

CITY OF OAKLAND



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HONORABLE CITY COUNCIL & OAKLAND RESIDENTS

On behalf of the City Administration, we are pleased to present the City of Oakland's Proposed Policy Budgets for Fiscal Years 2013-14 and 2014-15 for the City Council's consideration.

This budget represents a crossroads for Oakland. Our economy is on the rise, and we see many opportunities ahead to realize our vision of success, safety and stability for our city. We have worked to balance the priorities and needs of everyone in the City, and we believe this is a "fair share" budget for all. We are investing strongly in public safety and economic development to restore our police force and build on the economic opportunities before us. Due to growing expenses beyond our control, we are still forced to propose some cuts and position eliminations, but we have worked hard to minimize them.

Significantly, employee contributions made over two years ago, at the height of the recession, will sunset starting in July 2013. For several years now, our employees have given contributions that were critical to stabilizing the City and creating an environment where we can now make thoughtful, though urgent, decisions about our future. We are grateful to all City employees, whose sacrifices have been essential to stabilizing the City's finances and resuming our economic growth. Looking ahead, we will have to make smart, tough decisions together about how we move forward to tackle our challenges and seize the great opportunities before us.

While we have weathered fiscal storms and made substantial progress, there are factors beyond our local control that pose big challenges for balancing this two-year budget in the short term and ensuring our financial stability in the long term. It is crucial that we prepare now to address anticipated increases in expenditures. Our recent economic gains have been offset and outpaced by the following factors:

- Unknown federal and state funding cuts;
- Rising health care costs;
- Rapidly growing costs of employee pensions as the CalPERS funding system undergoes necessary reform;
- Sunsetting of local tax measures; and
- Expiring public safety grants worth millions of dollars.

As a result, the Proposed Budget for FY 2013-15 proposes to reduce expenditures by \$11.6 million in the first year (FY 2013-14) and \$16.1 million in the second year (FY 2014-15). This will result in the proposed elimination of **79.5 full-time equivalent (FTE) employees** in FY 2013-14 and **86.5 FTEs** in FY 2014-15.

The purpose of this transmittal letter is to lay out the context in which this budget is proposed: the Administration's priorities and vision for the City; the collective contributions of our many stakeholders; the work we have done together to stabilize and build Oakland's fiscal health and retain public services; the outside forces we must reconcile with our fiscal operations; the important long-term factors which require sound planning; and our strategies and values in building this budget.

This budget proposal contains appropriations totaling about \$1 billion per year for the next two years across all funding sources, and budget proposals that both increase and decrease City services. It is a balanced budget, as required by City Charter.

In building the vision and direction proposed in this budget, we have weighed and tried to fairly balance the priorities of the Administration, Councilmembers, City employees and, most importantly, the community we serve. The specific proposed budget-balancing measures are presented in detail in the Service Impacts tab of this budget document. In brief, here are some of the most significant, concrete elements of this balanced budget:

- Net **increases in General Fund** appropriations. In the current fiscal year (FY 2012-13), those appropriations total \$409 million. For the proposed two-year budget, General Fund appropriations total \$430 million in FY13-14, and \$457 million in FY14-15.
- Investment in public safety by funding **more police academies**. Under this budget, four academies will graduate over the next two years. The projected sworn staffing level of the department would be an estimated 697 officers by the end of FY 2014-15, depending on graduation and attrition rates.
- Investment **in economic development**, including job training, business assistance, cultural arts and marketing, business attraction and affordable housing.
- **Policy trade-offs** will need to be considered. Among these include funding for additional police academies, housing services, litter and illegal dumping enforcement and clean-up, road repair, graffiti abatement and Head Start services, which likely face federal cuts.
- We have **reduced our reliance on one-time sources of revenue** for ongoing expenses (\$10.8 million over the next two years, compared to \$14.3 million for the current year).

Priorities and Vision

Oakland is a diverse city that is home to a wide array of different communities and individuals. In many cases, that means our residents and businesses sometimes have differing and even conflicting priorities. The job of leadership is to serve all of Oakland, and to resolve those differences in a way that best serves our collective needs and goals. In that spirit, our top priorities for this budget are to:

- Invest in public safety;
- Create jobs and promote economic development;

- Bolster job-training services so that Oaklanders are a competitive and thriving workforce;
- Build and restore our infrastructure and the physical environment of Oakland;
- Achieve long-term fiscal stability for the City; and
- Foster Oakland youth and care for our most vulnerable populations.

