



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Margaret O'Brien
Interim Director of Finance

SUBJECT: Information Report Regarding FY
2020-21 Budget & ARPA Funds -
Supplemental

DATE: April 5, 2021

City Administrator Approval 

Date: Apr 6, 2021

RECOMMENDATION

Staff Recommends That The City Council Receive an Informational Report from The Administration And Analysis From Harvey Rose Associates Containing The Following: (1) Which Administrative Reductions Were Implemented From December 20, 2020 Memo, (2) Which Administrative Restorations Were Made To Date, (3) Amount And Uses Of Additional Administrative Overspending Between First Quarter (Q1) And Second Quarter (Q2), (4) Amount Of Current General Purpose Fund (GPF) Shortfall, (5) Amount Needed To Restore The GPF Emergency Reserve To 7.5%, (6) New Real Estate Transfer Tax (RETT) Revenue, And Any Other Revenue Or Expenditure Amounts, Not Included In The Q2 Report, (7) Cash On Hand, (8) What Other Policies Are Triggered By Receiving New Funds (E.G., Is The City Required To Put 7.5% Of The Federal America Rescue Plan Act (ARPA) Funds Into Reserves? What Are Kids First Set-Asides?), (9) For What Purposes Can The ARPA Funds Be Spent, And (10) What Other New Funds (E.G., Special-Purpose) Are The City Of Oakland Receiving That Are Not Already Covered In The Budget?

REASON FOR SUPPLEMENTAL

This supplemental report addresses questions related to the informational report presented by Harvey M. Rose and Associates (HRA) at the Special Council meeting on March 29, 2021. City Council requested two items: 1) additional information on the City's carryforward process and 2) a side-by-side comparison of the City's Second Quarter Revenue & Expenditure Report numbers with the HRA Report's calculations.

BACKGROUND / LEGISLATIVE HISTORY

On March 16, 2021, the City Council directed staff to work with Harvey M. Rose and Associates and return with an informational report addressing the 10 questions listed above.

On March 29, 2021, City Council heard a report from Harvey M. Rose and Associates containing responses to the 10 questions related to administrative actions taken in December

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2020, the FY 2020-21 Second Quarter Revenue and Expenditure Report, updated revenue projections, and the Federal America Rescue Plan Act (ARPA) Funds.

This supplemental provides responses to the HRA report and the two items requested by the City Council: 1) additional information on the City's carryforward process and 2) a side-by-side comparison of the City's Second Quarter Revenue & Expenditure Report numbers with the HRA Report's calculations

ANALYSIS AND POLICY ALTERNATIVES

Item #1: Additional information on the City's Carryforward Process

The City follows the process outlined in the [Consolidated Fiscal Policy](#) for reviewing and approving its carryforwards. Carryforwards are previously approved appropriations that have not been spent at the end of a fiscal year (FY), but have been committed to a contract, project, or other financial obligation. For this reason, they need to be transferred from the prior fiscal year into the current fiscal year (carried forward), so that these financial obligations can be met. For FY 2020-21, the Administration reviewed \$23.72 million of eligible FY 2019-2020 carryforward within the General Purpose Fund (GPF). In the assessment of eligible carry forwards, staff was able to reduce \$5.22M in carryforwards with the final approved carryforwards totaling \$18.5 million.

Below is an excerpt from the Consolidated Fiscal Policy that outlines the carryforward process, including the criteria used to evaluate carryforward, and the process the City Administration undertakes with departments to authorize carryforwards:

Part G. Criteria for Project Carryforwards and Encumbrances

Previously approved but unspent project appropriations ("carryforwards") and contingent liability reserves for current purchases or contracts that are paid in the following fiscal year ("encumbrances") are financial obligations against reserves. Fiscal prudence requires that such obligations be limited.

Each fiscal year, the Finance Department will submit a list of eligible carryforwards and encumbrances to all departments for evaluation for all funds, including the General Purpose Fund. Departments may request to retain some or all carryforwards and encumbrances when such balances are:

- 1. Deemed essential to the delivery of active city projects, programs and services;*
or
- 2. If the liquidation of such balances would be in violation of legislative or legal requirements.*

A departmental request to retain project carryforwards and/or encumbrances must be submitted to the Finance Department. Departments shall provide specific reasons for requested project carryforwards and encumbrance carryforwards, including, but not limited to, those reasons outlined above. Carryforward of project appropriations in funds with negative balances will only be allowed on an exception basis.

The Finance Department will recommend to the City Administrator an action on the departmental requests. The City Administrator shall make a final determination on project carryforward and encumbrances, and will direct the Finance Department to make carryforwards available to the appropriate department.

For the purposes of evaluating the HRA report and their detailed breakdown of the City's First Quarter (Q1) and Second Quarter (Q2) Revenue & Expenditure (R&E) projections, it is important to note that the Q1 R&E projections do not contain the FY 2019-20 carryforwards because they had not yet been approved and authorized by the City Administration. The Q1 R&E projections were drafted on fiscal data from the first 3 months of the fiscal year. The FY 2019-20 carryforwards were added into the City's fiscal software in the month of November (during Q2).

This is the major difference between the data for the Q1 R&E projections and the Q2 R&E projections. The Q2 R&E projections do include the FY 2019-20 carryforwards in its Adjusted Budget of \$662.59 million for the GPF, and so each department's budget was individually adjusted to include their authorized carryforwards. This explains a large part of the increase in the GPF's total expenditure projection from Q1 to Q2, when it increased from \$662.33 million to \$691.49 million. Of this \$29.16 million increase, \$18.5 million is due to the FY 2019-20 carryforwards, leaving \$10.66 million that is the "true" difference between the Q1 and Q2 R&E projection. See the [Informational Report Regarding FY 2020-21 Budget & ARPA Funds for more information](#).

