



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Budget Advisory Commission (BAC)
Report on the City of Oakland's
Biennial 2021-23 Budget Cycle

DATE: October 20, 2021

City Administrator Approval

Date: Oct 26, 2021

RECOMMENDATION

Staff Recommends That The City Council Receive a Report From The Budget Advisory Commission (BAC) On The City of Oakland's Biennial 2021-23 Budget Cycle.

EXECUTIVE SUMMARY

This report contains the Budget Advisory Commission (BAC) comments and recommendations related to the Biennial 2021-23 Budget Cycle. Staff recommends that the City Council thoughtfully consider the BAC's feedback from the prior budget cycle and note any items of particular interest for further analysis. No further action is requested of the Council by staff.

BACKGROUND / LEGISLATIVE HISTORY

Section 3, item 11 of the City's Consolidated Fiscal Policy Ordinance 13279 C.M.S. requires the BAC submit a report on process feedback and continual improvement of the City's budget process to the Finance & Management Committee

ANALYSIS AND POLICY ALTERNATIVES

The BAC recommendation is presented in BAC's formal report, see **Attachment A**.

FISCAL IMPACT

There are no direct fiscal impacts in the acceptance of this report.

PUBLIC OUTREACH / INTEREST

No public outreach was necessary in the preparation of this staff report. The Budget Advisory Commission discussed their comments and recommendations to the Biennial Fiscal Year 2021-2023 Budget Cycle at public and noticed meetings of that body, prior to adoption.

Finance and Management Committee
November 8, 2021

SUSTAINABLE OPPORTUNITIES

Economic: There are no economic opportunities associated with this report.

Environmental: There are no environmental opportunities associated with this report.

Race & Equity: The implementation of these recommendations should improve the accessibility of Budget Information and decision making to disadvantaged groups and the general public.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends that the City Council receive a report from the BAC on comments and recommendations on the Biennial 2021-23 Budget Cycle for continual improvement of the budget process.

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

Respectfully submitted,



Erin Roseman (Oct 26, 2021 09:20
PDT)

Erin Roseman
Finance Director

Reviewed by:

Brad Johnson, Acting Budget Administrator
Rina Stabler, Assistant Budget Administrator

Prepared by:

Tiffany Kirkpatrick, Budget & Mgmt. Analyst
Finance Department, Budget Bureau

Attachments (1):

(A) Budget Advisory Commission Report on the City of Oakland's Biennial 2021-2023
Budget Cycle

City of Oakland

Budget Advisory Commission

Report on the City of Oakland's Biennial 2021-23 Budget Cycle

September 2021

Pursuant to the Consolidated Fiscal Policy ("CFP") (13279 C.M.S.), the Budget Advisory Commission ("BAC" or "Commission") submits this Report on the City of Oakland's Biennial 2021-23 Budget Cycle. The Report was approved by the BAC at a meeting held on September 8, 2021.

Executive Summary

This report contains the BAC's comments and recommendations related to the 2021-23 budget.

With regards to process, the CFP has been in use now for four budget cycles, and the BAC believes that it has generally worked to improve transparency and increase the predictability and reliability of the budget process for the public. Based on our observations, however, and in accordance with the BAC's mandate to look for "opportunities for improving the process in future years," now is a good time to make adjustments and improvements to the process and to the policies that guide the development and adoption of the biennial budget.

Following is a summary of our recommendations, some of which are new, and some of which are carried forward from the BAC's September 2019 and June 2021 report to the Mayor and Council. A more detailed discussion of each recommendation follows this summary.

1. **Strengthening of Vital Services Stabilization Fund.** (VSSF) and setting a multi-year calendar to achieve full funding as recommended in our report of Sept. 25, 2019. (See Section 3)
2. **Avoiding Assuming County Responsibility Services:** The need to avoid assuming services that are a responsibility of Alameda County. (See Section 3)

