

CITY OF OAKLAND

AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND
2008 JUN -5 PM 6:17

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Budget Office
DATE: June 11, 2008

RE: **A Report from the Budget Advisory Committee (BAC) on its Recommendations Regarding the Mayor's Proposed Midcycle FY 2008-09 Budget Amendments**

SUMMARY

This document transmits the Budget Advisory Committee's (BAC) report, "Recommendations Regarding the Mayor's Proposed Midcycle FY 2008-09 Budget Amendments."

FISCAL IMPACT

There are no immediate fiscal impacts associated with the acceptance of this report; however, the report does recommend a change process during the FY 2009-11 Policy Budget. The figures and recommendations contained in the report have not been reviewed by staff.

BACKGROUND

The BAC consists of 15 members, with four appointed by the Mayor, seven appointed by Councilmembers for each of the seven Districts, one by the Community and Economic Development Committee Chairperson, two by the Finance and Management Committee Chairperson, and one by the At-Large Council member. The BAC has prepared a report titled, "Recommendations Regarding the Mayor's Proposed Midcycle FY 2008-09 Budget Amendments" which focuses on the need to address the City's current budget proposals and future policy budgets.

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RECOMMENDATION

Staff transmits and recommends City Council accept this report.

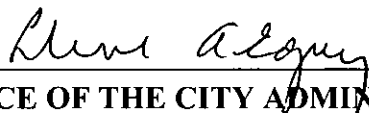
Respectfully submitted,



SARAH T. SCHLENK
Budget Director

Prepared by:
Corey Needl
Budget Office

APPROVED AND FORWARDED
TO THE FINANCE AND MANAGEMENT COMMITTEE:



OFFICE OF THE CITY ADMINISTRATOR

Attachment A: Analysis of the Midcycle Budget Proposal

To: President De La Fuente and Members of the Oakland City Council

From: Budget Advisory Committee

Barbara Armstrong	Bruce Kariya
Karl Augenstein	Margaret Salazar
Dinah Benson	Andrew Singer
Vernon Burroughs	Derrik Williams
Thomas Doctor	Sara Wynne
Nicolas Heidorn	Richard Zavala
Alex Kaffka	

Date: June 11, 2008

Re: The Budget Advisory Committee's Recommendations regarding the Mayor's Proposed Midcycle FY 2008-09 Budget Amendments

The FY 2008-09 mid-cycle budget review represented the first experience with the City of Oakland's budget process for most members of the Budget Advisory Committee ("BAC"). The committee members believe the budget should reflect the strategic and long term goals of the City. The current mid-cycle budget process did not provide adequate time or information for the level of analysis the BAC members believe is necessary.

THE BAC HAS REVIEWED THE MAYOR'S PROPOSED AMENDMENTS. THE FOLLOWING ARE OUR COMMENTS AND RECOMMENDATIONS RELATED TO THE FY 2008-09 BUDGET.

A. The BAC acknowledges the Mayor's proposed budget amendments. We are disappointed that there were no alternatives we could examine.

We appreciate the challenges faced by the Mayor and the City Council in producing a balanced budget when confronted with a drop in expected revenues. The "share the pain" approach – targeting a 2-3% across-the-board reduction in expenditures, a 2% increase in the staff vacancy rate, and a 12-day scheduled shutdown of non-essential City services – will force all departments and most programs to cut costs.

B. Increasing the staff vacancy rate from 4% to 6% and shutting down non-essential City services for 12 days are creative ways to close the budget gap, but we do not have sufficient information to support or reject these proposals.

The timing and details of the shutdown were not described in the Mayor's proposal. It is unclear which activities and programs would be affected and when the closures would occur. We are pleased that no fee-generating activities will be affected.

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Increasing the vacancy rate by 2%, if done to reflect the realities of the hiring process, is a reasonable measure to tighten expenditures, as long as it has minimal impact on services provided.

While these recommendations are being introduced as one-time measures, in actuality they have been relied upon in prior budget cycles. The BAC is concerned that such one-time budget techniques could become regular occurrences.

C. We are concerned that the City's budgeted staffing levels will increase by 27.33 FTE for FY 2008-09.

Although the budgeted staffing level is reduced by 16.84 FTE in the General Purpose Fund, many of the positions have been transferred to other funds. Non-GPF staffing levels are budgeted to increase by 44.17 FTE, with a net increase of 27.33 FTE overall.

The addition of revenue-generating positions is encouraged. Adding grant-funded positions is reasonable. Increasing staffing levels outside of the public safety areas while cutting services broadly through labor cost reductions (increasing the vacancy rate and the 12-day shutdown) seems counterintuitive.

THE FOLLOWING RECOMMENDATIONS ARE OFFERED TO MAKE THE CITY'S FUTURE BUDGETS MORE TRANSPARENT AND TO AID THE MAYOR AND CITY COUNCIL IN DETERMINING WHICH PROGRAMS ARE SUCCESSFUL AND WHICH MIGHT REQUIRE MORE ASSISTANCE.