Item #2: Side-by-Side Comparison of Q2 to Harvey M. Rose and Associates Calculations

Table 1 below shows the numbers provided by HRA in Exhibit 4 of the March 29 Informational Report compared to the numbers provided by the Administration in the Second Quarter Revenue & Expenditure Report. HRA identifies a shortfall of **\$15.02 million** in the GPF (1010) after taking into account administrative actions. On page 7 of their report, HRA indicates that the City's GPF will end FY 2020-21 with a fund balance of \$4.54 million and that the City will need to balance **\$46.13 million** (\$31.11 million + \$15.02 million) in order to reach the \$50.67 million threshold needed for meeting the City's 7.5% Emergency Reserves requirement and its OMERS Reserve requirement.

Table 1: General Purpose Fund shortfall, FY 2020-21 (\$ mil)

	HRA Exhibit 4	Q2 R&E
General Purpose Fund balance and uses		
General Purpose Fund balance as of June 30, 2020	\$40.12	\$40.12
Project and encumbrance carryforward from FY 2019-20		
<ul style="list-style-type: none"> Inclusive of \$5.2 million in administrative carryforward reductions, see Exhibit 2 above 	(18.5)	(18.5)
Kids First FY 2018-19 True Up	(1.52)	(1.52)
Transfer from fund balance FY 2020-21 Adopted Midcycle Budget	(0.54)	(0.54)
Unassigned FY 2020-21 GPF balance	19.56	19.57¹
General Purpose Fund emergency reserve requirement	48.31	48.31
OMERS reserve requirement	2.36	2.36
Total FY 2020-21 reserve requirement	50.67	50.67
Shortfall: General Purpose Fund balance and reserve requirements	(31.11)	(31.1)

FY 2020-21 projected revenues and expenditures**FY 2020-21 projected revenue**

- Inclusive of \$10 million anticipated rebate from the Oakland Alameda Coliseum Joint Powers Authority

\$650.97 \$650.97**FY 2020-21 projected expenditures**

- Exclusive of administrative reductions
- Estimated FY 2020-21 expenditure savings from administrative reductions as of 3/18/2021*

\$691.49 \$691.49

(\$25.50) (\$27.29)

Total FY 2020-21 estimated projected expenditures**\$665.99 \$664.2****Shortfall: General Purpose Fund estimated FY 2020-21 revenues****(\$15.02) (\$13.23)²**

- Inclusive of \$10 million anticipated rebate from the Oakland Alameda Coliseum Joint Powers Authority
- Inclusive of \$25.5 million anticipated savings from administrative reductions as of 3/18/2021
- Exclusive of \$10.5 million anticipated Real Estate Transfer Tax revenue from the sale of Uptown Station

Source: City Finance Department

*\$25.5 million is the estimated savings from administrative reductions, excluding the reduction of \$5.2 million in carryforward reductions, which were applied to the General Purpose Fund balance obligation (\$18.5 million) shown in the GPF fund balance and uses.

In contrast to the HRA report, the City's Q2 R&E projections indicates a shortfall of **\$13.23 million** after taking into account savings from administrative actions. On page 7 of the Q2 R&E report, the City indicates it will need to balance **\$44.33 million** (\$31.1 million + \$13.23 million) to meet the \$50.67 million threshold. Otherwise, the City indicates it will have an ending fund balance of **\$6.34 million** for the GPF as shown on [Slide 31 of the Q2 R&E Report PowerPoint](#) presented to Council on March 8, 2021.

¹ This difference of \$0.01M is due to rounding. The Q2 R&E report used whole numbers and calculated \$20.55 million in fund obligations. Harvey M. Rose and Associates used the rounded numbers which added up to \$20.56 million in fund obligations.

² This figure is listed on p. 5 of the Q2 R&E report. It is \$0.02M higher than what's listed on Exhibit 1 on p. 3 of the HRA report. Police Service reductions savings are listed as \$15M in the Q2 R&E report but listed as \$14.98M in Exhibit 1.

In summary, the numbers presented in the Q2 R&E report and the HRA report are mostly consistent. There is a \$1.8 million difference between the two projections which is primarily due to the updated estimated savings from the midyear administrative actions that the Finance Department provided to HRA. The updated calculations reflects the Administrative restorations, most of which took place after the writing of the Q2 R&E report. Total estimated savings went from \$27.29 million in the Q2 R&E Report to \$25.50 million as presented in Exhibit 1 of the HRA report. A list of the restorations is provided in Attachment B of this [informational report](#).

The Administration was also asked to confirm that the \$1.8 million in administrative restorations was not included in the expenditure projections in the Q2 R&E and therefore still need to be accounted for in balancing the current year deficit. These items are included in the supplemental (updated Exhibit 2) to be discussed on April 12, 2021.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends the City Council receive an Informational Report from Harvey M. Rose Associates and the Administration containing responses to the following requests: (1) which administrative reductions were implemented from December 20, 2020 memo, (2) which administrative restorations were made to date, (3) amount and uses of additional administrative overspending between Q1 and Q2, (4) amount of current GPF shortfall, (5) amount needed to restore the GPF emergency reserve to 7.5%, (6) new RETT revenue, and any other revenue or expenditure amounts, not included in the Q2 report, (7) cash on hand (8) What other policies are triggered by receiving new funds (e.g., do we need to put 7.5% of the Federal funds into reserves? What are Kids First set-asides)? (9) What purposes can the Federal ARPA funds be spent on? (10) What other new (e.g., special-purpose) funds is Oakland receiving, that are not already covered in the budget?

For questions regarding this report, please contact Margaret L. O'Brien, Interim Director of Finance, at (510) 238-7480.

Respectfully submitted,

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