CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK
2006 OCT 19 PM 5:07

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Budget Office
DATE: October 24, 2006

RE: **A Special Report on Oakland's Chronically Underfunded Physical Plant from the Budget Advisory Committee (BAC)**

SUMMARY

This document transmits the Budget Advisory Committee's (BAC) special report, "Infrastructure in Crisis."

FISCAL IMPACT

There are no immediate fiscal impacts associated with the acceptance of this report; however, the report does recommend a considerable investment from the City for infrastructure needs. The figures and recommendations contained in the report have not been reviewed by staff.

BACKGROUND

The BAC consists of 15 members, with four appointed by the Mayor, seven appointed by Councilmembers 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 has prepared a report titled, "Infrastructure in Crisis", which focuses on need to address the City's aging infrastructure though the budget process.

RECOMMENDATION

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

Respectfully submitted,

JIM SMITH, JR.
Budget Director

Prepared by:
Gilbert Garcia
Principal Financial Analyst

APPROVED AND FORWARDED TO THE FINANCE AND MANAGEMENT COMMITTEE:

Office of the City Administrator

Item: _____
Finance & Management Committee
October 24, 2006

Infrastructure in Crisis

Oakland's Chronically Underfunded Physical Plant Jeopardizes the City's Financial Future

A Special Report with Recommendations
By the Members of the City of Oakland's

Budget Advisory Committee

October 9, 2006

Members:
Benjamin Scott, Chair
Maeve Elise Brown
Vernon Burroughs
Thomas H. Doctor
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City of Oakland

Introduction

Cities have long been challenged in attempting to maintain a balance between spending for current needs and capital spending. The latter, when managed optimally, allows for more spending for current needs (operational spending) due to the diminished need for spending on maintenance of capital assets (infrastructure.) The paradox, as anyone who owns infrastructure of any kind (buildings, roads, sidewalks, sewer systems, vehicles, etc) is that underspending on capital improvements inevitably results in higher maintenance spending over the longer term.

> **An example:** A simple example is a roof. A roof that is leaking can be patched. That is a maintenance (operational) expense. A roof that needs replacement can also be patched, but its rate of deterioration may be well past the point where a maintenance patch will be effective. Future leaks will develop as the roof ages past the point of replacement. Now the structure it covers is in danger of water damage. Water damage can cause irreparable harm. Several years past the point at which the roof had passed the end of its useful life, damage has occurred to the structure far exceeding the capital cost of roof replacement.
>
> Comparing the city's situation to that of a homeowner, a homeowner may find they do not feel they have enough money to fix the roof, and end up spending much more as the to repair the roof as well as water damage for their home.
>
> It is a vicious cycle that threatens any enterprise's future and must be addressed with proper capital spending resources as soon as is practicable.
>
> **Public safety is closely intertwined with capital spending:** Skimping on capital spending affects the livability of a city and has detrimental impact on public safety. Poor roads and sidewalks, inadequate or missing street lighting, improperly maintained sewer systems and run down city buildings all harm the quality of life in a city an lead to blight.

In addition, proper focus on city planning and infrastructure, when viewed strategically, can in fact increase future revenue streams, thus creating a more sustainable financial future for the city while making it more livable.

This report sheds light on the city of Oakland's capital spending shortfalls and points out the need to identify sources of funding to (to continue the analogy) "replace the roof before the building must be replaced."

A. Current Capital Spending Needs

At a recent meeting of the Budget Advisory Committee, Public Works Agency staff presented a report on the city's current state of capital spending.

Here is a summary of their findings.

At a City Council Public Works Committee meeting held May 11, 2004 Public Works Agency staff reported (See Attachment A.):

- Capital Maintenance Projects in need of attention include 130 projects estimated at a cost of at least $20 million.
- 80 % of city facilities are 30 years old or older with repetitive, expensive, short-term repairs sapping Agency resources.
- Between the fiscal years 1998-99 and 2004-05 no monies were budgeted for roof replacement or repair.

On March 20,2006 the Public Works Agency staff provided a briefing to BAC (See Attachment B.) that noted:

- In 2005-07 fiscal year City Council did allocate $2 million for minor capital improvement projects that represented imminent health and safety needs. There is now no emergency reserve for unforeseen needs.
- Similar maintenance deficiencies occur in parks and in recreational facilities.
- Sidewalks are on a 50-year repair cycle with tree damage recurring every five years.
- Street repair cycle is based on an 85-year cycle while the "industry" standard is 25-year cycle.
- The city's storm drain master plan identifies needed projects at a cost of $200 million. There is no current funding.

The above recitals illustrate what is happening to the city's infrastructure without adequate planning for replacement or funding for maintenance.

In 1993 the City Council enacted Ordinance 12502 cms creating a Capital Improvement Reserve Fund. (See Attachment C.) This fund established that monies for unexpected major capital maintenance or repair costs to city-owned facilities be held in reserve. This Reserve Fund, or a version similar in concept, could be used to provide funding for currently needed "emergency" repairs to existing improvements that are posing a threat to public health and welfare due to lack of adequate upkeep. Ideally, in the future, prior to council approval, any proposed capital improvement should be required to include an analysis of the cost of maintaining the physical plant over its anticipated life. This analysis would assist in making cost/benefit decisions on providing improvements and in the budgeting of funds for proper maintenance of the facility by provision of adequate reserves for protecting the asset and the service these facilities and structures provide.

In 2002 the City of Oakland government initiative called "Moving Oakland Forward!" made several recommendations, including (1) that the City Council deliberate on the Capital Improvement Program budget prior to engaging in the operating budget to ensure that incremental operations and maintenance costs resulting from capital projects are incorporated into the operating budget, and(2) that all projects proposed to

the City Council for consideration contain a comprehensive financial timeline for the first five years, including prospective incremental allocations for Ongoing Operations and Maintenance and that approval of the project should be considered a City Council mandate to include the incremental operating and maintenance costs in the budget.

B. A History of Capital Spending in the City of Oakland

At one point, the City of Oakland did provide consistent funding for several categories of Capital Maintenance Projects (Major Capital Replacement, Capital and Minor Maintenance, and Roof Replacement and Repairs) under the Municipal Improvement Capital Fund (5500). FY2000-2001 was the last year for which $1Million was budgeted for capital replacements. FY2002-2003 was the last year for which $250,000 was budgeted for capital and minor maintenance, and FY 1998-99 was the last year for which any money was budgeted for roof replacement and repairs. It is also worth noting that in addition to the funding for these categories, of Capital Maintenance Projects, each year the city's Capital Improvement Program also included funding for individual major and minor capital projects to address safety and quality of life, issues in the various council districts. However, the situation has severely degraded, with no general fund budget for many major categories of funding.

The challenges for capital and infrastructure spending in Oakland stem from a combination of the timing of the various financial processes, financial commitments outside the budget process, and a lack of a strategic plan for infrastructure.

The Oakland Budget is actually comprised of several budgets and programs. Three of the key budgets are:

- City of Oakland, Capital Improvement Program (5 Year)
- City of Oakland, Redevelopment Agency Budget (2 Year)
- City of Oakland, Policy Budget (2 Year)

In past processes most of the city council attention has been on the **Policy Budget.** This essentially focuses on matching projected cash flow in from revenues to projected cash flow out from expenses. Though the policy budget has been extended to a 2 year cycle in recent years, the timing of the process actually restricts the budget deliberation to fairly short term issues. In reality, the three budgets are very interrelated, especially in the long term. Redevelopment is the source of future growth and new tax revenue increments. New infrastructure requirements also come from redevelopment to support the new residences and businesses that are part of Oakland. If new capital project and infrastructure are not included as part of the development budgeting processes, then the infrastructure becomes overloaded and funds for maintenance stretched too thin.

The important point here is both the timing, interrelation, and a strategic plan. In past cycles, the primary focus and public input has been on the short term cash flow considerations of the Policy Budget. The Capital Improvement Budget has been reserved towards the end of the process, with the outcome being along the lines of "well there's no money left, so we can't add any projects to the Capital Improvement Program." This is the case often even with record breaking revenues. In fact, since there's been no money left, the processes by which requirements are defined have

somewhat atrophied, or at least lost visibility, since defining requirements for funds that are not available is futile.