3. **One Time Revenues Funding on Going Programs:** Careful management of the extensive use of one-time funds which have been used extensively to fund ongoing programs. (See Section 3)
4. **Funding of Police Overtime:** Police overtime is both a tool for budget control and a source of concern. Simply cutting budgeted Oakland Police Department (OPD) overtime will not solve the issue if Oakland continues to request the same or a higher level of services from the OPD. (See Section 3)
5. **Funding of Other Post-Employment Benefits (OPEB):** Explore additional/new efforts to reduce the long-term OPEB liability. (See Section 3)
6. **State Budget actions:** Develop improved systems for evaluating and anticipating the effects of state budget actions so that they may be incorporated into the budget. (See Section 3)
7. **Unexpected Additional Revenues:** If/when added revenues occur as a result of unexpected occurrences or voter action, dedicate a significant portion of these revenues to increasing long term financial stability. (See Section 3)
8. **Ongoing Additional Revenues:** Continued efforts to develop additional revenue sources. We recommend examining the relationship with the Port of Oakland to determine if significant additional revenues can be obtained. We further recommend that the Council request the Port to retain an independent consultant to review and report upon the legal and fiscal aspects of the Port providing additional support to the General Purpose fund. This is discussed in more detail below. (See Section 3)
9. **Budget Accessibility:** The new budget format presented some initial challenges but, in the long term, will be a significant improvement in promoting accessibility to Oakland residents.
10. **Post-COVID Changes in Service Delivery:** Evaluate the potential effects of changed service delivery resulting from changed post COVID actions and modify City service delivery as appropriate.
11. **Review Budget Calendar:** Review the budget calendar to ensure the consideration of collateral reports such as the Auditor's performance report of June 14, 2021.
12. **Reinstitute Public Meetings:** As appropriate and timely reinstitute the public meetings required by the CFP which were held in abeyance due to COVID.
13. **Long-Term Debt Consideration:** Clear information and consideration of long-term debt in the process of budget adoption, as previously recommended.
14. **Five-Year Forecast Process:** Include BAC in the 5-year budget forecast process, as previously recommended.
15. **New Revenue Sources:** We support the Council's positive actions to consider the revenue side of the budget and new funding sources. (See Section 3)

The Budget Process

A. Overview:

This portion of the Budget Advisory Commission's report will focus not on the content of the Adopted Policy Budget, but rather on the process of the recently concluded budget cycle, and how effective the process has been to support the goals of addressing the longer-term priorities of the City, to incorporate into the Adopted Policy Budget the community feedback provided during the budget deliberation process, and finally, ensuring accessibility, transparency, outreach, education and community input into the budget process overall.

B. Overall Process:

In light of unprecedented and evolving changes, and great uncertainty, with regard to the City's financial condition, (due not only to the economic crisis brought on by the COVID pandemic, but also due to evolving crises around homelessness, significant proposed changes in the structure and delivery of public safety services, and lastly, significant financial relief from the federal government), the FY 2021-23 budget process itself seems to have gone relatively smoothly this cycle.

The BAC would like to commend the administration on some of the innovations in budgeting practices undertaken this year.

1. **Open Gov:** First, moving the budget information and accessibility to the OpenGov platform has enabled a degree of transparency to Oakland's budgeting process that largely did not exist in prior budget cycles. The ability to access and visualize greater levels of detail to the City's budget has been very helpful.
2. **Equity Analysis:** Second, we support the efforts to look at the budget through an equity lens working with the Department of Race and Equity and leveraging the equity analysis tool.
3. **Zero-Based Budgeting:** The BAC supports the practice of zero-based budgeting to ensure that a fresh look is taken at all existing programs to ensure their ongoing usefulness and relevance to support the City's overall priorities.
4. **Service Inventory:** The BAC supports the exercise of conducting a service inventory within each department to help clarify which constituent group each department is supporting (whether internal or external) to help ensure alignment between departmental activity and broader policy goals and outcomes.
5. **Re-Building the OPD Budget:** We support the exercise undertaken this year to re-examine in detail the OPD budget. We feel that the effort to adequately address overtime costs, and to systematically examine resource needs and spending trends will provide the necessary transparency to support future conversations around re-examining how public safety services are delivered to the residents and taxpayers of Oakland.

