

CITY OF OAKLAND

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2019 OCT 31 PM 3:59

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Adam Benson
Finance Director

SUBJECT: Budget Advisory Commission (BAC)
Budget Process Recommendations

DATE: October 21, 2019

City Administrator Approval

Date:

10/31/19

RECOMMENDATION

Staff Recommends That The City Council Receive A Report From The Budget Advisory Commission (BAC) On Recommendations For Continual Improvement Of The Budget Process, And Staff Response To Those Recommendations.

EXECUTIVE SUMMARY

Staff is generally in agreement with the recommendations of the Budget Advisory Commission (BAC) regarding improvements to the budget process and associated documents (see analysis section). Staff notes that many of the recommended changes will require amendments to the Consolidated Fiscal Policy (CFP). Some BAC recommendations cannot be accomplished without additional staffing or contract services and thus cannot be implemented until funding is allocated to support these activities. No further action is requested of the Council by staff.

BACKGROUND / LEGISLATIVE HISTORY

Section 3, Item 11 of the City's Consolidated Fiscal Policy Ordinance 13279 C.M.S. requires the Budget Advisory Commission submit a report on process feedback and continual improvement of the City's budget process to the Finance & Management Committee. That report is included as **Attachment A**. Historically, staff has provided responses, where appropriate, to BAC's recommendations.

ANALYSIS AND POLICY ALTERNATIVES

The following table presents the summarized recommendations of BAC and staff's response to that specific recommendation. Additional detail regarding each BAC recommendation is presented in BAC's formal report, see **Attachment A**.

Item: _____
Finance & Management Committee
November 12, 2019

<u>BAC Recommendation</u>	<u>Staff Response</u>
1) Adopt a 5- to 10-year formula to provide full funding of the Vital Services Stabilization Fund.	Staff agrees that the excess Real Estate Transfer Tax (RETT) policy should be routinely reexamined based upon data and performance.
2) Establish a new and adequate funding source for the Landscape and Lighting Assessment District (LLAD).	Staff is in the process of working with the City Council to explore a revenue measure for LLAD related services.
3.1) Analyze the demographics of who is paying the taxes and fees that fund City services to ensure that the revenue streams align with Oakland's values.	Staff lacks the capacity to perform this analysis. Additional resources for a study of this item would be required.
3.2) Explore additional revenue sources for unfunded liabilities such as Other Post Employment Benefits (OPEB) and pension costs.	Staff is aware that the Police and Fire Retirement System (PFRS) must be fully funded on an actuarial basis by 2026. Staff is continuing to explore the revenue mechanisms to address the OPEB unfunded liability.
3.3) Retain a consultant to assist both Finance Staff and the Council in identifying alternative revenues, approaches, and practices. City and staff should consider additional polling for acceptance of, and reactions to, alternatives for revenue generation.	Substantial additional resources for consulting and polling services would need to be identified to conduct this analysis.
3.4) Finance staff should regularly seek advice and counsel on revenue and revenue approaches from BAC.	Staff will update BAC on milestones if the resources are identified for recommendation 3c.
3.5) Staff and Council should work on an acceptable cadence and projection policy approach for a timelier agreement on 3 rd quarter revenues and longer-term projections including consideration of revenue downturns and/or projections of possible recessionary impacts.	Staff needs to more fully consider how to implement this recommendation and BAC's additional recommendation to adopt official revenue estimates no later than May 30 th . Changes to the revenue forecasting timeline may require amendments to the CFP.
4.1) Budget presentation should include the Finance Department's most recent information memoranda to the City Council – including any third party actuarial analyses or attachments- regarding the City's unfunded liabilities.	Staff plans to implement updates to the City's website consistent with BAC's recommendation over the next year.

