

CITY OF OAKLAND FEB 15 PM 5:12

# AGENDA REPORT

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

**FROM:** Katano Kasaine  
Finance Department

**SUBJECT:** Negative Fund Repayment Plan and  
Recommendations

**DATE:** February 5, 2018

City Administrator Approval

Date:

2/15/18

## RECOMMENDATION

**Staff Recommends That City Council Adopt A Resolution Authorizing The City Administrator To (1) Remove Or Reallocate Appropriations In Specified Funds With Negative Fund Balances And No Sources Of Revenue; (2) Revise The Existing Repayment Schedule To Add 10 Year Repayment Plans For Specified Funds With Negative Fund Balances As Part Of The FY 2019-21 Proposed Policy Budget.**

## EXECUTIVE SUMMARY

At the November 14, 2017 Finance and Management Committee meeting (FMC) the Finance Department presented the report on the Status of Negative Funds Citywide that recommended staff bring requested action during the FY 2017-18 Second Quarter Revenue and Expenditure Report to do one or more of the following:

1. Eliminate all appropriations in negative funds with no source of revenue or move to alternative funding sources where appropriate.
2. Create formal repayments plans for those funds that are informally paying down negative balances.
3. Identify one-time revenues that can be used to pay down the negative balances in those funds that have no sources of revenue.

This report discusses funds in the two categories that are non-reimbursable: Negative Funds on Repayment and Negative Funds Requiring One-time Revenues, and provides specific recommended actions to reduce the existing negative balances. Council approval of this Resolution would reduce previously appropriated project funds in the Municipal Capital Improvement Fund (5500) and the Capital Reserves Fund (5510) shown in Table 5.

## BACKGROUND / LEGISLATIVE HISTORY

Council Ordinance No. 12946 C.M.S. was passed on July 9, 2009 to amend the reserve policy to establish criteria for the use of 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

Item: \_\_\_\_\_  
Finance and Management Committee  
February 27, 2018

proceeds from the refinancing of debt), 50 percent of these revenues (unless legally restricted to other purposes) will be used to pay off negatives in the Internal Service Funds, and 50 percent will be used to pay off negatives in all other funds.

On December 9, 2014 Council Ordinance No. 13279 amended 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% GPF Emergency Reserve (refer to 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 in its entirety 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 on-going repayments from the General Purpose Fund.

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

The City's All Funds estimated balance of negative funds is (\$72.57) million as of June 30, 2017, compared to (\$138.77) in FY 2009-10, the net of which is a total repayment to date of \$66.21 million (Table 1).

**Table 1: Negative Fund Summary – FY 2010 to FY 2017**

Negative Fund Category	Audited Ending Fund Balance FY 2009-10	Audited Ending Fund Balance FY 2016-17	TOTAL Repayment Amount
1. Negative Funds with Repayment Plan	(98,175,474)	(26,896,244)	71,279,230
2. Reimbursable Negative Funds	(23,055,796)	(30,988,181)	(7,932,385)
3. Non-Reimbursable Negative Funds without Repayment Plan	(17,542,656)	(14,681,332)	2,861,324
<b>Total Negative Funds</b>	<b>(138,773,926)</b>	<b>(72,565,757)</b>	<b>\$ 66,208,169</b>

The three categories of negative funds are defined as follows:

1. Negative Funds on Repayment – Funds in this category have on-going sources of revenue and are on both formal and informal repayment plans.
2. Reimbursable Negative Funds – These funds do not require a repayment plan since they are intended to incur costs that are subsequently reimbursed.
3. Negative Funds Requiring One-time Revenues – Funds that have no sources of funding and therefore cannot be placed on a repayment plan. **Some of these funds have current appropriations obligated against the negative fund balance.**

Negative fund balances accumulate largely due to operating expenses that outpace ongoing revenues and ultimately become the responsibility of the GPF if corrective action is not taken. In some cases, funds have appropriations that do not have cash to support them.

