

Budget Advisory Commission Review of the Budget Process and the Mayor's Proposed Policy Budget for FY 2021-2023

The Budget Advisory Commission ("BAC") provides this review of the budget process and of the Mayor's Proposed Policy Budget ("MPPB") for Fiscal Years 2021-2023. A summary of the BAC's observations and primary recommendations is set forth in the Executive Summary. These observations and recommendations are explained in greater detail in Parts II and III of this report.

I. Executive Summary

A. This is an extraordinary budget due to the following factors:

- 1. External Factors:** The Covid Pandemic has again demonstrated the Oakland's Budget is subject to external events beyond its control and demonstrated the fragility of the City budget.
- 2. One-Time Revenues:** It is dependent upon very substantial one-time funds in excess of \$200m for ongoing programs.
- 3. Ongoing Uncertainties:** The pattern of recovery is unknowable and the long-term effects of changed work patterns may have significant revenue and program effects.
- 4. Ongoing Structural Imbalances:** The budget continues to have a structural imbalance in that program costs increase at a faster rate than revenues.
- 5. Burden of Unfunded Liabilities:** The City has unfunded long-term liabilities of \$2.658 billion.
- 6. Short-Term Relief:** The next cycle (FY2023-2025 budget) may pose unanticipated challenges due to a multitude of factors including, but not limited to, program growth, the absence of continued state and federal subsidies, post Covid economic changes, etc.
- 7. Significant Changes in Service Delivery:** The continuing challenges of the need for added housing, homelessness, implementation of Reimaging Public Safety, and the growth of violent crime.

B. As described below we recommend consideration of a number of actions to carefully manage our way thru the current challenge, as well as prepare for the next inevitable challenge. More specifically, we recommend:

- 1.** Strengthening of the Vital Services Stabilization Fund (VSSF)

2. Careful management of the extensive use of one-time funds which have been used extensively to fund ongoing programs.
3. The need to avoid assuming services that are a responsibility of Alameda County
4. Further efforts to reduce the OPEB liability.
5. If/When added revenues occur as a result of unexpected occurrences or voter action, dedicate a significant portion of these revenues to increasing long term financial stability.
6. Continued efforts to develop additional revenue sources. We recommend examining the relationship with the Port of Oakland to determine if significant additional revenues can be obtained. We further recommend that the budget provide for the retention of a consultant to review and report upon the legal and fiscal aspects of obtaining fiscal support from the port. This is described in more detail below.
7. The new budget format presented some initial challenges but, in the long term, will be a significant improvement in promoting accessibility.

II. The Budget Process

A. Overview:

This portion of the Budget Advisory Commission's report will focus not on the content of the Mayor's Proposed Policy Budget (MPPB), but rather on the process of the current budget cycle, and how effective the process has been to support the goals of addressing the longer-term priorities of the city, providing City Council with an adequate foundation to assess the proposed priorities and make adjustments as needed, and finally, ensuring accessibility, transparency, outreach, education and community input into the budget process overall.

B. Overall Process:

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

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

1. **OpenGov:** First, moving the budget information and accessibility to the OpenGov platform has enabled a degree of transparency to Oakland's budgeting process that largely did not exist in prior budget cycles. The ability to access and visualize greater levels of detail to the City's budget has been very helpful.

2. **Equity Analysis:** Second, we support the efforts to look at the budget through an equity lens working with the Department of Race and Equity and leveraging the equity analysis tool.
3. **Zero-Based Budgeting:** The BAC supports the practice of zero-based budgeting to ensure that a fresh look is taken at all existing programs to ensure their ongoing usefulness and relevance to support the city's overall priorities.
4. **Service Inventory:** The BAC supports the exercise of conducting a service inventory within each department to help clarify which constituent group each department is supporting (whether internal or external) to help ensure alignment between departmental activity and broader policy goals and outcomes.
5. **Re-Building the OPD Budget:** We support the exercise undertaken this year to re-examine in detail the OPD budget. We feel that the effort to adequately address overtime costs, and to systematically examine resource needs and spending trends will provide the necessary transparency to support future conversations around re-examining how public safety services are delivered to the residents and taxpayers of Oakland.

