

**CITY OF OAKLAND**  
**AGENDA REPORT**

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

2009 MAY 14 PM 8:42

TO: Office of the City Administrator  
ATTN: Dan Lindheim  
FROM: Budget Office  
DATE: May 26, 2009.

RE: **Informational Report To Transmit To The Finance And Management Committee A Proposed Amendment To Ordinance No. 12502 To Clarify The General Purpose Fund (GPF) Reserve Requirements; Require A Mayoral Declaration Of Fiscal Emergency And Approval By Council Before The GPF Reserve Can Be Drawn Down; Require That Excess Real Property Transfer Tax Revenues Be Used To Build Up The GPF Reserve And Contribute To The Capital Improvements Reserve Fund; Require That One-Time Revenues Be Used To Repay Negative Fund Balances And Fund Capital Improvement Projects; And Provide Criteria For Project Carryforwards And Encumbrances In The GPF**

At the direction of the Rules Committee, staff is submitting proposed amendments to Ordinance No. 12502 for the Finance and Management Committee's review. The proposed amendments would accomplish the following:

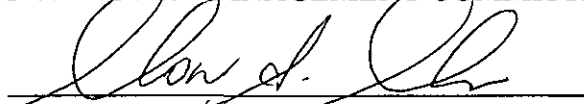
- Establishing a baseline for the *Real Estate Transfer Tax* at \$40 million (an amount collected in a normal year), with any amount over the baseline used as follows: 50% deposited into GPF reserves, and another 50% going into Oakland municipal CIP reserves.
- Amending a policy on the use of *one-time revenues*, and requiring that any one-time discretionary revenue be used as follows: 50% to repay negative fund balances (including negatives in the Internal Service Funds), and another 50% to fund future CIP projects.
- Amending the City's *reserve policy* to: (a) require an annual review and certification of the GPF reserve (net of any reservations, designations and obligations) by the Director of Finance; and (b) prohibit project carryforwards in the GPF.

This is an informational report for discussion purposes within the Finance and Management Committee. The attached legislation is proposed for adoption by the Council as part of the FY 2009-11 budget.

Respectfully submitted,

  
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CHERYL L. TAYLOR  
Budget Director

APPROVED FOR FORWARDING TO THE  
FINANCE & MANAGEMENT COMMITTEE

  
\_\_\_\_\_  
Office of the City Administrator

Item: \_\_\_\_\_  
Finance & Management Committee  
May 26, 2009

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ORDINANCE NO. \_\_\_\_\_ C.M.S.

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ORDINANCE AMENDING ORDINANCE NO. 12502 C.M.S. TO CLARIFY THE GENERAL PURPOSE FUND (GPF) RESERVE REQUIREMENTS; REQUIRE A MAYORAL DECLARATION OF FISCAL EMERGENCY AND APPROVAL BY COUNCIL BEFORE THE GPF RESERVE CAN BE DRAWN DOWN; REQUIRE THAT EXCESS REAL PROPERTY TRANSFER TAX REVENUES BE USED TO BUILD UP THE GPF RESERVE AND CONTRIBUTE TO THE CAPITAL IMPROVEMENTS RESERVE FUND; REQUIRE THAT ONE-TIME REVENUES BE USED TO REPAY NEGATIVE FUND BALANCES AND FUND CAPITAL IMPROVEMENT PROJECTS; AND PROVIDE CRITERIA FOR PROJECT CARRYFORWARDS AND ENCUMBRANCES IN THE GPF.

**WHEREAS**, on June 17, 2003, the City Council adopted Ordinance No. 12502 C.M.S., which repealed the original reserve policy for the City's undesignated general fund balance and adopted new operating budget and capital improvement budget policies, and a higher minimum level of reserves; and

**WHEREAS**, to ensure fiscal prudence and responsibility, the City desires to amend its reserve policy to clarify the established reserved requirements and to establish criteria for the use of GPF reserve, use of excess Real Estate Transfer Tax (RETT) revenue, and use of one-time revenues; and

**WHEREAS**, to minimize drawdowns from the GPF reserve by previously approved project carryforwards and purchase order encumbrances, the City wishes to add specific criteria for such carryforwards and encumbrances in the General Purpose Fund; now, therefore,

**THE COUNCIL OF THE CITY OF OAKLAND DOES ORDAIN AS FOLLOWS:**

SECTION 1. The City Council finds and determines the forgoing recitals to be true and correct and hereby adopts and incorporates them into this Ordinance.