The other aspect of timing is that a substantial portion of the financial commitments, even in the policy budget are made outside the budget process. The largest portion of the budget is labor cost. Our past analysis also shows that it is the largest source of year over year budget increases. This is especially true in times when the revenue budget exceeds projections, especially when there is a failure to distinguish one-time form sustained surplus. Costs tend to increase the meet available funds. We cannot speculate on what the next budget process will look like at this point, but we can learn from the past. A classic case that impacted Oakland was the revenue surge in the run up to the dot com bust. Even in cases where revenues are relatively strong, the council may find itself having to allocate cuts due to increase costs. As revenue increased so did personnel costs- both in terms of costs per employee and employees per citizen. (See our previous report on personnel costs after the dot com bust.)

We face a similar situation with the recent surge in transfer tax, which may not be sustained.

From a timing standpoint, it is easy to see how this happens. Most of the labor costs are determined outside the budget process, prior to the budget process, in labor negotiations that are much less public and much less transparent than the budget process itself. Yet the largest portion of the budget and the largest year to year increase comes from labor MOU's which are outside the budget process. A typical time line might look like:

Potential Budget Timeline

- City announces revenue surplus
- Labor MOU increases labor costs for major entity such as police or fire department which are locked in for several years
- Council convenes offsite budget hearing to discuss city priorities
- Staff prepares analysis of expected revenues and expenses and daylights expense increases (including labor), which may outstrip revenue
- Mayor's budget proposes how to allocate service cuts to balance increased personnel costs
- Council Hearings focus on constituents protecting various programs from cuts
- Council allocates cuts
- Final Policy Budget adopted
- *There is no "new" money for infrastructure*
- Capital Program Budget adopted

Continuing the metaphor of an individual home owner, this could be likened to a family getting a raise, then overspending on a fancy new car, beer and pizza, and then not having enough he pay the previous mortgage.

One of the challenges of a major portion of the budget being committed outside budget process in labor negotiations is the difference in transparency and public participation. Labor negotiations are by their nature often complex and treated in a more private manner than other portions of the budget. This difference in public scrutiny and

political visibility can imply the increases requested by the labor union do not get the same degree of scrutiny as other line items in the budget. For example, are increases in personnel costs for the police such as improved retirement benefits for senior staff weighed against other expenditures that would improve public safety? Would improved authority of the Police Chief to make officer assignments where there is the most crime reduce overtime costs? These questions are not given the same level of scrutiny as other budget line items. The lack of public awareness can also put council members on the defensive, since the whole process is not made public by the city, specific information advantageous to the labor union may be selectively provided to the public.

Typically each negotiation starts with a claim that the current MOU provides less compensation than surrounding cities. This of course would normally be the case for any city, because the agreements that are coming up for renewal are by definition the oldest agreements. Since wages generally go up and not down, the newer agreements of the surrounding cities will generally have higher wages than the older agreement being negotiated. Thus, one city is used against the other to justify higher wages, rather than a policy debate about how to reduce crime in Oakland.

The BAC cannot comment quantitatively on the current MOU negotiations in progress, because we have no information about it. Our requests for the most basic information like crime rates compared to officer staffing levels for past years have gone unanswered. We can only comment on the process and potential at this point. However, our discussions with former Police Chief Ward, showed that increased labor costs were not quantified or day lighted during labor negotiations, unit after they were committed.

The same may be true for the various labor agreements for public works employees. In allocating costs for infrastructure, major portions of the budget within public works are constrained by labor agreements that impact the mix of labor and project dollars.

Thus, timing of the various processes, as well as dealing with major portions of the budget (especially labor costs) out side the budget process, and the lack of strategic framework for addressing the interrelation between the policy, capital projects, and development budgets, create a process that is arguable not only short sited, but actually backwards looking, recognizing major cost commitments after they occur.

The result that some areas of infrastructure such as storm drains have huge requirements with no funding.

The result can be characterized in relation to other city's by some representative parameters:

- Oakland Pavement Condition Index: 94th out of 104 Bay Area Cities
- Oakland Police Overtime Allocation in Last Budget Cycle: # 1 in Northern California
- Oakland Police Overtime variance: #1 in the Bay Area

C. Finding Funds in the Current Budget

How can we create a process that looks strategically at infrastructure, and the interrelation between the policy budget, the redevelopment budget, and the capital improvement budget? The strategy for finding future funds falls into a number of categories that are both short and long term. And council and the budget office have made the distinction between one time and sustained revenue increases. Many of the short term strategies have been considered by council in the mid cycle budget review (June 2006), and a much deeper analysis may be possible for the next full budget cycle.

A synopsis of options is below:

a. A one time allocation from the current "one time" surplus generated by record breaking transfer tax revenues.
b. A dedicated savings of future "ongoing surplus" from a sustained increase in parcel taxes to create an infrastructure fund, or to be converted to a one time capital fund through a bond or other debt mechanism.
c. Allocation of some funds from the city general funds in the next policy budget for areas like paving, which have zero dollars allocated from the general fund currently, align with consideration of the capital improvement budget along with rather than after the general fund budget.
d. Allocation of state or country funds from areas like increased state gas taxes.
e. Improved coordination of development service (impact) fees and similar funding from private development and redevelopment, so that the new development projects- the new homes and businesses that drive the requirement for infrastructure- share the cost of providing for the infrastructure to support them. If we have 10K or 100K, what is going to happen when all the new toilets get flushed? This can be viewed in two categories.
    1. Project specific
    2. City wide allocation
f. Specifically for redevelopment, definition of a portion of the tax increment to pay for new infrastructure to support redevelopment
g. A specific Oakland Capital Improvement and Revitalization Plan with broad benefit to quality of life and safety, financed by bonds and supported by parcel taxes, that can be view as an investment in Oakland. While voters may be fatigued at new parcel taxes to support existing functions, they may be more supportive of specific improvements that benefit quality of life, public safety and property values--important to a ***parcel*** tax.
h. Designation of specific fund or revenue sources as is currently in place for funding sewer improvements.
i. Measurable construction and maintenance standards to protect the existing infrastructure.
j. Improved operational efficiencies within existing funds, especially in the use of personnel funds.
k. Improve the process for capital project definition

In terms of our home owner metaphor, this could be viewed as family defining plan to improve their home, invest in it, and improve their quality of life, safety and value of the home.

D. Where Do We Go From Here?

The Budget Advisory has the following recommendation:

Whereas, the city's infrastructure is deteriorating at an alarming rate;

Whereas, Oakland's Public Works Agency has identified the following deficiencies in capital spending:

- *Facilities and structures: $2 million for immediate health and safety needs*
- City parking structures: $1 million needed for the Clay Street garage alone
- Parks and open space: the failure of the LLAD increase accentuates the lack of funding
- Sidewalks: $133 million in existing sidewalk damage; $20 million per year thereafter needed to maintain a 5 year repair cycle
- Streets: $26 million/year for 10 years needed to bring pavement condition index to acceptable level
- Storm drains: price tag for a storm drain master plan: $200 million;

It is the City of Oakland's Budget Advisory Committee's recommendation that the City Council form a task force to complete and present to the Council a 10 year strategic capital spending plan. It should include representatives from the Mayor's office, the City Administrator's office as well as council members. (The members of the Budget Advisory Committee are most willing to participate in such a task force.)

