

Address Oakland's financial problems—once and for all

"Getting Oakland on sound financial footing is entirely doable. Oakland has significant financial problems to address; Oakland didn't get into these problems overnight, and they won't be fixed overnight. It is urgent that we reach community consensus on what the problems are, then implement and stick with a long-term program to put Oakland on a solid, sustainable financial footing."

— Libby Schaaf

What I Think

For far too long, Oakland City government has lurched from boom to bust and from crisis to crisis, addressing the financial issue of the moment with short-term fixes and few long-term strategies. We have repeatedly used one-time revenues to fund continuing expenses, changed our financial policies to meet immediate needs, and continued to ignore some of the largest and most serious budget shortfalls: crumbling streets and sidewalks, government buildings in disrepair, unfunded liabilities for employee and retiree health coverage and underfunded pension liabilities.

My economic plan for 2015 through 2018 will leverage anticipated sources of growth, new growth and revenue opportunities and smart management. Equally importantly, I will lead the city in building a consensus around realistic plans for assessing and retiring the deferred capital expenses and other deferred liabilities that have been growing in our city since the 1950's.

What I Have Done

Fought for a Rainy Day Fund: As a Councilmember, I have raised awareness with my constituents and colleagues of the critical problems of unfunded liabilities and protection against economic downturns. I fought for three years to get a Rainy Day policy passed, similar to the Rainy Day Fund proposed by Governor Brown for California. The Council did ultimately adopt the Rainy Day Fund legislation I wrote, both creating a stabilization reserve and requiring annual paying down of unfunded liabilities. I recognize this policy won't come close to solving the problem – our medical retiree benefits (OPEB) alone are growing by roughly \$30 million a year. But it is a start and important step in building awareness and commitment to solving this mounting crisis.

Led responsible budgeting practices: I have been one of the most forceful voices on the City Council for prudent fiscal practices: Specifically, I have voted against the increased use of one-time revenues to cover ongoing expenses and budgeting decisions that potentially increase future deficits. I voted against issuing pension obligation bonds. I proposed and got passed the first serious set-aside of \$20 million in general funds to pay down unfunded retirement liabilities.

Increased city budget transparency: As chair of the City Council Finance and Management committee, I have authored measures that resulted in a far more transparent budgeting process and meaningful public input on City budgeting priorities. Under my measures, we will conduct scientific polling of all residents of Oakland – not just folks who come to Council meetings – to determine their budgeting priorities. We have added significant and thoughtful input from citizens through the Budget

Advisory Committee. And my legislation eliminated eleventh hour back-room budget deals by requiring public notice before any item can be added or changed in the city budget.

Repaved roads and fixed potholes: I negotiated to get \$1.9 million for street improvements, including repaving some of the worst streets in Oakland.

What I Will Do

Invest in infrastructure, use bonding against future revenue: For decades, Oakland has ignored the need to maintain its buildings, its streets, its sidewalks and the rest of its infrastructure. The backlog for street repaving in Oakland is nothing short of depressing. While I negotiated nearly \$2 million in additional funds in the current budget for street improvements, that is clearly just a drop in the bucket. A long-term capital improvement plan, and bond issue, would be required for us, on our own as a city, to make a dramatic impact on this backlog. Assuming Prop BB passes this November (which looks likely), I would bond against the new \$8 million per year allocated to Oakland for road maintenance to make immediate upgrades in road conditions that will reduce maintenance costs going forward. It costs seven to eight times more to reconstruct a deteriorated road than to resurface and decent road. By using this new revenue source to immediately upgrade road conditions, we will save in maintenance costs going forward.

Create a 5 and 10-year capital planning program: I will work with city council to develop a detailed set of capital infrastructure improvements that covers the next 5 and 10 years. These lists will govern staff expenditures - cutting out special interest projects. The improvement program will allow the City to pursue grant funding from numerous sources and set plans in motion for new, ambitious projects that will help Oakland keep and attract businesses and residents. By putting together a Capital Plan and Capital Budget independent of the regular city budget process, we will develop consensus for which infrastructure needs have the highest priority and ensure that there is greater support when we got out for funding.

Find new ways to tackle the city's needs: Depending on the needs identified in the capital planning process, I will direct staff to examine various means to finance much needed infrastructure investments in Oakland. This may include bonds to fund the improvements or via some other program. As a 150-year old city, much of the infrastructure is showing its age.

Fund street and pothole repair: Improve funding of street and pothole repair despite the fact that county, state, and federal dollars committed will never be enough for all of Oakland's roads. The city will speed its contracting processes and increase the competition for Oakland's paving dollars. Ensure the city uses StreetSaver, its pavement management system, to make wise investments. This information will also be online so the public knows about upcoming street repair. The city will work with Caltrans to prioritize freeway repairs in Oakland and clean up along our highways.

Pursue state funding for streets: Another potential source for street resurfacing and sidewalk repair funds that I will pursue aggressively derives from the state's AB 32 cap and trade program and the Bay Area's Sustainable Communities Strategy/Regional Transportation Plan. As an older city with a more traditional infrastructure pattern with neighborhoods in close proximity to transit, Oakland is well poised to take advantage of these funds. There are some available funds specifically for resurfacing and much more funding available for upgrading streets to accommodate bicyclists and encourage walkability.

