



AGENDA REPORT

TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Status of Negative Funds Citywide
Through June 30, 2023

DATE: February 26, 2024

City Administrator Approval



Jestin Johnson (Mar 14, 2024 22:50 PDT)

Date: Mar 14, 2024

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On The Status of Negative Funds Through June 30, 2023.

EXECUTIVE SUMMARY

The City has made significant progress in reducing negative fund balances since 2010. As of June 30, 2023, negative balances in the City's funds totaled \$69.8 million, a reduction of 51 percent from 2010 levels. Negative balances remain substantial despite this progress and sustained effort will be required to achieve further reductions.

The City's negative balances result from funds where operating expenses have exceeded available revenues. These negative balances arose years ago in many funds, but in some funds, negative balances have developed more recently. Periodically reviewing negative funds allows the City to measure progress in addressing past imbalances and highlight new areas for action.

Negative funds impact the City's financial strength by reducing the overall fund balance and net position reported in its financial statements. External auditors, rating agencies, and investors look at these metrics to assess the City's financial health and creditworthiness. By addressing negative balances, the City can strengthen its finances and improve its standing with these audiences.

Total negative balances were reduced by \$4.4 million in FY 2022-23 compared to FY2021-22, in part through repayments included in the FY2021-23 Adopted Policy Budget. In response to budget pressures and improvements in resolving past negative balances, no new repayments were included in the FY2023-25 Adopted Policy Budget. The Finance Department continues working with operating departments to address funds with new or increasing negative balances.

Finance & Management Committee
March 26, 2024

BACKGROUND / LEGISLATIVE HISTORY

The City has taken various policy actions to address negative fund balances over the years.

On June 30, 2009, City Council adopted [Ordinance No. 12946 C.M.S.](#), amending the reserve policy to establish criteria for using excess real estate transfer tax (RETT) revenues and one-time revenues. As one-time revenues are received by the City (e.g., sales of property or proceeds from the refinancing of debt), 50 percent of these revenues (unless legally restricted to other purposes) will be used to repay negatives in the Internal Service Funds, and 50 percent will be used to repay negatives in all other funds.

On December 9, 2014, City Council adopted [Ordinance No. 13279 C.M.S.](#), amending the City's Consolidated Fiscal Policies to include designated reserves for both the Vital Services Stabilization Fund and for the acceleration of long term obligations, in addition to the mandated 7.5% General Purpose Fund (GPF) Emergency Reserve (refer to the City of Oakland Consolidated Fiscal Policy, Section I, Part C: Use of Excess Real Estate Transfer Tax). The City's Consolidated Fiscal Policy is available on the City's website.

The FY 2015-17 Adopted Policy Budget allocated additional one-time repayments to the Facilities Fund (4400) negative balance of \$4.0 million, \$1.76 million to the Kaiser Convention Center Fund (1730), and \$1.21 million to the Contract Administration Fee Fund (1791) which reduced the ongoing repayments from the GPF.

The FY 2017-19 Adopted Policy Budget allocated an additional one-time payment to the Facilities Fund (4400) of over \$8.0 million to eliminate the remaining negative balance.

On April 17, 2018, City Council adopted [Resolution No. 87140 C.M.S.](#), authorizing the City Administrator to eliminate appropriation balances in the Municipal Capital Improvement Fund (5500) in the amount of up to \$2.81 million, Capital Fund (5510) in the amount of up to \$2.04 million, and to restore the appropriations in alternative funds as funding sources become available. The City Administrator was also authorized to identify one-time sources of revenue to pay down negative fund balances from sources including, but not limited to, the Long-Term Obligations set-aside in accordance with the City's Consolidated Fiscal Policy, and to present a revised Repayment Schedule for specified funds as part of the FY 2019-21 proposed budget.

On May 15, 2018, [Ordinance No. 13487 C.M.S.](#) was adopted amending the City's Consolidated Fiscal Policies to facilitate various goals and objectives, including policies to reduce the potential for future increases in negative fund balances. Specific items in support of this goal include requirements for departments to submit corrective action plans in the event of overspending and revised criteria for GPF project carryforwards and encumbrances.

The FY 2019-21 Adopted Policy Budget provided for additional negative fund repayments and included a schedule for repayments through FY 2028-29 for selected funds. The FY 2020-21 Midcycle Policy Budget postponed many of these repayments to address anticipated revenue shortfalls. The FY 2021-23 Adopted Policy Budget restored these previously deferred repayment plans. No repayments were provided for in the FY2023-25 Adopted Policy Budget.

ANALYSIS AND POLICY ALTERNATIVES

The City has historically identified three categories of negative funds:

1. Negative Funds on Repayment Plan
2. Reimbursable Negative Funds
3. Non-Reimbursable Negative Funds

As shown in **Table 1**, the City’s total negative balances have declined substantially since FY 2009-10, largely because of budgeted repayments.

Table 1: Repayment Progress for Major Negative Fund Categories – FY 2009-10 to FY 2022-23

Negative Fund Category	Negative Balance FY 2009-10	Negative Balance FY 2022-23	Total Repayment to Date
Negative Funds on Repayment Plan	(114,484,975)	(26,023,107)	88,461,868
Reimbursable Negative Funds	(23,055,796)	(43,052,335)	(19,996,539)
Non-Reimbursable Negative Funds without Repayment Plans	(4,380,319)	(725,186)	3,655,133
Total Negative Funds	(141,921,090)	(69,800,628)	72,120,462

Negative funds on repayment plans include both Internal Service Funds (ISFs) and selected funds within the General Fund. ISFs are funds used to centralize core services and allocate their costs to Departments, consistent with generally accepted accounting principles. These funds developed negative balances due to the under-collection of revenues from operating departments; however, the City has made steady progress in reducing these historic balances over the past decade. Negative funds with repayment plans in the General Fund support ongoing City services, such as the Self Insurance Liability Fund, but this category also includes a variety of legacy and special-purpose initiatives, such as the Miscellaneous Capital Projects Fund and the Underground District Revolving Fund. Negative balances within these funds generally result from historical spending above revenue collections.