This task force should be charged with:

1. ***developing a 10 year plan identifying capital spending needs***
2. **developing a 10 year plan for revenue sourcing and identification with emphasis on exploring**
    a. **surplus asset sales**
    b. **state and federal grants**
    c. **parcel tax initiatives**
    d. **bond funding**
    e. **development service fees**
    f. **designated use of one time cash flows**
    g. **additional service or user fees**
3. **Integration of capital spending needs and allocations into the budget priorities, proposals and ideas from Public Works, CEDA, Redevelopment and Finance.**

FACILITIES AND STRUCTURES (CAPITAL MAINTENANCE)

General Facts
The Public Works Agency / Facilities Management and Maintenance Division is responsible for performing Capital Maintenance Projects for the following:

- 309 facilities, including 3 million square feet of space
- fueling stations (4 underground; 31 above ground; 1 compressed natural gas)
- 38 emergency generators
- 4 Uninterrupted Power Supply (UPS) battery packs (including 911 radio dispatch, Hall of Justice computers and lights, Emergency Operation Center radio dispatch, and Eastmont Police Station]
- 134 tot lots and playgrounds
- 51 field house restrooms
- 87,628 linear feet of park fencing
- 101,688 linear feet of park pathways
- 74 basketball courts
- 48 tennis courts
- 5 swimming pools
- all park amenities (including 471 tables, 1,119 benches, 73 bleachers, and 110 barbeque pits)

To some extent, this same staff is also involved in Capital Improvement Projects, such as minor renovations and capital equipment replacement. In the past, the City's CIP (Capital Improvement Program) has included funding for major capital replacement. In addition, grant funding for Capital Improvements Projects sometimes includes maintenance and repair work for building structures, tot lots, paving, and restrooms in the parks, and minor site repairs (fence repairs, bleachers, picnic table installations, signage, etc) as part of a larger rehabilitation project.

Prioritization Method
For the most part, staff response to Capital Maintenance Projects is based on projects that are identified by program staff (e.g., Parks and Recreation, Fire, Police, Senior Centers). These calls for service are prioritized from high to low using the following factors.

High Priority

- ***life safety issues***, such as poor air quality from a ventilation system and fire stations doors not operating;
- ***mandated service***, such as Cal/OSHA regulations (California Occupational Safety and Health Act), annual State mandated inspections and repairs of tot lots, elevator inspections, underground storage tank inspections;
- ***hazardous situations***, such as leaking sewage pipes and environmental remediation issues;
- ***security breach***, such as broken window or door lock;
- ***preventive maintenance of emergency response systems*** such as emergency generators and UPS, fire extinguishers.

Medium Priority	• ***scheduled preventive maintenance projects*** based on industry standards (roofs, equipment inspections, tot lots).
Low Priority	• ***deferred maintenance projects*** – preventive maintenance that has been deferred due to lack of funding

Needs Assessment
The true "need" is unknown. Most of our Capital Maintenance Projects are reactive, rather than preventive.

Staff maintains a running list of Capital Maintenance Projects that have been identified over the years. This list is included in the request for funding within the Capital Improvement Program each budget cycle. The current list includes 130 projects, with a total preliminary estimate of $20 million. All project estimates on this list were computed based on a visual inspection only of the site. More comprehensive estimates will be required before an accurate funding request could be attached to any individual project.

Examples of the types of projects included on this list are as follows:

- Roof replacement at various fire stations, field houses, and the main library
- Furnace replacement at various recreation centers, senior center, fire stations
- Restroom upgrades throughout City parks
- Tot lot equipment replacements throughout City parks
- Window and door upgrades at various facilities
- Tennis court resurfacing of various tennis courts
- Veterans Memorial Building elevators, doors and window, steam/condensate pipe electrical outlet replacement; floor refinishing
- City Hall air conditioning above third floor, elevator and window replacement or upgrade
- Henry J. Kaiser boiler, sewer pipe and steam pipe replacement

Repairs needed at the Hall of Justice Complex, which are extensive, are not included on this sample list.

Approximately 80% of the City's facilities are 30 years old or older. This means that many of the major facility systems (heating, ventilation, electrical, plumbing) are functioning beyond their expected lifespan. Much of the existing resources are spent repairing these old systems that need to be replaced. These types of repairs are unscheduled, unplanned, expensive, and short-term.

Due to the large volume of deferred maintenance at City facilities, the majority of resources are spent on high priority service calls. Approximately 80% of the work assignments result from reports by facility tenants of equipment failure (ventilation, plumbing, electrical), which require immediate attention to mitigate a health safety issue or to prevent more severe damage to the facility; 10% of work assignments are mandated inspections and maintenance; and 10% of work assignments are scheduled preventive maintenance calls.

A best practice in managing facility maintenance is to re-distribute workload such that equipment failure calls represent 40% of the work assignments, mandated inspections and maintenance is increased to 20% of the work assignments, and scheduled preventive maintenance is increased to 40% of the work assignments. Achieving this best practice requires an infusion of funds to replace aging and irreparable facility systems and equipment.

Resources

At one point in time, the City provided consistent funding for several categories of Capital Maintenance Projects (Major Capital Replacement, Capital and Minor Maintenance, and Roof Replacement and Repairs) as shown in the table below. These appropriations were supported by the Municipal Improvement Capital fund (5500).

Historical Funding for Major and Minor Capital Maintenance Projects

Category	91-92	92-93	93-94	94-95	95-96	96-97	97-98
Major Capital Replacement (Replacement of equipment such as pumps, furnaces, generators, fuel tanks, facility pavement, etc.)			195,000	0	0	0	0
Capital and Minor Maintenance (Miscellaneous emergency repairs to facilities, fencing, security gates, etc.)	265,000	250,000	250,000	250,000	250,000	200,000	190,000
Roof Replacement and Repairs	250,000	250,000	0	100,000	150,000	150,000	100,000
Totals	**515,000**	**500,000**	**445,000**	**350,000**	**400,000**	**350,000**	**290,000**

Category	98-99	99-00	00-01	01-02	02-03	03-04	04-05
Major Capital Replacement (Replacement of equipment such as pumps, furnaces, generators, fuel tanks, facility pavement, etc.)	923,000	1,000,000	1,000,000	0	0	0	0
Capital and Minor Maintenance (Miscellaneous emergency repairs to facilities, fencing, security gates, etc.)	250,000	250,000	250,000	250,000	250,000	0	0
Roof Replacement and Repairs	250,000	0	0	0	0	0	0
Totals	**1,423,000**	**1,250,000**	**1,250,000**	**250,000**	**250,000**	**0**	**0**

The major capital replacement money was used to replace system components and equipment as they became inoperable and irreplaceable. FY 2000-01 was the last year for which $1 million was budgeted for major capital replacements. FY 2002-03 was the last year for which $250,000 was budgeted for capital and minor maintenance, and FY 1998-99 was the last year for which any funds were budgeted for roof replacement and repairs.

It is also worth noting that in addition to the funding for these categories of Capital Maintenance Projects, each year the City's CIP also included funding for individual major and minor capital projects. A few examples include the installation of Hall of Justice security barrier (FY 1996-97), installation of ventilation exhaust systems in various fire stations (FY 1996-97), installation of security items at various fire stations (FY 1997-98), Brookfield Branch Library air conditioning (FY 1997-98), resurface and restripe concrete floors of Museum (FY 1997-98), Community Centers repair and restoration (FY 1999-00 and FY 2000-01), and East Oakland Senior Center air conditioning (FY 2000-01).

On-Going Operations and Maintenance

In FY 1987-88, the Office of General Services/Municipal Buildings Division employed 156 FTE and maintained approximately 2.5 million square feet of space, with a total budget of over $10 million.

Today, the Public Works Agency/Facilities Management and Maintenance Division (FMMD) employs 99 FTE and maintains more than 3 million square feet of space, with a FY 2003-04 adopted budget of $18 million. Of this total budget, about 28% ($5 million) is designated for fixed costs, specifically utility costs (electricity, gas, and potable water). The remainder of the budget provides for maintenance and repairs and includes 55% ($9.9 million) for personnel and 17% ($3.1 million) for materials, parts, and supplies.

Facilities, parks, and structures have been added to the City's inventory without accompanying funding for the on-going operations and maintenance of these additions.

As an internal service provider, the Facilities Management and Maintenance Division budget is supported by an internal service charge to each City department. At one time, the FMMD budget was funded based on actual services provided to each City department in the immediately preceding fiscal year. Today that is no longer the case, in large part due to reductions in staff that used to track and calculate the actual services and because user departments have not been able to afford costs increases needed to maintain the facilities they use.

FMMD is currently in the process of writing specifications for the purchase of a Computerized Maintenance Management System. To the extent that such a system can be funded and implemented, one benefit is that we would have a comprehensive, readily available data source to track actual FMMD costs associated with specific facilities, and be able to charge user departments based on this data.

