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**Analysis of
Proposed FY 2017-19 Budget
City of Oakland**

**Prepared for:
Oakland City Council**

By:

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Introduction

Harvey M. Rose Associates, LLC was retained by the Oakland City Council to provide budget and fiscal analysis services, independent of the City's executive branch. This analysis was conducted to support the City Council as a whole in their process of crafting and approving the two-year budget.

Section 801 of the City of Oakland Charter requires that all City departments, offices and agencies provide information required by the Mayor and City Administrator to allow them to develop a budget. The Charter also requires City departments, offices and agencies to provide specific information that may be required by the Council. Under the direction of the Mayor and City Council, the City Administrator is required to provide budget recommendations for the ensuing year which the Mayor presents to the Council for review and, subsequent to public hearings, approval by resolution.

Scope

The City Council requested that our budget review and analysis cover the following topics:

1. Multi-year budget-to-actual analysis, with a focus on four departments: 1) Police Department, 2) Fire Department, 3) Information Technology Department, and 4) Planning & Building Department. The Police Department review includes overtime.
2. Analysis of major areas of budget year increases, including increases in the number of FTEs over the past three years.
3. Analysis of budgeted vs. actual salary savings.
4. Analysis of encumbrance and reserve adjustments.
5. Analysis of potential revenue enhancement options, with a focus on property, sales, documentary transfer, utility, business license, and fee revenue.
6. Analysis of OPEB liability, payment amounts and schedule.

This review and analysis was conducted between May 10, 2017 and the City Council budget hearings in June 2017.

Limitations to the Analysis

We would like to thank the City Administrator, Director of Finance, and their staff for their assistance with this report. Due to the short time frame for this budget review, our review was limited to four departments and specific expenditure categories. Available data was not always sufficiently detailed to allow for in-depth analysis. For example, some expenditure categories (account titles) are too generic (i.e. "Services: Miscellaneous Contract") for analysis.

1. Overview: Historical and Proposed Citywide Budget and Staffing

The proposed FY 2017-18 revenue and expenditure budget for All Funds is \$1,331,563,727, an increase of \$149.4 million, or 12.6 percent, over the originally adopted budget for FY 2016-17. Compared to the FY 2016-17 midcycle approved budget, the proposed All Funds budget represents a \$93.3 million increase, or 8.8 percent. Exhibit 1 presents this information.

As can be seen, the proposed FY 2017-18 budget is close to actual revenues and expenditures from FY 2015-16. Both revenues and expenditures were initially budgeted at lower levels for FY 2016-17 than actual amounts for the prior fiscal year. However, the initially adopted budget for FY 2016-17 was increased upward as part of the midcycle budget review and is being further increased for the proposed budget year.

Exhibit 1: All Funds Budgeted and Proposed Revenues and Expenditures (in 000s)

	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Proposed	# Change (adptd v. prospd)	% Change (adptd v. propd)
Revenues	\$1,348,852	\$ 1,182,138	\$ 1,238,305	\$ 1,331,564	\$ 149,426	12.64%
Expenditures	\$1,313,330	\$ 1,182,138	\$ 1,238,260	\$ 1,331,564	\$ 149,426	12.64%

Sources: Proposed City of Oakland budgets, FYs 2015-17 and 2017-19

As shown in Exhibit 2, the proposed FY 2017-18 General Purpose Fund revenue and expenditure budget is \$570,529,035. For revenues, this represents a 7.5 percent increase from the FY 2016-17 originally adopted budget but a slight decrease from third quarter projected year-end revenue of \$571,380,000. For expenditures, the proposed expenditure budget is also a 7.5 percent increase compared to the originally adopted FY 2016-17 budget and a modest increase over third quarter projected year-end expenditures for FY 2016-17 of \$567,220,000.

Exhibit 2: General Purpose Fund Budgeted, Projected & Proposed Revenues and Expenditures (in 000s)

	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Projected	FY 2017-18 Proposed	# Change (adptd v. prospd)	% Change (adptd v. propd)
Revenue	\$559,271	\$ 530,689	\$ 549,666	\$ 571,380	\$ 570,529	\$ 39,840	7.51%
Expenditures	\$552,130	\$ 530,689	\$ 549,666	\$ 567,220	\$ 570,529	\$ 39,840	7.51%

Sources: Proposed City of Oakland budgets, FYs 2015-17 and 2017-19

The distribution of the budgeted and proposed expenditures in Exhibits 1 and 2 is presented, by department and budget line item, in the Appendix to this report.

Changes in Full-time Equivalent Positions (FTEs)

As shown in Exhibit 3, the proposed number of budgeted or authorized Citywide full-time equivalent positions for FY 2017-18 is 4,247.5, an increase of 134.6 FTEs, or 3.3 percent, compared to the authorized level of staffing of 4,112.9 for FY 2016-17. Compared to the midcycle authorized level of staffing for FY 2016-17, an increase of 67.25 FTEs is proposed.

Exhibit 3: Citywide Budgeted and Proposed Full-time Equivalent Positions. FY 2015-16 – 2017-18

	FY 2015-16 Budgeted	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Proposed	# Change (adptd v. prospd)	% Change (adptd v. propd)
FTEs	4,126.9	4,112.9	4,180.4	4,247.5	134.6	3.3%

Sources: Proposed City of Oakland budgets, FYs 2015-17 and 2017-19

The proposed FY 2017-18 budget includes:

- Creation of the Police Commission and transfer of positions from the former Citizens Police Review Board in the City Administrator’s Office to the Police Commission;
- Creation of the Transportation Department and transfer of parking enforcement positions from the Police Department and parking meter maintenance positions from Public Works to the Transportation Department;
- Transfer of positions and responsibilities from the City Administrator’s Office to the Finance Department and Department of Human Resources Management;
- Addition of a third Police Academy during the two-year budget cycle, including 50 limited duration police officer trainee positions;
- Addition of one Fire Academy per year, including 18 Firefighter trainee and 8 Fire Paramedic trainee positions; and
- Creation of 14 new civilian Fire Inspector and support positions in the Fire Department over the two-year budget cycle.

2. Citywide Budget Issues

In conducting our analysis of the four selected departments (detailed below), we identified a few trends that warranted a citywide assessment, including personnel savings due to vacant positions, funds encumbered in prior years and not spent, contract contingencies, and fee revenues that do not fully cover fee-related expenses.

Personnel Cost Savings

The City overspent the General Purpose Fund personnel budget by \$6.9 million in FY 2014-15 and \$20.6 million in FY 2015-16, largely due to overspending in the Police Department's budget. The City is projected to overspend the FY 2016-17 personnel budget by \$13.3 million in FY 2016-17, largely due to overspending in the Fire Department and Police Department budgets, as shown in Exhibit 4 below.

Exhibit 4: Budgeted, Year-to-Date and Projected General Purpose Fund Personnel Expenditures FY 2016-17.

Department	Adopted FY 2016-17 Budget	Year to Date as of March 2017	Projected through June 2017	Estimated Unexpended Salary Budget
City Administrator	\$12,858,933	\$9,063,309	\$12,387,863	\$471,070
City Attorney	5,131,268	3,752,980	5,122,184	9,084
City Auditor	1,629,079	1,072,534	1,469,825	159,254
City Clerk	1,253,743	933,789	1,277,365	(23,622)
City Council	4,202,006	2,970,591	4,066,559	135,447
Economic & Workforce Development	3,363,231	2,069,018	2,829,294	533,937
Finance Department	14,698,835	10,093,164	13,815,567	883,268
Fire Department	115,597,975	90,199,595	123,333,526	(7,735,551)
Human Resources Management	4,085,465	2,638,548	3,609,853	475,612
Human Services	4,188,593	2,959,286	4,046,213	142,380
Information Technology	9,026,256	6,988,287	9,562,560	(536,304)
Mayor	2,345,035	1,517,909	2,075,668	269,367
Non Departmental and Port	246,647	0	0	246,647
Oakland Parks & Recreation	8,852,368	5,927,437	8,100,514	751,854
Oakland Public Library	8,200,226	5,775,470	7,902,366	297,860
Oakland Public Works	916,935	739,611	1,011,799	(94,864)
Planning & Building	166,537	56,722	77,619	88,918
Police Department	206,267,237	159,374,889	215,847,690	(9,580,453)
Public Ethics Commission	888,550	638,521	873,655	14,895
Race and Equity Department	327,871	116,044	156,162	171,709
Total	\$404,246,790	\$306,887,704	\$417,566,282	(\$13,319,492)

Source: 3rd Quarter Expenditures provided by City Finance Department

The projections in Exhibit 4 above are based on spending through March 2017.

