

**CITY OF OAKLAND
COUNCIL AGENDA REPORT**

11:51
OFFICE OF THE CITY CLERK
OAKLAND

2005 JUN -2 PM 2: 58

TO: Office of the City Administrator
FROM: Budget Office
DATE: June 7, 2005
RE: Report and Preliminary Recommendations from the Budget Advisory Committee on the FY 2005-07 Proposed Budget

SUMMARY

This document transmits the Budget Advisory Committee's (BAC) response to the FY 2005-07 Proposed Policy Budget. Staff recommends consideration of the BAC's recommendations.

FISCAL IMPACT

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

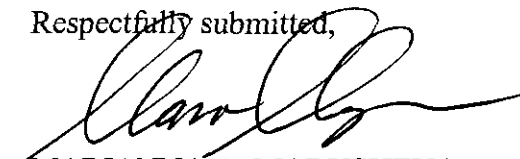
BACKGROUND

The BAC consists of 15 members, with four appointed by the Mayor, seven appointed by 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 Councilmember. The Budget Advisory Committee's primary focus over the last month has been an evaluation of the City's proposed policy budget.

RECOMMENDATION

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

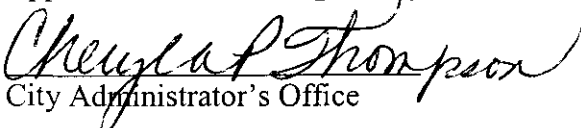
Respectfully submitted,



MARIANNA A. MARYSHEVA
Budget Director

Prepared by:
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Acting Principal Financial Analyst and
Staff to the Budget Advisory Committee

Approved for forwarding to City Council



Cheryl A. Thompson
City Administrator's Office

To: President De La Fuente and Members of the Oakland City Council

From: Ben Fay, Chair of the Budget Advisory Committee

Date: May 25, 2005

Re: The Budget Advisory Committee's Recommendations regarding the Mayor's and City Administrator's Proposed 2005-07 Budget

The Budget Advisory Committee ("the BAC") has reviewed the Mayor's and City Administrator's proposed 2005-07 budget. These are our comments and conclusions.

A. The proposed budget contains focused, thoughtful spending cuts.

The BAC is generally impressed with the Mayor's proposed budget. Rather than simply cutting programs across the board, the budget attempts to make focused cuts. This is consistent with the principle that when deciding whether to cut a program, the question should be asked whether the program is a core municipal function, whether it is a function already performed by another government entity, and whether the program furthers the goals and objectives established by the City Council. The BAC also compliments the City Administrator and the Budget Office for being very forthright in their analysis about the sources of the budget gap.

B. The proposed budget should be released earlier in order to give the City Council and the citizens of Oakland more time to analyze it.

The proposed budget should be released earlier – by February at the latest. This is a two-year budget. Releasing a budget of this complexity in May does not give the City Council, the citizens of Oakland, or the BAC sufficient time to analyze it, to sort through the implications, to weigh suggested cuts, or to identify alternative cuts. This short time period tends to reinforce assumptions about what cannot be changed in the budget and deprives the City of many of the benefits of the longer two-year budget cycle.

C. The BAC endorses the proposed temporary spending fix for the Landscaping and Lighting Assessment District (LLAD) and recommends that an amended LLAD that would increase revenues be submitted to the property owners of Oakland for a vote.

The BAC recognizes that the LLAD is in trouble. Revenues have been flat since 1993, but many new improvements (parks, street lights, sports fields, playgrounds) that require additional maintenance have been added since then, and base costs such as electricity have increased – the annual cost for electricity for streetlights alone has risen from \$1 million in 1993 to \$3 million today. The deficit in the LLAD fund will only increase unless serious cuts are made or new revenues are obtained. The BAC therefore supports the recommendation in the proposed budget of using surplus funds to cover the deficit in the LLAD fund for the first year. The BAC recommends that the City Council authorize a vote on a new LLAD that would supplant the current LLAD and would address the inadequacies of the current LLAD. The BAC has begun

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working with the Public Works Agency to research the current situation, and to develop a series of points that it believes should be considered in the event a new LLAD is put forward.

D. The recommendations to close the jail and disband the park rangers are good examples of focused cuts that seek to increase efficiency, but the BAC does not have sufficient information to fully endorse these cuts.

The BAC was impressed with the recommendation to close the jail. This is a good example of reviewing an entire program and asking whether or not it is a function that needs to be performed by the City. It is also a good example of trying to avoid duplication of services provided by other government entities. The reasons given by the City Administrator to the BAC for recommending the closing of the jail were compelling. However, with the limited time available the BAC was unable to fully investigate the issue and obtain other points of view on this matter and therefore is not in a position to fully endorse closing the jail.

Similarly, the proposal to eliminate the park rangers is another good example of questioning the need for a specific program and asking whether its functions could be provided more efficiently by other means, in this case by replacing the park rangers with police officers. As with the proposal to close the jail, the reasons given by the City Administrator for this proposed cut are compelling, but due to the time constraints the BAC was unable to examine the matter closely enough to make a definite recommendation.

E. The BAC applauds the decision to repay the accrued negative fund balances.

The BAC is very pleased with the decision in the proposed budget to repay the accrued negative fund balances. This is a tough but necessary step.

F. The City Council must focus on controlling the Police Department's overtime spending in order to avoid difficult mid-cycle budget cuts.

The Police Department's chronic overtime problem remains the biggest threat to this budget. The BAC urges the City Council to pursue the recommendations in the PFM audit and to seek to rein in the Police Department's overtime spending. This will require a constant effort. The PFM audit stated that there had been previous studies and reports on the Police Department's overtime spending, notably in 1995 and 2002. But, despite these previous reports, the problem persisted. In 2003-04 the Oakland Police Department spent more per employee on overtime than any of the other top 10 largest cities in California. Effectively addressing this problem will require a consistent effort by the City Council, and constant overview of the rate of overtime spending by the Police Department. This budget is necessarily going to include painful and controversial cuts, and it would be unfortunate to have to make further mid-cycle cuts if the Police Department overspends its overtime budget to the extent it has in recent years.

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G. Controlling personnel costs should be a strategic priority.

Much of the budget shortfall is caused by rising personnel costs. Some of these increases, such as rising health insurance premiums, are largely beyond the control of the City. But most of these increases, such as automatic pay increases that are greater than the rate of revenue growth, were agreed to in the City's MOUs with the employee unions. Considering the impact of these personnel costs on the budget, the City should make addressing these costs a strategic priority. When these MOUs come up for renegotiation, the City should balance any proposed increases in salaries and benefits with the corresponding cuts in City services that might be required in order to pay for these increases.

H. Departments must be held accountable for staying within their budgets, and the Council should be vigilant for departments that begin to overspend their budgets.

Once a budget is adopted, the City Council should be vigilant to ensure that departments stay within their budgets and are not allowed to rewrite the budget through cost overruns, which then require difficult mid-cycle budget adjustments. Each Quarterly Revenue and Expenditure Report should be scrutinized to ensure that all departments are on track to spend within their budgets. If a department is not, the department management should be required to explain why the department is overspending its budget. Department management should be held accountable for overspending.

I. The BAC requests that its recommendations on revisions to the City's contracting process be moved forward.

The BAC asks that its recommendations regarding contracting be moved forward, since these should help ensure that the funds we have are spent well.