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CITY OF OAKLAND
AGENDA REPORT

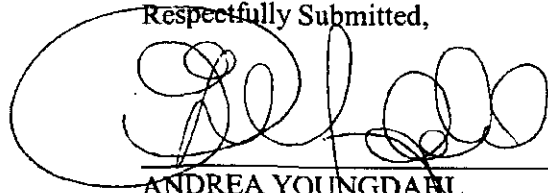
2004 SEP 16 PM 6:15

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: *Department of Human Services*
DATE: September 28, 2004

RE: **RECOMMENDATIONS FROM THE OAKLAND FUND FOR
CHILDREN AND YOUTH PLANNING AND OVERSIGHT
COMMITTEE ON THE KIDS FIRST! FUND BALANCE AND THE
COMMITTEE'S RESPONSE TO THE CITY AUDITOR'S REPORT**

Attached is a letter from the Oakland Fund for Children and Youth Planning and Oversight Committee (POC). A representative from the POC will be available to answer questions.

Respectfully Submitted,



ANDREA YOUNGDahl
Director, Department of Human Services

Attachment

FORWARDED TO THE
LIFE ENRICHMENT COMMITTEE

Cheryl P. Thompson
OFFICE OF THE CITY ADMINISTRATOR



September 28, 2004

LIFE ENRICHMENT COMMITTEE
Oakland City Council

**Subject: Oakland Fund for Children and Youth Planning and Oversight
Committee Recommendations on the Kids First! Fund Balance
and City Auditor's Report**

Chairperson Chang and Members of the Committee:

In July of this year the City Council received and approved the Planning and Oversight Committee's (POC) funding recommendation of \$9.036 million to fund 74 programs providing services to the children and youth of Oakland for 2004-05. We commend and thank the Members of the Council for doing so.

That action ensured the full funding of 74 programs as well as partial funding for one program on the Oakland Fund for Children and Youth (OFCY) wait-list. Six additional programs, worthy as well of recommendation based on the quality of their programming, remained unfunded on the Wait List.

Subsequently, the POC reviewed the findings of the City Auditor as outlined in his recent report regarding OFCY revenues and expenditures for the period July 1997 through December 2003. This report included a determination of the fund balance of the OFCY. After further discussion by our own Fiscal Subcommittee and in action taken at the POC meeting of September 1, 2004, the POC recommends the following, regarding the fund balance:

- ❖ An allocation of \$562,547 of the fund balance to fully fund the 6 programs on the 2004-05 OFCY Wait-list;
- ❖ The timely receipt by the OFCY of all funds identified by the City Auditor as due the OFCY;
- ❖ Use of the fund balance to ensure continuing support for children and youth programming at currently established funding levels, and
- ❖ Use of the fund balance for the maintenance of our effort, for ongoing programming and for special initiatives as recommended by the POC and consistent with objectives established in our strategic planning efforts.

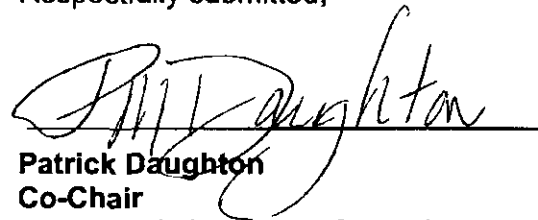
Examples of special POC-identified initiatives might include efforts to address heretofore underserved populations or to help bridge specific neighborhood or community programming gaps. The OFCY strategic planning process, currently underway to establish guideposts for years 9 through 12 of the original Measure K legislation, presents itself as an excellent opportunity to explore and secure the best specific uses of the fund balance.

We as a Committee take seriously our responsibility to properly oversee disposition of the OFCY fund balance and, now that its specific composition is known to us, fully intend to do so. We trust that our recommendations meet your expectations and are deserving of your support.

An immediate action needed would be the additional allocation of OFCY monies sufficient to fund contracts for the remainder of the wait-listed programs. We would hope that this could be accomplished as quickly as possible so as to minimize further delay in bringing services to the children and youth served by those programs.

