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TO: HONORABLE MAYOR & CITY COUNCIL
FROM: The Budget Advisory Commission

SUBJECT: Report on the Mayor's Proposed FY 2017-19 Budget **DATE:** May 31, 2017

Pursuant to the Consolidated Fiscal Policy (13279 C.M.S.), the Budget Advisory Commission submits this Report on the Mayor's Proposed FY 2017-19 Budget. The Report was unanimously approved by the BAC at a Special Meeting on May 31, 2017.

BUDGET ADVISORY COMMISSION REPORT

The City's Consolidated Fiscal Policy (13279 C.M.S.) states that the Budget Advisory Commission (BAC) "shall be requested to submit a published, written report to the full City Council regarding the proposed budget with any suggested amendments no later than June 1 in the budget adoption years."

The Mayor's April 28, 2017 transmittal presenting the FY 2017-19 proposed budget states that the primary goal this cycle is to prevent cuts in services, invest in staffing to meet urgent challenges, and improve financial stability.

This report is divided into two parts.

- The BAC provides comments and recommendations to the proposed budget as relates to our three areas of focus for Oakland: 1) strengthening our City's fiscal health; 2) increasing public engagement in the budget process; and 3) improving fiscal transparency and accountability.
- Attachment 1 is a schedule showing the City Administration and Council's progress towards following prior Budget Advisory Commission recommendations.

Goal #1: Strengthening Our City's Fiscal Health

The Proposed FY 17-19 budget is submitted by the Mayor to the City Council and should provide guidance on how to achieve fiscal stability and improve the sustainability of service delivery. The BAC acknowledges progress in several areas, including the reduction in negative fund balances, the reduced reliance on one-time funds to support ongoing expenditures, and the maintenance of the Emergency Reserve Fund at an amount equal to 7.5% of General Purpose Fund (GPF) appropriations, as required by the Consolidated Fiscal Policy (CFP). Room for further improvement exists in other areas noted below.

- **The BAC recommends (1) that the City refrain from funding ongoing services with one-time funding sources, and (2) that the City make statutorily mandated deposits of excess real estate transfer tax (RETT) revenues into the Vital Services Stabilization Fund (VSSF), as indicated in the Council-adopted Consolidated Fiscal Policy (CFP).** The Budget Transmittal Letter acknowledges the possibility of an economic contraction but assumes continued (albeit slower) revenue growth on top of a revenue base that has already exhibited steady growth for 8 consecutive years. Sound fiscal practice dictates that during periods of sustained growth the city should do all it can to prepare for inevitable future downturns. The proposed budget falls short in this regard.
 - First, while reliance on one-time funding to support ongoing services has been reduced, the budget continues this practice (examples from the Mayor's budget include, funding the ASSETS program and park maintenance using one-time revenues) even as it reduces existing services (examples from the Mayor's budget include the Shotspotter program, Eastmont Child Development Center, WIOA programs) that cannot be sustained due to exhaustion of the one-time funding sources that paid for them in the current year.
 - Second, the proposed budget does not adhere to Section 1, Part C of the CFP, which calls for 25% of excess RETT (calculated to total \$17.2M) to be transferred to the VSSF. The Mayor proposes to suspend the transfer of \$4.3M in excess RETT to the VSSF "in order to preserve critical services". While the use of VSSF funds to preserve services is allowable under Section 2, Part B(2) of the CFP, it is fiscally imprudent. The intent of the two CFP sections referenced above are to provide protection against a time when revenues drop due to circumstances beyond the control of the City of Oakland, to take advantage of the good times to protect against the bad. The FY16-17 3rd Quarter Revenue & Expenditures Report notes that the current year set-aside and reserve amounts are equivalent to approximately one month of (GPF) operating expenditures, as compared to the recommended standard of two months (Government Finance Officers Association).
 - Third, assure that adequate funds (i.e., at minimum \$6M) are held in the Capital Improvements Reserve Fund per CSF Section 2, Part C. At the time of budget publication, the reserve fund balance was still being analyzed.
 - Finally, provide a reference table in the Budget document that summarizes the extent to which the proposed budget complies with the requirements of CFP Sections 1(B), 1(C) and 1(D), and identifies the balances of all reserve funds identified in CFP Section 2.
- **The BAC recommends a major effort to adopt a policy to reduce unfunded liabilities.** As of July 1, 2016, Oakland's total unfunded liability is close to \$2.6 billion. This Budget takes desirable but modest steps to address this challenge by pre-paying the negative balance in the Facilities fund (\$5.73 million) and increased payments (\$20 million) for Other Post-Employment Benefits (OPEB). However, the unfunded liability is immense and Oakland does not have a long-term plan to solve this problem. As the budget states, "We must find an ongoing funding solution to meet our ARC (Actuarially Required Contribution) payments, so future required contributions do not paralyze the City's operations." (p. 4).