<u>BAC Recommendation</u>	<u>Staff Response</u>
4.2) Budget presentation should state that the City has little or no control over what it pays to CalPERS and should incorporate valuations, analyses, or presentations from CalPERS or third parties.	Staff plans to make information related to CalPERS valuations more easily accessible via the City's website.
4.3) Budget presentation should clearly state that the PFRS has a dedicated source of revenue in the form of Pension Override Tax Revenues (POTR) which are expected to resolve the City's unfunded PFRS balance by 2026. Furthermore, the presentation should spell out the uses of any excess POTR beyond what is required for PFRS debt service.	Staff has noted BAC's recommendation regarding the dedicated funding for PFRS. The City Charter requires that PFRS be fully funded on an actuarial basis by 2026. However due to various assumptions and external factors (portfolio performance, beneficiary longevity, etc.) staff cannot guarantee that the dedicated revenue source (POTR) will be sufficient to resolve the unfunded liability by 2026 without GPF support. Further beyond 2026 changes to assumptions and external factors may require additional funding. Thus staff will continue to disclose this unfunded liability in total.
4.4) Budget presentation should provide a summary listing of the City's outstanding debt.	Staff plans to make information related to outstanding debt more easily accessible via the City's website and will include high level summary information in presentations where applicable.
4.5) City should revisit the derived figure of "more than \$2 billion in the next 5 years" tied to "deferred maintenance and other unfunded capital needs" and provide a summary table estimating the needs, extent to which such needs are funded, and sources of such funds.	Staff agrees that the deferred maintenance and unfunded capital needs estimates should be revised in advance of the next biennial CIP process.
4.6) Budget presentation should clearly state whether there are any unallocated GPF balances in the current or previous budget cycle, and how such balances are being used.	Staff will clarify the use of Fund Balance and GPF adherence in future presentations where appropriate.
5) Attach all relevant reports regarding the City's OPEB liability to the budget and disclose the difference between the City's OPEB contribution of the year and its Actuarially Determined Contributions (ADC).	Staff plans to make information related to OPEB more easily accessible via the City's website and will note the difference between the budgeted OPEB contribution the ADC.

BAC Recommendation	Staff Response
6) Include BAC in the Five-Year Forecast process as performed by staff to promote BAC feedback and input.	Staff will provide BAC with an informational update on the components of the forecast prior to publication and will present the forecast to BAC at its regular meeting following publication.
7) Consult with any City Commission that has a responsibility to make recommendations on spending of a revenue source to minimize the risk of diverging priorities.	Staff will work with subject matter commissions to the extent possible prior to the presentation of a proposed budget.
8) Adopt a Policy Directive to create transparency and reporting of departmental spending for overtime, in addition to requirements in the recently amended CFP.	Staff does not believe a policy directive is necessary and notes that reports on overtime spending from the Oakland Police and Fire Departments include information on the top drivers of overtime.
9) Adopt a budget schedule which prioritizes early decision making and avoids excessive compression late in the budget cycle.	<p>Staff strongly agrees with this recommendation and believes that additional early attention at dedicated City Council sessions early in the budget process will improve subsequent deliberations. Changes to budget timeline may involve adjustments to the CFP.</p> <p>Staff is fully in agreement with BAC's recommendation to: 1) Hold a full day Council Budget Retreat no later than February, 2) Devote significant Council time to reviewing the Five-Year Forecast, and 3) Encourage early submission of councilmember questions.</p> <p>Staff needs to more fully consider how to implement BAC's recommendation to adopt official revenue estimates no later than May 30th.</p>
10) Work to improve Council-Staff working relationships.	Staff agrees with this recommendation.
11) Staff review the overall sequencing/timing of events in regard to consideration of the President's budget and provide a report to the Council for consideration within the next six (6) months.	Staff will review the timeline specified in the CFP and recommend to the City Council any suggested alternations.
12) Expand the Budget Ambassador Program as a means of providing more budget information to Oaklanders.	Staff will work with the Mayor's office to provide the similar budget tools/process to councilmembers who wish to employ them.

<u>BAC Recommendation</u>	<u>Staff Response</u>
13) Continue to improve Community Budget engagement as detailed on pp 2-4 of BAC report of May 30, 2019 and contained in Attachment A to the September 25, 2019 report with specific reference to meeting ground rules, elected officials as policymakers and, accommodations for non-English speaking and hearing-impaired residents.	Staff will continue to explore improvements to the Community Budget forums and agrees with BAC's recommendations for ground rules, and language accommodations.
14) Continue to strengthen the centralized budget page on the City website and develop other electronic methods to communicate budget information such as Facebook, Nextdoor, etc.	Staff plans to implement updates to the City's website consistent with BAC's recommendation over the next year; and will explore greater use of social media.
15) Support establishment of performance management program which should include sufficient staff for implementation, and personnel vacancy rates should be considered as part of such a program.	Staff agrees with BAC's recommendation that any new management programs include sufficient staff and other resources to ensure effective implementation of such a program.

