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CITY OF OAKLAND



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April 29, 2015

HONORABLE CITY COUNCIL & OAKLAND RESIDENTS:

We are pleased to present the FY 2015-17 Proposed Policy Budget for the City of Oakland for your consideration and action. Our goal is that this two-year balanced budget will build a solid financial foundation for a vibrant, equitable Oakland that grows responsibly.

In the short-term, this budget proposal will close an estimated \$18 million annual funding gap. It will begin the hard work of addressing unfunded liabilities and restoring compensation to our workers. The budget will preserve and start to enhance the delivery of services that Oaklanders deserve, with a focus on investments that will help responsibly grow the economy so we will be able to afford all the service enhancements we want in the future, as well as giving city staff the tools and training to do their jobs in a way that reflects their true professionalism.

This balanced approach is the discipline we need. This is how we will keep our eyes on the prize so we can afford to do more of the things we so urgently want to do in the future.

Goals and Priorities

The City's most recent Five Year Financial Forecast showed an \$18 million annual funding gap for the next two years, showing that costs are continuing to increase faster than revenues. Thus, our first priority in this budget was to adjust costs and revenues to balance the budget and close that gap. We are proud that we have accomplished this without any substantive cuts to services or disruptions to our workforce. Our second priority was to satisfy our obligations to implement the Council's 2012 action requiring a \$20 million contribution towards reducing unfunded liabilities, as well as beginning to restore compensation to workers who made great sacrifices to increase this city through the recession. It also supports the Mayor's promise to get sworn police staffing to 800 officers by 2018. Our third priority was to invest any remaining funds in ways that will responsibly grow the economy, so that soon we will have a revenue base capable of supporting all the service needs of Oakland. Our priorities for responsibly growing the economy are:

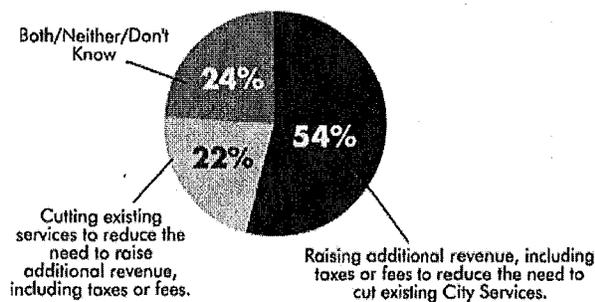
- Improve public safety using a holistic approach, including more police officers, better community policing, violence intervention and prevention programs, as well as addressing the root causes of crime, starting with better jobs and education.

- Improve the city’s physical infrastructure, starting with roads, so they look and work better, cost less to maintain and create more vibrant, attractive and healthy neighborhoods – making Oakland a great place to come live, play and bring your business.
- Create more housing and jobs, but do so in an equitable way that keeps Oakland affordable for residents at every income level and provides employment opportunities for Oaklanders with a variety of skills and education.
- Be more responsive to requests for city services so problems in *every* neighborhood are cleaned and fixed immediately and police and firefighters are there when we need them. This will show that government is trustworthy and transparent and make the city look attractive, so people feel good about living and working in Oakland.

Public Participation

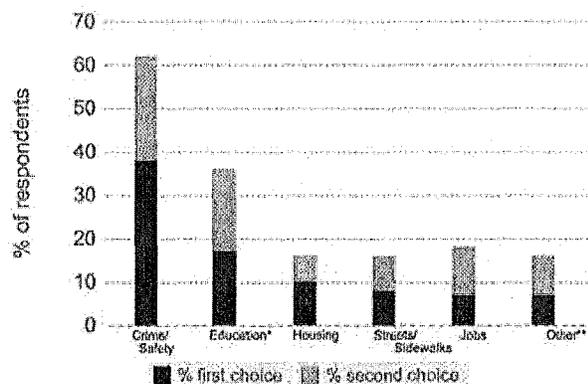
Prior to developing the Proposed Budget, City staff collaborated with the Budget Advisory Committee to conduct a professional, scientific poll measuring a representative sampling of more than 700 Oaklanders’ budget priorities. The poll found crime reduction and safety was overwhelmingly the highest priority in Oakland, and that most Oaklanders would rather increase City revenues than cut services.

More than half of respondents would rather see a shortfall addressed by raising revenue, rather than cutting services.