C. Community Input to the Budget Process:

The BAC would like to share the following feedback on the budget town hall process, as of mid-late May 2021. For context, one or more BAC members attended 6 of the 8 Councilmembers' budget town hall meetings, and would like to share the following feedback and observations:

1. **Accessibility:** Given the restrictions of the COVID pandemic, most of these meetings took place virtually via Zoom, Facebook live, and similar channels. One Councilmember conducted her meeting outside and in-person at a City park. We observed only one Councilmember offering translation services in languages other than English and would recommend that making translation available (in the more commonly spoken languages across Oakland, e.g., Spanish, Mandarin, Vietnamese, Arabic) be a standard practice wherever possible.
2. **Structure:** Overall, the BAC felt the meetings were well structured, with time for the Councilmembers to share their priorities, to explain the budget process, to give an overview of the Mayor's Proposed Policy Budget (MPPB) and finally for attendees to provide feedback either via direct questions, or questions submitted via chat channels on the online forums.
3. **Content:** The content offered during the meeting was helpful and accessible to those residents who may not follow the City's budget on a regular basis. We found the PowerPoint visual aids to be helpful in explaining budget process, content, timelines, and choices to residents. Most town hall meetings took the time to explain to attendees how to use and navigate the new online tools on OpenGov. We did observe, in a couple of meetings, a tendency toward either campaigning or pushing a particular policy agenda and would advocate for keeping the discussions as balanced and neutral as possible.
4. **Public Meetings:** When appropriate and timely reinstitute, the public meetings required by the CFP which were in abeyance due to COVID.

D. Councilmember and Constituent Group Clarifications: The BAC would like to highlight a trend that we have observed in recent cycles, around the number and frequency of questions posed by Councilmembers, (and certain constituent groups) and the volume of information in the responses provided by the budget staff. Please see a summary of our observations below.

BUDGET CYCLE YEARS:	Number of City Council QUESTIONS Addressed by Staff			Number of PAGES of Staff Response Document		
	FY 2017-19	FY 2019-21	FY 2021-23	FY 2017-19	FY 2019-21	FY 2021-23
Staff Response #1	33	17	5	17	7	9
Staff Response #2	43	40	16	23	19	11
Staff Response #3	48	7	69	21	6	24
Staff Response #4	1	38	43	1	12	48
Staff Response #5	10	33	60	6	15	78
Staff Response #6	None	10	13	None	5	9
Supplemental Revenue Report	None	0	None	None	13	None
Staff Response #7	None	4	None	None	34	None
TOTAL:	134	149	206	69	111	179

Sources: BAC analysis of documentation posted to <https://www.oaklandca.gov/topics/fiscal-year-2021-2023-budget>, and prior BAC reports to Council.

While we fully support Council's ability to ask clarifying questions of staff in order to make fully informed decisions around the policy budget, we would welcome the opportunity to engage with Councilmembers and with staff to explore possible ways to achieve greater efficiencies in this

clarification process, in a way that would place less of a demand on staff time and effort during budget deliberations.

III. The Adopted Policy Budget.

A. Strengthening of Vital Services Stabilization Fund.

The Vital Services Stabilization Fund played an important role in first responding to the economic downturn caused by the Pandemic. We support the effort in this budget to again begin replenishing this Fund in the amount of \$4.83m.

However, it is essential to take action as soon as fiscally prudent to further strengthen the Fund. To accomplish this, we recommend adopting a policy to a multi-year calendar to set aside a greater portion of excess RETT funds and dedicating 25% of any unexpected revenues in excess of \$1m to the account.

B. One Time Revenues for the Funding of Ongoing Programs

The Proposed Budget makes significant use of one-time revenues to fund ongoing programs. We estimate this to be over \$200m. We recommend that all such actions be clearly identified in the Budget. We further recommend that, at the time of each quarterly financial report, the Council review the financial situation to determine if funding can be transferred to an ongoing financing source and the one-time funds be used to either fund one-time programs or to further strengthen the financial stability of the City. We also note that the resolution required as to one-time revenues did not appear to have been publicly adopted with the budget.

C. Avoiding Assuming County Responsibility Services.

Oakland is faced with structural changes in a number of areas to meet challenges in areas such as Homelessness, Housing, Reimagining Public Safety, Public Health, alcohol, and drug services. The County of Alameda has a significant responsibility in many of these areas and significantly greater resources. We recognize the uncertainties around Measure W, but, assuming the validation of this measure, very significant monies would become available for homeless services. Similarly, the Mobile Assistance Community Responders of Oakland (MACRO) program utilizes mental health services, which in many cases are a primary county responsibility. We recommend that Oakland establish a working relationship with Alameda County at all levels.

