in advance of the budget cycle to minimize the risk of diverging priorities on spending.

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#### F. Performance Management Program

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

We note in the MPPB the proposal by CM Taylor to establish a Performance Management Program. We support this proposal which is consistent with our prior recommendations to include "comparative analytics." This program will place an added workload on staff. Such data should include continuing reports on personnel vacancy rates. We therefore recommend that such a program include the provision of necessary staff. We further recommend that the Council consider the workload placed upon staff by its regular actions requiring additional reports on matters it is considering and provide necessary staff to meet this workload.

#### G. General Purpose Fund Emergency Reserves

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

The City accumulated a reserve fund in accordance with the Reserve Fund Balance of 7.5% of the General Purpose Fund as of June 30, 2018. The policy requires approval of any appropriations of funds from the Emergency Reserves. Appropriations from the fund, if

any, and reasons for appropriations made during the prior fiscal year should be included in MPPB under *Financial Summaries – Consistency with the Consolidation Fiscal Policy*, or a statement that no appropriations were made.

#### **H. Councilmember Priorities**

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

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

#### **I. Negative Funds**

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

Addressing negative funds has long been a priority of the BAC. See September 2017 BAC Report at 4; May 2017 BAC Report at 2. The MPPB identifies negative funds in the amount of \$60 million, \$32.3 million with a repayment plan, \$27.7 million of which are reimbursement funds, and \$0.2 million of which are funds with no repayment plan. MPPB E-127. For example, the Capital Improvements Reserve Bond Fund (Fund 5510) is a negative fund which is on a repayment schedule in the amount of \$123,000 for retirement by 2028-29. These are trending downward from the FY2017-19 budget, which showed negative funds of \$73 million, \$26.9 million with a repayment plan, \$31.8 million of which were reimbursement funds, and \$14.2 million with no repayment plan; and accrued leave of \$47.1 million. FY 2017-19 Budget E-131.

The BAC commends the City for making progress on these unfunded long-term liabilities, and refers the Council back to their 2019 letter to Council for addressing negative fund balances.

#### **J. Sick and Vacation Leave Liabilities**

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

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

purpose, given the different legal status of these respective liabilities.

**Commented [3]:** Ask Brad if this shows up in the audit. Can remove if so.

### **K. Index**

**The BAC recommends that the budget document include an index.**

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