

Budget Advisory Commission Recommendations for Budget Actions

February 22, 2021

OVERVIEW: Due to the economic fallout associated with the COVID-19 pandemic, the City of Oakland is facing an uncertain and challenging fiscal future. Oakland faces a very significant budget deficit, numerous unfilled positions that provide vital services and scheduled labor negotiations. Numerous solutions must be considered to both reduce expenditures and increase revenues.

Oakland has a choice to take action and handle this financial crisis soon or to face the fallout of inaction. The Budget Advisory Commission stresses that inaction presents great risks to Oakland's financial future. While Federal funding, future increases in revenue, and a quick economic recovery are all possible, they are not reliable solutions for the short- and medium-term crisis that Oakland confronts. It is in the best interest of the Council to make these difficult decisions soon rather than risk Oakland's financial independence and standing in the municipal credit markets.

The Consolidated Fiscal Policy as adopted by the Council contains policies to promote fiscal solvency, which were waived for the current fiscal year. In meeting the current deficit and in adopting the 2021-23 budget, it is essential that fully informed actions be taken to ensure long term fiscal solvency, as required by the Consolidated Fiscal Policy.

While it is highly possible that the Federal Stimulus package will provide some relief, it will still be necessary for the Council to make many significant decisions to meet this crisis. Early decision making is highly desirable to establish greater certainty for all affected parties. **To accomplish this, the Budget Advisory Commission recommends the City Council take the following actions:**

1. **Balanced Budget:** Amend the current Budget to balance it by 4/30/2021, prior to the release of the Mayor's proposed budget on 5/1.
2. **Federal Stimulus:** Even with the projected Federal Stimulus of \$176.9 million, Oakland is facing a deficit of \$210 million, and perhaps more, over the current and next two fiscal years. We recommend that the Federal Stimulus be prioritized to meet high needs such as restoring temporary/part-time (TPT) positions, necessary public safety positions, unfreezing other vital positions, and restoring OPEB contributions. We also recommend being very cautious around not funding non-profit services or relief grants, recognizing the new state and federal grants may be available. Finally, Alameda county is receiving \$327 million in federal relief funds which may be sought to preserve such services. We recommend the Council determine how to judiciously allocate any federal stimulus monies over multiple years. As soon as possible, allocate these monies between the 2020-21 and 2021-22 FYs. The BAC recommends taking a longer-term view toward any stimulus monies received, with a target of right-sizing services now with the objective of avoiding disruptive, catastrophic service reductions later.

3. **Revenue Estimates:** No later than May 15, 2021, adopt an agreed schedule of revenue estimates and assumptions for the 2021-23 biennial budget.
4. **Adhering to the CFP:** While recognizing that it may be necessary to waive some portions of the Consolidated Fiscal Policy for the next biennial budget, amend the Policy to increase funding of the Vital Services Stabilization Fund and Other Post Employee Benefits (OPEB) to minimize the effects of future fiscal challenges, prior to the restoration of services to pre-pandemic levels. The BAC will submit specific recommendations in regard to the Vital Services Stabilization Fund at a later time.
5. **Use of One-Time Revenues:** Although BAC supports efforts to identify one-time revenues, the BAC would also caution that such revenues will be insufficient to cover the projected FY 20-21 deficit and doubly insufficient to cover the projected FY 21-23 deficit. Given the size of these deficits and protracted economic uncertainty, the BAC recommends against the establishment of significant new spending initiatives without dedicated revenue sources. The City should undertake no new programs which require added funding until fiscal solvency has been achieved, unless funded from transfers from existing programs or new revenues.
6. **Contingency Scenarios:** Although the Council may consider future revenue initiatives to resolve longer structural budget shortfalls, such revenue measures represent uncertain outcomes, and we recommend that the Council prepare contingency scenarios if they do not occur.
7. **General Purpose Emergency Reserve Fund Preservation:** Maintain the CFP requirement of a 7.5% GPF Emergency Reserve fund, recognizing the possibility of natural disasters and revenue uncertainty over the next several years. The Reserve may also be needed to meet payroll requirements.
8. Adopt the above policy recommendations by formal Council action.