Next Steps

- Fund and implement a comprehensive assessment of existing facilities and structures. (This would be coordinated with the assessment that is recommended under the Parks and Open Space category – Attachment B.)
- Work towards eliminating the operating deficit within the internal service fund that supports the Facilities Management and Maintenance Division.
- Incorporate into the internal service charge rate an amount for future capital replacement needs.
- Secure funding for major capital replacement needs.

Budget Advisory Committee
Public Works Agency Briefing on Infrastructure
March 20, 2006

Attachment **B**

Program *FACILITIES AND STRUCTURES*

Description The Public Works Agency is responsible for Capital Maintenance Projects for 309 facilities (total of 3 million square feet of space) including City Hall and the Civic Center complex. The Agency is also responsible for four underground and 31 above-ground fueling stations and one compressed natural gas fueling station, 38 emergency generators, 134 tot lots and playgrounds, 51 field house restrooms, 74 basketball courts, 48 tennis courts, five swimming pools, and all the various park maintenance amenities such as picnic tables, benches, bleachers and the like. There are also nearly 20 miles of park pathways and seventeen miles of fencing.

Funding Funding for major capital improvements to facilities comes from the Redevelopment Agency, grants and bonds (Measures I, K and DD, for example). Funding for minor capital improvement projects (roofs, mechanical systems such as Heating, Ventilating and Air Conditioning, minor repairs to driveways, etc) had been provided through the Municipal Capital Improvement fund until 5 years ago. In 2005-07 the City Council did allocate funding for minor capital improvement in the amount of about $2 million for projects that addressed imminent health and safety needs. There is no emergency reserve for unforeseen needs.

Assessment A current list of deferred maintenance and other needs includes 130 projects, with a total preliminary estimate of $20 million. However, this is based only on a visual inspection and not a comprehensive condition assessment.

Challenges

- Fund and implement a comprehensive assessment of existing facilities, mechanical systems and structures.
- Work towards eliminating the operating deficit within the internal service fund that supports the Facilities Management and Maintenance Division.
- Incorporate into the internal service charge rate an amount for future capital replacement needs.

Immediate Needs

- Secure future, dedicated funding for major capital replacement needs.
- Highest priority include roof repairs and resurfacing of the highest priority park paths.

Outlook Poor. With limited funding for ongoing capital maintenance projects, critical building systems may fail. The number of roof leaks, for example, increases each year; associated problems with mold and other problems have been growing. A comprehensive condition assessment is underway to determine the need for capital maintenance.

Budget Advisory Committee
Public Works Agency Briefing on Infrastructure
March 20, 2006

Attachment **B**

Program *TRAFFIC IMPROVEMENTS*

Description Traffic improvements include traffic signals and related capital improvement projects, the Neighborhood Traffic Safety Program, the Bicycle Program, management of City parking facilities, and Traffic Maintenance program.

Funding

$ 4.6 million	Multi Purpose Reserve (Fund 1750)
$ 3.3 million	State Gas Tax (Fund 2230)
$ 0.9 million	Measure B Sales Tax (Fund 2211)
$ 8.8 million Total	

Assessment In general, funding has been provided for approximately two traffic signals per year, and recently, one pedestrian signal per year (excluding one-time grants for specific programs, such as the Safe Routes to School statewide program). The funds provided have been from Measure 'B' Sales Tax revenues, which also compete for roadway maintenance activities, street resurfacing and other transportation programs and projects. The level of funding has been minimal but adequate for traffic signal installations; however, demand for pedestrian improvements (signals and other amenities) has been growing over the last several years, outstripping the funding provided. Additional funding may be available from federal or state grants, and traffic impact mitigation fees, though the City does not currently charge development-related traffic impact fees, as do most large cities in the Bay Area.

Funding for management of the City's parking facilities is inadequate for needed safety improvements, deferred maintenance and upgrades to modernize to current industry standards. A thorough assessment to identify the costs for these upgrades is needed.

Funding for bicycle facilities is coordinated to the extent possible with planned resurfacing projects to make best use of resources; however, this limits which bike facilities get built, and those that are in highest demand need to compete for grant funds or wait for other projects with which to coordinate.

Challenges Maximizing revenues for City-owned parking facilities in light of deferred maintenance, old equipment and difficulty in attracting customers. Maintaining good customer (public, council offices) relations for popular programs (e.g. pedestrian and bicycle improvements, traffic calming), where the expectation for response time is high relative to staff's ability to thoroughly evaluate and deliver. Continued lengthy process and time required for contracting.

Immediate Needs Approximately $600,000 for needed safety improvements at the Clay Street Garage (replacement of rusted stairway and non-compliant safety railings, skid-resistant surfacing for pedestrians on floors), plus and additional $100,000 for installation of automated pay-station and changeable message sign, to abate continuous queues and customer frustration.

Outlook Fair. There are significant challenges related to the City-owned parking facilities, but funding is generally adequate for citywide traffic control projects.

Budget Advisory Committee
Public Works Agency Briefing on Infrastructure
March 20, 2006

Attachment **B**

Program *PARKS AND OPEN SPACE*

Description The City has over 2,500 acres of open space with over 100 parks and public grounds. The City also has three golf courses. Located in or near the parks are 23 recreation centers, 53 multi-use sport fields, seven pools, seven community gardens, two discovery centers, and six rental facilities.

Funding Capital Improvement Projects related to parks and other recreational and cultural facilities are typically funded through State (Proposition 12 and 40) and Federal grants, and local general obligation bond measures, such as, Measure K, Measure AA, Measure I, Measure G, and Measure DD. Previous funding had been provided through the Municipal Capital Improvement Fund.

Assessment There is an extensive list of desired capital improvements to the park and recreation facilities throughout Oakland. There is also extensive deferred maintenance to most of the parklands that is a direct result of the inadequate staffing levels for park maintenance. Proposed changes in the level of LLAD funding would offset much of this if successful. The capital improvement needs require a comprehensive assessment, including analysis of the findings of the OSCAR element of the General Plan.

Challenges

- Fund and implement a comprehensive assessment of existing facilities and structures in parks that will provide a list prioritized in accord with the above-defined criteria to be used as the basis for future project recommendations. (This would be coordinated with the assessment that is recommended under the Facilities and Structures category - Attachment A.)
- Maximize the number of capital replacement and maintenance projects included in grant applications for Capital Improvement Projects.
- Improve coordination with Facilities Management and Maintenance staff with respect to grant application submissions.

Immediate Needs Completion of an interim Park Assessment Plan, funded in the current budget cycle, will develop concept-level plans for several parks from each council district to increase "project readiness", a criteria for competing for grant opportunities.

Outlook Fair. Capital funding for deferred maintenance at many park facilities is needed. Success of a proposed increase in the Landscape, Lighting Assessment District will help offset the current and projected structural deficit in the operating and maintenance program for parks and open space, as well as median, lighting and other ongoing programs related to that fund.

Budget Advisory Committee
Public Works Agency Briefing on Infrastructure
March 20, 2006

Attachment **B**

Program *SIDEWALKS*

Description The city sidewalk network consists of approximately 30 million square feet of sidewalks (1,100 miles). The City is responsible for sidewalk repairs damaged by official city trees. Property owners are responsible for repairing all other damaged sidewalks.

Funding The City's FY 2003-05 CIP budget for sidewalk repair is $1.4 million. At the current funding level, the City cannot repair all of the newly reported damage or begin to address the backlog. As a result, the City's sidewalk repair backlog grows a rate of over $4.5 million of "known" sidewalk damage per year. Funding is available from Measure B and Federal Grants, though the federal funding is only available for major streets and arterials.

Assessment The sidewalk program is currently at a 50-year repair cycle. However, tree related damage recurs every three to five years. To effectively manage the City's sidewalk damage, the repair cycle should be every five years.

Challenges At this time, it is estimated that there is $133 million of existing sidewalk damage. Of the $133 million, approximately $100 million (75%) is related to Official City Trees and is the City's responsibility. The remaining $33 million (25%) is related to general sidewalk deterioration and is the property owners' responsibility. The current level of funding only allows the City to address the highest priority sidewalk repairs.