Top Budget Priorities (identified by the Community Survey)

Top Budget Priorities (identified by the Community Survey)



*Education Services are primarily provided by OUSD.
 **Other includes: youth activities, homelessness and public transportation.

During budget development, we produced two short, simple videos about the budget process. We distributed a more specific (albeit unscientific) poll to assess public support for specific budget actions, which will remain open until the middle of June. During these final weeks, we held four public input sessions at community venues – plus a twitter town hall – stretching from the Actual Café in North Oakland to the East Bay Dragons Motorcycle Clubhouse in East Oakland. We hope residents will learn more about how to stay involved in the budget process by visiting oaklandnet.com.

HONORABLE CITY COUNCIL AND OAKLAND RESIDENTS

Subject: FY 2015-17 Proposed Policy Budget

Date: April 29, 2015

Budget Summary

The FY 2015-17 Proposed Budget contains two-year appropriations of approximately \$2.4 billion – roughly \$1.2 billion in each fiscal year – from all funding sources. The unrestricted General Purpose Fund (“GPF”) accounts for a little over 40 percent of the City’s total budget. The GPF appropriation includes \$32.4 million in one-time funds earmarked for one-time expenditures over the two years. Unlike past years, we are not recommending using one-time sources of revenue to meet ongoing operational costs in the GPF. The appropriation in FY 2015-16 is higher than in the next year because we use one-time funds to immediately pay off some negative fund balances. This will allow us to enjoy on-going savings from no longer having to make required payments on these historic debts. Funds comprising the remainder of the City’s budget are restricted for special purposes, such as grant programs, sewer services, bond-funded projects, capital projects, and debt payments.

Category	FY 2015-16	FY 2016-17
Unrestricted General Purpose Fund	\$524,703,631	\$519,873,909
Restricted Special Funds	\$694,189,482	\$660,934,342
TOTAL - All Funds	\$1,218,893,113	\$1,180,808,251
Full-Time Equivalent Positions (FTEs) – GPF	2,263 FTEs	2,263 FTEs
Full-Time Equivalent Positions (FTEs) – All Funds	4,084 FTEs	4,070 FTEs

Budget Highlights

Closing the Gap

We were able to close the funding gap, meet our obligations, and make some new strategic investments by finding both savings and revenue enhancements.

Projected Shortfall	FY 2015-16 (\$ millions)	FY 2016-17 (\$ millions)
March (based on FY 2014-15 Q2)	(\$17.93)	(\$18.64)

Changes and Solutions	FY 2015-16 (\$ millions)	FY 2016-17 (\$ millions)	One-Time	
			FY 2015-16 (\$ millions)	FY 2016-17 (\$ millions)
Saving Measures	\$29.73	\$25.27	\$6.68	
Revenue Enhancements	\$40.48	\$9.10	\$33.32	\$0.05
Addition of Services	(\$46.45)	(\$21.57)	(\$37.31)	(\$2.74)
Total	\$5.83	(\$5.83)	\$2.69	(\$2.69)
Net FY 2015-17 surplus/(deficit)	\$0.00		\$0.00	

Some significant contributors that allowed us to close the gap included:

- Using one-time rather than ongoing funds for IT license renewal and paying down Other Post-Employment Benefits (OPEB) unfunded liability with contribution to the trust fund (\$14.9 million);
- Revised fees and improved revenue collections including landlord audits, fire code inspections, special enforcement and various other fees (\$14.81 million);
- Projected surplus from FY 2014-15 (\$10.4 million);
- Use of Deferred Pension Credits (\$9.7 million);
- Transferring previous GPF costs to eligible non-GPF funds (\$8.4 million);
- Freezing or eliminating vacant positions (\$8.2 million);
- Sale of property (\$4.4 million);
- Paying down three negative fund balances (approximately \$7 million);
- Decreased workers compensation rate for sworn (\$3 million);
- Using reduced interest rates to refinance debt (\$3 million);
- Reduced unemployment premiums (\$2.5 million);

Significant New General Fund Expenditures

These adjustments allowed us to not only preserve existing services levels and staff, it also allowed us fund two important obligations:

- First, to keep the Council's 2012 promise of putting \$20 million towards our unfunded liabilities during this two-year budget cycle, this budget places \$17.4 million into our OPEB Trust (namely medical coverage for retirees) and \$2.63 million towards our CalPERS unfunded pension obligation. \$4 million of this is from Recognized Obligations Payment Schedule (ROPS), \$8 million is one-time GPF and \$8 million is from on-going GPF.
- Second, to begin restoring compensation to City workers who made tremendous sacrifices to preserve services and minimize layoffs during the recession, this budget includes \$7 million in FY2015-16 and \$9 million in FY 2016-17 of GPF for increases in employee compensation. The exact use of these funds will be subject to collective bargaining. We also include an additional \$500,000 for employee training and recognition.