C. Community Input to the Budget Process:

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

1. **Accessibility:** Given the restrictions of the COVID pandemic, most of these meetings took place virtually via Zoom, Facebook live, and similar channels. One councilmember conducted her meeting outside and in-person at a city park. We observed only one councilmember offering translation services in languages other than English, and would recommend that making translation available (in the more commonly spoken languages across Oakland, e.g. Spanish, Mandarin, Vietnamese, Arabic) be a standard practice wherever possible.
2. **Structure:** Overall, the BAC felt the meetings were well structured, with time for the councilmembers to share their priorities, to explain the budget process, to give an overview of the MPPB, and finally for attendees to provide feedback either via direct questions, or questions submitted via chat channels on the online forums.
3. **Content:** The content offered during the meeting was helpful and accessible to those residents who may not follow the city's budget on a regular basis. We found the PowerPoint visual aids to be helpful in explaining budget process, content, timelines and choices to residents. Most town hall meetings took the

time to explain to attendees how to use and navigate the new online tools on OpenGov. We did observe, in a couple of meetings, a tendency toward either campaigning or pushing a particular policy agenda, and would advocate for keeping the discussions as balanced and neutral as possible.

III. The Mayor's Proposed Policy Budget.

A. Strengthening of Vital Services Stabilization Fund.

The Vital Services Stabilization Fund played an important role in first responding to the economic downturn caused by the Pandemic. We support the effort in this budget to again begin replenishing this Fund in the amount of \$4.83m. However, it is essential to take action as soon as fiscally prudent to further strengthen the Fund. To accomplish this, we recommend adopting a policy to set aside a greater portion of excess RETT funds and dedicating 25% of any unexpected revenues in excess of \$1m to the account.

B. Avoiding Assuming County Responsibility Services.

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

C. One Time Revenues Funding on Going Programs

The Proposed Budget makes significant use of one-time revenues to fund ongoing programs. We estimate this to be over \$200m. We recommend that all such actions be clearly identified in the Budget. We further recommend that, at the time of each quarterly financial report, the Council review the financial situation to determine if funding can be transferred to an ongoing financing sources and the one-time funds be used to either fund onetime programs or to further strengthen the financial stability of the city.

D. Funding of Police Overtime.

Year after year, OPD spends millions more than its allotted budget on overtime spending. Instead of addressing the problem, the Mayor’s proposed budget simply doubles the budget for police overtime - roughly \$61m over the next two years, up from \$32m during the last two-year cycle. We recommend that instead of increasing the budget for police overtime, the City adopt a policy to control the staggering cost that is straining the overall City budget.

E. Funding of OPEB

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

F. State Budget actions

It is anticipated that the California State Budget will be sent to the Governor by June 15th. Based on the May Revise, it is probable that the budget will contain funding for some of the city programs which are significantly challenged such as housing and homelessness. We recommend that, when possible, such funding be used to bring further stability to various affected city programs.

G. Implementing Reimagining Public Safety

This budget, in certain aspects, has not aligned with nor explained the variances to the recommendations brought forth by the Reimagining the Oakland Police Force Task Force (Task Force). Specifically, the Task Force recommendations focused on the management of the OPD overtime budget, the thoughtful transitions from the OPD budget to social and other City services and the cessation of certain OPD activities. This budget does not address nor explain the absence of these recommendations.

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

H. Long term Liabilities

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

I. Measure Q

It is critical that the new ongoing \$4,150,000 in Measure Q revenue be budgeted for enhanced services that meet the deliverables in the Ballot Measure - this requires new staff be hired to assure that services to the community are improved. The one-time fund balance of \$4,010,020.54 should focus on minor capital expenditures for improving parks, homeless services and clean water. The current proposal is unclear and allocates \$2,250,000 "to be decided by the Council".

J. Port Revenues

The Covid Pandemic and its impact upon our local economy and upon this year's budget calls for BAC to once again make a strident call to consider alternative and or new sources of revenue. We have called for a focus and on planning for revenues in past budget commentary but this year's reliance on one-time revenues from the Federal government to assist in closing a significant budget deficit makes this even timelier to look at revenue sources.

There will likely be ongoing expenditures that will be covered by these unique one-time, non-local, and non-consistent sources of revenue that will need to rapidly find an ongoing and consistent source of funding. That is why we recommend that the Mayor, City Administrator, and the Council consider looking long at its current City Charter and specifically the provision for the Port of Oakland that stipulates the sources and uses of monies from the Port of Oakland.

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

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

The time has come to look at this option even with the existing City Charter restrictions as Oakland continues to grow and its services need a solid and sustainable funding source.

Recognizing the complexity of these issues, we Recommend that the Council authorize the retention of a consultant to review and report upon the legal and fiscal aspects of obtaining financial support from the Port of Oakland.

Review and Recommendations

Passed by the Budget Advisory Commission

MAY 26, 2021