**ANALYSIS AND POLICY ALTERNATIVES**

Several negative funds were placed on formal repayment plans through the FY 2005-07 and FY 2009-11 Adopted Policy Budgets. Additionally, others have been on informal payments plans through either underspending or the allocation of additional revenue to offset the negative balance. Although the City has a proactive plan in place for most negative funds, a continued contributing factor to the increasing deficit balances is the accumulation of negative interest.

The table below provides the projected ending fund balance for those funds in two non-reimbursable categories. It is projected, based on the FY 2017-18 Second Quarter results, that three of the funds (1700, 1750 and 4400) on repayment schedules will no longer have negative balances at the end of FY 2018-19.

Fund	Fund Description	Fund Balance (06/30/2017)	FY 2017-19 Scheduled Repayment	FY 2017-18 Q2 Projected Net Incr / (Decr)	Estimated Ending Fund Balance (06/30/2019)
------	------------------	------------------------------	--------------------------------------	----------------------------------------------------	-----------------------------------------------------

**Negative Funds with Repayment Schedules:**

1100	Self Insurance Liability	(9,565,890)	4,703,294	990,378	(3,872,218)
1700	Mandatory Refuse Program	(1,347,158)	2,466,748	-	1,119,590
1750	Multipurpose Reserve	(577,529)	593,344	1,028,691	1,044,506
2310	Lighting and Landscape Assessment District	(664,762)	164,502	(156,190)	(656,450)
4300	Reproduction*	(1,662,863)	-	(17,863)	(1,680,727)
4400	City Facilities*	(8,274,318)	8,450,000	3,786,085	3,961,768
4500	Central Stores*	(4,231,811)	-	(40,467)	(4,272,278)
4550	Purchasing*	(571,912)	-	(5,686)	(577,598)
<b>SUBTOTAL</b>		<b>(26,896,244)</b>	<b>16,377,888</b>	<b>5,584,948</b>	<b>(4,933,408)</b>

**Non-Reimbursable Negative Funds without Repayment Plan:**

1600	Underground District Revolving Fund	(979,283)	-	(9,287)	(988,570)
2992	Parks and Recreation Grants	(2,587,228)	-	(24,535)	(2,611,764)
5012	JPFA Admin Building: Series 1996	(1,637,379)	-	(15,528)	(1,652,907)
5500	Municipal Capital Improvement	(5,494,985)	-	(52,111)	(5,547,096)
5510	Capital Reserves	(769,989)	-	(2,766)	(772,755)
5999	Miscellaneous Capital Projects	(3,197,490)	-	(29,693)	(3,227,183)
<b>SUBTOTAL</b>		<b>(14,666,354)</b>	<b>-</b>	<b>(133,920)</b>	<b>(14,800,274)</b>

<b>Total Negative Funds</b>		<b>(41,562,598)</b>	<b>16,377,888</b>	<b>5,451,028</b>	<b>(19,733,682)</b>
-----------------------------	--	---------------------	-------------------	------------------	---------------------

\* Reported as Cash Balance as of June 30 of each fiscal year

**Negative Funds on Repayment Recommendation:** Staff recommends that Council formally adopt a revised repayment schedule during the FY 2019-21 Adopted Policy Budget. Repayments will be based on structured transfers from the General Purpose Fund or reductions in costs where appropriate. Internal Service Fund repayment schedules will be based on reductions in costs and gradually increasing rates charged to other "using" funds. The revised repayment schedule will span a 10 year period.

- **Negative Internal Services Funds (ISFs):** Several of the City's ISFs have grown negative fund balances because of historically under-collected reimbursements and accumulating negative interest allocations. Repayment schedules for several of these negative funds were established and followed for the past 10 years paying back approximately \$34.45 million. The current ISFs that require repayment are shown in Table 2.