SECTION 2. The Municipal Code is hereby amended to add, delete, or modify sections as set forth below (section numbers and titles are indicated in **bold type**; additions are indicated by underscoring and deletions are indicated by ~~strike-through~~ type; portions of the regulations not cited or not shown in underscoring or strike-through type are not changed).

SECTION 3. Ordinance No. 12502 C.M.S. is hereby amended in its entirety to read as follows:

**SECTION 2A. General Purpose Fund Reserve Policy**

1. Council hereby declares that it shall be the policy of the City of Oakland to provide in each fiscal year a reserve of undesignated, uncommitted fund balance equal to seven and one-half percent (7.5%) of the General Purpose Fund (Fund 1010) appropriations for such fiscal year (the "General Purpose Fund Reserve Policy").

2. Each year, upon completion of the City's financial audited statements, the ~~City Manager~~ City Administrator ~~will~~ shall report the status of the General Purpose Fund Reserve to City Council. If in any fiscal year the General Purpose Fund Reserve Policy is not met, the ~~City Manager~~ City Administrator shall present to Council a strategy to meet the General Purpose Fund Reserve Policy.

3. The amounts identified as the undesignated General Purpose Fund Reserve may be appropriated by Council only to fund unusual, unanticipated and seemingly insurmountable events of hardship of the City, and only upon declaration of fiscal emergency by the Mayor and a majority vote by the City Council.

**SECTION 3B. Capital Improvements Reserve Fund**

1. There is hereby established a fund in the Treasury of the City of Oakland to be known as the "Capital Improvements Reserve Fund" (~~the "Capital Improvements Contingency Fund"~~).

2. ~~Commencing with the 2003-05 budget~~ On an annual basis, an amount equal to \$6,000,000 shall be deposited ~~held~~ into the Capital Contingency Improvements Reserve Fund (~~the "Capital Improvements Reserve Requirement"~~). Revenues received from one-time activities, including the sale of real property, shall, ~~unless otherwise directed by Council~~, be deposited into the Capital Improvements Reserve Fund, unless otherwise provided in Sections D and E of this ordinance or otherwise directed by a majority vote of the City Council. Interest earnings on monies on deposit in the Capital Improvements Reserve Fund shall accrue to said fund and be maintained therein.

3. Monies on deposit in the Capital Improvements Reserve Fund shall, ~~unless otherwise directed by Council~~, may be appropriated by Council to fund unexpected emergency or major capital maintenance or repair costs to City-owned facilities and to fund capital improvement projects through the Five-Year Capital Improvement Program only if not already allocated to a specific project.

4. Each year, upon completion of the City's financial audited statements, the City Administrator shall report the status of the Capital Improvements Reserve Fund to City Council. If in any fiscal year the required Capital Improvements Reserve Fund

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threshold of \$6,000,000 is not met, the City Administrator shall present to Council a strategy to meet the said threshold.

~~SECTION 4C.~~ Prior to appropriating monies from the ~~contingency or reserves~~ established by this Ordinance, the Budget Office shall prepare an analysis of the proposed expenditure and the City Administrator shall present such analysis to the City Council. Upon review and approval of the proposed expenditure by the City Council, and appropriate emergency declaration by the Mayor and Council majority vote necessary for the use of GPF reserve, the City ManagerAdministrator will have the authority to allocate from the contingency or reserves.

