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OAKLAND

2018 OCT 18 PM 5: 21

# AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Katano Kasaine  
Finance Director

**SUBJECT:** BAC Letter Regarding  
Recommendations to Address  
Negative Fund Balances

**DATE:** October 18, 2018

City Administrator Approval

Date:

10/18/18

This cover letter is to transmit to the City Council the Budget Advisory Commission's (BAC) Letter in response to the Negative Fund Balance Report. The BAC's letter is included as **Attachment A**.

For questions regarding this report, please contact Brad Johnson, Assistant to the City Administrator at 510-238-6119.

Respectfully submitted,

KATANO KASAINE  
Finance Director

Prepared by:  
Bradley Johnson,  
Assistant to the City Administrator

Attachments (1):

(A): Budget Advisory Commission (BAC) Letter

Item: 4  
Finance and Management Committee  
October 23, 2018

October 17, 2018

**To:** Honorable Members of the Oakland City Council

**From:** The Budget Advisory Commission

**RE:** Recommendations to Address Negative Fund Balances

**Problem Statement**

Negative fund balances typically accumulate when operating expenses within the fund exceed ongoing revenue sources, and may grow over time as a result of the accumulation of negative interest. In recent years, the City has made significant progress in reducing negative balances within its budgeted funds, bringing their cumulative deficit down from \$138.8 million at the end of FY 2009-10 to \$62.8 million at the end of FY 2017-18.

Nonetheless, the outstanding liability is considerable, amounting to approximately 10.9 percent of the total FY 2017-18 General Purpose Fund (GPF) adjusted budget. Although many negative balances originate in non-GPF funds, the GPF backstops all funds with a negative balance if no other source of revenue is available to support them and therefore ultimately bears the full liability.

Of the \$62.8 million cumulative deficit, the greatest concern is the \$15.2 million that sits in non-reimbursable funds without a repayment plan, some of which have current appropriations obligated against them. An additional \$25.3 million sits in funds that have a repayment plan in place, but which are still of concern because those repayments generally come from the General Purpose Fund. Of lesser concern is the \$22.3 million negative balance in reimbursable funds for which expenditure reimbursements are anticipated.

Staff and the Council are to be commended for taking steps to begin to address the problem of negative fund balances. However, it would be prudent for the City to enact stronger fiscal control policies to ensure that progress continues and to prevent the recurrence of this problem in future.

**Recommendations**

The Budget Advisory Commission (BAC) recommends that the City Council take the following steps to resolve the issue of outstanding negative fund balances and prevent their recurrence. These recommendations were informed by conversations with Finance Department staff, a review of recent staff reports on negative fund balances, conversations with financial management staff at the City and County of San Francisco, and by the relevant professional expertise of members of the Budget Advisory Commission.

**1. Improve Transparency Regarding the City's Negative Fund Liability.**

Direct staff to report annually to the Council, as part of the year end close process, on the status of negative fund balances. Such reports should (i) identify line item appropriations that are being carried forward in funds with a existing negative balance, (ii) identify encumbrance carry forwards that will create a negative balance because the encumbrance amount exceeds available sources within the fund, and (iii) specify the year in which each fund went negative in so that policymakers can distinguish legacy problems from newly emerging ones.

**2. Grant the City Administrator Authority to Enforce Fiscal Discipline.**

Revise the Consolidated Fiscal Policy to:

- a. prohibit the expenditure of funds without corresponding appropriation authority,
- b. require the City Administrator to certify the availability of funds to support any mid-year expenditure appropriation prior to Council adoption, and
- c. authorize the City Administrator to freeze existing expenditure appropriations in order to maintain a balanced budget.

**3. Amend the City's Consolidated Fiscal Policy to Strengthen Existing Fiscal Controls.**

- a. Statutorily prohibit appropriations against negative fund balances from being carried forward from one fiscal year to the next on other than an exception basis, and codify the circumstances in which the City Administrator (or Director of Finance) may grant an exception.
- b. Statutorily prohibit any non-reimbursable fund from being allowed to remain in negative balance for more than a specified period of time. A limit of two to three years is recommended. Legislation would have to be prospective given that the City's current negative fund liability is unlikely to be cleared within that time frame.
- c. Direct staff to propose for Council adoption policies and procedures to strengthen oversight of departmental grant management, in order to ensure proper grant accounting, expenditure controls and timely close-out of appropriations for which there is inadequate revenue.
- d. Direct staff to propose for Council adoption policies and procedures to strengthen the oversight of municipal bonds, in order to ensure proper bond program accounting, expenditure controls and timely close-out of appropriations for which there is inadequate revenue.

**4. Adopt a Revised Repayment Schedule as Part of the FY 2019-21 Budget.**

In a Finance Department report dated February 5, 2018 and presented to the Finance and Management Committee on February 27, 2018, staff recommended that the Council approve a revised repayment schedule for negative funds that are currently on repayment or that lack a repayment plan. The BAC endorses this recommendation and urges the Council to act on it as part of the FY 2019-21 budget development process, if not sooner.

**5. Request Additional Analysis from Staff.**

- a. Direct staff to conduct an analysis of negative balances in special funds that could potentially be repaid by special fund revenues (to reduce GPF liability).
- b. Direct staff to research the legality and feasibility of forgiving the repayment of accumulated negative interest charges in funds with no source of revenue other than the General Purpose Fund, and/or designating certain types of funds as non-interest accumulating.
- c. Direct staff to conduct or retain the services of a consultant to research the fiscal control and fund accounting policies of a handful of other California local jurisdictions, and to report back to the Council on any findings of best practice and relevant recommendations.