FISCAL IMPACT

There are no direct fiscal impacts in the acceptance of this report. There are no substantial fiscal impacts to the City of adopting those measures noted in staff's responses to BAC's recommendations which can be implemented administratively.

PUBLIC OUTREACH / INTEREST

No public outreach was necessary in the preparation of this staff report. The Budget Advisory Commission discussed their recommended changes to the Budget process at numerous public and noticed meetings of that body, prior to adoption.

SUSTAINABLE OPPORTUNITIES

Economic: There are no economic opportunities associated with this report.

Environmental: There are no environmental opportunities associated with this report.

Race and Equity: The implementation of these recommendations should improve the accessibility of Budget information and decision making to disadvantaged groups and the general public.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council receive a report from the Budget Advisory Commission (BAC) on recommendations for continual improvement of the budget process, and staff response to those recommendations.

For questions regarding this report, please contact Brad Johnson, Principal Budget & Management Analyst, at 510-238-6119.

Respectfully submitted,



Adam Benson
Finance Director

Prepared by:
Bradley Johnson, Principal Budget &
Management Analyst
Finance Department, Budget Bureau

Attachments (1):

(A): Budget Advisory Commission (BAC): Report on the Biennial 2019-21 Budget Cycle

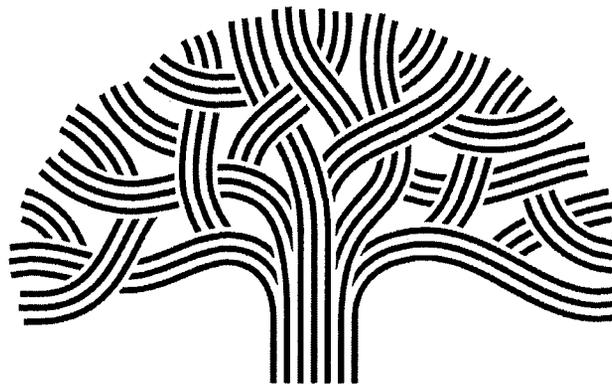
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City of Oakland

Budget Advisory Commission

Report on the City of Oakland's Biennial 2019-21 Budget Cycle



September 25, 2019

Pursuant to the Consolidated Fiscal Policy (“CFP”) (13279 C.M.S.), the Budget Advisory Commission (“BAC” or “Commission”) submits this Report on the City of Oakland’s Biennial 2017-19 Budget Cycle. The Report was approved by the BAC at a meeting held on September 25, 2019.

Executive Summary

This report contains the BAC’s comments and recommendations related to the 2019-21 budget.

With regard to process, the CFP has been in use now for three 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 to the process and to the policies that guide the development and adoption of the biennial budget.

Following is a summary of our recommendations, some of which are new, and some of which are carried forward from the BAC’s September 2017 and May 2019 report to the Mayor and Council (marked with an asterisk (*) below). A more detailed discussion of each recommendation follows this summary.

1. Adopt a 5- to 10-year formula to provide full funding of the Vital Services Stabilization Fund.
2. Establish a new and adequate funding source for the Landscape and Lighting District. *
3. Continue to explore the revenue side of the budget, as recommended in our prior reports. *
4. Provide transparent, clear, and understandable information about the City’s debts and obligations.
5. Attach all relevant reports regarding the City’s Other Post-Employment Benefits (OPEB) liability to the budget and disclose the difference between the City’s OPEB contribution for the year and its Actuarially Determined Contributions (ADC). *
6. Include the BAC in the Five-Year Forecast process as performed by staff to promote BAC feedback and input.
7. Consult with any City Commission that has a responsibility to make recommendations on spending of a particular revenue source to minimize the risk of diverging priorities. *
8. Adopt a Policy Directive to create transparency and reporting of departmental spending for overtime, in addition to requirements in the recently amended CFP.

