

**CITY OF OAKLAND
COUNCIL AGENDA REPORT**

OFFICE OF THE CITY CLERK
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TO: Office of the City Administrator
FROM: Budget Office
DATE: May 23, 2006
RE: Budget Advisory Committee (BAC) Report for the Third Quarter of the 2005-06 Fiscal Year

SUMMARY

This document transmits the Budget Advisory Committee's (BAC) third quarter report for 2005-06 Fiscal Year. Staff recommends consideration of the BAC's recommendations.

FISCAL IMPACT

There are no fiscal impacts resulting from the BAC's recommendations.

BACKGROUND

The BAC consists of 15 members, with four appointed by the Mayor, seven appointed by Council members for each of the seven Districts, one by the Community and Economic Development Committee Chairperson, two by the Finance and Management Committee Chairperson, and one by the At-Large Council member. The BAC will be focusing on redevelopment and on the Lighting and Landscaping Assessment District (LLAD) in the coming months.

RECOMMENDATION

Staff transmits and recommends City Council's consideration of the BAC's recommendations.

Respectfully submitted,



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Interim Budget Director

Prepared by:
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Forwarded to the Finance & Management Committee


Cheryl Thompson
City Administrator's Office

Item # _____
Finance & Management Committee
May 23, 2006

**Budget Advisory Committee (BAC) Report for the
Third Quarter of the 2005-2006 Fiscal Year**

The Budget Advisory Committee hereby submits its report for the third quarter of the 2005-2006 fiscal year. This report addresses some ongoing projects of the BAC and provides input to the Council on the mid cycle budget adjustment.

Mid cycle Adjustment.

In terms of the mid cycle budget adjustment, the BAC is pleased to see that the task in front of the Council is allocation of the surplus rather than a shortfall. We applaud the Council members and specifically the Finance Committee for their ongoing attention to revenue and expense variances. Expense variances can be addressed before they grow larger and revenue is being allocated intentionally according to the priorities of the Council. This comment is not made lightly. Looking at the expense variances, which Council faced, in the last midyear adjustment, the police overtime excess of the last cycle alone (then projected at over \$12M) would completely eclipse the current surplus (just over \$8M) now being allocated, if it were the same amount now. If expense variances were as high as they were then, there would be no net surplus to allocate now, even with the revenue surplus we now have.

We also support the Budget Office's distinction of one-time surpluses, (such as real-estate transfer tax) from ongoing surpluses, (such as sustained increases in the number and value of parcels, subject to property tax). It is important that sustained spending increases (such as permanent personnel cost increases) are not taken in response to a one-time surplus (as happened in the dot com boom). The larger portion of the current surplus is a one-time surplus.

In terms of allocation of the surplus, this decision is ultimately the City Council's. Any intentional prioritization by the Council is likely to represent the city's values better than just allowing revenue surpluses to be consumed by past cost overruns.

However, the BAC has reviewed the issue of the surplus and has made a recommendation:

The BAC is supportive of council's efforts to devote attention to police recruitment funding, especially in light of being able to make use of voter supported Measure Y funds, but would like also to draw attention to the dire situation of the City in terms of needs for funding for infrastructure and facilities, especially in areas such as street paving, storm drains, sidewalks, parks and open space, and traffic improvements.

Many of these infrastructure requirements are both an important priority for the current one time surplus as well as important long term needs. Many of these issues are also addressed as ongoing projects of the BAC outlined below.

Infrastructure and Parks. BAC members have spent several months interviewing staff, reviewing requirements, attending community meetings, and touring Parks and Recreation Facilities, to assess the budget situation.

Infrastructure. Infrastructure funding is in a dire situation. Some categories of funding, such as sanitary sewers actually have stable sources of funding, and are in good shape. In other areas, the funding shortfall is severe, with budgets representing only a fraction of the requirement, and in some cases coming from outside grants, with no funding at all coming from the general fund. These are both candidates for the immediate short-term surplus at the mid-year adjustment, (see above) as well as long-term improvements (see below).

Street Paving. The City of Oakland's Paving Condition Index ranks 94th of 104 Bay Area cities. The paving cycle has roads being paved approximately every 85 years, several times the standard requirement of 15-20 years. Paving funds are in such short supply that the Public Works Agency must take a "triage" approach, and only address a fraction of the roads that need paving in any particular year and leave some roads to simply deteriorate. As roads deteriorate, the cost of repair escalates dramatically, creating an increasing liability each year. The current budget represents only about 1/6 of the funding required just to maintain the current poor status, much less make headway on improving the paving condition. In many cases, storm drain condition issues add further to the pavement deterioration. In the meantime, Oakland residents must drive on these roads for years to come. Paving is clearly both a candidate for immediate short-term surplus, as well as a need for long term funding.