Assess the value of city-owned assets: Oakland owns a great deal of real estate for which maintenance has been deferred or ignored for years or decades. Examples of this are the Henry J. Kaiser Auditorium, shuttered and ignored for years, and Oakland Police Department headquarters, still in use but in dire need of repair. My administration will review the status of all of these assets, will dispose of or otherwise monetize those for which Oakland has no use and will devise a cost-effective means to repair those that are still needed. Only when these steps have been completed can we establish a comprehensive capital improvement plan and say what our deferred capital obligations really are.

Saving money and hassle on repaving projects: Work with local telecommunications and utilities companies to coordinate construction beneath our roads, enhance restrictions on construction beneath newly paved streets, and require a better job of restoring the street to its previous or better condition once the work is completed.

Be responsible and collaborative about deferred liabilities: The City's most recent reports estimate our unfunded retirement liabilities at \$1.5 billion, but the more accurate amount is \$2.4 billion if you use market, rather than actuarial valuation, and include pension obligation bond debt. The term "unfunded liabilities" seems to have become a political third rail in all city, county and state governments, largely because of the focus on pension liabilities. Too often when we talk about deferred or unfunded liabilities, our city employees think we are scapegoating them. In fact, there are a host of deferred liabilities that need to be addressed, and we cannot address them until we can agree on what they are and what a realistic pay-down schedule is. Until we do that, the problem is so politically and emotionally fraught it is almost impossible to fix.

When I am elected, I will convene a task force consisting of myself, the City Administrator, the budget director, City Auditor, President of the City Council and Chair of the Council's Finance and Management Committee, together with representatives of the city's unions, to design a scope of work by which we will ask accountants with expertise in municipal finance (possibly Oakland's outside accountants, who are already familiar with our finances), to answer these questions:

1. From an accounting point of view what liabilities actually are deferred, what is the accurate amount of these liabilities – showing not just actuarial valuation, but the more accurate market valuation?
2. What are the costs in continuing to defer them?
3. What are the least onerous fiscally responsible plan and schedule for amortizing each of these liabilities?

Once we have that answer, I will ask the City Council to adopt a financial policy of retiring deferred liabilities based on that schedule.

Cultivate additional revenues and cost savings: While Oakland's financial circumstances are, in many ways, quite difficult, we should be mindful that Oakland is rebounding from its hardest times and there are new sources of revenue not reflected in the administration's five-year financial projections.

For example: starting in 2015, Oakland's annual bond payments will shrink by \$17 million. The administration's projections (based on a Council action I brought) attach \$10 million of that to "Pay

Down Liabilities" in FY 2015-16 and 2016-17. The remaining \$7 million is not attached to any specific use, and the pre-commitment of the \$10 million is for two years only.

Capture value from real estate and new growth: More significantly, there are 96 new market-rate housing units just completed, 3,100 units under construction, and another roughly 4,000 in the pipeline, all of which will result in one-time real estate transfer tax revenue and ongoing property tax revenue. Based on its very high hotel occupancy rate, it seems clear we will soon see the construction of at least one new hotel, generating an increase in the transient occupancy tax.

In addition, Oakland residents have an urgent need for large and small retail development; my administration will strive to be far friendlier to new business than recent administrations. My staff and the City Administrator will be evaluated on their ability to smooth the way for the development of new housing and business, all of which will generate significant continuing revenues. I will dedicate roughly half of the new revenue from residential and hotel construction and retail to addressing new, non-discretionary expenses and closing the budget gap.

Reduce the cost of delivering city services, while investing in our workforce: I am going to implement a 3-1-1 / Citi-Stat program at little or no cost by using open source software and current employees. While it is too early to quantify, this systematic way of addressing and responding to residents' and businesses' need for city services will undoubtedly result in increased efficiency and cost savings, as well as improving the provision of services to residents and businesses and reducing 9-1-1 calls. As part of the process, I will also take a hard look at how we provide the majority of non-public safety services with a view toward where the major cost savings can be accomplished. While the main focus of this initiative will be to increase effectiveness and responsiveness of service delivery to residents, this will undoubtedly result in some cost savings to the City.

Oakland has previously proved that we can reduce expenses without jeopardizing city services or significantly impacting our employees. When State legislation eliminated the Redevelopment districts, we acted, in just five weeks, to reduce City expenditures by \$28 million without adversely affecting city services and laying off only five employees. We did this by consolidating City functions and "flattening" the organization of our administration. While it is unlikely we can replicate all of these savings, I believe more such savings using the same process may well be possible. Part of reducing costs is also increasing the ability of our workforce to get their jobs done; my platform on government innovation discusses the many ways we can do this.

Respond Strategically to the Dissolution of Redevelopment: Another change in revenues that will help us address our mounting costs for service is the dissolution of redevelopment. The former redevelopment structure prohibited the general fund from realizing much of the growing property tax revenues, as the "tax increment" from rising property tax revenues had to stay within the redevelopment budget to be used only for redevelopment purposes. While Oakland no longer benefits from this former revitalization tool, it does redirect a substantial amount of property tax revenues from redevelopment into the city's general fund coffers, making it available for the first time to pay for on-going operations, including police.