Thank you for your patience, consideration, and for all you do for the children and youth of Oakland.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Patrick Daughton", is written over a horizontal line. The signature is cursive and somewhat stylized.

Patrick Daughton
Co-Chair
Planning & Oversight Committee
Oakland Fund for Children and
Youth

CITY OF OAKLAND



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Council Meeting Date: July 6, 2004

MAYOR JERRY BROWN

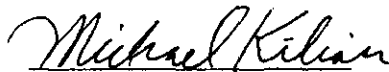
IGNACIO DE LA FUENTE, PRESIDENT
AND MEMBERS OF THE CITY COUNCIL

**SUBJECT: KIDS FIRST! OAKLAND CHILDREN'S FUND FOR THE PERIOD JULY
1, 1997 THROUGH DECEMBER 31, 2003, MATCHING MANDATED
FISCAL YEAR REVENUES AND CALENDAR YEAR EXPENDITURES**

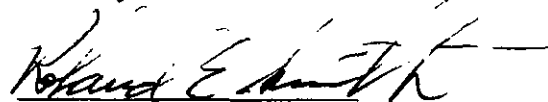
The Office of the City Auditor is submitting a report on the Kids First! Oakland Children's Fund for the period July 1, 1997 through December 31, 2003.

The City Auditor is elected by the citizens of Oakland to serve as an officer in charge of an independent department auditing City government activities. The independence of the City Auditor is established by the City Charter.

Prepared by:

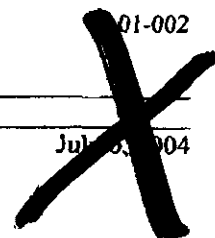

Michael Kilian, CPA, CFS
Chief Deputy City Auditor

Issued by:


Roland E. Smith, CPA, CFS
City Auditor

Report Completion Date: June 7, 2004
Issue Date: June 15, 2004

Item #: 01-002
CITY COUNCIL: _____
Jul 6, 2004



**CITY AUDITOR'S SPECIAL REPORT
KIDS FIRST! OAKLAND CHILDREN'S FUND
FOR THE PERIOD JULY 1, 1997 THROUGH DECEMBER 31, 2003**

PURPOSE AND SCOPE

As requested by the Children's Fund Planning and Oversight Committee and members of the City Council, we have made an impartial analysis of the Kids First! Oakland Children's Fund (Fund). Our analysis was limited to determining the amount of unspent monies from prior periods in the Fund that are available for program and services from the legally mandated two and one-half percent (2.5%) set-aside of the City of Oakland's unrestricted general fund revenues for the period July 1, 1997 through December 31, 2003.

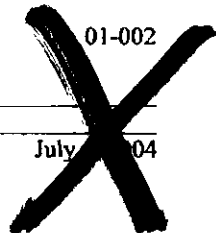
Our analysis does not address whether the City has maintained a certain level of expenditures (base amount) for services to children and youth in conformity with the requirements set forth in the Kids First! Initiative (Measure K). Nor does it address the City's calculation of interest income.

In making our analysis we:

1. held meetings with Agency staff, members of the Kids First! Oakland Children's Fund Planning and Oversight Committee, and representatives from the Office of the City Attorney;
2. summarized applicable revenue, expenditure and appropriation accounts from the Oracle Computer System of the City from July 1, 1997 through December 31, 2003; and
3. reviewed documents provided by the Aging, Health and Human Services Department, as well as documents provided by the Budget Office.

BACKGROUND

In November 1996, the voters passed an amendment to the City Charter of Oakland entitled the Kids First! Initiative (Measure K), creating the Oakland Children's Fund. This fund is maintained separately and apart from other City funds. Measure K amended the Oakland City Charter to set aside two and one-half percent (2.5%) of the City's unrestricted General Fund revenues to support direct services to children and youth less than 21 years old each year for twelve years beginning July 1, 1997, together with interest earned on the fund and amounts unspent or uncommitted by the fund at the end of any fiscal year.