The proposed FY 2017-18 budget increases General Purpose Fund personnel spending by 4 percent, from \$404.2 million in the adopted FY 2016-17 to \$420.8 million in FY 2017-18, as shown in Exhibit 5 below. As noted above, the City is creating two new departments—Police Commission and Transportation— and transferring positions between departments. The City Attorney’s General Purpose Fund budget increases due to the transfer of 23.72 FTEs from the Self-Insurance Fund to the General Purpose Fund. The largest increase in the General Purpose Fund personnel budget in FY 2017-18 is in the Police Department, which is adding a third Police Academy and 50 trainee positions.

Exhibit 5: Proposed General Purpose Fund Personnel Budgets in FY 2017-18 and FY 2018-19

	FY 2016-17 Budget	FY 17-18	FY 18-19	Budget Change FY 2016-17 to FY 2017-18	Percent
City Administrator	12,858,933	\$9,638,715	\$10,026,604	(3,220,218)	-25%
City Attorney	5,131,268	10,446,982	10,823,593	5,315,714	104%
City Auditor	1,629,079	1,645,902	1,705,198	16,823	1%
City Clerk	1,253,743	1,288,168	1,334,295	34,425	3%
City Council	4,202,006	4,245,049	4,397,096	43,043	1%
Economic & Workforce Development	3,363,231	2,863,771	2,965,403	(499,460)	-15%
Finance Department	14,698,835	16,677,878	17,279,334	1,979,043	13%
Fire Department	115,597,975	115,531,082	122,100,590	(66,893)	0%
Human Resources Management	4,085,465	4,823,995	4,997,676	738,530	18%
Human Services	4,188,593	3,281,634	3,388,647	(906,959)	-22%
Information Technology	9,026,256	8,787,349	9,105,651	(238,907)	-3%
Mayor	2,345,035	2,637,790	2,732,800	292,755	12%
Non Departmental and Port	246,647	1,564	20,198	(245,083)	-99%
Oakland Parks & Recreation	8,852,368	9,217,091	9,489,317	364,723	4%
Oakland Public Library	8,200,226	7,798,847	8,072,328	(401,379)	-5%
Oakland Public Works	916,935	1,266,244	1,312,146	349,309	38%
Planning & Building	166,537	134,345	69,608	(32,192)	-19%
Police Department	206,267,237	210,701,255	226,777,834	4,434,018	2%
Public Ethics Commission	888,550	862,169	893,275	(26,381)	-3%
Race and Equity Department	327,871	390,866	404,885	62,995	19%
Transportation		6,805,154	6,996,308	6,805,154	
Police Commission		1,761,385	1,988,354	1,761,385	
TOTAL	\$404,246,790	\$420,807,235	\$446,881,140	\$16,560,445	4%

Source: City’s Proposed FY2017-18 and FY 2018-10 Budget

Personnel Cost Savings in FY 2017-18

The City budgets 4 percent attrition savings in most City departments’ miscellaneous personnel budgets. Attrition savings account for budgeted positions that are not filled due to turnover and other reasons.¹ The City currently has more than 340 vacant General Purpose Fund positions. Some of these positions

¹ The Library’s FY 2017-18 and FY 2018-19 budget includes an 8 percent attrition savings rate.

are in the process of being filled and other positions are being held vacant to meet attrition savings targets. Approximately 50 of these positions are uniform police or fire positions.

Of the 340 vacant positions as of May 5, 2017, we identified 26 positions which City departments intend to fill during the year, but which are in the early stages of recruiting and hiring. Because the hiring process can take up to six months or more, we recommend increasing attrition savings in each department's budget in FY 2017-18 to account for hiring delays.

Exhibit 6: Proposed Increase in Attrition Savings in FY 2017-18

Department	Number of Positions	FY 2017-18 Salary	Recommended Salary	Savings
Mayor	1.00	\$195,897	\$97,949	\$97,949
City Administrator	4.00	480,120	178,201	301,919
City Attorney	1.00	103,941	51,971	51,971
Human Resources Management	3.00	322,477	199,192	123,286
City Auditor	1.00	196,217	114,460	81,757
Finance	3.00	354,389	136,290	218,099
Police (Civilian)	7.00	947,062	417,508	529,554
Information Technology	2.00	319,778	141,728	178,050
Race and Equity	1.00	146,030	85,184	60,846
Human Services	1.00	120,626	60,313	60,313
Planning and Building	1.00	134,345	78,368	55,977
Economic & Workforce Development	1.00	191,529	63,843	127,686
Total	26.00	\$3,512,411	\$1,642,391	\$1,870,020

Source: Harvey M. Rose Associates based on City data on vacant positions

In addition, the City is proposing 11 new General Purpose Fund positions in FY 2017-18 (other than Police Department and Fire Department positions). For three of these positions, we recommend increasing the attrition rate in the budget by \$203,530 to account for the hiring timelines. Therefore, total recommended attrition savings increases in FY 2017-18 are \$2,073,550.

We further recommend evaluating vacant positions and hiring timelines in the FY 2017-18 midcycle budget.

Encumbrances

For purchase orders, the City carries forward encumbered amounts that have not actually been spent. Some of these encumbered funds get carried over for several years without being spent or returned to the funding source. For General Purpose Fund encumbrances, the City is holding \$4.3 million encumbered from the General Purpose Fund for nearly 4,800 purchase orders. Based on data provided by the Finance Department, we estimate that 340 General Purpose Fund purchase orders that were opened in 2014 and 2015, totaling \$215,000, could be closed. These purchase orders have not recorded expenditures since they were opened in 2014 and 2015.

This will return the encumbered funds to the funding source for re-appropriation.

Contract Contingencies

According to the City, departments can use the account for “Contract Contingencies” to set aside funds as a placeholder when there is uncertainty regarding actual expenditures. The account “Services: Miscellaneous Contracts” appears to be used in the same way. On a Project basis, departments budget funds into these accounts, which were often underspent during the period of review. Many departments use a generic “Project” called “Administrative Project” to allocate funds for unidentified purposes. In FY 2016-17, only two City departments did not maintain an “Administrative Project”: the Mayor’s Office and Planning and Building.

Over the three most recent fiscal years, including the current fiscal year, two departments have consistently underspent these placeholder contract funds: the Office of Economic and Workforce Development and Finance.

We recommend reducing the Contract Contingencies budgets for FY 2017-18 in the the Office of Economic and Workforce Development and Finance departments, according to the table below.

Exhibit 7: Recommended Reductions in Contracts Budgets for FY 2017-18

Department	Account	Amount
Economic & Workforce Development	Contract Contingencies	\$100,000
Finance	Services: Miscellaneous Contracts	\$500,000
Total Savings		\$600,000

Also, Police and Fire historically underspend on contracts, but as discussed below in this report, they use these surplus funds to cover overspending on overtime.

Increasing Fee Revenues to Cost Recovery

Fees for permits and other activities can be set to recover the full cost of providing and monitoring the permits. The City Administrator submitted the FY 2017-18 Master Fee Schedule to the City Council for approval by ordinance in April 2017. According to the City Administrator’s report to the Council the Master Fee Schedule is intended to fully recover the costs of fee-related programs, in accordance with the City Council’s policy.

We identified two fees that we recommend to be increased because they do not fully recover program costs.