Storm drainage. Storm drainage is another area where the funding situation is dire. There are over \$200M in requirements identified by category in the Storm Drain Master Plan, with no stable sources of funding identified. Many areas of the Oakland Hills have had no storm drain infrastructure at all for years, a vulnerability further exposed by this winter's record breaking rains, with road failures and landslides resulting throughout Oakland's hills. County Flood Control District funds, where available, have traditionally been directed towards large structures near the system's outfall to the bay, and have not typically been allocated to address deficient storm drain facilities at the source in the hills.

Sidewalks. Sidewalks are in similar situation with a 50 year repair cycle, where a 5 year cycle would be more desirable.

Facilities. The current list of deferred maintenance includes 130 projects with an estimated cost of \$20M. In many cases these repairs become more expensive if deferred, such as in the case of a roof leak.

Traffic Safety Improvements. The level of funding is minimal with traffic and pedestrian safety improvements outstripping funding provided.

Parks, Open Space, and the Landscape and Lighting Assessment District (LLAD) shortfall. The BAC has reviewed the issue of a structural deficit for Parks and Open Space Maintenance, conducted discussions with staff on the issue, and evaluated remedies to the situation. Several BAC members have toured Oakland Parks and Recreation Facilities, and attended community meetings on the topic. The issue with Parks funding is the long-term deficit. Having reviewed the LLAD, the BAC recognizes that indeed there is a structural budget deficit stemming from a revenue stream that remains *substantially* steady at about \$17.3M per year, while costs progressively increase, both because of increased requirements over time (such as new park land, and street lights added to the system since the inception of the original LLAD), as well as *increases in costs for the same functions (such as increased cost of electricity)*. **Council has already taken previous short-term action** in order to fill the gap between LLAD revenue and expenses by committing **one-time** surges in transfer tax revenue to cover LLAD shortfalls in the **current** budget. However, there is currently no mechanism to address this gap in future budgets, and the gap continues to grow, over time, meaning **substantial cuts to existing services** in the next budget year if the structural deficit is not addressed.

It is important for the public to understand that since the **LLAD problem is more of a long term structural shortfall, and the short term action has already been taken, it is not a primary candidate for the current surplus at the mid cycle review.** However, action is needed now in terms an improved LLAD to address the long-term shortfall, since there is significant lead-time in implementing any remedy.

In the previous BAC quarterly report, the BAC supported the effort for an engineer's report for a new LLAD and supported that the issue be raised to the attention of voters. In this report, the BAC has gone further to support the idea of a LLAD itself, though the BAC still shares several cautionary notes. While the idea of performance standards has been embraced, we currently do not have clear performance standards. We've seen similar efforts, like that of the Wildfire Assessment District, experience delays in the appointment of its board, and the establishment of a plan. Thus the standards need to be a top priority, and issues both of park maintenance and capital improvements need to be addressed.

As the process moves forward, the BAC will to continue to work to provide input into the shape and direction of a proposed LLAD. Primary concerns are ensuring accountability and performance measures in any proposed LLAD, and also evaluating other potential sustainable sources of funds for parks, landscape and lighting. BAC has formulated several pages of analysis and recommendations, still under discussion and too lengthy to reprint here. Some of the examples representative of the types of issues we've raised and which are being discussed include:

- Are there ways to bolster our **current** efforts to retrofit lighting fixtures to be more energy efficient even in the face of rising energy costs, if we were given a sufficient predictable funding source, using a Savings to Investment (SIR) approach, to make sure rising energy costs do not again outstrip available funds.

- Can funds from other related activities such as dumping response in parks be used more efficiently and diverted to park support. For example, if dumping response costs in Parks were quantified and projected over the long term, then short-term expenditures like enforcement cameras or other prevention and enforcement mechanisms may actually be less expensive when compared to the ongoing cost of chronic response over the long term. If so, then these funds might be better utilized.
- Can we further leverage East Bay Regional Park District resources, especially for large open space parks?
- Are we fully utilizing impacts fees (see below), general funds, outside grants and other sources of funds to support parks?