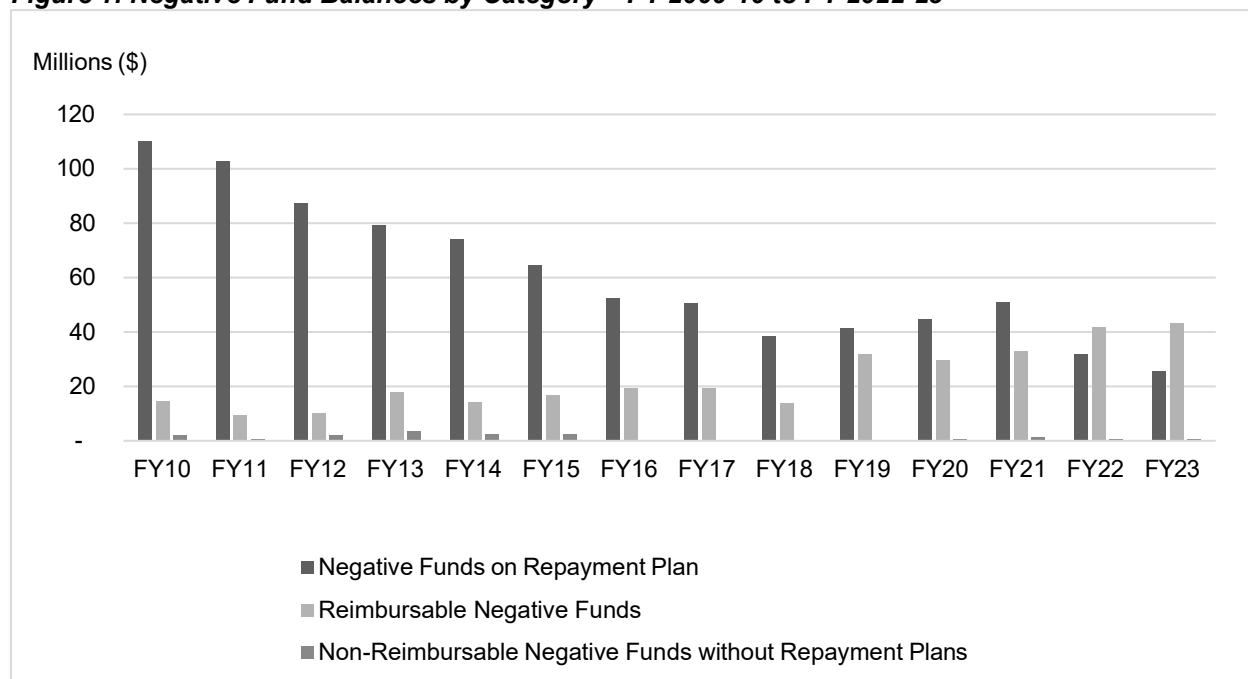
Reimbursable negative funds are primarily comprised of grant funds where the City receives reimbursement following its expenditures. The City’s primary strategy to address these negative balances is accelerating grant drawdowns. However, some funds in this category include historic negative balances that are unlikely to be restored by the original grantors, regardless of the City’s efforts. In such cases, the City’s only option may be to write off longstanding negative balances. Negative balances for reimbursable funds increased materially in the last five fiscal years. The Finance Department is working with operating departments to accelerate grant drawdowns and reverse the trajectory of these negative balances.

Non-reimbursable negative funds with no repayment plans include the Golf Fund, which has expended more than it collects in revenues for the last five years.

Annual changes in negative balances over the past decade are illustrated in **Figure 1**. Negative funds on repayment plans have declined steadily while increased negative balances have

arisen in reimbursable funds over the past several years. Addressing these negative balances will require ongoing efforts by operating departments to manage external funding sources. Fund-level detail on negative balances is also provided in **Attachment A**.

Figure 1: Negative Fund Balances by Category – FY 2009-10 to FY 2022-23



The presentation of this report supports the Citywide priority of a responsive, trustworthy government. It provides information on negative balances on the City's funds and assures policymakers, external auditors, rating agencies, investors, and members of the public that these negative balances are being addressed.

FISCAL IMPACT

This item is for informational purposes only and has no direct fiscal impact or cost.

PUBLIC OUTREACH / INTEREST

This item did not require any additional outreach other than the required posting on the City's website.

COORDINATION

This report was prepared by the Finance Department in coordination with all City departments responsible for these negative balances.

SUSTAINABLE OPPORTUNITIES

Economic: There are no direct economic opportunities associated with this informational report.

Environmental: There are no direct environmental opportunities associated with this informational report.

Race and Equity: There are no direct race or equity opportunities associated with this informational report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive An Informational Report On The Status of Negative Funds Through June 30, 2023.

For questions regarding this report, please contact Pooja Shrestha, Assistant Controller at (510) 238-6776.

Respectfully submitted,



Erin Roseman (Mar 14, 2024 15:06 PDT)

ERIN ROSEMAN
Finance Director, Finance Department

Reviewed by:
Stephen Walsh, Controller

Prepared by:
Pooja Shrestha, Assistant Controller

Attachment (1):

A: Status of Negative Funds FY 2018-19 to FY 2022-23