Deemed Approved Ordinance

The Deemed Approved Ordinance (DAO) sets public nuisance standards for alcohol serving outlets that were in existence prior the implementation of the State’s Alcohol Beverage Control regulations were established to limit the number of alcohol serving outlets. The City’s proposed FY 2017-18 and FY 2018-19 budgets set fee revenues at less than fee-related expenditures, as shown below. The City would need to increase DAO fees by 11 percent to 17 percent, increasing annual fee revenue by \$92,224 to \$149,377, as shown below.

Exhibit 8: Revenues and Expenditures for DAO Fees, as proposed for FY 2017-19

	FY 2016-17	FY 2017-18	FY 2018-19
Revenue	\$889,249	\$856,045	\$856,045
Expenditures	1,170,559	948,269	1,005,422
Under Recovery	(\$281,310)	(\$92,224)	(\$149,377)
Percent Under Recovery	-32%	-11%	-17%

Source: Proposed FY 2017-18 and FY 2018-19 Budget

We recommend an increase of 10.5 percent to Deemed Approved Ordinance fees, increasing fee revenues by \$90,000 in FY 2017-18 and in FY 2018-19, for total revenues over two years of \$180,000.

Fire Prevention Fees

The City increased Fire Prevention fees in FY 2017-18 to expand Fire Prevention and Inspection work and add 14 new staff to the Fire Prevention and Inspection Program. While the fees now cover a larger portion of program expenditures, the City would need to increase Fire Prevention fees by 9 percent to 18 percent, increasing annual fee revenue by \$565,724 to \$1,132,776, as shown below.

Exhibit 9: Revenues and Expenditures for Fire Prevention Fees, as proposed for FY 2017-19

	FY 2016-17	FY 2017-18	FY 2018-19
Revenue	\$2,712,281	\$5,969,122	\$6,396,898
Expenditures	4,325,245	6,534,846	7,529,674
Under Recovery	(\$1,612,964)	(\$565,724)	(\$1,132,776)
Percent Under Recovery	-59%	-9%	-18%

Source: Proposed FY 2017-18 and FY 2018-19 Budget

We recommend an increase of 8.0 percent to Fire Prevention fees, increasing fee revenues by approximately \$500,000 in FY 2017-18 and in FY 2018-19, for total revenues over two years of \$1,000,000. The City should further evaluate Fire Prevention fee revenues during the FY 2018-19 midcycle budget process to determine the sufficiency of these fee revenues to cover program expenses.

Citywide recommendations and savings

#	Issue	Recommendation	General Purpose Fund Impact
1.	<p>Personnel cost savings: Of the City’s 340 vacant General Purpose Fund positions, we identified 26 positions which City departments intend to fill during the year, but which are in the early stages of recruiting and hiring. Because the hiring process can take up to six months, we recommend increasing attrition savings in each department’s budget in FY 2017-18 to account for hiring delays.</p> <p>In addition, the City is proposing 11 new General Purpose Fund positions in FY 2017-18 (other than Police Department and Fire Department positions). For three of these positions, we recommend increasing the attrition rate in the budget by \$203,530 to account for the hiring timeline.</p>	<p>Budget for attrition in FY 2017-18 to account for hiring delays for vacant and new positions.</p> <p>Evaluate vacant positions and hiring timelines in the FY 2017-18 midcycle budget and budget for attrition in FY 2018-19 to account for hiring delays for vacant and new positions.</p>	\$2,073,550 (one time)
2.	<p>Encumbrances and reserves: As of May 17, 2017, the City had over \$4.3 million in open encumbrances in the General Purpose Fund. Approximately 340 of the nearly 4,800 purchase orders have unspent encumbrances from 2014 and 2015.</p>	<p>Close out open encumbrances in the General Purpose Fund from 2014 and 2015, and return unspent funds to the General Purpose Fund.</p>	\$215,000 (one time)
3.	<p>Contract Contingencies: City departments allocate funds for undisclosed discretionary purposes, and often underspend the budgets. Two departments have consistently maintained balances for generic contracting activities: the Office of Economic and Workforce Development and Finance.</p>	<p>Reduce allocations for contract contingency accounts in FY 2017-18 for the Office of Economic and Workforce Development and Finance to reflect historic spending.</p>	\$600,000 (ongoing)

#	Issue	Recommendation	General Purpose Fund Impact
4.	Revenue: The City needs to increase Fire Prevention and Deemed Approved Ordinance fees to ensure that the costs of Fire Prevention and Deemed Approved Ordinance programs are fully recovered.	Increase Fire Prevention fees by 8.0 percent in FY 2017-18.	\$500,000 in FY 2017-18 and in FY 2018-19, totaling \$1,000,000 over two years.
		Further evaluate Fire Prevention fee revenues during the FY 2018-19 midcycle budget process to determine the sufficiency of these fee revenues to cover program expenses.	
		Increase Deemed Approved Ordinance fees by 10.5 percent.	\$90,000 in FY 2017-18 and in FY 2018-19, totaling \$180,000 over two years.

3. Four Departments Reviewed

The City Council requested that we review and analyze the proposed budgets of four departments: Police, Fire, Information Technology, and Planning and Building. The results of these analyses are now presented.

Police Department

The Police Department’s proposed All Funds budget for FY 2017-18 is approximately \$274.3 million, an increase of \$31.7 million, or 13.9 percent, compared to the Department’s originally adopted budget of \$242.5 million for FY 2016-17. When compared to the Department’s adopted midcycle budget for FY 2016-17 of approximately \$261 million, the increase is \$13.3 million, or 5.1 percent. The proposed budget is closest to actual FY 2015-16 expenditures.

The Police Department’s proposed budget increase of 13.9 percent compared to its originally adopted FY 2016-17 budget is slightly higher than the 12.6 percent All Funds Citywide level of increase and much higher than the General Purpose Fund proposed level of increase of 7.51 percent.

Exhibit 10: Police Department Actual, Authorized and Proposed Expenditures and Full-time Equivalent Positions, All Funds, FY 2015-16 – 2017-18

	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Proposed	\$ Change (adptd v. propsd)	% Change (adptd v. propd)
Expenditures	\$273,985,825	\$242,535,092	\$260,951,168	\$274,271,164	\$31,736,072	13.9%
FTEs	1,240.7	1,228.70	1,318.54	1,264.50	35.80	2.9%

Sources: Proposed City of Oakland budgets, FYs 2015-17 and 2017-19

Expenditures Exceeding Total Annual Budget

In each of the fiscal years of our review, the Police Department has overspent its budget, by over \$5 million in FY 2014-15 and \$15 million in FY 2015-16. According to City projections as of March 31, 2017, the Department will overspend its entire budget in FY 16-17 by \$16 million. Nearly \$13 million (or 78 percent) of that \$16 million will come from overtime paid to sworn officers.

Approximately one-half of projected overspending in FY 2016-17 (\$8.0 million of \$16.0 million) comes from the General Purpose Fund, as shown below.

Exhibit 11: Police Department General Purpose Fund Budget and Expenditures, FY 2014-17

	FY 2014-15	FY 2015-16	FY 2016-17 (projected)
Budget	209,918,736	232,782,196	244,543,711
Actual	213,291,610	243,794,125	252,568,221
Variance Amount	(3,372,874)	(11,011,929)	(8,024,510)
Variance %	1.6%	4.7%	3.3%

Sources: City of Oakland budgets, FYs 2015-17

Because the Department overspends its entire budget, we cannot make recommendations for reductions in specific areas where it historically underspends, but we can identify those spending categories for future analysis. These areas include contracts and supplies and materials; details on the Department’s spending in these categories are shown below.

Exhibit 12: Police Department Budget and Expenditures for Contracts and Supplies & Materials, FY 2014-17

Fiscal Year		Contract Services	Supplies and Materials	Total Annual Savings
FY 2014-15	Budget	\$5,680,260	\$4,735,639	
	Actual	99,603	2,945,935	
	Variance	\$5,580,657	\$1,789,704	\$7,370,362
FY 2015-16	Budget	\$5,805,950	\$4,584,564	
	Actual	2,120,803	2,146,184	
	Variance	\$3,685,147	\$2,438,380	\$6,123,527
FY 2016-17 (projected)*	Budget	\$6,306,596	\$4,601,183	
	Actual	2,392,199	2,351,831	
	Variance	\$3,914,397	\$2,249,352	\$6,163,749

Sources: City of Oakland budgets, FYs 2015-17

*Note these projections have been calculated by HMR, as straight line projections using the most recent Q3 data from the City

As discussed in Section 4 of this report, the City Council should consider implementing budgetary controls at the department level to ensure that no department is able to spend more than its annual budget without prior Council approval. However, until the Police Department specifically budgets adequately for overtime during the budget process, this overspending will continue.