D. Improve the use and quality of performance measures throughout the budget.

The budget is intended to be a comprehensive document that details the City's spending, outlines its priorities, and provides accountability on expenditures. The BAC has found that, in the case of most Departments, there are either too few performance measures to determine if a program is meeting its goals or that the information is presented in a manner that makes the program difficult to evaluate. Below are specific recommendations to improve performance measures:

- *Make the Mayor/Council Priorities measurable as in the FY 1996/1997 Budget.* Priorities provide the City with a target of service to shoot for and also enable the Council to evaluate the City's yearly progress towards those goals. Prioritizing these goals could help the City determine and justify its spending allocations. This applies equally to each Department's "Business Goals."

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- *Align programs under the relevant Mayor/Council Priorities* to identify which programs are considered essential and also which priorities do not have sufficient programs attached to them.
- *Identify City and Departmental Best Practices.* Council should consider developing and implementing a Best Practices policy for departments to identify and adopt exceptional programs, processes and “objectives” from other cities around California and the world. Successfully identifying and applying best practices has been shown to reduce expenses, improve organizational efficiency, and improve service delivery and effectiveness. Simply put, if another city figures out how to do something really well with their limited resources, could the Council set an objective to study them and adapt their approach for Oakland?
- *Measure program outcomes in addition to outputs.* E.g. measure whether student test scores go up in addition to how many hours of tutoring a program provides.
- *Adopt multi-year performance targets* to assist with planning past one budget cycle and to evaluate programs’ past successes in reaching their targets.
- *Improve program descriptions* such that a lay person would understand what the program does.
- *Require a baseline or cross-city comparison for every performance measure.* It is difficult to determine if a performance target is reasonable or achievable unless there is some hard data to show what current results are.
- *Include raw data as well as percentages when reporting performance measures.* Percentages are good at showing annual change, but without raw data it is impossible to determine the scope of a program (e.g., a 50% increase in clients served is different if the baseline is 10 people or 1,000).
- *Include the unit cost of a program, where possible.* Coupled with performance measures, this makes it simpler to evaluate whether a program could or should be ramped up or scaled back.
- *Identify the manager attached to each program* for accountability purposes.

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E. The BAC recommends that the Council expand efforts to both maximize existing revenue streams and identify new revenue streams for the City of Oakland.

The BAC understands that a number of programs have been undertaken to increase revenue for the City of Oakland and that a number of officials are dedicated to this task. For example, in his January, 2008 State of the City address, the Mayor cited a number of City programs that brought new revenues. In addition, the Mayor has commented numerous times on his efforts to bring state and federal dollars to the City of Oakland.

While we recognize that these efforts are ongoing, we are concerned that the lack of discussion in the budget documents on these efforts may indicate a lack of progress and/or low priority given to advancing them.

F. Enhance the reporting methodology to provide more transparency and accountability.

The BAC recognizes and acknowledges the efforts the City is putting into trying to make the budget document more accessible and understandable to the citizens of Oakland. These efforts include moving to a program-based format that includes performance measures. Nonetheless, the BAC believes that more work needs to be done in this regards. Below are some areas where the presentation of the budget could be enhanced:

- *Include reporting on progress towards meeting the originally stated performance goals in the quarterly budget reports of spending.* Monitoring and evaluating this data on a regular basis will allow for great accountability and better decision making in future budget deliberations, with the effectiveness of a program's spending of tax dollars becoming easier to ascertain.
- *Show the full impact of each department on the City's budget in a consolidated format.* Expenditures for a single department are sometimes scattered in different places. For instance, the cost of operating and maintaining police and fire vehicles is in the Public Works budget.
- *Clarify the sources of the City's revenue.* The program-based format has resulted in great difficulty in being able to clearly see what the sources of the City's revenues (particularly General Purpose Fund revenues) are. Without adequate detail, there is no ability to identify trends in revenue streams that could have implications for the expenditure side of the budget.

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- *Annually update the Five Year Financial Plan.* This will allow the longer term effects of budget decisions to be seen early enough to take corrective action sooner than later.
- *Provide more descriptive program narratives to help explain the underlying rationales in program budgets.* Describe the changes in the budget from one two-year cycle to the next. Explain the alignment of each program with the Mayor/Council priorities to help us understand the underlying rationales in program budgets.

The BAC believes that changes such as these would provide greater transparency and enable better accountability. While this list is not exhaustive, we believe it provides a foundation upon which the City of Oakland's budget can continue to be improved.

G. Embrace Revenue-Neutral policies.

The BAC is concerned about the budgetary impact of two ballot measures that may appear on the November 2008 Oakland city ballot. These measures call for new programs to address public safety and youth development, but do not propose new sources of funding. One measure calls for the addition of 275 new officers to the Oakland Police Department (at an estimated cost of \$65-\$75 million), while the other would roughly double the funding for the Kids First program to 2.5% of total new revenues (to an estimated \$27 million). These proposals are not revenue-neutral; they would direct existing revenues to these specific purposes.

The BAC suggests an investigation of revenue-neutral models that would prevent new set-asides or other mandatory appropriations from being added to the City Charter unless the measure also identifies or provides a specific, adequate new source of funds. Certainly the state budget crisis, which stems in part from initiative-driven funding formulas, should caution the City of Oakland on the dangers of budget set-asides. We note that the City of San Francisco is currently considering a Revenue-Neutral policy, and we will watch that decision with interest.

CONCLUSION

The current one-time approaches to closing the deficit have been used before. We believe the structural deficit requires and demands long term solutions that lead to the sustainable fiscal health of our City.