This also allowed us to make some small but strategic GPF investments in **expanded services**.

First, we **funded five police training academies**, which will increase OPD's authorized sworn staffing from 722 to 762. This increase of 40 officers keeps Oakland on-track to meet the Mayor's goal of 800 officers by 2018.

Second, we **created new positions to ensure our police reforms will be successful and sustained**, including two additional auditors in the Office of the Inspector General, a permanent civilian director of Internal Affairs, an attorney who'll be placed within the Police Department to support the development and defense of any discipline actions, and an upgrade to Deputy Chief of Criminal Investigations to increase the quality and consistency of Skelly discipline hearings.

Third, we also responded to requests from Councilmembers Gallo, Guillen, Reid and President Gibson McElhaney to **increase code compliance inspectors to enforce against blight, abandoned buildings and illegal vending**. By unfreezing 3 inspectors and 2 support positions, the City will be more responsive to complaints going forward.

Finally, we **established a cost-covering pilot expanding our R1 Fire Inspection program**, in partnership with Code Compliance and Housing Services, to proactively inspect rental apartments for health and safety compliance to ensure our most vulnerable tenants are living in safe conditions, particularly as market pressures make it difficult for tenants to use our existing complaint-based system.

Significant New Restricted Fund Expenditures

We were also able to make additional strategic investments, making better use of restricted special funds.

Using expanded Measure Z (Safety & Services Act of 2014) funding, we will be asking the Oversight Board to support expanding our Ceasefire Violence Prevention Strategy, including increasing our case managers from 4 to 10.

We will add 5 more staff to our Housing Assistance Center and Rent Adjustment Program to keep renters protected, as well as add \$150,000 to help enforce Oakland's new minimum wage and sick leave laws. We will put 25% of former Redevelopment Agency tax increment as well as land sale proceeds (approximately \$9.8 million) into our affordable housing development fund.

We will add 12 staff in Planning and Building and 1 in OFD to respond to the expected influx of building proposals and projects.

We'll reorganize existing staff and resources from several departments to create a new full-service, vertically integrated Department of Transportation to expand our ability to deliver repaving and other Measure BB funded capital projects, as well as leverage new and existing transportation funds to develop a project pipeline to build the transportation infrastructure needed to support community safety, housing and economic development. We'll use \$150,000 to develop and prepare an infrastructure bond initiative as well as a Wildfire Prevention District initiative for the voters to consider in 2016.

Finally, critical services for Oakland residents such as libraries, Head Start, youth and senior services and recreation programs will be preserved at or above their current service levels.

Councilmember Proposals Using One-time Funds

Five Councilmembers submitted budget priorities. All asked for increased police staffing and most asked for increase code compliance inspectors, which are both funded in this budget. We also tried to fund as many one-time requests as possible, including:

- Council President Gibson McElhaney requested that we increase GPF investment in workforce development to free up more Workforce Innovation & Opportunity Act (WIOA) funds for providers. By replacing a WIOA-funded position with a GPF position as well as charging more WIOA accounting services to GPF, we will free up approximately \$200,000 for providers.
- Councilmembers Guillen and Kalb requested that we invest in recruiting our own young residents to become police officers. We have funded \$450,000 (and are seeking more from private sources) to create a class of up to 40 Oakland Public School graduates who will spend three years working as Oakland Police Cadets until they are eligible to apply to the officer training academy. This suggestion also came from Oakland youth participating in the Mayor's Restorative Justice Circles, and was inspired by San Francisco Mayor Lee's Project Pipeline.
- Council President Gibson McElhaney and Councilmember Kalb requested \$250,000 to augment violence prevention strategies identified by Oakland's community safety needs assessment and comprehensive public safety plan, which is in progress.
- Councilmember Gallo, Campbell Washington and President Gibson McElhaney requested the funds to purchase and renovate the Dream Catcher facility to provide safe shelter for homeless and sexually exploited youth. The proposal includes a one-time allocation of \$0.50 million from Community Development Block Grant funds.
- Councilmembers Campbell Washington and Kalb requested funds to develop and prepare a wildfire prevention district initiative for the voters to consider in 2016.
- Councilmember Campbell Washington requested \$150,000, which has already been matched by Oakland Unified School District, to pilot a K to College initiative. In FY 2016-17, Oakland will establish a \$50 college savings account for every kindergartener.
- Councilmember Brooks requested establishing a Department of Race and Equity, while Councilmember Guillen requested adding Race and Equity along with Equal Access to the City Administrator's Office instead of creating a new department. We are recommending \$150,000 to fund a robust Race and Equity Initiative, including joining the Government Alliance on Race and Equity, establishing a Racial Equity Interdepartmental Team, conducting a Racial Equity Assessment, creating a train the trainer program, and developing a blueprint for establishing a permanent, sustainable structure for the work.
- Council members Reid and Guillen stated that treating employees equitably and providing competitive wages is a priority for them. The proposal includes ongoing funds for increases in employee compensation, as stated in the Significant New General Fund Expenditures section above.

- Vice Mayor Kaplan verbally requested better water conservation. We are recommending \$100,000 for water-saving improvements to reduce to the City of Oakland's water use.

Unfortunately, we could not fund all the Councilmember requests. However, they are all included as potential policy buy-backs or tradeoffs.

Challenges and Improvements

While the City is making progress to meet its financial obligations, there continue to be major challenges that squeeze City finances and create structural imbalance. In preparing this budget, it has become clear that the City needs to consider strategies to start addressing these long-term challenges before they become unmanageable in the future.

- **Growing medical and pension costs**, As of July 1, 2014, total unfunded liability is close to \$1.8 billion for CalPERS, OPEB and PFRS for both active employees and retirees which reduces funding for other GPF priorities. This budget proposes to appropriate approximately \$17.4 million to fund OPEB in addition to the pay-as-you-go amount over the next two years; however, it still falls short by \$19 million of our Actuarially Required Contribution ("ARC"). We must find an ongoing funding solution to meet our ARC payments so future required contributions do not paralyze the City's operations. We are committed to developing this plan before Oakland's next budget cycle.
- The City has numerous **unfunded capital needs** along with **deferred maintenance** of infrastructure, buildings and technology exceeding \$2 billion. The budget includes funding for conducting a professional poll for a potential bond measure to secure a funding stream in the next general election.
- **Saving for a Rainy Day** would better position us to weather potential economic downturns. While the City's new Rainy Day Policy takes effect this budget cycle, it is not requiring us to add any funds to the newly established Vital Services Stabilization Fund, because we are not projecting any excess Real Estate Transfer Tax (RETT), which is the only source of funding it in our current policy. We need to contribute actively to build a robust reserve to mitigate the impact on services and layoffs should the need arise.
- **Subsidy for key programs** should be viewed as an on-going commitment. The proposed budget includes a two-year subsidy for Head Start and other grant programs using one-time funds, which will require seeking ongoing funding at the next biennial budget cycle development.

Given the budget constraints, we propose a host of **Policy trade-offs and Service Buybacks** that may be considered as an alternative funding option if additional funds become available in the future. These include funding requests for restoring or adding new community services; infrastructure & maintenance; and public safety.

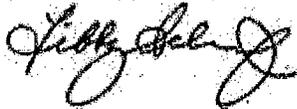
Conclusion

With operating efficiencies and an improved economic landscape, the City of Oakland plans through this budget to provide more effective, courteous and responsive services. We are confident that the City has the resiliency to use its strengths to work through its challenges. Making strategic key investments now will result in long-term growth that will benefit all residents of Oakland.

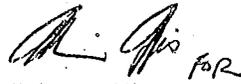
We are very proud of what we have accomplished in the FY 2015-17 budget proposal. Your valuable input is vital to inform this biennial budget adoption that focuses on key City services. Through our ongoing collaboration and commitment, we can make Oakland a healthier, safer and more prosperous community.

We look forward to formally presenting the FY 2015-17 Proposed Policy Budget to the City Council on May 5, 2015.

Respectfully submitted,



Libby Schaaf
Mayor



John A. Flores
Interim City Administrator