Overtime

The City projects that the Department will overspend its annual overtime budget for FY 2016-17 by 86 percent. At \$27.2 million in projected overtime expenditures, the Department will nearly double its \$14.7 million overtime budget, according to these projections.

This trend has been consistent since at least FY 2014-15. And yet despite continued overspending, the Department has budgeted less for overtime in each year of this period.

Exhibit 13: Police Department Overtime Budget and Expenditures, FY 2014-17

	FY 2014-15	FY 2015-16	FY 2016-17
Overtime Budget	16,711,334	15,353,845	14,673,479
Overtime Actuals	29,941,091	27,156,910	27,243,226
Variance Amount	(13,229,757)	(11,803,065)	(12,569,747)
Variance %	79.2%	76.9%	85.7%

Sources: City of Oakland, OPD Overtime Historical Summary

In the proposed FY 2017-19 budget, the Department has requested \$13 million for overtime in each of the fiscal years. Although the Department reports that it is working with the City Administrator to implement controls on overtime use, it is clear that the current budgeted amount for overtime expenditures will not be sufficient to meet City needs, and the Department will overspend in overtime in both FY 2017-18 and FY 2018-19.

The table below shows the overtime spending by category/element for FY 2013-14 through Q2 FY 2016-17. While total spending has decreased slightly since the peak in FY 2014-15, spending far exceeds \$13 million.

Exhibit 14: Police Department Overtime Expenditures by Category, FY 2014-17

Overtime Category	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17 (Q2)	% variance 13-16
Acting Higher Rank	597,719	699,882	674,884	203,768	12.9%
Administrative Investigation	632,819	864,030	854,033	321,892	35.0%
Backfill	7,896,368	6,351,396	6,444,600	2,490,560	-18.4%
Callback	1,150,274	1,049,737	894,476	390,695	-22.2%
Canine		15,876	21,092	13,764	
Community Meetings		86,236	71,734	37,598	
Comp Time Earned	225,977	214,856	192,104	109,058	-15.0%
Court	417,297	381,953	529,700	206,165	26.9%
Extension of Shift	4,180,843	4,997,118	4,654,810	2,400,374	11.3%
FLSA	430,806	473,310	423,329	176,344	-1.7%
Holiday	1,823,931	2,020,135	2,311,218	1,265,840	26.7%
Other	102,214				-100.0%
Recruiting/Background	739,950	638,222	643,946	159,028	-13.0%
Special Enforcement	4,032,200	8,065,810	4,287,260	2,050,567	6.3%
Special Events	2,166,088	2,655,714	3,474,117	1,875,823	60.4%
Training	1,756,572	1,426,816	1,679,607	639,440	-4.4%
Grand Total	26,153,059	29,941,091	27,156,910	12,340,917	3.8%

Source: City of Oakland, Police Overtime Reports FY 13-17

Vacant Civilian Positions

The Department currently has 44 vacant civilian positions, with the oldest vacancy dating to May 2015. Although the Department reports that 22 of them are in some stage of an active hiring process, given typical hiring delays, it is likely that the Department will have significant salary savings in FY 2017-18 from these vacancies.

However, as noted above, these savings will be offset by overspending in sworn overtime.

Recommendations pertaining to Police Department

We reviewed the Police Department’s proposed and actual revenues, expenditures and staffing levels for FY 2017-18 and the most recent two fiscal years. As a result, we have the following recommendations.

#	Issue	Recommendation	General Purpose Fund Impact
5.	Staffing: Actual Police Department overtime expenditures have exceeded budgeted amounts by an average of \$12.5 million over the past three years.	Review historical expenditures and assess future needs to more accurately establish budgets	
6.	Staffing: Based on the consistent pattern of overspending in overtime, it is clear that the department lacks sufficient internal controls on overtime use	Implement measures to increase accountability for overtime use, including enhanced approvals and reporting.	
7.	Budget: Despite historical underspending, the Department continues to budget more than it needs in certain expenditure categories, including contracts and supplies & materials	Review historical expenditures and assess future needs to more accurately establish budgets	

Fire Department

The Fire Department's proposed All Funds budget for FY 2017-18 is \$139.1 million, a decrease of \$406,204, or 0.3 percent compared to the Department's originally adopted budget of \$139.5 million for FY 2016-17. When compared to the Departments' approved midcycle budget for FY 2016-17 of \$138.5 million, the proposed budget is an increase of approximately \$600,000.

Exhibit 15: Fire Department Actual, Authorized and Proposed Expenditures and Full-time Equivalent Positions, All Funds, FY 2015-16 – 2017-18

	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Proposed	\$ Change (adptd v. prospd)	% Change (adptd v. proprd)
Expenditures	\$138,727,020	\$139,494,304	\$138,462,514	139,088,100	(\$406,204)	-0.29%
FTEs	593.95	593.95	591.49	623.59	29.64	5.0%

Sources: Proposed City of Oakland budgets, FYs 2015-17 and 2017-19

In spite of budgeted expenditures remaining fairly constant in the proposed budget, Fire Department staffing is proposed to increase by 29.64 FTEs, or five percent, in FY 2017-18 compared to the level of staffing in the originally adopted FY 2016-17 budget. The increase in FTEs is slightly higher when the proposed FY 2017-18 budget is compared to the midcycle adopted budget for FY 2016-17. The increase in staffing for the Fire Department is higher than the Citywide increase in FTE count of 3.3 percent.

The Fire Department's proposed budget decrease of approximately 0.3 percent compared to its originally adopted FY 2016-17 budget is well below than the 12.64 percent level of increase for the All Funds Citywide expenditure budget.

Findings from Our Review of the Fire Department

Our review of the proposed FY 2017-19 Fire Department budget found that the Department does not establish budgets to match its actual expenditure needs. As shown in Exhibit 16 below, the Department overspent on overtime by \$18.4 million in FY 2015-16 (\$2.2 million budgeted vs. \$20.7 million expended) and is projected to overspend on overtime by \$18.6 million (\$1.5 million budgeted vs. \$18.6 million projected) in FY 2016-17 while underspending on other employee personnel services, such as regular salary, fringe benefits, and paid leave.

**Exhibit 16: Fire Department Personnel Services
Budgeted and Actual/Projected Expenditures FY 2015-16 and FY 2016-17**

	FY 2015-16			FY 2016-17		
	Budget	Actual	Over/(Under) Spend	Budget	Projected	Over/(Under) Spend
Overtime	\$2,216,317	\$20,660,394	\$18,444,077	\$1,485,951	\$20,077,681	\$18,591,730
All Other Employee Personnel Service Expenditures^a	\$119,694,144	\$94,576,141	(\$25,118,003)	\$114,112,024	\$100,188,445	(\$13,923,579)

Sources: FY 2015-16 Final Expenditure Report from the Finance Department and FY 2017-19 Third Quarter Expenditure Report

^a Including Allowances/Buybacks, Fringe Benefits and Retirement Contributions, Misc. Payroll Adjustments, Paid and Unpaid Leaves, Premiums, and Salary

At the same time the Department has underspent nearly every other budget category, which has brought total actual expenditures nearly in line with budgeted expenditures. There does not appear to be clear analyses or rationales for determining the budgeted amount for several of the Department's budget categories. Many expenditure categories were underspent in FY 2015-16 and are projected to be underspent in FY 2016-17, such as miscellaneous services, telephone service, books, craft supplies, minor tools and equipment, miscellaneous supplies and commodities, stationary and office supplies, and microfilm and microfiche. In response to our inquiries about how the budgets for these categories are determined, a Department representative noted that the category budgets were historical amounts established under a prior administration. It is not possible to make specific recommendations for budgetary savings if budgeted amounts do not reflect actual needs.