- **The BAC recommends that when the city invests in areas traditionally considered to be in the service domain of another government entity, it do so in close coordination with the lead entity, leveraging existing programs and service delivery systems wherever possible rather than creating parallel ones. Specifically:**
 - The Mayor has set aside Measure HH revenues pending the recommendations of the Measure HH Advisory Committee and further Council action. In assessing the Advisory Committee's recommendations, we urge the Council to avoid duplicating county and school district programs and service delivery systems to the fullest extent possible.
 - The 2017 Budget Priorities Survey found that respondents showed significant and increased interest in funding homeless services. We recommend that investments be coordinated with Alameda County in order to leverage County-provided services such as public health, mental health, social services, and other services.

- **The BAC recommends that appropriations for overtime be clearly listed in the Budget.** The FY 16-17 3rd Quarter Revenue & Expenditure Report revealed that current year expenditures on overtime (\$54.07M) are projected to exceed the budgeted amount (\$33.22M) by 63 percent. The budget document does not include departmental line items for overtime, making it difficult to assess whether the proposed budget reflects reasonable assumptions regarding its use.

Goal #2: Increasing Public Engagement in the Budget Process

The FY15-17 budget process saw deeper and wider efforts to engage the public with the budget process. This effort continues in the FY17-19 budget process as illustrated by open data portal and the numerous public meetings by the Mayor and City Council. These recommendations are intended to further increase the ability of residents and stakeholders of Oakland to have meaningful participation in helping to shape the budget. These recommendations are based on review of the public outreach process from the April 28, 2017 release of the Mayor's Proposed Budget through May 17, 2017, including five community budget forums.

While we recognize that each Budget Forum will be unique and directed by each Councilmember's desires, common elements we would like to see at each Budget Forum include:

Budget Basics and Budget Trends and Comparisons

- At some meetings there was a helpful primer on how government budgeting works in California, including issues specific to Oakland, e.g., Oakland's two-year budget cycle, the difference between the general fund and restricted funds, unfunded liabilities, what responsibilities belong to Alameda County, etc. **The BAC urges City staff to include similar presentations at every community budget forum**, as a basic understanding of the process would enhance community members' ability to engage with the budget process. The Mayor's multi-colored "Budget Facts 2017" handout is a good example of how to communicate budget priorities in top-level manner that is easy to understand, but was not available at all forums.
- A repeated concern of attendees was a desire to understand budget trajectories over time, as well as how our budget compares to similarly situated cities in California. **The BAC urges staff to make such trends and comparisons available** in either handouts shared at the forums or in the PowerPoint presentation itself, or refer the audience to where that information can be found.

Council Priorities

- The priorities of attending Councilmembers were difficult, or, in some cases, impossible, to determine at the community budget forums. The BAC encourages the Council to bring handouts and/or prepare presentations to discuss their budget priorities, including changes they intend to propose to the Mayor's proposed budget. **Councilmember priorities should be posted on the budget website and contained within the budget document.**

Community Input

- The forums this budget cycle allowed significant time for resident and constituent input, an improvement over the last budget cycle. However, there was no clear method for community members to express their feedback on budget priorities, aside from an open mic at each forum. **The BAC urges City Council and City staff to clearly communicate how community members may provide feedback on the budget**, whether through an online poll, cards to be filled out by attendees, or other means. Similarly, there was no clear communication from City staff regarding what the follow-up would be to public input.