All these priorities weave a cohesive whole, and by working together we will move Oakland forward. Our vision for Oakland is to dramatically bring down crime and strongly increase safety for our residents and businesses. This will encourage new businesses and investors, and bolster the businesses we already have, which in turn will produce new jobs, increase prosperity in our neighborhoods and create more revenue to support City services. With greater revenues, we can improve quality of life for everyone in our city, and better fund services for our most vulnerable residents, making stable, steady progress toward prosperity.

Collective Stakeholder Contributions

The City could not have achieved its state of relative health without three crucial factors: employee contributions, service reductions, and growing revenues. The first two factors were the result of incredible dedication, hard work, negotiation and leadership on the part of every City stakeholder, including the employees themselves and the City Council.

Every City employee has faced the difficulty of losing approximately 9% of their compensation, a sacrifice that is never easy to make. Mayor Quan cut in her own salary by 25% upon taking office, and will continue to do so in the coming fiscal year. This was partly an effort to honor the hard work of all public servants and the sacrifices they were asked to make. In the current fiscal year alone, employee contributions equal approximately \$37 million. These contributions have saved jobs and allowed the City to sustain vital services for residents.

Weathering the Financial Storm

In addition to employee contributions, we have made great strides over the past several years to stabilize the City's finances, which has required significant and in many cases unsustainable service reductions and/or eliminations:

- Reduced the workforce by 21% over the past 10 years, resulting in the elimination of about 720 positions;
- Closed \$318 million in cumulative budget shortfalls ;
- Instituted rolling brown-outs of two fire engine companies;
- Reduced sworn police staffing by 27% (from 837 to 611 officers) and civilian staff by 34% in the last 6 years (from 394 to 261 FTEs), with loss of services in patrol, level of investigations, delayed response to 911 calls for service, and elimination of the horse-mounted unit and traffic unit;
- Significantly reduced paving and street repairs;
- Reduced code enforcement, development, and planning staff;
- Reduced Cultural Arts programs and grants, and Film Office staffing;
- Significantly reduced various neighborhood improvement and beautification programs, such as: façade and tenant improvement grants, the Neighborhood Project Initiative Program, graffiti abatement (private property), blight removal, litter and illegal dumping response, tree trimming, sidewalk maintenance, and open space maintenance;
- Reduced affordable housing programs and funding for homeless programs;

- Reduced park, median and grounds and building maintenance and custodial services.

We have pursued various ways to maximize revenue by: (1) pursuing grants from federal and state governments as well as foundations and the private sector, (2) aggressively pursuing dollars owed the City through special revenue collection efforts, (3) developing more public/private partnerships, and (4) increasing fees to fully recover the costs related to providing services. The results of a growing economy and aggressive revenue development efforts have proven fruitful.

Over the past five years, the City has made significant strides in stabilizing its financial condition, and the City Council, residents, and employees have played a major role in getting the City to a stronger fiscal condition. The following fiscal actions that have strengthened our financial standing:

- Instituted strong fiscal controls and strengthened financial policies;
- Proactively collected revenues and implemented targeted efforts to collect past-due funds;
- Paid down negative fund balances, which have gone from \$138 million to about \$99 million at the close of FY 2012-2013 (this is internal debt that comes from inter-fund borrowing);
- Fully funded the General Fund reserve to meet the level mandated by City Council policy for the first time in five years;
- Reorganized to reduce costs and enhance efficiency; and,
- Planned for anticipated additional fiscal impacts from the dissolution of Redevelopment.

Two years ago this Administration walked in the door to more than \$40 million in existing budget shortfalls, a dramatically reduced police force, high debt, reduced revenues, and high unemployment. Together, since Mayor Quan took office, we have:

- Closed the budget shortfalls
- Minimized layoffs and service reductions
- Rehired all the laid-off police officers who wanted to return, and awarded a grant for 25 new officers
- Funded the first police academy in more than four years and proposed more
- Significantly paid down debt
- Maintained AA credit ratings through multiple reviews by raters/investors
- Supported modest, steady revenue increases
- Brought down unemployment from 16.6% to 13.1% in January 2013.

Ready for Growth

The good news is that the economy is showing steady signs of modest recovery, the housing market is red hot, and key economic indicators are trending in a positive direction: unemployment is down and revenues are up in most categories (e.g., property tax, sales tax, business tax, real estate tax).

The financial markets are taking notice of Oakland's judicious approach to address both short-term and long-term financial challenges: just recently, the credit-rating agencies reaffirmed our AA credit rating and noted our stable fiscal outlook.