Recommendations pertaining to Fire Department

We reviewed the Fire Department’s proposed and actual revenues, expenditures and staffing levels for FY 2017-18 and the most recent two fiscal years. As a result, we have the following recommendations.

#	Issue	Recommendation	General Purpose Fund Impact
8.	Overtime: Actual Fire Department overtime expenditures have exceeded budgeted amounts by \$18.4 million in FY 2015-16 and are projected to exceed the budget by a similar amount in FY 2016-17.	Develop a fire suppression staffing model that accounts for minimum staffing requirements, relief (the need for positions to backfill time off and vacancies) and overtime. The staffing model should be the basis for the fire suppression budget.	
9.	Budgeting: It is not clear how the Department establishes its budgetary levels for its various spending categories.	Review historical expenditures and assess future needs to more accurately establish budgets by categories of spending (such as characters and objects).	The Council would be able to conduct a sufficient and detailed budget analysis to optimize efficiency of City revenues.

Information Technology Department

The Information Technology Department’s proposed All Funds budget for FY 2017-18 is approximately \$32.8 million, an increase of \$9.9 million, or 43 percent, compared to the Department’s originally adopted budget of \$22.9 million for FY 2016-17. This level of increase is well above the 12.4 percent increase in the Citywide All Funds budget proposed for FY 2017-18. When compared to the Department’s approved midcycle budget for FY 2016-17 of \$31.6 million, the proposed budget is an increase of approximately \$1.2 million, or 3.8 percent.

Exhibit 17: Information Technology Department Actual, Authorized and Proposed Expenditures and Full-time Equivalent Positions, All Funds, FY 2015-16 – 2017-18

	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Proposed	\$ Change (adptd v. prospd)	% Change (adptd v. propd)
Expenditures	\$22,827,203	\$22,940,093	\$31,568,948	\$32,799,498	\$9,859,405	42.98%
FTEs	73.0	73.00	78.00	79.00	6.0	8.2%

Sources: Proposed City of Oakland budgets, FYs 2015-17 and 2017-19

Information Technology Department staffing is proposed to increase from 73 FTEs in the adopted FY 2016-17 budget to 79 FTEs in FY 2017-18, an increase of six FTEs. Five of those six additional FTEs were accounted for in the FY 2016-17 midcycle adopted budget, when the number of FTEs in the Department increased from 73 to 78.

The primary reasons for the sizable increase in costs and staffing in the Information Technology Department in FY 2017-18 compared to the originally adopted FY 2016-17 budget include:

- An increase of \$7.99 million in the Information Technology Fund budget, from \$2.5 million in original adopted FY 2016-17 budget to \$10.4 million in the proposed FY 2017-18 budget.
- An increase of 1.8 million in the Radio Fund budget, from \$7.4 million in the original FY 16-17 budget to \$9 million in the proposed FY 2017-18 budget.

The Proposed Budget may understate the actual General Fund Support of the Information Technology Department in FY 2017-19. The direct General Purpose Fund support for the Information Technology Department decreases in the proposed FY 2017-19 budget, from \$11 million in FY 2016-17 to \$9.8 million in FY 2017-18. This is because approximately \$1.4 million in expenditures are being moved to internal service funds, such as the Radio Fund. However, General Purpose Fund monies are still supporting these expenditures. For example, the Radio Fund recovers funds from City Departments based on their number of radios and is 83 percent General Purpose Fund. Similarly, the Information Technology Fund allocates costs based on FTEs and is 73 percent General Purpose Fund. Therefore, the proposed budget for FY 2017-18 includes at least \$25 million in General Purpose Funds, when including direct allocations from the General Purpose Fund and the General Purpose Fund portions of the Radio and Information Technology internal services funds, which is \$6.6 million higher than the original FY

2016-17 budget funded by the General Purpose Fund and General Purpose Fund portions of the Radio and Information Technology internal services funds.

In addition, the proposed budget may underestimate the actual direct General Purpose Fund support for the Information Technology Department that would be consistent with its historical expenditures. General Purpose Fund support may increase due to spending in accounts that have historically high spending but have been reduced or not included in the proposed budget. These are shown in Exhibit 18 below.

Exhibit 18: Accounts That May Require Additional General Fund Support during FY 2017-19

Accounts	Actual Spending, FY 2014-15	Actual Spending, FY 2015-16	Actual Spending, FY 2016-17*	Proposed budget, FY 2017-18	Proposed budget, FY 2018-19
54011 Contract contingency					
54811 Temporary personnel Services					
54919 Services: Miscellaneous Contract	337,734	1,316,232	2,575,223	28,500	28,500
78811 Fund balance re-appropriated					

Source: City Administrator

* FY 16-17 actuals based on projections by the City Administrator

These four accounts had actual General Purpose Fund expenditures of \$1.3 million in FY 15-16 and are projected by the City Administrator to spend \$2.6 million in FY 2016-17, yet the proposed budget for FY 17-18 has \$28,500 total budgeted for these accounts on the General Purpose Fund. As a result, the proposed FY 2017-19 budget may not accurately reflect the true General Purpose Fund cost of the Information Technology Department.

Citywide IT Expenditures

We reviewed two internal service funds with major IT expenditures, the Radio Fund and the Information Technology Fund. These two funds were established to capture project-related expenditures and, as noted above, costs are allocated to City departments based on devices or FTEs. The total appropriated and actual spending amounts since FY 2014-15 are detailed in Exhibit 19 below.

Exhibit 19: Citywide Appropriations and Actual Spending for Radio and IT internal service funds

Radio Fund	FY 2014-15	FY 2015-16	FY 2016-17 ¹	Total FY 2014-17
Appropriated	14,280,596	17,587,958	17,276,465	49,145,019
Spent	11,932,373	11,309,669	9,876,675	33,118,717
Unspent Funds	1,924,183	6,278,289	7,399,790	15,602,262
GF Portion of Unspent Funds	1,597,072	5,210,980	6,141,826	12,949,877
IT Fund	FY 2014-15	FY 2015-16	FY 2016-17 ¹	Total FY 2014-17
Appropriated	0	19,975,527	17,898,999	37,874,526
Spent	0	17,396,708	11,427,182	28,823,890
Unspent Funds	0	2,578,819	6,471,817	9,050,636
GF Portion of Unspent Funds	0	1,882,538	4,724,426	6,606,964
Total Unspent GF, Radio and IT Funds	1,597,072	7,093,518	10,866,252	19,556,842

Source: City Administrator

¹ FY 16-17 refers to Q1 - Q3 only

² Remaining balance includes unbudgeted expenditures and therefore is sometimes at variance with the difference between appropriated and actual expenditures in a fiscal year.

As shown in Exhibit 19 above, the Radio Fund had expenditures \$15.6 million less than it received in budget allocations since FY 2014-15 and the Information Technology Fund had a remaining balance of \$9 million over that same period, the General Fund portion of which totaled approximately \$19.6 million in unspent allocations over the past three fiscal years. In other words, allocations to these funds exceed what may be spent down over the fiscal year.

Exhibit 20 below shows the historical and proposed appropriations for the Radio and IT funds:

Exhibit 20: Historical and proposed appropriations for radio and IT project funds, FY 2014-19

Appropriated Funds	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18*	FY 2018-19*	Total, FY 15-19
Radio Fund	14,280,596	17,587,958	17,276,465	9,254,371	8,747,658	67,147,048
IT Fund	0	19,975,527	17,898,999	10,568,739	10,344,609	58,787,874

Source: City Administrator

The Radio Fund

According to the City Administrator, the Radio Fund is fully committed to the radio replacement project for police and fire department radios and other communication upgrades. The City Administrator referred us to the legislative file summarizing that project. According to a Finance Department memo in

that legislative file, the total cost of the current radio project was originally estimated at \$8.5 million. That memo stated that the Council previously approved a \$27 million not-to-exceed amount for the radio replacement project. As shown above in Exhibit 19, \$49 million was appropriated from FY 2014-15 through FY 2016-17, yet \$33.1 million has been spent, leaving a remaining balance of \$15.6 million. An additional \$18 million is proposed in the biennial budget for FY 2017-18 and FY 2018-19, for a total of \$67 million in appropriated funds to replace the City's radios, or 7.9 times the original \$8.5 million budget for this project.