**CITY AUDITOR'S SPECIAL REPORT
KIDS FIRST! OAKLAND CHILDREN'S FUND
FOR THE PERIOD JULY 1, 1997 THROUGH DECEMBER 31, 2003**

**BACKGROUND
(CONTINUED)**

The Fund is administered by the City of Oakland. To this end, the City issues grants to provide services to Oakland's children and youth. The contracts for these grants specify how much funds are allocated and the amount of matching funds committed by other funding sources.

As has been pointed out in several legal opinions prepared by Oakland's Office of the City Attorney, dating from October 1996, the language employed in the Kids First! Initiative is vague, is subject to varying interpretations, and has been misinterpreted.

The Kids First! Oakland Children's Fund Charter Amendment states that the fund include any "amounts unspent or uncommitted by the fund at the end of any fiscal year."

The Kids First! Oakland Children's Fund Charter Amendment also states that the "appropriation for the city fiscal year shall be awarded for use during the calendar year which begin therein. For example, appropriations for the fiscal year July 1, 1997 to June 30, 1998 shall be awarded for use during the calendared year January 1, 1998 to December 31, 1998, and so on." This projected pattern of variance in the revenue year and the expenditure year is addressed in Table I.

**ISSUE: USE OF
ACTUAL OR
BUDGETED REVENUES**

In 2003, an opinion was sought from the Office of the City Attorney to provide direction on how to calculate the 2.5 percent Kids First! set-aside. The issue addressed in the opinion was whether the City Charter (Article XIII) requires that the City set aside 2.5 percent of:

1. the City's unrestricted general fund **budgeted revenues**;
- or
2. the City's unrestricted general fund **actual revenues**.

The summary conclusion of this opinion states that, "the annual unrestricted general fund revenues means **actual** unrestricted general fund revenues."

**CITY AUDITOR'S SPECIAL REPORT
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**ISSUE: USE OF
ACTUAL OR
BUDGETED REVENUES
(CONTINUED)**

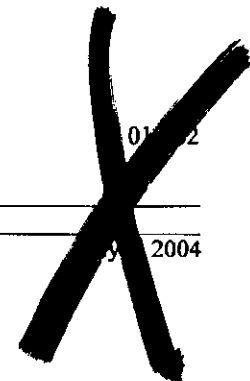
Notwithstanding the opinion of the Office of the City Attorney, the position of the Finance and Management Agency has been that the calculation of the 2.5 percent set-aside for the Kids First! Oakland Children's Fund should be based upon budgeted unrestricted general fund revenues. Actual general fund revenues are arrived at after close of the accounting records for the fiscal year end and in line with the issuance of the audit report by the outside auditors. This has occurred in prior years many months after the fiscal year end, making use of actual general fund revenues in the calculation of the 2.5 percent set-aside to the Kids First! Oakland Children's Fund burdensome.

A disagreement as to the meaning of the language in Measure K, particularly with respect to the word appropriations, has contributed to the support for the use of budgeted revenues in the calculation of the 2.5 percent set-aside. Accordingly, at the end of the fiscal years ended June 30, 1998, 1999, 2000, 2001, 2002 and 2003, the City did not perform a revenue reconciliation to adjust the Fund's appropriation, which was based upon original revenue estimates for the unrestricted general fund revenues to actual unrestricted general fund revenues.

FISCAL IMPACTS

The City has accumulated unspent monies, totaling \$7,510,937, from the inception of the Fund through December 31, 2003. See Table 1. Actual revenues received by the fund have typically exceeded the actual expenditures of the Fund. Included also in the total unspent monies available to Kids First! is an amount, \$1,869,716, which reflects revenue variances attributable to not having made adjustments to original appropriations based on budgeted unrestricted general fund revenues. See Table 2.