Immediate Needs Completion of the current city-wide sidewalk survey is anticipated for this summer. An estimated $20 million per year is required to maintain a 5-year sidewalk repair cycle. Interim funding is needed to address the highest priority repairs that will be identified in the sidewalk survey.

Outlook *Poor*. The current level of funding is inadequate to address the backlog of needed repairs, and trip-and-fall claims related to damaged sidewalks are increasing.

Budget Advisory Committee
Public Works Agency Briefing on Infrastructure
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Attachment **B**

Program *STREETS*

Description The city street network consists of 836 centerline miles.

The Capital Improvement Program for streets is a maintenance program critical to maintaining the integrity of these assets. It does not include street widening in anticipation of future growth.

Funding

$1.8 million	Proposition 42 funds
$2.0 million	Federal Grants (estimated average annual amount)
$3.8 million	

Assessment Oakland's streets are in critical condition. The condition of a street is measured by its "Pavement Condition Index", or PCI. A PCI of 90 to 100 is considered excellent; 50-69 is considered good; 26-49 is considered poor. Currently, Oakland's average PCI is 57 but it is falling each year. The Metropolitan Transportation Commission (MTC) compiled PCI information from 104 cities in the Bay Area. Oakland's PCI ranked 94 of 104. At the current funding level the PCI is projected to be 48 in 2010.

To maintain a city's street system in optimal condition the average resurfacing cycle should be around 25-years. Oakland's current resurfacing cycle is 85 years based on the current available funding.

Challenges To restore Oakland's streets to an optimal condition (PCI of 82) Oakland would need to spend approximately $26 million each year for ten years. The cost to rehabilitate a street increases exponentially as the PCI decreases. For example, the cost to slurry seal a street with a PCI of 78 (very good condition) is $2.00 per square yard. The cost to rehabilitate a street with a PCI of 20 (very poor) is $44.00 per square yard, 22 times as expensive. As the overall condition deteriorates and funding remains constant, the City is forced to "triage" its streets and only focus on maintaining streets in relatively good condition, to prevent an ever more rapid fall in overall condition.

Immediate Needs Any increase in rehabilitation funding would improve the condition of Oakland's streets. An increase of $2 million annually would increase the average PCI from 48 to 49 in 2010. An increase of $4 million annually would further increase that to 52.

Outlook *Poor*. The current level of funding is inadequate to maintain Oakland's streets. Over time more and more streets will fall into the poor category, with ever increasing rehabilitation costs.

Budget Advisory Committee
Public Works Agency Briefing on Infrastructure
March 20, 2006

Attachment **B**

Program *STORM DRAINS*

Description The City storm drain system consists of small and scattered networks of pipes and drainage structures that interconnect with creeks, watercourses, Lake Merritt, and the San Francisco Bay. In the Oakland Hills, the network is primarily an unimproved system as street-swales, natural watercourses and creeks service the area.

The improved and unimproved system consists of the following:

- 370 miles of closed pipe system
- 40 miles of open creeks and watercourses
- 14,000 structures such as inlets and manholes

Funding Current Funding: None
Previous Funding: $350,000 in each of FY 01-02, 03-04 from the Municipal Capital Improvement Fund.

Assessment The Storm Drain Master Plan identified needed projects by category at an estimated cost of $200 million as follows.

- *Rehabilitation/Replacement Projects: Approximately 30,000 linear feet of pipe* have been identified for rehabilitation/replacement due to deteriorated pipe conditions at an estimated cost of $32 million.
- Capacity Correction Projects: Approximately 100,000 linear feet of pipe have been identified for capacity enhancement due to lack of hydraulic capacity at an estimated cost of $155 million. Of these, approximately $18 million has been identified as high priority to prevent flooding.
- System Expansion: New facilities are needed in under-served areas or where storm drainage system is non-existent at an estimated cost of $11 million.

Challenges

- Adopt a comprehensive storm water management program for Oakland that includes maintenance, capital, water quality and creek programs.
- Secure a dedicated funding source for improvements recommended in the Storm Drain Master Plan, which include capital improvements, expanded operations and maintenance, and enhanced watershed-based storm water management programs.
- Best current estimate for this program is $10 million annually

Immediate Needs Secure funding for $500,000 in highest priority projects, which include projects required by settled litigation, imminent potential for loss of roadway and other public infrastructure, and recurrent hazards at known locations.

Outlook *Poor*. Unless a dedicated source of funding can be found for ongoing maintenance and needed capital improvements, the existing drainage system will continue to deteriorate and damages related to inadequate drainage infrastructure will continue.

Budget Advisory Committee
Public Works Agency Briefing on Infrastructure
March 20, 2006

Attachment **B**

Program *SANITARY SEWERS*

Description The City's sanitary sewer collection system includes over 1,000 miles of sanitary sewer pipes and over 25,000 structures throughout the City. Sanitary sewer systems have a serviceable life span of up to 70 years. However, conditions such as ground movement, tree root intrusion, quality of original pipe material, and other factors can significantly decrease the lifespan of sewer pipes and manholes. Most of Oakland's sewer system was built in the early 1920's and is nearing the end of its serviceable life.

In 1987, a 25-year capital improvement program was initiated to rehabilitate up to 300 miles of sewer lines to eliminate wet weather overflows. These lines were determined to be the major contributor to ongoing wet weather overflows. This program does not address the remaining 700 miles of sewer system. Only a small fraction of this remaining portion is rehabilitated on an as-needed basis each year.

Funding Sewer Service Fund. A sewer service charge is collected from all properties connected to the sanitary sewer system. The rates are adjusted to inflation and are adequate to cover the operating and capital expenses in this program. FY 05-06 revenues are $26 million.

Assessment The Sanitary Sewer CIP and Maintenance programs are both well funded and adequately staffed.

Challenges Enhance the existing maintenance program to assure reduction in the number of Sanitary Sewer Overflows (SSO's) that are currently reported to the Regional Water Quality Control Board and the Environmental Protection Agency.

Immediate Needs

- Continue implementation of the 25-year capital improvement program
- Continue collaboration with EBMUD on the Fats, Oils and Grease (FOG) program to reduce blockages related to those substances
- Continue root foaming and other preventive maintenance practices

Outlook *Excellent*. The program is supported through a dedicated funding source that includes an inflation factor, and capital improvements are based on a long-range implementation plan.

INTRODUCED BY COUNCILMEMBER _____

APPROVED AS TO FORM AND LEGALITY
_____
CITY ATTORNEY

ORDINANCE NO. 12502 C.M.S.

AN ORDINANCE ESTABLISHING A GENERAL FUND RESERVE POLICY; ESTABLISHING AND FUNDING A RESERVE FUND FOR THE CAPITAL IMPROVEMENT FUND; AND REPEALING THE PRIOR RESERVE POLICY OF THE CITY.

WHEREAS, the ability to maintain reasonable reserve funds is one of the key financial standards used by rating agencies to evaluate the financial condition of the City of Oakland (the "City"); and

WHEREAS, the lack of established reserve funds maintained by the City may have negative implications in the credit markets; and

WHEREAS, once a fiscal year has begun, the City has limited ability to significantly increase revenue or decrease expenditures in order to fund unanticipated expenditures during such fiscal year; and

WHEREAS, on March 22, 1994, the City Council of the City (the "Council") adopted Ordinance No. 11694 C.M.S. which established a five percent (5%) reserve goal with respect to the City's undesignated general fund balance to pay any unanticipated expenditures, and a one percent (1%) reserve goal to be used to pay claims arising from the City's insurance program;

WHEREAS, these amounts are considered to be reserve funds of the City and are unappropriated and identified to the City's creditors as the "Undesignated General Fund Balance;" and

WHEREAS, such amounts are insufficient to provide realistic reserves in the event of unanticipated expenditures; and

WHEREAS, the Council desires to increase the amounts to be deposited with respect to the existing reserve policies, set new policies with respect to the City's operating budget and the capital improvements budget, and establish a reserve fund with respect to the City's capital improvements budget into which the appropriate amounts are to be deposited;

NOW, THEREFORE, THE COUNCIL OF THE CITY OF OAKLAND DOES HEREBY ORDAIN AS FOLLOWS:

SECTION 1. The Council finds and determines the foregoing recitals to be true and correct and hereby adopts and incorporates them into this Ordinance.