According to the City Administer, the Radio Fund is approximately 83% General Purpose Fund. Changes to allocations to the Radio Fund would therefore free up General Purpose Fund money that may otherwise not be spent in the year for which it was appropriated.

The Information Technology Fund

According to the City Administrator, the Information Technology Fund is fully committed to fund the spending plans of several IT projects, including upgrading the 9-1-1 system and the City's financial system. The City Administrator referred us to the legislative file summarizing those projects and their associated funding requirements. According to a Finance Department memo in that legislative file, the total cost of those projects was expected to be \$27 million (\$17 million in requested spending authority plus an additional expected \$10 million to complete the 9-1-1 project). Since that time, \$37.8 million was appropriated for this fund in FY 2015-16 & FY 2016-17 and, as noted above, \$28 million of the \$37.8 appropriations were spent as of Q3 FY 2016-17, leaving a remaining balance of \$9 million. An additional \$20.9 million is included in the proposed biennial budget. If approved as proposed, the Information Technology Fund would have received a total of \$58.8 million in allocations from FY 2015-16 to FY 2018-19.

According to the City Administer, the Information Technology Fund is approximately 73% General Purpose Fund. Changes to allocations to the Information Technology Fund would therefore free up General Purpose Fund money that may otherwise not be spent in the year for which it was appropriated.

Recommendations pertaining to Information Technology Department

We reviewed the Information Technology Department’s proposed and actual revenues, expenditures and staffing levels for FY 2017-18 and at least the most recent two fiscal years. As a result, we have the following recommendations.

#	Issue	Recommendation	General Purpose Fund Impact
10.	Staffing: The Department has had a vacant Application Developer III since December 2015 that is funded by the General Purpose Fund. The Department has not initiated a requisition to fill this position.	Delete one Application Developer III position.	\$185,992 in General Purpose Fund savings in FY 2017-18. \$192,735 in General Purpose Fund Savings in FY 2018-19.
11.	The Radio project appears to have exceeded its original budget and Radio and IT projects do not fully spend their annual appropriations. Annual appropriations for those projects cannot be spent down and have tied up \$19.9 million in General Purpose Funds since FY 2014-15.	Conduct follow up analysis to understand reasons for underspending in Radio and IT Funds.	Historically, \$19.6 million in unspent but appropriated General Purpose Funds from FY 2014-15 through FY 2016-17.

Planning and Building Department

The Planning and Building Department’s proposed budget for All Funds in FY 2017-18 is \$34.2 million, an increase of \$7.2 million or 26.8 percent, compared to the Department’s originally adopted budget of approximately \$27.0 million for FY 2016-17. This level of increase is well above the 12.4 percent increase in the Citywide All Funds budget proposed for FY 2017-18. When compared to the Department’s approved midcycle budget for FY 2016-17 of \$29.9 million, the proposed budget is still an increase of approximately \$4.3 million, or 14.4 percent. Exhibit 21 below shows the change in Department’s total budget each fiscal year.

Exhibit 21: Planning and Building Department, All Funds Proposed and Adopted Budget, and Actual Expenditures, All Funds, FY 2015-16 to FY 2017-18

	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Proposed	\$ Change (adopted v. proposed)	% Change (adopted v. proposed)
Expenditures	\$25,673,196	\$26,996,545	\$29,931,578	\$34,220,121	\$7,223,576	26.8%
FTEs	140.5	140.5	142.0	160.5	20.0	14.2%

Sources: Proposed City of Oakland budgets, FYs 2015-17 and 2017-19

The high increase in the proposed budget is primarily due to suggested expansions in staffing resources and City contract contingencies. The proposed FY 2017-18 budget adds 20.0 FTE to the Planning and Building Department, which increases the total FTE count by 14.2 percent from 140.5 FTE in the 2016-17 adopted budget to 160.5 FTE in the proposed FY 2017-18 budget. The main goal of enhancing staffing resources is to address the backlog and building and zoning permit applications in the Department.

The purpose of the \$2,032,900 increase in budgeted contract contingencies for the Department is unclear as the proposed contract contingencies budget is not linked to specific existing contracts or initiatives, but used as a tool to redistribute funds within and across City Departments. As mentioned in Section 2, contract contingencies can be used for a wide variety of functions and City Council approval is typically not requested prior to the reallocation of these funds.

Development Service Fund - Primary Source of Department Budget

The Development Service Fund is the primary fund used to finance the operations of the Planning and Building Department as the City of Oakland has gradually reduced the amount of General Purpose Funds allocated to the Department each fiscal year. The City chose to isolate the Department’s budget to the Development Service Fund to better track how the Department’s revenues are spent and ensure compliance with State and Federal regulations. As a result, the majority of the additional funds proposed for FY 2017-18 and FY 2018-19 are under the Development Service Fund, as shown in Exhibit 22 below.

Exhibit 22: Planning and Building Department, Adopted and Proposed Budget Expenditures

	FY 2016-17 Adopted	FY 2016-17 Midcycle	FY 2017-18 Proposed	FY 2018-19 Proposed
General Purpose Fund: General Purpose	\$41,648	\$41,648	\$16,000	\$16,000
Comprehensive Clean-up	260,866	275,471	-9,859	-10,092
Rental Adjustment Program Fund			67,172	69,608
Development Service Fund	26,694,031	29,614,459	34,146,808	35,463,566
Total Budget	\$26,996,545	\$29,931,578	\$34,220,121	\$35,539,082

Sources: Proposed City of Oakland Budgets, FYs 2015-17 and FY 2017-19.

Because the Development Service Fund represents 99.8 percent of the total budget, recommendations for savings in this Department will be exclusively within the Development Service Fund. While City Council members are unable to dedicate any possible savings from the Development Service Fund to non-Planning and Building initiatives, the City Council could reallocate funds within the Department to increase efficiency.

Historical Underspending of Appropriated Budget

For the past three fiscal years, the Planning and Building Department has underspent the budget appropriation by at least 20 percent. In FY 2016-17, the Planning Department is projected to underspend the total budget appropriation by at least \$5.9 million. Similar to other City Departments, the Planning and Building Department has an account entitled “Contract Contingencies” (Account No. 54011), where funds are allocated but specific uses are not pre-determined. This account has been underspent for the past three fiscal years and is one of the major drivers of underspending in the Planning and Building Department, and several other City Departments as mentioned in Section 2. Two other areas of underspending in the Department are unspecified miscellaneous services , miscellaneous contracts, computer software, and supplies and materials.

High Vacancy Rate

In FY 2016-17, the Planning and Building Department has a 16.2 percent vacancy rate, which translates to 23.0 FTEs currently vacant in the Department. Despite the large number of existing vacant positions, the proposed Planning and Building Department budget for FY 2017-18 includes a staffing increase of 20.0 FTEs or 14.2 percent. The Planning and Building Department has explained that the hiring process requires six to nine months before an offer can be extended to candidates. As a result, the Department has employed temporary staff, such as Temporary Contract Employees (TCSE) and Exempt Limited Duration Employees (ELDE) to address the gap in service during the recruitment period. Due to this practice, the Department routinely overspends the budget allocated for temporary salaries.

The Department has both immediate and long-term staffing needs. To address immediate workload needs and reduce the backlog, the Department should increase the budget for temporary and limited term staff to counteract the six to nine-month recruitment cycle. This way, the Department can quickly hire temporary and limited term staff to provide services until permanent positions have been filled. This can be accomplished by filling 3.0 FTE vacant positions that are in the same job classification as 3.0

FTE of the total 20.0 FTE newly requested positions, adding a total of \$627,654 in one-time funds to the temporary and limited term staff budget. Each of the identified vacant positions have been vacant for at least 22 months. Further details are outlined in the recommendations table below.