The BAC did not have information available to take a position on the subject of LLAD exemptions or subsidies for low-income residents or non-profits.

Development Fees There are two major areas of concern to the BAC in terms of development. They are related to each other and also related to the **long-term** aspect of the Infrastructure and Park and Open Space issues outlined above. The two issues are:

-Infrastructure and Park ***Impact Fees***, and

-The use of ***Planning Staff fees***

The May BAC meeting is scheduled to include a discussion with staff member Claudia Cappio, to further address these issues. In general our concerns are outlined below:

Coordination of Development with Infrastructure Impact Fees. The term Impact Fees is used here to describe the financial contribution development applicants may be required by the city to make to address the Park and Infrastructure impacts of their projects. Typically, cities in California either require parks or infrastructure improvements to be built as part of the project and then dedicated to the city, when a project is large and when the impact or infrastructure is specific to the particular project, **or** cities may require developers to contribute impact fees to collective funds for parks or infrastructure where the project is small or is one of many creating an impact. Planning law provides various authorities from the City's general Police Powers Authority that allow it to govern development, to specific requirements like the Quimby Act for Park and Open Space fees. Planning law requires there to be some nexus between the project and the impact fee. In many cases, developer's projects greatly benefit from the infrastructure improvements that result from these fees, and it increases the project value resulting in a win-win-win situation for the developer, the city, and the future residents. In this way, city planning departments in California have an important role in providing for the Park and Infrastructure funding requirements of their colleagues in Public Works.

The BAC plans to interview and deliberate with the Planning Department in future meetings to further evaluate how impact fees are being utilized in Oakland to help fund infrastructure and parks and open space.

Use of Funds for Planning Staff fees- “Enterprise Fund” A second area of focus for the BAC has been the use of planning staff fees. Typically in California cities, a portion of the planning fees that a development applicant pays to the city are devoted to pay salaries of planning staff who review applications. This includes the time staff uses to identify impacts and define impact fees as described above. The BAC has expressed concern over the use of staff fees, and is interested to see what mechanisms ensure the funds go to planning staff salaries. In some cities, staff time is tracked and unused portions are refunded. Many cities protect these funds as a form of investment in the future economic development of the city, its infrastructure, and tax base. Not having planning fees available to support development staff salaries results in less staff time to review projects, a frustratingly long backlog for developers, less well defined impact assessments for the city, and an application review that adjacent impacted residents may not feel is complete.

The BAC plans to interview and deliberate with the Planning Department in future meetings to further evaluate how planning staff fees are being utilized in Oakland, whether they are available to fund planning staff salaries, and how this may impact the City’s ability to define and assess impact fees, and further economic development.

While the infrastructure issues above have been suggested as a candidate for the one time revenue surplus, and while the LLAD discussed above is needed to address Park and Open Space Funding, the **planning impact fees** are another way to create for public-private partnerships that can create another **long term source of funding** for Oakland’s park open space and infrastructure needs. Planning staff fees are needed to provide sufficient staff to make this process effective.

Protecting the long-term economic development of the City helps to sustain economic growth, enlarge the future tax base, and can help provide for city infrastructure and Parks and Open Space to accompany the economic development. Indirectly, it may also contribute to a reduction in crime rates through the indirect influence of economic development and adequate recreational facilities may have on crime and joblessness.

Revenue and Expenses Evaluation The BAC continues and renews its commitment to systematically review revenue and expense variances. The goal is to identify expense overruns in a timely fashion, so that corrective action can be taken in time to prevent further overruns, and to identify revenues that are above budget, that can be intentionally directed to Council’s highest priorities, rather than to be overtaken by events. We note and applaud that continued focus on traditional cost overrun items like police overtime have resulted in substantial reductions in those overruns. We appreciate and continue to request the timeliest information possible from staff to facilitate timely periodic evaluation.

Police Department MOU. In our October 24, 2005 report, we provided recommendations regarding the OPOA and City of Oakland MOU. We encourage continued focus and public disclosure of the implications of the negotiations, as the City's labor costs, are without question, the largest component of the City's budget and the largest component of structural cost growth. Though such negotiations are not part of the budget process, they commit funds that will come from the City budget. In effect, they can result in off line budget decisions larger than those in the budget process. **It is important to note the surplus the City is now considering is a one-time surplus, while labor agreements make long-term commitments. Just as other priorities for City spending are balanced against each other and against potential revenue sources, so too, should the impact of any MOU increases be quantified and evaluated prior to making final commitments.**