9. Adopt a budget schedule which prioritizes early decision making and avoids excessive compression late in the budget cycle (see charts, discussion, and specific recommendations below).
10. Work to improve Council-Staff working relationships.
11. Staff review the overall sequencing/timing of events in regard to consideration of the President's budget and provide a report to the Council for consideration within the next 6 Months.
12. Expand the Budget Ambassador Program as a means of providing more budget information to Oaklanders. *
13. Continue to improve Community Budget engagement as detailed on pp 2-4 of the BAC report of May 30, 2019 and contained in Attachment A to this report with specific reference to meeting ground rules, elected officials as policymakers and accommodations for non-English speaking and hearing-impaired residents. *
14. Continue to strengthen the centralized budget page on the City website and develop other electronic methods to communicate budget information such as Facebook, Nextdoor, etc.
15. Support establishment of performance management program which should include sufficient staff for implementation, and personnel vacancy rates should be considered as part of such a program.*

A detailed explanation of the BAC's Comments and Recommendations follows:

1. Adopt a 5- to 10-year formula to provide full funding of the Vital Services Stabilization Fund.

The Council, in the CFP, has established a Vital Services Stabilization Fund (VSSF) with a target funding of 15% of the General Purpose Fund revenues. The purpose of the VSSF is to protect Oakland against service cuts and layoffs when the inevitable economic downturn occurs. The VSSF is funded from excess Real Estate Transfer Tax revenues or other one-time revenues. Using the current budget as a standard, the VSSF could have a balance of \$102 million, yet it only contains \$14,423,168, or 14% of optimal funding levels. This means that, when an economic downturn occurs, there will be very limited protection against service cuts and layoffs. The current budget added only \$100,440 to the VSSF.

We recommend that the Council make funding of the VSSF a higher priority by adjusting the formula for allocation of RETT funds to insure a minimum deposit of \$10 million per budget cycle or adopt a formula which will accomplish full funding of the VSSF over 5-10 years.

2. Establish a new and adequate funding source for the Landscape and Lighting District.

We fully support action by the Council to resolve this issue.

3. Continue to explore the revenue side of the budget, as recommended in our prior reports.

BAC has in the past recommended that 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 analyzing the equity impact of revenue-generating measures and measures under consideration (to assess communities within Oakland benefitting from these sources), 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 roll real estate transfer tax, among others. (*See BAC Report September 29, 2017.*)

3.1 Equity Analysis - For example, with respect to an equity analysis, the BAC notes that the City relies on a variety of revenue streams that range from progressive (e.g. graduated real estate transfer tax) to regressive (e.g. sales tax). To ensure that revenues are raised in an equitable manner, the BAC recommends that the budget analyze the demographics of who is actually paying the taxes and fees that fund City services. For example, the City could look at the demographics of who pays property tax, and how much they pay (e.g., x% is from commercial properties, y% is from residential properties, of the amount from residential properties, z% is from census tracts where the average household income was below \$50,000). Oakland should aim to have revenue streams that align with its values, and the first step in making that a possibility is to have current, credible and verifiable data to see where the money comes from.

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

3.3 Revenue Consultant and Polling - The City Council should instruct the City Administrator and Finance Director to consider retaining a consultant to assist both the Finance Staff and the Council in identifying alternative revenues and approaches as well

as reviewing revenue practices from other California Charter and League Cities. In addition to the CFP-required Public Opinion survey/poll on budget priorities, the City and Finance Staff should consider additional polling for acceptance of, and reactions to, alternatives for revenue generation. Now that impact fees, and other development-related sources are a part of the City's revenue repertoire, a review of effectiveness and options could augment the exploration of alternative revenue approaches.

3.4 Consultation with the BAC - The BAC further recommends that Finance Staff regularly seek advice and counsel on revenue and revenue approaches from the BAC and that it makes regular and timely reporting on its efforts once a consultant is retained, as well as during and after the recommended polling on acceptance of various revenue approaches.

3.5 Revenue Forecasting - This past two-year budget cycle had its curious revenue 'squabbling' and consideration of whether the City and Finance Staff is too conservative in its revenue forecasting and projections. In the mid-cycle, perhaps Staff and Council can work on an acceptable cadence and projection policy approach to avoid future 'squabbles' and to arrive in a more timely and early enough agreement on both 3rd Quarter Revenues and also in the longer-term revenue projections and estimates. And, though this Revenue focus of the BAC is a reiteration of prior recommendations, it may also be relevant to staff, the Mayor, and to the Council that some consideration and or process be construed that allows for revenue downturns and/or projections of possible recessionary impacts, unlike the current practice.