Looking forward, we must continue to grow our revenues to restore and enhance services to the community. We have actively supported long-dormant projects which have recently sprung to life, and are working to spur progress on other projects to draw investment to Oakland, creating more jobs and more economic development. Recent progress includes:

- Preparing to begin construction at the Oakland Army Base by December 2013, which includes constructing a new marine terminal and 1 million square feet of trade and logistics space that will generate approximately 2,000 jobs;
- Supporting efforts to break ground in spring 2014 at the Brooklyn Basin Project, which includes 3,100 units of housing, 30 acres of open space, and 200,000 square feet of commercial space, with an approximate job count of 8,000 over the 6 to 8 year build-out of the project;
- Completing the “10K” housing project started a decade ago and strategically positioning Oakland for “10K” 2.0, which would build housing across all of Oakland’s transit corridors;
- Continuing to negotiate exciting opportunities for our sports facilities and the world-class potential of the Coliseum City development project; and
- Aggressively pursuing retail projects. Since 2011, more than 1 million square feet of new or improved leasable retail space have been completed or are in the pipeline.

Factors Outside the City’s Control

Despite the good work we’ve done putting our fiscal house in order, outside financial forces are creating new challenges going forward. We face some significant losses, and some expenses are rising even faster than our revenues, but three primary factors affect our fiscal status:

1. Ongoing Impacts of the Global Recession

Oakland continues to be challenged by the lingering impacts of the global recession and the harsh service impacts which resulted from reducing \$318 million in expenditures and losing 720 FTEs in prior years, while simultaneously planning for additional reductions.

We have begun recovery, but have not yet fully restored our pre-recession revenues. A good example of these ongoing points of recovery is property tax, a central revenue source for California cities. Although Oakland property tax revenues are on the rise, they remain \$8.7 million short of pre-recession levels.

Although revenues are showing modest, upward trends, continuously rising costs and deferred expenditures are projected to outpace revenue growth, mostly due to steep increases in health care and pension costs and critical deferred maintenance to repair City buildings and roads, upgrade technology, and replace fleet and equipment.

2. Increased Cost of Benefits

CalPERS’ newly adopted actuarial assumptions will have a significant impact on the City’s budget.

In the coming year, we face a 21% increase in CalPERS costs, or about \$18 million. Over the next five years, additional increases of about 50% are expected, and anticipated CalPERS reforms could drive costs even higher.

The City must also prepare to pay increased costs for medical benefits above the estimated \$41 million we now pay. These costs have increased by 39% per civilian employee since FY 06-07, and by 50% for sworn employees. While CalPERS has not published projected cost increases for 2014, the past increases are a reasonable indicator of anticipated increases in the coming years.

These rising costs are currently projected to outpace the City's economic growth and steadily rising revenues.

3. Dissolution of Redevelopment

Redevelopment was a major tool that Oakland—like other urban centers in California—could use to turn vacant and underutilized properties into productive, tax revenue-generating and job-producing use. It served as a catalyst for private investment to breathe life into areas burdened with deteriorated buildings, environmental contamination, and aging infrastructure that would otherwise lay vacant and nonproductive.

The elimination of Redevelopment in January 2012 created a \$28 million hole in the City's budget and eliminated a significant source of ongoing funding for affordable housing and blight abatement, including resource to combat graffiti and illegal dumping. Redevelopment had also been partly used to help fund police services in commercial areas slated for revitalization.

Over the past year, the work to wind down former redevelopment agencies has been an enormously complex process for cities across the state. The California Department of Finance is currently reviewing the transactions and land sales that took place during that process and has disallowed a number of actions in other cities. Oakland is preparing for that possibility, and while we have fiscally prepared for these events, funds set aside to address this fiscal impact are funds that the City could have used for investment in desperately needed, one-time expenses (e.g., critical deferred maintenance to repair City buildings and roads, technology upgrades, and replacement of fleet and equipment).

Strategies and Values

We've worked to be **transparent and collaborative**. This is an open, community-focused process with the books open to anyone who wants to see the data. By letting everyone have unprecedented access to our budget data we know we can: (1) improve trust in the process, (2) create a budget that truly serves everyone, and (3) tap into the best ideas available by empowering everyone in Oakland to contribute their ideas and perspectives.

In recent years, we reorganized to increase efficiency, reduced middle management, and in many cases cut services to the bone. We now face choices moving forward about rebuilding and restoring a few key services. While all City service areas require our attention, we have given particular focus to the areas of **public safety and economic development**. By building a safer Oakland and growing our economy, we will create a better foundation on which to restore and grow the City as a whole.