**Table 2: Internal Service Funds – FY 2018-19 Projected Ending Fund Balance**

Fund	Fund Description	Fund Balance (06/30/2017)	FY 2017-18 Q2 Projected Net Incr. / (Decr)	Estimated Ending Fund Balance (06/30/2019)	Source of Funds	Use of Funds
4300	Reproduction*	(1,662,863)	(17,863)	(1,680,727)	Reproduction equipment rental and services charges to operating departments	Maintenance and replacement of City reproduction equipment
4500	Central Stores*	(4,231,811)	(40,467)	(4,272,278)	Reimbursements from departments	Supplies, materials and equipment for City operations
4550	Purchasing*	(571,912)	(5,686)	(577,598)	Purchasing charges to operating departments	Staffing, operations and maintenance for Purchasing unit of the Controllers' Bureau
<b>Total</b>		<b>(6,466,586)</b>	<b>(64,016)</b>	<b>(6,530,603)</b>		

\* Reported as Pre-Audited Cash Balance as of June 30 of each fiscal year

**Negative Funds Requiring One-time Revenues Recommendation:** Staff recommends that Council formally adopt a revised repayment schedule during the FY 2019-21 Adopted Policy Budget. Repayments will be based on structured transfers from the General Purpose Fund as these funds have no source of revenue (Table 3) . These funds are categorized as Active and Inactive as defined below.

- **Inactive Funds:** These funds have **no revenue source** unless they receive a one-time infusion from General Purpose Fund. They have no activity other than the allocation of negative interest which further increases the liability to the GPF.

**Table 3: Inactive Funds – FY 2018-19 Projected Ending Fund Balance**

Fund	Fund Description	Fund Balance (06/30/2017)	FY 2017-18 Q2 Projected Net Incr / (Decr)	Estimated Ending Fund Balance (06/30/2019)	Source of Funds	Use of Funds
1600	Underground District Revolving Fund	(979,283)	(9,287)	(988,570)	Repayments from homeowners.	Undergrounding of homeowner connections to telephone, electricity and cable; usually in concert with street light undergrounding.
2992	Parks and Recreation Grants	(2,587,228)	(24,535)	(2,611,764)	Proceeds of bonds authorized by Measure A and other grants	Park and open space acquisition, capital improvement projects and programs; Year-Round Lunch Program
5012	JPFA Admin Building: Series 1996	(1,637,379)	(15,528)	(1,652,907)	Bond proceeds	Design, construction, rehabilitation, and equipping of two buildings that are part of the administrative center
5999	Miscellaneous Capital Projects	(3,197,490)	(29,693)	(3,227,183)	One-time revenues, mainly from bond refinancing / restructuring and financing deals	Capital Projects
<b>Total</b>		<b>(8,401,380)</b>	<b>(79,043)</b>	<b>(8,480,423)</b>		

- **Active Funds:** These funds have either **no revenue or a static source of revenue, and have current appropriations and activity** including the allocation of negative interest which further increases the liability to the GPF (Table 4). Table 5 provides a list of projects in these funds that had carryforward appropriations as of June 30, 2017.

**Table 4: Active Funds – FY 2018-19 Projected Ending Fund Balance**

Fund	Fund Description	Fund Balance (06/30/2017)	FY 2017-18 Q2 Projected Net Incr / (Decr)	Estimated Ending Fund Balance (06/30/2019)	Source of Funds	Use of Funds
2310	Lighting and Landscape Assessment District	(664,762)	8,312	(656,450)	Landscape & Lighting Assessments (assessed on property tax bills)	Operation, construction, maintenance, repair of street lighting, landscaping, and related activities
5500	Municipal Capital Improvement	(5,494,985)	(52,111)	(5,547,096)	Bond proceeds	Construction, purchase, lease, or improvements of City capital assets
5510	Capital Reserves	(769,989)	(2,766)	(772,755)	One-time revenues, mainly from bond refinancing / restructuring and financing deals	Capital projects
<b>Total</b>		<b>(6,929,736)</b>	<b>(46,565)</b>	<b>(6,976,302)</b>		

Staff recommends removing current appropriations from the Municipal Capital Reserve and the Capital Reserve Funds to prevent causing further expenditures which would increase the negative balances (Table 5).