SECTION 2. General Fund Reserve Policy

1. Council hereby declares that it shall be the policy of the City of Oakland to provide in each fiscal year a reserve of undesignated fund balance equal to seven and one-half percent (7.5%) of the General Fund 1010 appropriations for such fiscal year (the "General Fund Reserve Policy").

2. Each year, upon completion of the City's financial audited statements, the City Manager will report the status of the General Fund Reserve to City Council. If in any fiscal year the General Fund Reserve Policy is not met, the City Manager shall present to Council a strategy to meet the General Fund Reserve Policy.

3. The amounts identified as the undesignated General Fund Reserve may be appropriated by Council only to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City.

SECTION 3. Capital Improvements Reserve Fund

1. There is hereby established a fund in the Treasury of the City of Oakland to be known as the "Capital Improvements Reserve Fund" (the "Capital Improvements Contingency Fund").

2. Commencing with the 2003-05 budget, an amount equal to $6,000,000 shall be deposited into the Capital Contingency Fund (the "Capital Improvements Reserve Requirement"). Revenues received from one-time activities, including the sale of real property, shall, unless otherwise directed by Council, be deposited into the Capital Improvements Reserve Fund. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein.

3. Monies on deposit in the Capital Improvements Reserve Fund shall, unless otherwise directed by Council, be appropriated by Council to fund unexpected emergency or major capital maintenance or repair costs to City-owned facilities and to fund capital improvement projects that have not been included in the annual operating budget or in the City's Capital Improvement Program, only if not already allocated to a specific project.

SECTION 4. Prior to appropriating monies from the contingency or reserves established by this Ordinance, the Budget Office shall prepare an analysis of the proposed expenditure and present such analysis to the City Council. Upon review and approval of the proposed expenditure by the City Council, the City Manager will have the authority to allocate from the contingency or reserve.

SECTION 5. The City Manager shall annually as part of the budget process prepare and submit to the City Council a report detailing the activity and status of the contingency or reserves established pursuant to this Ordinance. Interim reports may be prepared as requested by the Council.

SECTION 6. Upon final adoption of this ordinance, Ordinance No. 11694 C.M.S. adopted by the City Council on March 22, 1994, is hereby repealed.

SECTION 7. After the second reading, this ordinance shall become effective immediately if approved by a two-thirds vote of all members of the City Council, and will become effective 7 days after approval if it is adopted by 5 affirmative votes of the members of the City Council.

IN COUNCIL, OAKLAND, CALIFORNIA, JUN 17 2003, 2003

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN AND PRESIDENT DE LA FUENTE - 8

NOES- Ø

ABSENT- Ø

ABSTENTION- Ø

ATTEST: _____
CEDA FLOYD
City Clerk and Clerk of the
Council of the City of Oakland, California

Introduction Date: JUN 03 2003

Attachment D

REVISED

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2004 JUL 15 PM 3:36

OAKLAND CITY COUNCIL

RESOLUTION NO. 78747 C.M.S.

RESOLUTION ESTABLISHING PRIORITIZATION METHODS FOR THE CITY OF OAKLAND'S FACILITIES AND STRUCTURES, PARKS AND OPEN SPACE, SEWERS, STORM DRAINS, STREETS, SIDEWALKS, AND TRAFFIC IMPROVEMENT INFRASTRUCTURE NEEDS

WHEREAS, a policy for establishing priorities for the City of Oakland's various infrastructure needs does not currently exist; and

WHEREAS, a Public Improvement Project, also referred to as a Capital Improvement Project, is any defined location, specified public facility, building, utility, street, or any other City right-of-way improvement, capital improvement, park, recreational facility, trail, or environmental improvement that requires the City of Oakland's involvement in its design, site or building acquisition, site preparation, utilities emplacement, installation, construction, or reconstruction; and

WHEREAS, a Capital Maintenance Project is a minor project that does not significantly affect the level of service provided to the public, including the repair, renovation, or maintenance of existing public buildings or facilities such as roofing, HVAC improvements, carpeting, or other similar work; and

WHEREAS, On-Going Operations and Maintenance refers to the long-term, continuing costs associated with any location, specified public facility, building, utility, street, City right-of-way, park, recreational facility, trail, or leased space, including expenditures required to provide a specified level of service to the public (program functions, utilities, custodial) and expenditures required to support the scheduled maintenance needs of the infrastructure; and

WHEREAS, the City of Oakland has limited financial resources to fund its infrastructure needs, including capital and on-going operations and maintenance; and

WHEREAS, the City of Oakland's infrastructure, including facilities and structures, parks and open space, sewers, storm drains, streets, sidewalks, and traffic improvements, are considered significant assets to the City and impact the quality of life for those who live, work, and play in the City; and

WHEREAS, in 2002, the City of Oakland government initiative called "Moving Oakland Forward!" made several recommendations, including (1) that the City Council deliberate on the Capital Improvement Program budget prior to engaging in the operating budget to ensure that incremental operations and maintenance costs resulting from capital projects are incorporated into the operating budget, and (2) that all projects proposed to the City Council for consideration contain a comprehensive financial timeline for the first five years, including prospective incremental allocations for On-Going Operations and Maintenance and that approval of the project should be considered a City Council mandate to include the incremental operating and maintenance costs in the budget, now, therefore be it

RESOLVED: That the City Council establishes that the criteria used to prioritize the City of Oakland's Public Infrastructure Projects by type shall be as follows:

Infrastructure Type	Prioritization Method
Facilities and Structures (Capital Maintenance Projects)	Prioritize calls for service from high to low using the following factors: ***High*** o Life safety issues, including liability exposure o Mandated service o Hazardous situations o Security breaches o Preventive maintenance of emergency response systems ***Medium*** o Scheduled preventive maintenance projects ***Low*** o Deferred maintenance projects
Parks (Park Facilities) and Open Space	Apply the Open Space Conservation and Recreation (OSCAR) Element of the Oakland General Plan. OSCAR states that in order to reduce deficiencies in parks and recreational facilities resulting from decline and deferred maintenance, outdated facilities, and factors such as vandalism and safety, the focus should be on maintenance, rehabilitation and safety improvements. This is cited as currently the highest priority since it protects public investment and maximizes the effective delivery of park services. (Objective REC-3.) Criteria to prioritize future infrastructure needs related to parks and open space are: o Projects that resolve existing health and safety issues, including liability exposure. o Projects that replace existing deteriorated facilities, fields, tot lots, etc. o Projects that leverage existing improvements that are already funded, or in design or construction, particularly those that are approved by Citywide vote. o Projects that are partially funded and suitable for grant-funding opportunities. o Projects that increase access to existing parks for school children. As funding is available, there will be an equitable distribution of these funds for both maintenance and repair of existing facilities, as well as for new construction.
Sanitary Sewers	Use the Infiltration and Inflow (I/I) Correction Program that has established a 25-year program to rehabilitate 30% of the sewer system sub-basins based on greatest to least infiltration and inflow of rainwater problems. The program includes a year-by-year prioritization of projects and is expected to be completed

by 2013.

Apply the same criteria to plan and prioritize the rehabilitation and replacement of the remaining 70% of the system.

Storm Drainage

Use the Storm Drain Master Plan that prioritizes projects using the following factors:

- Type of problem (flooding, erosion, etc.)
- Location of impact (commercial, public street, private property, etc.)
- Type of system (City-owned culvert, open channel, etc.)

Streets

Prioritize streets proposed for rehabilitation using the Pavement Management System based on the Pavement Condition Index (PCI), visual inspection, and cost effectiveness. Streets are ranked on scale of 1 – 100 with 100 being best.

Sidewalks

Prioritize sidewalks using a Sidewalk Management System based on the Sidewalk Condition Index (SCI) and a completed survey of damaged sidewalks throughout the City.

The Sidewalk Management System uses a combination of factors including distress type and severity and pedestrian usage and location to index the damage locations. Priorities are determined by those damaged locations having the lowest ranking first.

