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# AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Katano Kasaine  
Finance Director

**SUBJECT:** BAC Letter Regarding the Mayor's  
Proposed FY 2019-21 Budget

**DATE:** May 30, 2019

City Administrator Approval

Date:

5/30/19

This cover letter is to transmit to the City Council the Budget Advisory Commission's (BAC) Letter in response to the Mayor's Proposed FY 2019-21 Budget. The BAC's letter is included as **Attachment A**.

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

Respectfully submitted,

KATANO KASAINE  
Finance Director

Prepared by:  
Bradley Johnson,  
Principal Budget Analyst

Attachments (1):

(A): Budget Advisory Commission (BAC) Letter

Item: \_\_\_\_\_  
Special City Council  
June 10, 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 ~~co~~-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 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](http://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).

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.