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**CITY AUDITOR'S SPECIAL REPORT
KIDS FIRST! OAKLAND CHILDREN'S FUND
FOR THE PERIOD JULY 1, 1997 THROUGH DECEMBER 31, 2003**

Unspent Monies

Table 1

Kids First! Unspent Monies Matching Mandated Revenues to Expenditures						
Fiscal Year	Unrestricted Revenues^a	2.5% Set-Aside	Interest Income^b	Legally Mandated^c	Calendar Year Expenditures	Unspent Monies Available to Kids First!
96/97	0			0	87,059	(87,059)
97/98	232,984,162	5,824,604	101,963	5,926,567	2,122,181	3,804,386
98/99	254,999,369	6,374,984	197,740	6,572,724	4,878,483	1,694,241
99/00	284,640,637	7,116,016	317,343	7,433,359	6,092,539	1,340,820
00/01	313,489,068	7,837,227	459,933	8,297,160	7,113,937	1,183,223
01/02	315,591,571	7,889,789	335,068	8,224,857	8,137,521	87,336
02/03	328,258,676	8,206,467	263,853	8,470,320	8,982,330	(512,010)
Total Monies Available to Kids First! as of December 31, 2003						\$7,510,937

^a Based on unrestricted general fund revenues less restricted general fund revenues

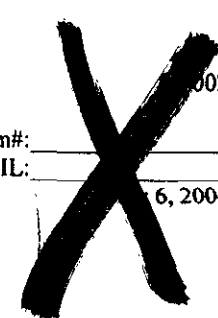
^b Limited scope of report precluded a review of interest income

^c Legally Mandated Kids First! transfer is 2.5% of the actual unrestricted general fund revenues, plus the mandated interest income transferred.

Revenue Variances

Traditionally, the City provides for a conservative budget. Estimated revenues to be received by the City are less than actual revenues received by the City, which results in fiscal year end revenue variances. Table 2 sets forth with respect to the Kids First! Oakland Children's Fund the results of the fiscal year end revenue variances.

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**CITY AUDITOR'S SPECIAL REPORT
KIDS FIRST! OAKLAND CHILDREN'S FUND
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Table 2

Kids First! Revenues Comparison of Mandated to Actual Revenues						
Fiscal Year	Unrestricted Revenues^a	2.5% Set-Aside	Interest Income^b	Legally Mandated^c	Actual Revenues	Due to Kids First!
97/98	232,984,162	5,824,604	101,963	5,926,567	5,799,226	127,341
98/99	254,999,369	6,374,984	197,740	6,572,724	6,490,108	82,616
99/00	284,640,637	7,116,016	317,343	7,433,359	7,168,976	264,383
00/01	313,489,068	7,837,227	459,933	8,297,160	7,501,791	795,368
01/02	315,591,571	7,889,789	335,068	8,224,857	7,747,921	476,936
02/03	328,258,676	8,206,467	263,853	8,470,320	8,347,248	123,072
Total Amount due Kids First! from Revenue Variances as of December 31, 2003						\$ 1,869,716

^a Based on unrestricted general fund revenues less restricted general fund revenues

^b Limited scope of report precluded review of interest income

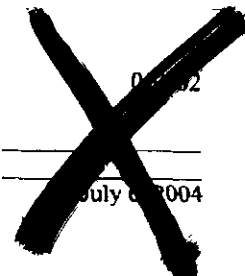
^c Legally Mandated Kids First! transfer is 2.5% of the actual unrestricted general fund revenues, plus the mandated interest income transferred; actual revenues above include this interest income.

CONCLUSION

The effect of spending less than the actual revenues provided to Kids First! Oakland Children's Fund is to have accumulated a fund balance, totaling \$7,510,937, which can be re-allocated in future years for programs and services.

The effect of not making the revenue reconciliation to adjust the Fund appropriation, which is based upon original revenue estimates for the unrestricted general fund revenues to actual

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**CONCLUSION
(CONTINUED)**

unrestricted general fund revenues, is to reduce the legally mandated 2.5 percent set-aside received by the Fund.

In that the 2.5 percent Kids First! set-aside is made at the beginning of each fiscal year, the initial set-aside may be based on budgeted unrestricted general fund revenues. Nevertheless, since actual unrestricted general fund revenues are available with the issuance of the year-end audit report, the set-aside can be adjusted to reflect actual unrestricted general fund revenues.

RECOMMENDATIONS

We recommend that the unspent Kids First! Oakland Children's Fund balance be utilized in future appropriations.

We also recommend that the Kids First! Oakland Children's Fund receive its legally mandated 2.5 percent set-aside based upon actual unrestricted general fund revenues.