Traffic Improvements

Prioritize traffic signal needs based on criteria established by the State of California, Department of Transportation (Caltrans) as follows:

- Vehicular volumes
- Interruption of continuous traffic
- Pedestrian volumes
- Accident data (pedestrian and vehicular accidents)
- Other, site specific special condition

In addition, to address pedestrian safety issues, staff maintains a second, parallel priority list for pedestrian traffic improvements based upon pedestrian safety criteria. Pedestrian safety improvements include striping and signage, bulbouts and sidewalk improvements, medians and islands, as well as traffic signals. The programming of pedestrian priority intersection locations is prioritized based on the following factors:

- Intersection Pedestrian Accident Historical Data
- Other site specific conditions

Prioritize Neighborhood Traffic Safety Program needs through input from the community and City Council offices, and an

engineering assessment. Requests are prioritized using criteria as follows:

- Documented accident history (pedestrian and vehicular accidents)
- Field evaluation
- Assessment of non-standard or changed conditions
- Citizen complaints
- Other, site specific factors

Prioritize Bicycle Program needs using the 1999 Bicycle Master Plan. The plan's criteria for designating priority bikeways are:

- Eliminate gaps in existing bikeways
- Overcome significant obstacles and barriers such as bridges, tunnels, and freeways
- Facilitate regional connections with bikeways in neighboring cities
- Target improvements in corridors with identified safety concerns
- Provide facilities in service districts that have no existing bikeways
- Provide direct connection to BART, ferry, or other transit station
- Provide direct connection to a major employment center

IN COUNCIL, OAKLAND, CALIFORNIA, JUL 2 0 2004, 2004

PASSED BY THE FOLLOWING VOTE: BROOKS, BRUNNER, CHANG, NADEL, QUAN, REID, WAN, DE LA FUENTE – 8

AYES---

NOES--- Ø

ABSENT--- Ø

ABSTENTION--- Ø

ATTEST: _____
CEDA FLOYD
City Clerk and Clerk of the Council
of the City of Oakland, California

Expenditure Discipline in Oakland

Prepared by the Oakland Budget Advisory Committee May 13, 2003

"This is a plan for hard times that requires tough choices" reads the headlines regarding the proposed 2003-05 budget. Statements similar to these, lead one to believe that a loss of revenue due to the ailing economy is what has caused the recent and proposed cuts in services. In fact, in most budget communications, the focus has been on revenue shortfalls. However, upon closer examination, the surprising reality is that expenditure overruns and structural cost increases are a much larger issue than revenue shortfalls. This examination of the Oakland budget by the Oakland Budget Advisory Committee (BAC), a city appointed citizen advisory group, examines the two-year budget cycle just ending and how trends from this periods carry over into the two year budget proposed to start July 1st 2003. This evaluation examines both the revenue budget- where funds come from- and the expenditure budget- where they are spent. This document does not yet represent our complete review and analysis of the FY 2003-2005 proposed policy budget-a large and complex document we have received quite recently. However, we hope that our observations and recommendations will help prevent future budget crisis.

Budget gaps have happened frequently throughout Oakland's history, but have been absorbed by surpluses in recent years.

Oakland has frequently overspent its budget. In the past, however, Oakland had enough revenues to make up for these over expenditures. The result has been lax spending discipline since overspending would always be covered. Recently, there have been two major adjustments to the budget in response to projected gaps between expenditures and revenues for the fiscal year ending June 30, 2003. The first was termed a mid-cycle adjustment in May-June of 2002; the second took place in Jan-Feb of 2003. We will examine these more closely. Our analysis will focus on the General Purpose Fund.

In FY 2002-03, budget gaps were almost entirely caused by excess expenditures, not revenue shortfalls

A simple analysis of the numbers shows that these two budget "gaps" were almost entirely the result of expenditure overruns, not shortfalls in revenue. Figure 1 clearly shows this for the May-June 2002 mid-cycle adjustment and the Jan-Feb 2003 budget adjustment.

The mid-cycle May-June 2002 adjustment, addressed a gap of slightly over $28M. According to city records, of this $28M, only $1.3M was due to revenue shortfalls while $27.1M was due to an expense overrun. This expense overrun was largely *due to retirement increases and set-asides for union* contracts both as a result of union benefit negotiations. A second major adjustment was undertaken in Jan-Feb '03. In this case as well, cost overruns of $17.1M far exceeded revenue shortfalls of $2.8M, and the overruns were also primarily personnel costs, in particular, overtime overruns. Both the police and fire department experienced significant overtime expenditure overruns. Although controls on spending may affect the final outcomes, both overruns are

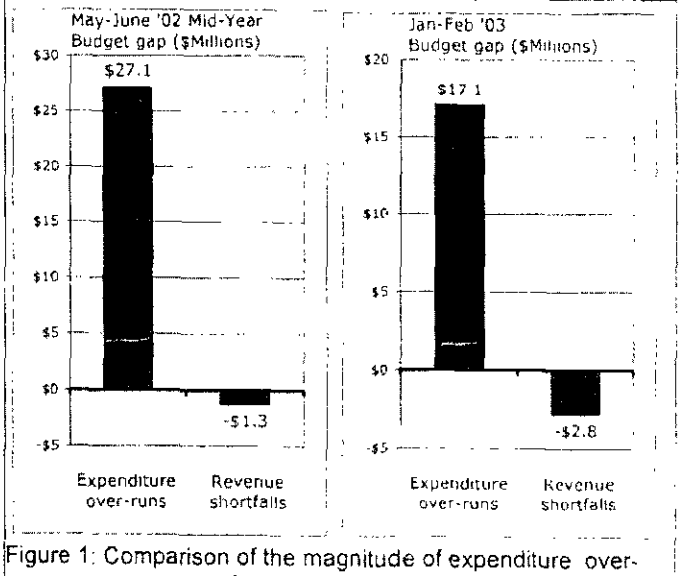

Figure 1: Comparison of the magnitude of expenditure over-runs vs revenue shortfalls in January 2003.

substantial, around 100% of the initially authorized amounts for overtime. It is important to note that in the [AJF1]case of the fire department, the overtime costs have been offset by underspending within the fire department. .[AJF2] In past years, there was considerable underspending on supplies and construction. After some evaluation by the BAC, it is not clear what impact this may have had to other public safety spending requirements within the fire department budget this year. In the case of the police department, the overall expenditure projections impacted many programs city wide during the January-February adjustment. It is important to note that our research shows that these are not one time occurrences. Our research shows that similar overtime overruns for both departments, have *consistently* occurred for many years extending well before any impact from September 11th. It would appear that a robust economy allowed past cost overruns to be absorbed by excess revenue.

In January, the impact of a $13.6 million projected over-expenditure by <u>one</u> department, forced a reduction in services in other important city programs such as, Parks and Recreation, Libraries, Community and Economic Development.

This projected cost overrun was brought forward through the budget adjustment process. The imperative of a balanced budget left the city council little choice but to reallocate spending in a way other than originally approved by the elected city council. Without expressing an opinion whether baseline police overtime should be higher or lower, it is clear that these variances between what was authorized by council and what was expended by the police department have been disruptive to other city services. Figure 2 graphically illustrates how the projected over expenditure in the Police department causes budget and service reductions in other departments. This is not how the City Council originally allocated resources among departments.

In Figure 2, the right-hand bars represent the projected overruns in January 2003. The left-hand bars reflect the actual adjustments bringing the budget back into balance. To provide a sense of scale, the *largest* cuts that were considered for the libraries -- around $2 million -- are dwarfed by the size of the projected police department overruns of more than $13million. (In fact, the entire Library budget of about $10 million is less than the projected police over-expenditure.) Most departments shown below net out close to zero. The major exception is the Police Department, which nets to a $ 7 million (5%) increase. We find relatively large reductions in Information Technology (-14%), Crafts and Cultural Arts (-13%) and Library Services (-7.5%).