We're in this together. We will build on union partnerships and collaborate with City Councilmembers and the community. A series of town hall meetings will be held throughout Oakland to discuss the City's fiscal condition and proposed Policy Budget, and the City Council will hold public hearings on the proposed budget.

Balancing priorities. Tough choices lie ahead. Everyone's priorities are important, and we have made every effort to respect and champion the collective expectations, needs and goals of the people and employees of Oakland.

Oakland at a Crossroads

It is clear that the City is at a critical juncture. The decisions we make now are pivotal to our future and to realizing the full promise of Oakland. The city has won recent international recognition, and with our economy on the rise, we are well positioned for growth. Great opportunities are before us and we are within reach of a prosperous, bright future.

However, to get there, we must deal directly with our remaining challenges. The most urgent, immediate priority is to reduce crime and increase police staffing. This proposed budget will fund the graduation of four police academies over the next two fiscal years and bring police sworn staffing to 697 by the end of FY 2014-2015.

As we tackle police staffing shortages in the near term, we must also keep our eyes sharply focused on the horizon to ensure that our long-term financial issues are addressed without "kicking the can" further down the road.

For Oakland to truly flourish, we must begin to confront the imbalance between revenues and expenditures. This will take systematic planning, difficult trade-offs, patience, and will to create sustainable, long-term solutions that provide relief from the shortfalls predicted for the future, absent a permanent solution. Among our upcoming challenges are:

- Two major tax measures will sunset in the coming years: Measure Y, which largely funds police officers and community-based violence prevention service, amongst other services, as well as the Wildfire Prevention Assessment District, which provides for the ongoing safety needs necessary to preventing another firestorm such as the one Oakland endured in 1991. Renewal of these measures will require voter approval. As a result, we need to begin problem-solving over the next fiscal year to stabilize these services and funding should they not be renewed;
- Prepare for the reforms that CalPERS will put in place over the next six years that will have a significant fiscal impact;
- Prepare to implement the Affordable Care Act during the term of this proposed budget, with as-yet unknown fiscal impacts and many unresolved questions;
- Still absorbing the impact of the loss of Redevelopment;
- Five years of structural deficit is forecasted; and
- More than \$1 billion of unfunded liabilities and/or deferred capital projects projected.

With labor agreements expiring beginning in July 2013, the proposed Policy Budget does not assume these savings and, instead, provides a prioritized list of services that we recommend be restored, if additional contributions are received.

In general, the proposed budget-balancing measures seek to leverage City services by reducing hours rather than eliminating programs, ensuring that the fees we charge cover the cost of providing the service, generating additional revenue, and expanding the Oakland Police Department. Examples of proposed service eliminations, reductions, and reorganizations are presented in detail in the Service Impacts section of this document.

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Going forward, we must recognize the vital contribution employees made and the major impacts those contributions had; while these budgets do not assume the renewal of those contributions, we know that by working with our employees to secure structural reform to the City's budget and finding long-term solutions together, we can prepare ourselves for the period of true growth Oakland needs and deserves.

It will also be critical to bolster our dialogue with the broader Oakland community. The dialogue will have to include the possibility of a modest parcel tax the voters could approve to accelerate the restoration of staffing our police department. While the City has been prudent and smart in setting its financial house in order, we do not have a clear path to reach adequate police staffing without voters playing a part in funding that restoration. We have begun to heal from the devastating effects of the Great Recession, but that growth is modest and arriving at a pace that does not allow the fast action many residents are demanding.

Oakland is like many other California cities and cities across the United States that have grappled with multi-year service reductions and budget shortfalls to a point where there are no longer any discretionary services left to eliminate. It's no longer about "doing more with less" or hoping for a full recovery. It is about acknowledging that we have weathered a very bad fiscal storm, put strong fiscal measures in place that have shown positive results, and now know what the future holds for our City and what we must plan for in the very near term.

We are not alone in these challenges; however, we must remember that the progress we have made over the past five years has been a direct result of this City's dogged determination to work together, with resolve and collective passion for the well-being and viability of our community. Through ongoing collaboration and problem-solving, we will find solutions to the challenges before us, and we are confident that these decisions will allow Oakland to emerge stronger than ever.

We look forward to formally presenting this Proposed Budget to the City Council on April 30, 2013.

Respectfully submitted,



Jean Quan
Mayor



Deanna J. Santana
City Administrator

Attachment:
Budget Highlights