4. Provide transparent, clear, and understandable information about the City's debts and obligations.

The BAC commends the City for including an informative "Long-Term Liabilities" section starting on page E-127 of the Budget Presentation. The BAC also recommends that future Budget Presentations include the following disclosures:

4.1 Additional Attachments or References. The BAC recommends that the Budget Presentation include, either directly, via hyperlink, or by other reference, the Finance Department's most recent informational memoranda to the City Council - including any third-party actuarial analyses or attachments - regarding the City's unfunded liabilities, which include its California Public Employees' Retirement System ("CalPERS"), Other Post-Employment Benefits ("OPEB"), and Police and Fire Retirement System ("PFRS") obligations.

Currently, these memoranda are indexed online as part of City Council meeting minutes. They are difficult for the general public to find unless they know the specific meeting dates and agenda items involved. If attaching such memoranda and analyses adds too many

pages to the Budget Presentation, then the BAC suggests that the City provide a robust web portal for the Budget that includes clearly listed and organized hyperlinks to these documents.

4.2 CalPERS. Although the Budget Presentation discloses the City's expected contributions to CalPERS in the new budget cycle, the BAC also recommends that the Budget Presentation state that the City has little to no control over what it pays to CalPERS. In particular, future assessments depend on CalPERS's financial performance and on its use of discount rates, which is a subjective method of converting future expenses into today's dollars. Therefore, the true extent of future CalPERS payments is difficult to predict.

Incorporating valuations, analyses, or presentations from CalPERS or third parties into the Budget Presentation, either directly, by hyperlink, or by reference, would provide the public with clearer disclosure of the extent of the City's unfunded CalPERS liability and the uncertainty of the City's future CalPERS obligations.

4.3 PFRS/POTR. Although the Police and Fire Retirement System ("PFRS") has an unfunded balance, the BAC recommends that the Budget Presentation more clearly state, on page E-128 and elsewhere, that the PFRS has a dedicated source of revenue in the form of Pension Override Tax Revenues ("POTR"). These POTR are expected to resolve the City's unfunded PFRS balance by 2026, without any incremental impact on the GPF.

The BAC also recommends that the Budget Presentation spell out the uses of any excess POTR beyond what is required for PFRS debt service.

4.4 Debt Service. The BAC also recommends that the Budget Presentation provide a summary listing of the City's outstanding debt. While many debt issuances appear in the Budget Presentation under "Budget Terminology" beginning on page J-1 or as part of "Fund Sources and Descriptions" beginning on page E-37, a summary table that lists all debt issuances would be informative to members of the public.

The BAC notes that many tables and disclosures can be repurposed from the City's Comprehensive Annual Financial Report to minimize the extra work required of City staff in preparing the Budget Presentation.

4.5 Deferred Maintenance and Other Capital Needs. On page 10, the Budget Presentation notes that "deferred maintenance and other unfunded capital needs" combine "for a total of more than \$2 billion in the next five years." The BAC recommends that the City revisit this figure and the Budget Presentation provides a summary table estimating the City's deferred maintenance and capital needs, the extent to which such

needs are funded, and the sources of such funds. The BAC notes that relevant sections of the Capital Improvement Program could be repurposed as part of this disclosure.

4.6 GPF Balances. In accordance with the CFP, the BAC recommends that the Budget Presentation clearly state whether there are any unallocated GPF balances in the current or previous budget cycle, and how such balances are being used.

5. Attach all relevant reports regarding the City's Other Post-Employment Benefits (OPEB) liability to the budget and disclose the difference between the City's OPEB contribution for the year and its Actuarially Determined Contributions (ADC).

The BAC commends the Council and Mayor for implementing an OPEB policy in the new budget cycle. The BAC also recommends that the Budget Presentation disclose the difference between the City's contributions to OPEB under its new policy and its actuarially determined contributions. The latter are the payments the City truly needs to make in order to make concrete progress towards fully funding its OPEB liabilities.

As mentioned previously, attaching the most recent Finance Department memoranda and third-party valuation regarding OPEB, either directly or by reference, would be informative to members of the public.