To ensure that the Department is able to provide adequate services over the long-term, the Department should expedite the filling of all vacant positions as well as the remaining 17.00 FTE newly requested positions. Together, these two steps should equip the Department with sufficient resources to address both immediate and long-term staffing needs.

Excessive Use of Overtime Hours

Similar to temporary salaries, the Planning and Building Department has spent more than double the amount allocated for overtime hours to maintain service levels until new full-time staff members are hired. While the Planning and Building Department has a process in place for each Supervisor to pre-approve overtime requests and sign off on actual overtime hours worked, there is a need for more robust internal controls to prevent overspending in this category and to better manage staffing resources.

Recommendations pertaining to Planning and Building Department

We reviewed the Planning and Building Department's proposed and actual revenues, expenditures and staffing levels for FY 2017-18 and the most recent two fiscal years. As a result, we have the following recommendations.

#	Issue	Recommendation	General Purpose Fund Impact
12.	<p>Vacant Positions: The Planning and Building Department has requested an additional 20.0 FTEs for FY 2017-18 despite the existing 23.0 FTEs of vacant positions in the Department, amounting to a 16.2 percent vacancy rate. The Department should expedite and prioritize filling existing vacant positions, and meet back log and other workload needs through use of limited term and temporary positions.</p>	<p>Increase the budget for temporary and limited term staff by filling the 3.0 FTE vacant positions that are in the same job classification as 3.0 FTE of the 20.0 FTE new requested positions, amounting to one-time funds of \$627,654 (Development Service Fund). These 3.0 FTE vacant positions have been vacant for at least 22 months.</p> <p>Shift the budgeted amount for the following new FY 2017-18 FTEs to the temporary and limited term staff budget:</p> <ul style="list-style-type: none"> ▪ 1.00 FTE Planner II ▪ 1.00 FTE Specialty Combination Inspector, Senior ▪ 1.00 FTE Specialty Combination Inspector <p>Fill the following existing 1.00 FTE vacant positions:</p> <ul style="list-style-type: none"> ▪ Planner II.AP272.33160.18480: vacant for over 4 years ▪ Specialty Combination Inspector, Senior.IS120.33389.32359: Vacant for 22 months ▪ Specialty Combination Inspector,IS119.33799.1293: Vacant for 2 years and 4 months 	No General Fund impact
13.	<p>Internal Controls for Overtime and Managing Staffing Resources: Even though the Planning and Building Department advise that there is a specific process in place to pre-approve overtime hours and review actual overtime hours claimed, the Department continues to overspend the budget allocated. The Department also uses overtime hours to provide services during the lengthy new staff recruitment process.</p>	<p>Follow-up analysis to determine how the Department can (i) tighten internal controls for overtime hours; and (ii) shorten the recruitment period for new staff hires.</p>	No General Fund impact

4. Matters for Future Review

Budgetary Control

The City Charter requires City Council approval of the two-year budget by resolution. The City Council conducts a midcycle budget review to address changes in revenues and expenditures. Changes in actual revenues and expenditures are reported to the City Council quarterly. The City Council should consider adopting practices to increase budgetary control, including adopting the two-year budgets through an ordinance (which is a legislative act) rather than by resolution (which is a policy statement). Such a change would require a Charter amendment.

If the City Council were to adopt the budget by ordinance, the City Council should define the level of budgetary control at the department level. City departments would then need to obtain City Council approval through a supplemental appropriation ordinance prior to spending above the budget amount.

OPEB Liability

Other post-employment benefits (OPEB) consist of retiree health and other benefits, other than pensions. The City's OPEB plan covers the City's police, fire, and miscellaneous employees. The City Council's policy is to assign at least 25 percent of excess Real Estate Transfer Tax and one-time revenues to fund unfunded liabilities, including OPEB.

As of June 30, 2016, the City's OPEB obligation was \$305 million, which was an increase of \$48.1 million from the City's OPEB obligation at the beginning of the fiscal year of \$256.9 million. The City's FY 2015-16 contribution to the OPEB obligation was \$68.6 million or approximately 30 percent.

#	Issue	Recommendation	General Purpose Fund Impact
14.	Budget controls: The City Council should consider adopting practices to increase budgetary control, including adopting the two-year budgets through an ordinance (which is a legislative act) rather than by resolution (which is a policy statement). Such a change would require a Charter amendment.	If the City Council were to adopt the budget by ordinance, the City Council should define the level of budgetary control at the department level, and require that City departments obtain approval through a supplemental appropriation ordinance prior to exceeding their budgeted expenditures.	
15.	OPEB liability: The City's OPEB obligation increased by nearly 19 percent in FY 2015-16, from \$256.9 million to \$305 million.	The City Council should consider increasing the allocation of one-time funds in FY 2017-18 and FY 2018-19 toward the City's OPEB obligation.	

Attachments

Recommendations

#	Dept	Issue	Recommendation	General Purpose Fund Impact	One-time/Ongoing
1	City	<p>Personnel cost savings: Of the City's 340 vacant General Purpose Fund positions, we identified 26 positions which City departments intend to fill during the year, but which are in the early stages of recruiting and hiring. Because the hiring process can take up to six months, we recommend increasing attrition savings in each department's budget in FY 2017-18 to account for hiring delays.</p> <p>In addition, the City is proposing 11 new General Purpose Fund positions in FY 2017-18 (other than Police Department and Fire Department positions). For three of these positions, we recommend increasing the attrition rate in the budget by \$203,530 to account for the hiring timeline.</p>	<p>Budget for attrition in FY 2017-18 to account for hiring delays for vacant and new positions.</p> <p>Evaluate vacant positions and hiring timelines in the FY 2017-18 midcycle budget and budget for attrition in FY 2018-19 to account for hiring delays for vacant and new positions.</p>	\$2,073,550	One-time
2	City	<p>Encumbrances and reserves: As of May 17, 2017, the City had over \$4.3 million in open encumbrances in the General Purpose Fund. Approximately 340 of the nearly 4,800 purchase orders have unspent encumbrances from 2014 and 2015.</p>	Close out open encumbrances in the General Purpose Fund from 2014 and 2015, and return unspent funds to the General Purpose Fund.	\$215,000	One-time
3	City	<p>Contract Contingencies: City departments allocate funds for undisclosed discretionary purposes, and often underspend the budgets. Two departments have consistently maintained balances for generic contracting activities: the Office of Economic and Workforce Development and Finance.</p>	Reduce allocations for contract contingency accounts in FY 2017-18 for the Office of Economic and Workforce Development and Finance, to reflect historic spending.	\$600,000	Ongoing
4	City	<p>Revenue: The City needs to increase Fire Prevention and Deemed Approved Ordinance fees to ensure that the costs of Fire Prevention and Deemed Approved Ordinance programs are fully recovered.</p>	<p>Increase Fire Prevention fees by 8.0 percent in FY 2017-18.</p> <p>Further evaluate Fire Prevention fee revenues during the FY 2018-19 midcycle budget process to determine the sufficiency of these fee revenues to cover program expenses.</p> <p>Increase Deemed Approved Ordinance fees by 10.5 percent.</p>	<p>\$500,000 in FY 2017-18 and in FY 2018-19, totaling \$1,000,000 over two years.</p> <p>\$90,000 in FY 2017-18 and in FY 2018-19, totaling \$180,000 over two years.</p>	Ongoing
5	Police	<p>Staffing: Actual Police Department overtime expenditures have exceeded budgeted amounts by an average of \$12.5 million over the past three years.</p>	Review historical expenditures and assess future needs to more accurately establish budgets		
6	Police	<p>Staffing: Based on the consistent pattern of overspending in overtime, it is clear that the department lacks sufficient internal controls on overtime use</p>	Implement measures to increase accountability for overtime use, including enhanced approvals and reporting.		
7	Police	<p>Budget: Despite historical underspending, the Department continues to budget more than it needs in certain expenditure categories, including contracts and supplies & materials</p>	Review historical expenditures and assess future needs to more accurately establish budgets		
8	Fire	<p>Overtime: Actual Fire Department overtime expenditures have exceeded budgeted amounts by \$18.4 million in FY 2015-16 and are projected to exceed the budget by a similar amount in FY 2016-17.</p>	Develop a fire suppression staffing model that accounts for minimum staffing requirements, relief (the need for positions to backfill time off and vacancies) and overtime. The staffing model should be the basis for the fire suppression budget.		
9	Fire	<p>Budgeting: It is not clear how the Department establishes its budgetary levels for its various spending categories.</p>	Review historical expenditures and assess future needs to more accurately establish budgets by categories of spending (such as characters and objects)	The Council would be able to conduct a sufficient and detailed budget analysis to optimize efficiency of City revenues.	