D. Funding of Police Overtime.

Year after year, OPD spends millions more than its allotted budget on overtime spending. Police overtime is both a tool for budget control and a source of concern. While the Police Department does have an overtime policy in place since December 2020, higher than budgeted overtime is an ongoing issue. Given the expense of permanent staffing levels, overtime can effectively leverage the level force. As Oakland re-tasks the OPD (see Implementing Reimagining Public Safety), we believe that the level of OPD service may be transferred, and cost reduced. There

may be some offset in overall City expenses as services are moved to other departments. The goal of this is not only reduced cost but to increase the effectiveness of Oakland's service response. Until Oakland is able to decrease the service demands of the OPD, excess overtime will be a chronic condition. This cannot be cured without the transfer of service demands or an increase in OPD staffing. Simply cutting budgeted OPD overtime will not solve the issue if Oakland continues to request the same or a higher level of services from the OPD.

E. Funding of OPEB

We support continued efforts to fund the OPEB deficit to reduce that long- term liability.

F: Unexpected Additional Revenues:

If additional revenues become available, they should be dedicated to the Vital Services Stabilization Fund, reduction of the OPEB or other long-term liabilities.

G: Consideration of Additional Revenues:

We support the Council's action in regard to consideration of a progressive business tax, review of potential revenues from the Port of Oakland (please see additional commentary below), or other potential new revenue sources.

H. State Budget actions:

In our prior report of June 2021, we commented "that it is probable that the state budget will contain funding for some of the City programs which are significantly challenged such as housing and homelessness. We recommend that, when possible, such funding be used to bring further stability to various affected City programs. Such a situation did occur resulting in numerous budget amendments that were often confusing to the public." We recommend developing improved systems for evaluating and anticipating the effects of state budget actions so that they may be incorporated into the adopted budget rather than numerous post adoption amendments. This may require revision of the budget calendar, including a possible charter amendment.

I. Implementing Reimagining Public Safety:

Due to timing, this budget has not aligned with the recommendations of the Reimagining the Oakland Police Force Task Force (Task Force). Task Force recommendations focused on the management of the OPD overtime budget, the thoughtful transitions from the OPD budget to social and other City services, and the cessation of certain OPD activities.

We anticipate that there will be significant proposals to implement the recommendations to reimagine public safety. We recommend that, when services are proposed to be shifted, it be done either in a zero-sum manner or there be recognition that there will be added transition

costs during that time. Understanding and changing the demands on police services is critical managing the OPD budget (overtime and otherwise).

J. Long term Liabilities

The proposed budget recognizes long term liabilities of \$2.658 billion. We recommend that every possible action be taken to manage and reduce that liability.

K. Port Revenues

We recommend that the Mayor, City Administrator, and the Council review the current City Charter and specifically the provision for the Port of Oakland that stipulates the sources and uses of monies from the Port of Oakland, and request that the Port of Oakland hire a consultant to assist in looking for increasing transfer of revenues to the City of Oakland.

The Port of Oakland, which is established within the City Charter and is in fact an entity governed by the City's Charter and its appointed Port Commissioners, is the 5th busiest container Port in the United States, and the Oakland Airport which is entertaining an expansion has grown over time to a busy regional and now international gateway for both business and pleasure travel, and for additional cargo handling. Both the Maritime Port and the Airport are one of the largest job engines within the overall San Francisco Bay Area.

A study funded by the Port to hire a consultant should be taken to see what it would take within the existing Charter, or with Charter Amendments, to increase the availability and consistency of the transfer of revenues from the City of Oakland Port Operations to the City's Budget. This needs to include looking at what restrictions currently exist, but which could be lifted and or changed, and this should be done in a coordinated way with the Port of Oakland in its budget and financial planning.

Recognizing the complexity of these issues, we recommend that the Council request the Port to retain an independent consultant to review and report upon the legal and fiscal aspects of the Port providing additional support to the General-Purpose fund.