6. Include the BAC in the Five-Year Forecast process as performed by staff to promote BAC feedback and input.

The Five-Year Forecast ("Forecast") is a critical work product, written primarily by City staff. It is updated regularly and is the basis for developing the City's Budget every 2 years. Staff should present the Forecast to the BAC each year, to inform the Commission of key and important factors and trends that could affect the financial health of the City, and to obtain feedback from the BAC for ongoing improvement of the forecast process.

We recommend staff provide the BAC with an annual update presentation once the primary work of the Forecast is complete. The intent is to inform the BAC of key outputs of the Forecast and to engage the Commissioners, a group of professionals with experience in finance, operations and technology, in the continuous work of the Forecast. Since the Forecast represents the foundation for developing the City's budget, BAC's advisory capacity should be extended to the Forecast process as well.

7. Consult with any City Commission that has a responsibility to make recommendations on spending of a revenue source to minimize the risk of diverging priorities.

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. If the budget does not adopt the recommendations of such commissions, it should so state.

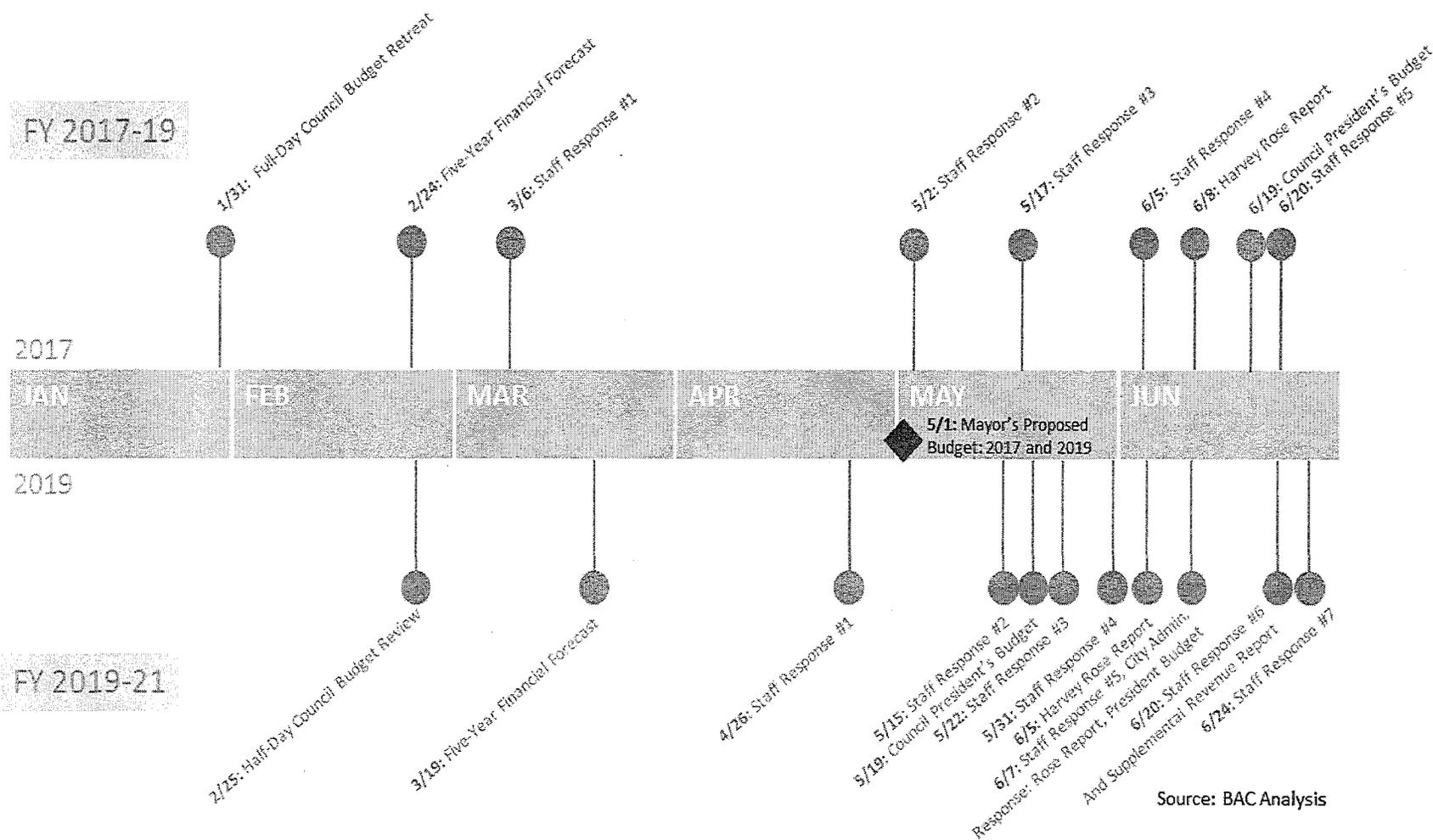
8. Adopt a Policy Directive to create transparency and reporting of departmental spending for overtime, in addition to requirements in the recently amended CFP.