Recommendations

10	IT	<p>Staffing: The Department has had a vacant Application Developer III since December 2015 that is funded by the General Purpose Fund. The Department has not initiated a requisition to fill this position.</p>	Delete one Application Developer III position.	<p>\$185,992 in General Purpose Fund savings in FY 17-18.</p> <p>\$192,735 in General Purpose Fund Savings in FY18-19.</p>	Ongoing
11	IT	<p>The Radio project appears to have exceeded its original budget and Radio and IT projects do not fully spend their annual appropriations. Annual appropriations for those projects cannot be spent down and have tied up \$19.9 million in General Purpose Funds since FY 14-15.</p>	Conduct follow up analysis to understand reasons for underspending in Radio and IT Funds.	Historically, \$19.9 million in unspent but appropriated General Purpose Funds from FY 14-15 through FY 16-17.	
12	P&B	<p>Vacant Positions: The Planning and Building Department has requested an additional 20.0 FTEs for FY 2017-18 despite the existing 23.0 FTEs of vacant positions in the Department, amounting to a 16.2 percent vacancy rate. Until existing vacancies are filled, the Department cannot accurately assess its permanent staffing needs. The Department should expedite filling existing vacant positions, and meet back log and other workload needs through use of limited term and temporary positions.</p>	<p>Increase the budget for temporary and limited term staff by filling the 3.0 FTE vacant positions that are in the same job classification as 3.0 FTE of the 20.0 FTE new requested positions, amounting to one-time funds of \$627,654 (Development Service Fund). These 3.0 FTE vacant positions have been vacant for at least 22 months.</p> <p>Shift the budgeted amount for the following new FY 2017-18 FTEs to the temporary and limited term staff budget:</p> <ul style="list-style-type: none"> - 1.00 FTE Planner II - 1.00 FTE Specialty Combination Inspector, Senior - 1.00 FTE Specialty Combination Inspector <p>Fill the following existing 1.00 FTE vacant positions:</p> <ul style="list-style-type: none"> - Planner II.AP272.33160.18480: vacant for over 4 years - Specialty Combination Inspector, Senior.IS120.33389.32359: Vacant for 22 months - Specialty Combination Inspector,IS119.33799.1293: Vacant for 2 years and 4 months 	No General Purpose Fund impact	
13	P&B	<p>Internal Controls for Overtime and Managing Staffing Resources: Even though the Planning and Building Department advise that there is a specific process in place to pre-approve overtime hours and review actual overtime hours claimed, the Department continues to overspend the budget allocated. The Department also uses overtime hours to provide services during the lengthy new staff recruitment process.</p>	Follow-up analysis to determine how the Department can (i) tighten internal controls for overtime hours; and (ii) shorten the recruitment period for new staff hires.	No General Purpose Fund impact	

Summary of Savings

	FY 17-18	FY 18-19
Total GF Savings	3,664,542	1,382,735
One-time	2,288,550	-
Ongoing	1,375,992	1,382,735
Cost savings		
Citywide Salary	2,073,550	
Encumbrances	215,000	
Contract Contingencies	600,000	600,000
Delete one IT position	185,992	192,735
Revenue		
Deemed approved	90,000	90,000
Fire Prevention	500,000	500,000

General Fund only

	FY 14-15 Revised Budget	FY 14-15 Actuals	FY 14-15 Balance**	FY 15-16 Revised Budget	FY 15-16 Actuals	FY 15-15 Balance	FY 16-17 Revised Budget*	FY 16-17 HMR Projected Expenditures*	FY 16-17 HMR Projected Balance*
Capital Improvement Projects	4,878,521	1,109,180	2,748,122	4,940,407	1,742,119	3,198,288	4,765,888	1,204,190	3,561,699
City Administrator	18,984,597	13,766,855	4,763,917	18,435,469	15,324,806	3,110,662	18,351,436	14,495,811	3,855,625
City Attorney	9,387,306	5,561,912	3,796,199	9,577,156	7,734,706	1,842,450	7,564,147	5,477,155	2,086,992
City Auditor	1,571,462	1,630,123	(62,484)	1,907,320	1,809,608	97,712	1,952,342	1,731,313	221,029
City Clerk	3,681,738	3,343,908	(745,482)	2,300,840	1,688,911	611,929	3,530,779	3,684,051	(153,271)
City Council	3,966,148	3,775,596	189,697	4,705,887	4,579,548	126,339	4,940,518	4,334,690	605,828
Community Services	110	0	(585)	0	0	0	0	0	0
Cultural Arts	320	0	0	0	0	0	0	0	0
Default / Clearing Organization	0	(0)	0	0	(0)	0	0	(301)	301
Dept of Contracting and Purchasing	6,503	0	(36)	0	0	0	0	0	0
Economic and Workforce Development	3,857,183	2,989,798	821,548	5,872,662	4,957,651	915,011	6,478,804	4,719,223	1,759,581
Finance Department	23,875,819	19,807,145	2,824,799	25,065,276	20,648,550	4,416,726	26,839,237	19,828,210	7,011,026
Fire Department	115,991,083	111,918,880	3,208,247	126,169,176	125,849,563	319,613	128,370,890	130,253,839	(1,882,949)
Housing and Community Development	1,814,766	200,000	1,614,766	1,714,766	508,502	1,206,264	1,588,915	1,681,009	(92,095)
Human Resources Management	5,021,903	4,409,783	525,443	5,599,568	4,753,068	846,501	5,674,190	4,197,199	1,476,991
Human Services Department	6,829,066	5,938,827	423,203	8,001,738	6,401,949	1,599,789	10,021,018	6,285,997	3,735,021
Information Technology Department	13,282,226	9,797,852	3,066,936	13,274,630	11,633,112	1,641,518	13,033,042	11,010,916	2,022,126
Mayor	2,004,304	2,001,862	(2,083)	2,541,950	2,313,197	228,752	2,803,610	2,255,181	548,430
Non Departmental and Port	83,914,201	73,435,370	9,776,801	82,867,834	67,521,713	15,346,121	84,025,116	70,595,457	13,429,659
Oakland Parks and Recreation Department	15,019,904	14,086,210	802,812	16,961,183	16,410,592	550,591	16,728,792	14,363,688	2,365,104
Oakland Public Library Department	9,650,834	9,110,565	539,107	11,419,622	11,500,788	(81,166)	12,509,627	11,202,620	1,307,007
Oakland Public Works Department	6,607,264	3,732,290	2,556,833	6,130,537	2,227,171	3,903,365	6,511,279	1,958,815	4,552,464
Planning and Building Department	1,012,735	518,139	(5,404)	762,314	31,569	730,745	278,496	116,750	161,746
Police Department	209,918,736	213,291,610	(5,321,829)	232,782,196	243,794,125	(11,011,929)	244,543,711	241,422,097	3,121,614
Public Ethics Commission	0	0	0	884,781	612,713	272,068	940,561	878,758	61,803
Race and Equity Department	0	0	0	304,075	83,832	220,243	402,062	170,413	231,650
	541,276,730	500,425,904	31,520,529	582,219,387	552,127,794	30,091,593	601,854,461	551,867,081	49,987,381

* Straight-line projections based on expenditures as of FY 16-17 Q3

** Balance does not include \$9,330,297 of encumbrances