**Table 5: Current Appropriations in Active Funds as of June 30, 2017**

**5500 - Municipal Capital Improvement**

PROJECT	DESCRIPTION	AMOUNT
1000023	DPCIP Administrative Project	643
1000475	DISTRCT SIX PA-B010 B01020	13,461
1000928	PAYGO D1 GG LIBRARY	1,510
1001029	PAYGO D1 LINDEN PARK	333
1001641	PAYGO D5 - FAIRYLAND SIGN	25,828
B01000	District Six Pay-Go Projects	268
B273040	DISTRICT 1 - PAY-GO	38,978
B273150	DISTRICT 2 - PAY-GO	678,099
B273230	DISTRICT 3 - PAY-GO	32,917
B273320	DISTRICT 4 - PAY-GO	276,793
B273430	DISTRICT 5 - PAY-GO	496,902
B273530	DISTRICT 6 - PAY-GO	571,104
B273620	DISTRICT 7 - PAY-GO	394,015
B273720	AT LARGE - PAY-GO	50,964
C198620	PERMIT & CODE ENFORC TRACK SYS	224,877
C59050	LERTING & WARNING SYSTEM-MEA	7,848
<b>5500 TOTAL</b>		<b>2,814,539</b>

**5510 - Capital Reserves**

PROJECT	DESCRIPTION	AMOUNT
1000437	IBM MASTER LEASE C468130	95,124
1000450	IT LIC-SOFTWARE-911 II C468113	1,000,000
1000551	UPS MAIN PS SITES C453710	74,242
1000930	PAYGO 3 WEST OAK YOUTH CTR	7,754
1000931	PAYGO 6 AV RECORDING STUDIO	7,344
1001140	IT LIC-SOFTWARE-911 I C468112	43,520
1001174	DISTRICT 1 PAY-GO 5510	1,010
1001403	MOTOROLAIPSS SUP-MAINT C234620	315,373
1001469	PAYGO CHINESE GRDN IMPRVMENTS	31,511
1003326	CLINTON PK BLDG ADA IMPR	2,904
B273040	DISTRICT 1 - PAY-GO	37,413
B273150	DISTRICT 2 - PAY-GO	118,483
B273230	DISTRICT 3 - PAY-GO	40,466
B273320	DISTRICT 4 - PAY-GO	10,996
B273430	DISTRICT 5 - PAY-GO	164,917
B273530	DISTRICT 6 - PAY-GO	53,317
B273620	DISTRICT 7 - PAY-GO	25,001
C274310	ADA ACCOMMODATIONS	163
C296420	CITYWIDE ROOF REPAIRS FY08-09	5,500
<b>5510 TOTAL</b>		<b>2,035,040</b>

**FISCAL IMPACT**

As stated earlier, negative funds are ultimately the responsibility of the General Purpose Fund. As fund balances continue to accumulated negative interest the liability continues to grow there is a direct impact to the GPF. Additionally, any funds with appropriations and no source of revenue will grow further negative and will impact the GPF.

### **Action/Recommendation**

To mitigate the impact to the General Fund, staff recommends doing one or more of the following:

1. Eliminate all appropriations shown in Table 5; as alternative funding sources become available, restore the appropriations in those alternative funds.
2. Create formal repayments plans for those funds that are informally paying down negative balances during the FY 2019-21 budget development process.
3. Utilize the Long Term Obligations set-aside (outlined in the Consolidated Fiscal Policy) to pay down negative balances; Identify any additional one-time revenues that can be used to pay down the negative balances.

### **PUBLIC OUTREACH / INTEREST**

No outreach was deemed necessary for this informational report beyond the standard City Council agenda noticing procedures.

### **COORDINATION**

This report has been reviewed in coordination with the Budget Bureau and Controller's Bureau in the Finance Department and the City Attorney's Office.

### **SUSTAINABLE OPPORTUNITIES**

**Economic:** No direct economic opportunities have been identified.

**Environmental:** No direct environmental impacts have been identified.

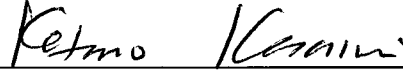
**Social Equity:** No social equity opportunities have been identified.