The BAC recommends consistent enforcement of departmental requirements addressing overtime expenditures. The CFP currently requires that departments projected to overspend in the GPF by more than 1% develop a corrective action plan to bring their budget into balance in order to improve expenditure controls for personnel and non-personnel costs, including overtime. Additionally, the BAC recommends the corrective action plan include a detailed analysis of the top drivers of the overtime expenditure, justification for the deviation, and a list of the ten employees receiving the greatest dollar amount of overtime during that period.

9. Adopt a budget schedule which prioritizes early decision making and avoids excessive compression late in the budget cycle.

Adoption of the FY 2019-21 was characterized by SPUR as a “rancorous two-month long process.” (<https://www.spur.org/news/2019-07-30/time-rethink-how-oakland-passes-budgets>) We believe much of the conflict was the result of compressing the significant decision making into the last 30 days rather than the more measured process seen in prior budget deliberations. Following are charts which compare and illustrate this difference:

Comparison of Staff Input/Response Between FY2017-19 and FY2019-21 Budget Cycles



Comparison of Staff Responses Between FY2017-19 and FY2019-21 Budget Cycles

	Number of City Council Questions Addressed by Staff		Number of Pages of Staff Response Document	
	FY 2017-19	FY 2019-21	FY 2017-19	FY 2019-21
Staff Response #1	33	17	17	7
Staff Response #2	43	40	23	19
Staff Response #3	48	7	21	6
Staff Response #4	1	38	1	12
Staff Response #5	10	33	6	15
Staff Response #6	N/A	10	N/A	5
Supplemental Revenue Report	N/A	0	N/A	13
Staff Response #7	N/A	4	N/A	34
TOTAL:	135	149	68	111

Source: BAC Analysis

In order to avoid this in future budget deliberations we recommend the following:

1. Hold a full day Council Budget Retreat no later than February 1 and use that Council retreat to define Council Priorities.
2. Devote significant Council time to reviewing the Five-Year Forecast when it is released in mid-March. A major focus should be upon reviewing revenues and financial uncertainties.
3. Encourage early Council member submission of questions for staff review and response.
4. Receive a detailed report on 3rd Quarter revenues and expenditures in early May and adopt official revenue estimates no later than May 30th.

10. Work to improve Council-Staff working relationships.

We believe a professional relationship between the Council and Staff is essential to development and adoption of the Budget. We have noted several occasions in which budget participants have engaged in public criticism of one another. This is undesirable in that it: (1) undermines staff morale, (2) interferes with a sound working relationship between and Council and Staff, and (3) undermines public trust in the budget process overall.

We strongly recommend that means be developed to resolve such conflicts in a constructive manner and, as appropriate, in Executive Session.

11. Staff review the overall sequencing/timing of events in regard to consideration of the President's budget and provide a report to the Council for consideration within the next 6 Months.

The 2019-21 Budget deliberations were very different from past budget deliberations due to the introduction of a Council President's Proposed Budget, which proposed very significant changes to the Mayor's Proposed Budget. The result was to introduce a much more robust discussion of many aspects of the budget. Since this was the first time that such a discussion occurred, we do not know if this will be a continuing practice. However, if it is, then we believe the budget calendar may need to be significantly revised. Such revision must ensure that the Council, Staff, Consultants, and, most importantly, the Public can meaningfully participate. We recommend that Staff review the overall sequencing/timing of events and provide a report to the Council for consideration within the next 6 Months.

12. Expand the Budget Ambassador Program as a means of providing more budget information to Oaklanders.

The BAC commends 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 continuing and expanding this program by providing similar budget tools to Council Members, other City officials and employees.