Ground Rules and Timekeeper

- **The BAC urges staff to clearly communicate ground rules** for the open mic portion of each meeting, including time limits, and to gently enforce such ground rules. For time-limited meetings with large numbers of attendees, such as the District 1 meeting, certain speakers took a disproportionate amount of the limited time for comment, to the detriment of other participants. One suggestion that could be considered for future forums would be to recruit a community member to serve as timekeeper.

In addition, we recommend consideration of the following:

Publicity

- There were two more public budget forums than the previous two-year budget process. We see this as a move in a positive direction and hope City Staff and the City Council work on increasing public forums and public participation.
- Publicity of community budget forums should be an area of greater focus for City staff in future budget cycles. In the Budget Advisory Committee's May 26, 2015 report on the 2015-17 budget cycle, we recommended "Even More Outreach and Communication on the Budget Forums, involving extensive social media outreach and a network of partner organizations with bases, to help spread the word about the range of opportunities to participate." In the 2017-19 budget cycle, the sort of sustained, focused outreach necessary to publicize these forums did not take place. For example, to the BAC's knowledge, City Council and staff made little utilization of Facebook, Eventbrite, Nextdoor, or other commonly used methods for publicizing events. These services have the added advantage of allowing City staff to assess likely turnout and adjust the location as necessary.
- Designating clear, publicly disclosed lines of responsibility for organizing these meetings would lend itself to greater transparency in the process. The BAC does not present any recommendation as to who should bear ultimate responsibility, but suggests consideration of both the practical efficiencies of centralizing organization in a single staff member and the independent role of City Councilmembers in setting the City budget under the City Charter.
- Publicity and siting efforts should encourage attendance that is as representative of the forums' respective district demographics as possible, with additional outreach to traditionally unrepresented and marginalized populations as necessary.

Location

- The forums took place at various community centers and religious facilities spread throughout Oakland. However, there was no advertised method for determining last-minute location changes. For example, the May 8, 2017 meeting changed locations, but there was no set method for advertising the change, short of showing up at the meeting and being redirected elsewhere.
- Select forums locations that are accessible to all with easy access to public transportation.

Goal 3: Improving Fiscal Transparency & Accountability

The FY15-17 budget process saw improvements in transparency and accountability. So far during the FY17-19 budget process this effort has continued as illustrated by the online Budget Explorer tool and the significant increase in the number of Budget Forums. The BAC looks forward to a separate **Capital Improvement Program Budget exploration feature on the open data portal in the future.**

Capital Improvement Program (CIP)

On April 21, 2017 the BAC submitted a memo to the Mayor and City Council detailing eleven recommendations on implementation of the Infrastructure Bond and establishing a Capital Planning Working Group. On May 9, 2017, the BAC presented these recommendations to the Finance Committee who forwarded them to the full Council with recommendation. If approved by the full Council, three of these recommendations would require action as part of the annual budget process:

BAC Recommendation #1: Identify, fund, and budget for key staff (as well as consulting services as needed) in project management, contracting, engineering, design and community engagement within the FY18-19 budget so that the City has time and realistic resources to build the necessary internal capacity to provide smooth and effective project delivery throughout the life of the bond's implementation.

Note: It is difficult to determine from the proposed FY17-19 budget document how many new positions are being added to support implementation of bond projects.

BAC Recommendation #2: Direct City staff to sequence bond issuances and project start dates to align with the capacity of this increased staffing level and to develop additional staffing plans that align with future bond tranches and project delivery expectations.

BAC Recommendation #3: Utilize the first tranche of bond funds to complete existing designed and Council-approved project lists – such as the remaining approximately \$23 million in projects from the City's five-year paving plan adopted in 2014 – to demonstrate early progress, avoid cost escalation, clear backlogs of designed and approved projects and highlight any existing contracting, staffing, and/or project management bottlenecks. This should include strong communication with the public on the value of initiating projects without further delay even as the City finalizes any additional processes regarding project selection and prioritization.

Note: In accordance with this recommendation, the proposed FY 17-19 Capital Improvement Program expedites completion of the current five-year street repaving plan and focuses on shovel-ready projects that can for the most part be completed within the next two years.

Another four recommendations require near term Council action to successfully implement the Infrastructure Bond within the coming fiscal year following budget adoption:

BAC Recommendation #4: Explicitly define Equity not as simple geographic dollar allocations but rather as a means of serving populations or geographies with acute public service needs (high public transit reliance, open space deficits or City service utilization, for example), that have suffered historic disinvestment in infrastructure and/or have incomes levels below City of Oakland averages.