### **ACTION REQUESTED OF CITY COUNCIL**

Staff recommends that City Council adopt a resolution authorizing the City Administrator to (1) remove or reallocate appropriations in specified funds with negative fund balances and no sources of revenue; (2) revise the existing Repayment Schedule to add 10-year Repayment Plans for specified funds with negative fund balances as part of the FY 2019-21 Proposed Policy Budget.

For questions regarding this report, please contact Kirsten LaCasse, Controller, at 238-6776.

Respectfully submitted,



KATANO KASAINÉ  
Finance Director, Finance Department

Prepared by:  
Kirsten LaCasse, Controller  
Controller's Bureau



2018 FEB 15 PM 5:12

RESOLUTION No. \_\_\_\_\_ C.M.S.  
Introduced by Councilmember \_\_\_\_\_

**STAFF RECOMMENDS THAT CITY COUNCIL ADOPT A RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO (1) REMOVE OR REALLOCATE APPROPRIATIONS IN SPECIFIED FUNDS WITH NEGATIVE FUND BALANCES AND NO SOURCES OF REVENUE; (2) REVISE THE EXISTING REPAYMENT SCHEDULE TO ADD 10 YEAR REPAYMENT PLANS FOR SPECIFIED FUNDS WITH NEGATIVE FUND BALANCES AS PART OF THE FY 2019-21 PROPOSED POLICY BUDGET.**

**WHEREAS**, Council Ordinance No. 12946 C.M.S. was passed on July 9, 2009 to amend the reserve policy to establish criteria for the use of 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 pay off negatives in the Internal Service Funds, and 50 percent will be used to pay off negatives in all other funds.; and

**WHEREAS**, on December 9, 2014 Council Ordinance No. 13279 amended 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% GPF Emergency Reserve (refer to City of Oakland Consolidated Fiscal Policy, Section I, Part C: Use of Excess Real Estate Transfer Tax).; and

**WHEREAS**, 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 on-going repayments from the General Purpose Fund. ; and

**WHEREAS**, the FY 2017-19 Proposed Policy Budget allocates an additional one-time payment to the Facilities Fund (4400) of over \$8.0 million to effectively eliminate the remaining negative balance; and

**WHEREAS**, the City's All Funds audited balance of negative funds was (\$72.57) million as of June 30, 2017; now, therefore be it

**RESOLVED**, that the City Council authorizes the City Administrator to eliminate all appropriations balances in the Municipal Capital Improvement Fund (5500) in the amount of up to \$2.81 million; as alternative funding sources become available, restore the appropriations in those alternative funds; and be it

**FURTHER RESOLVED**, the City Council authorizes the City Administrator to eliminate all appropriations balances in the Capital Fund (5510) in the amount of up to \$2.04 million; as alternative funding sources become available, restore the appropriations in those alternative funds; and be it

**FURTHER RESOLVED**, that the City Council authorizes the City Administrator to identify one-time sources of revenue to pay down negative funds balances from sources including, but not limited to, the Long Term Obligations set-aside as defined in, and in accordance with the City's Consolidated Fiscal Policy; and be it

**FURTHER RESOLVED**, that the City Administrator will present a revised Repayment Schedule as part of the FY 2019-21 budget development process for the following funds:

Underground District Revolving Fund (1600)  
Mandatory Refuse Collection (1700)  
Multi-Purpose Reserve (1750)  
Parks and Recreation Grants (2992)  
Reproduction (4300)  
City Facilities (4400)  
Central Stores (4500)  
Purchasing Fund (4550)  
JPFA Admin Building: Series 1996 (5012)  
Municipal Capital Improvement (5500)  
Capital Reserves (5510)  
Miscellaneous Capital Projects (5999)

**FURTHER RESOLVED**, that this resolution shall be effective immediately upon passage by the City Council.

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

**PASSED BY THE FOLLOWING VOTE:**

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GIBSON MCELHANEY, GUILLEN, KALB, KAPLAN, AND PRESIDENT REID

NOES -

ABSENT -

ABSTENTION -

ATTEST: \_\_\_\_\_  
LaTonda Simmons  
City Clerk and Clerk of the Council  
of the City of Oakland, California