13. Continue to improve Community Budget engagement as detailed on pp 2-4 of the BAC report of May 30, 2019 and contained in Attachment A to this report with specific reference to meeting ground rules, elected officials as policymakers and, accommodations for non-English speaking and hearing-impaired residents.

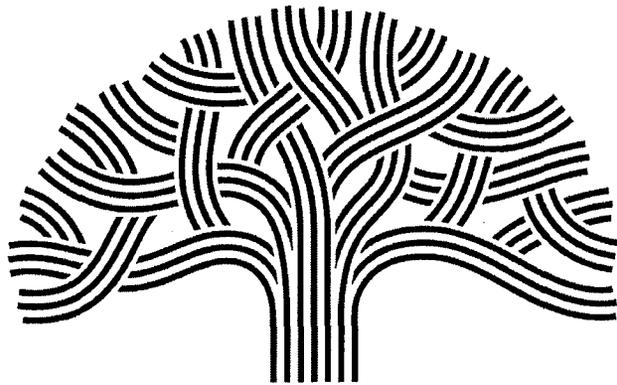
14. Continue to strengthen the centralized budget page on the City website and develop other electronic methods to communicate budget information such as Facebook, Nextdoor, etc.

15. Support establishment of performance management program which should include sufficient staff for implementation, and personnel vacancy rates should be considered as part of such a program.

The BAC first made this recommendation in its May 30, 2019 report to the Mayor and Council. The BAC recommends that Council adopts Policy Directives to ensure this program will be successfully implemented.

City of Oakland
Budget Advisory Commission

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



May 2019

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 the Executive Summary. These observations and recommendations are explained in greater detail in Parts II and III of this report.

I. Executive Summary.

Overall, the BAC commends the continued outreach efforts by the Mayor's office and Councilmembers to promote budget literacy, and encouraging public participation in the budgeting process. In Part II we make several recommendations for improving the process. We particularly recommend formalizing the Budget Ambassador (or similar) program and expanding budget literacy efforts throughout the year.

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 pursue options for an appropriate revenue replacement for LLAD to resolve the problem described in the MPPB.
- C. Revenues.** 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.
- 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 to

maintain public awareness of the need for continued public action on this subject.

E. Consultation with City Commissions and Disclosure of Divergence. 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. If the budget does not adopt recommendations, it should so state.

II. The Budget Process.

The BAC is providing feedback on the Mayor's proposed budget and on the community outreach process undertaken during this budget cycle. To that end, we have attended 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 in which 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 ~~ee~~-present and answering 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, an open mic for attendees to voice their questions and concerns, passing out index cards to capture questions from the audience, or 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 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 ensuring that budget overview literature in Spanish, Chinese, (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 providing sign-language translation for hearing-impaired residents. Better and more consistent prior notice 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 in more detail 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. Added explanations of these subjects should be developed in the budget and budget handouts. 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 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 commends 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 continuing and expanding this program, where practical.

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

The BAC encourages continued use of a centralized budget page on the City's website (i.e. www.oaklandca.gov/budget), as an easy-to-remember online location for residents and taxpayers for information about the budget, about Councilmember priorities, and about the overall budgeting process. Additionally, we recommend enhanced use of popular social media platforms (e.g. Facebook, Twitter, etc.) by the Mayor's office and Councilmembers to further promote and share this budget information with 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, \$4.0M in annual funds for ongoing parks and recreation costs comes from one-time sources. Funding for parks and recreation services normally comes, in part, from Landscape & Lighting Assessment District (“LLAD”) revenues, which have remained unchanged for over 30 years. To align with the CFP, the Budget 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 and supplies 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, the Budget 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 pursue options on 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. 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 should 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 analyzing the equity impact of revenue generating measures and measures under consideration (to assess communities within Oakland benefitting from these sources), 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 the City 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 in addition to 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 and Disclosure of Divergence.

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. Where the budget diverges from such recommendations, it should so state.

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. If the budget diverges from such recommendations, it should so state.

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, or a statement that no appropriations were made, should be included in MPPB under *Financial Summaries – Consistency with the Consolidation Fiscal Policy*.

H. Councilmember Priorities.

The BAC commends the inclusion of Councilmember 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 Fund Balances.

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

Addressing negative fund balances 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 fund balances 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 Fall 2018 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.

K. Inclusion of an 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.