Note: Appendix A of the proposed Capital Improvement Plan acknowledges the equity mandate of Measure KK and makes an initial attempt to analyze proposed investments through an equity lens.

BAC Recommendation #5: Weight the new Equity, Resilience and Mobility categories in such a way that they collectively account for a meaningful portion of the total CIP score but do not displace the preservation of life safety as the City's paramount concern.

BAC Recommendation #6: Consider a programmatic approach to project selection so that projects taken as a whole or by category (Housing, Facilities or Streets) can meet the City's goals even if not every individual project does.

BAC Recommendation #7: Designate the BAC as the public bond oversight committee to ensure funds are spent in accordance with the law and the intent of Measure KK. Consider accomplishing this by *filling vacancies, as they occur, to ensure representative membership on the BAC for its expanded duties.*

Conclusion

The BAC welcomes the opportunity to offer these recommendations to the Council, as you work with the Mayor to finalize the budget for FY 2017-19. We look forward to further discussion and debate as we all work towards greater fiscal health, transparency, and public engagement in Oakland.

The BAC is also requested to submit, by September 30th following budget adoption, an Informational Report to the Council's Finance and Management Committee containing an analysis of the budget adoption process. Many of the items contained in this report address these issues and it is our intention to more fully develop these ideas at that time as well as present additional items for your consideration.

Progress on Implementation of 2015 Budget Advisory Committee Recommendations

On May 26, 2015, the Budget Advisory Committee submitted a report on the Mayor's proposed FY2015-17 Budget. The following is a brief summary of the recommendations and progress made on those items.

Strengthen the City's Financial Health

Recommendations included strengthening public safety and racial justice and equity; prioritizing investments in housing, streets, jobs, homelessness, youth, and public transit; and enacting new labor laws and tenant protections. The following were accomplished:

- Passage of Measure Z
- Addition of police academies
- Implementation of Ceasefire Violence Prevention Strategies
- Creation of the Department of Race and Equity
- Passage of Measure KK the Infrastructure Bond
- Creation of a Department of Transportation
- Enactment of additional Tenant protections
- Unfunded liabilities continue to be reduced
- Enactment of Measure HH, "the Soda Tax"
- Enactment of Measure JJ fees for the Rent Adjustment Program

However, restoring support for public input through Commissions still needs attention.

Increase Public Engagement in the Budget Process

Recommendations in this area included: expanding the professional survey of public priorities and eliminating the distinct Mayor's separate survey; expanding the use and format and advertising of the budget forums; and introducing more translation and interpreters at public events related to the budget.

The Committee notes the following on the implementation of these recommendations:

- The professional survey used all Oakland residents as one of two survey populations, the other being all registered voters, which was an improvement.
- Very clear notice of public budget forums in the budget submission itself.
- However social media and other means were not utilized well for outreach about Budget Forums.

Improve Fiscal Transparency and Accountability

Recommendations in this priority included commitment to open budget data, consistent use by Councilmembers of standardized budget submission templates, use of performance metrics of each city department, and other suggestions to make the budget document more accessible and understandable to the public. The Committee notes the following in the implementation of these recommendations:

- The Mayor's proposed budget is well indexed and organized, including page numbers for easy reference (on the electronic pdf only).
- The Budget continues to make progress in providing data. The addition of the open data Budget Explorer link is a significant improvement. (<http://budgetdata.oaklandca.gov/#!/year/default>)
- Councilmembers are to submit up to seven priorities by March 15 per the Consolidated Fiscal Policy. As of the deadline, only three Councilmembers submitted priorities and these were not made available in a single location in the budget or on the website.
- There is still an absence of performance measures from Departments of goals and outcomes. It would be helpful to have measures of service levels or dollars invested per impact.
- Lack of trend data (prior year data) on the number of positions or FTEs. Each table in the budget should include trend year-over-year percentage changes so that readers have points of reference.
- Neither the city's legacy nor beta budget web pages contain archives of prior Revenue and Expenditure reports or budget outlook messages or a budget calendar/timeline, and we look forward to these enhancements.