~~SECTION 5.~~ The ~~City Manager shall annually as part of the budget process prepare and submit to the City Council a report detailing the activity and status of the contingency or reserves established pursuant to this Ordinance. Interim reports may be prepared as requested by the Council.~~

**D. Use of Excess Real Estate Transfer Tax (RETT) Revenues To Maintain General Purpose Fund Reserve and To Fund Capital Improvement Projects Through the Capital Improvements Reserve Fund.**

To ensure adequate levels of the General Purpose Fund reserves and to provide necessary funding for municipal capital improvement projects, the City shall require that excess Real Estate Transfer Tax revenues be defined and used as follows:

- 1) The "excess" Real Estate Transfer Tax (RETT) revenue is hereby defined as any annual amount collected in excess of the "normal baseline" collection threshold of \$40 million.
- 2) The excess Real Estate Transfer Tax collections, as described in this section, shall be used in the following manner: 50 percent deposited into the General Purpose Fund (GPF) to maintain the GPF reserve, and 50 percent deposited into the Capital Improvements Reserve Fund to maintain the required \$6,000,000 balance and to fund municipal capital improvement projects.
- 3) Use of the "excess" RETT revenue for purposes other than those established above may only be allowed upon declaration of a fiscal emergency by the Mayor and a majority vote by the City Council.

**E. Use of One Time Revenues To Pay Off Negative Balances in Various City Funds and To Fund Capital Improvement Projects Through the Capital Improvements Reserve Fund**

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- 1) From time to time, the City may receive "one time revenues", defined as financial proceeds that will not likely occur on an ongoing basis, such as sales of property or proceeds from the refinancing of debt.
- 2) Fiscal prudence and conservancy requires that one time revenues not be used for recurring expenses, that outstanding negative balances in various City funds be paid off, and that municipal capital projects addressing health and safety issues be adequately funded. Therefore, upon receipt of one time revenues, such revenues shall be used in the following manner, unless legally restricted to other purposes: 50 percent to pay off negative fund balances, and another 50 percent to deposit into the Capital Improvements Reserve Fund to maintain the \$6,000,000 balance and to fund municipal capital projects.
- 3) Use of the "one time revenues" for purposes other than those established above may only be allowed upon declaration of a fiscal emergency by the Mayor and a majority vote by the City Council.

#### **F. Criteria for Project Carryforwards and Encumbrances in the General Purpose Fund.**

Previously approved but unspent project appropriations ("carryforwards"), as well as funding reserved to pay for purchases or contracts that are entered into in the current year but are not paid for until the following year ("encumbrances"), draw down funding from reserves. Fiscal prudence requires that such drawdowns be limited in the General Purpose Fund (GPF). Therefore:

- 1) Funding for non-operating projects and purchases shall be restricted within the General Purpose Fund; capital purchases and projects in particular shall not be funded from the General Purpose Fund.
- 2) In cases when non-capital, operating projects and purchases must be funded in the General Purpose Fund, these shall be included in an annual budget and supported with new annual revenues.
- 3) Carryover of unspent project carryforwards and encumbrances in the GPF from one year into the next, with no new funding, will be allowed only on an exception basis.
- 4) In the beginning of each fiscal year, before project carryforwards and encumbrances are carried over from the prior year, and no later than August 1, the Budget Office shall liquidate all unspent project carryforwards and encumbrances in the GPF and advise affected City departments of said action.
- 5) Departments may request to retain some or all of the liquidated GPF carryforwards and encumbrances, only if and when such balances are deemed essential to the delivery of city projects, programs and services, and only if the liquidation of such balances would be in violation of legislative or legal requirements, could lead to health or safety issues, and/or would greatly impact essential City projects, programs and services.

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- 6) A request to retain some or all of the liquidated carryforwards or encumbrances must be submitted in writing to the Budget Director within five (5) working days of receiving an advisory from the Budget Office about said liquidations, and must detail specific reasons necessitating such a request, including but not limited to those stated in item (3) above.
- 7) The Budget Director, upon review of a department's request, shall recommend an action to the City Administrator within five (5) working days of receiving the department's request.
- 8) The City Administrator, in consultation with the Budget Director, shall make a final determination of any and all requests for exceptions by departments, by August 20, and all requesting departments should be so notified by August 30.

SECTION 4. This ordinance shall be effective immediately, if passed by the affirmative vote of at least six City Council members; if this ordinance is passed by the affirmative vote of five City Council members, it will be effective seven days after final passage.

IN COUNCIL, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2009

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID, and  
PRESIDENT BRUNNER

NOES -

ABSENT -

ABSTENTION -

ATTEST: \_\_\_\_\_

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LaTonda Simmons  
City Clerk and Clerk of the Council  
of the City of Oakland, California