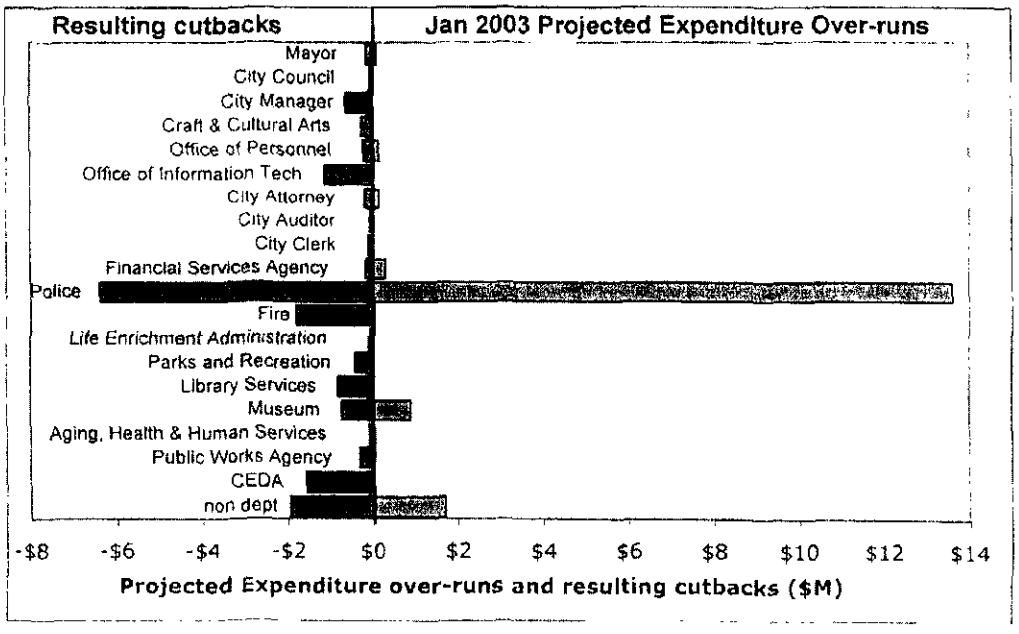

Figure 2: The red bars (pointing to the left) are the resulting departmental cutbacks required to balance the projected expenditure over-runs shown in blue (pointing to the right). One can clearly see how some departments which had no projected over-runs were cut back to compensate for the departments which did have an over-run.

Aside from the quality of life implications and looking only within the realm of pubic safety, the projected over-run has severely limited council's latitude to fully consider options such as after school programs and other important public safety programs which may help in the long run to reduce crime in the first place.

Over-expenditures are caused primarily by increases in personnel costs.

Looking at the last full year of data, in FY 2001-2002 personnel expenditures were about 8% over appropriations in the General Purpose Fund. Projected expense over runs in the FY 2002-2003 budget were also caused by personnel expenses. Two main causes of increased personnel costs are as follows:

-Negotiated union wages and benefits

The full cost of personnel benefit increases, as important as they may be, are not being quantified. The fiscal impact of benefit increases are not fully disclosed to the city and considered in budget planning until after they are agreed to. By the time the labor cost increase was brought forward through the budget adjustment process to city council and the public for consideration, it was already finalized. Regardless of the cost, the terms were already agreed to. The only option available to the City Council at that point was to cut services and enact revenue enhancements to offset the increase. This caused a major re-allocation in the goals and priorities initially set forth by the City Council.

-Departments overspending their budgets

Even after personnel benefits were increased by the union agreement, departments, especially police, overspent their increased budgets. Although the Budget Department has established a quarterly cycle of revenue and expense reporting, it is not clear this process has been regularly and rigorously adhered to, or that is has been effective. The BAC has had difficulty locating timely quarterly reports; nor do they appear easily available or in active use for discussion between council and staff. At the departmental level, tracking and controlling expenses requires tools that are accessible, staff that are trained to use them, and an across-the-board organizational commitment.

In addition to overspending, discussions with different departments indicate that some did, not initially represent their full requirements to cover their costs in their budget submissions. For example, certain types of police salary incentive "bump ups" were not fully quantified in the funding request. Months later, the reality of the departmental expenditures contributed to a budget gap and hasty reallocation of funds and cuts in services[AJF3].

Again, in the 2003-05 budget increases in appropriations are at least as important as revenue shortfalls.

Despite the service and personnel cuts in the proposed budget, the overall proposed 2003-2004 spending is actually higher than the 2002-2003 budget adopted at mid-cycle. The proposed 2003-2004 budget includes the same union agreement increase which contributed to the mid-cycle budget adjustment of May-June 2002 It now shows up as a $28 M baseline cost increase for salaries and benefits, forcing reductions in programs as it did in FY 2002-2003. In addition, police overtime authorization is increased by $5M over the previous budget.

A realistic overtime plan is an important step in the right direction, but the rising personnel costs are an ongoing, significant use of scarce funding.

On the revenue side, much attention has been placed on the loss of state VLF backfill funding. This clearly is an important issue. However the estimated loss in $8.5M, is dwarfed by the increase in the two line items above totaling about $33M. An $8.5M loss in the VLF backfill by itself, would have resulted in about a 1% shortfall of the total all funds budget, which would not have had the impact seen over the past several months and which is now being proposed. In addition, the $8.5M shortfall is mostly offset by $7M in proposed increases in fees and fines.

While directing blame on external factors is understandable, focusing attention on the national economy, which the City of Oakland has almost no control over, and on the reduction in the VLF backfill [AJF4] which Oakland may have only partial influence, may be distracting attention away from controlling costs which could be under the city's control given sufficient focus.

A closer look at the revenue budget also raises some concerns as well. To the extent there are revenue shortfalls that are due to short term economic cycles, the city needs to clarify whether the proposed changes are short term or not. This applies to revenue enhancements proposed to take effect at the start of the budget cycle as well as new assessment districts proposed to start in the second year. If these new revenue measures are permanent changes to the revenue structure, then when the economy recovers, the result will again be increasing expenditures. Thus, while council has little choice but to adopt whatever revenue enhancements it can in this short run, as the economy hopefully moves into recovery, attention needs to be focused on how to build in a business cycle contingency fund to handle temporary business cycle slow downs. Though it seems hard now to treat this as a priority, there is no better time to commit to this course, since the need will easily be forgotten as the economy recovers, and will not become apparent until the next downturn when it will again be too late.

Recommendations

1) Departments [AJF5]need effective and timely tools with which to monitor their spending. Equally important, they need trained staff and regular attention to the reports at all levels of management. In the past, budget surpluses made close and timely scrutiny of spending rates less crucial.
2) Increased emphasis needs to be placed on the quarterly reconciliation of authorizations, revenues and expenses as required by the City Charter. This will encourage ongoing timely reconciliation and corrective action. In a way similar to how private sector quarterly earnings reports create pervasive incentives for managers throughout the organization to find ways to contribute to the bottom line, this *could* even be used to encourage an organizational culture of ongoing departmentally initiated productivity enhancements, rather than top down cuts later on.
3) The costs of benefit and salary negotiations must be provided for more adequately in future budgets and the impact of MOUs must be clear and explicit. These increases in personnel costs affect both discretionary and non-discretionary spending.
4) The departments must request realistic funding, with the assumptions clearly stated, so their budgets are realistic. Additionally, budgets should be structured to build in contingency for a certain number of emergencies or exceptional events, during the budget cycle such as the riots after the Superbowl, or protests, making clear the extent to which authorized overtime is to be spent for ongoing operations or held in contingency for exceptional events Underestimating expected costs will only create problems in the future when a particular department overspends its budget. Again, proper accounting tools can help.
5) The budget proposal should cite specific authorized and funded staffing levels for uniformed police and fire personnel, balancing the cost of negotiated benefits increases with the staffing levels needed to maintain public safety. To the extent overtime is being used to support ongoing functions, it needs

to be evaluated along with funded staffing levels.. The proposal should also make clear the extent to which authorized overtime is to be spent for ongoing operations or held in contingency for exceptional events.

6) Attention needs to be focused on how to build in a business cycle contingency fund to handle temporary business cycle slow downs.
7) The proposals to initiate new Assessment Districts to create new revenues should be include clear and transparent accounting to ensure accountability as to the sources and uses of funds.
8) The budget proposal should cite specific authorized and funded staffing levels for uniformed police and fire personnel, balancing the cost of negotiated benefits increases with the staffing level needed to maintain public safety. The proposal should also make clear the extent to which authorized overtime is to be spent for ongoing operations or held in contingency for exceptional events.