

# CITY OF OAKLAND

## AGENDA REPORT

2009 SEP -3 PM 7:31

**To:** Office of the City Administrator  
**Attn:** Dan Lindheim  
**From:** Budget Office and Finance & Management Agency  
**Date:** September 15, 2009

**Subject:** Status Report On Citywide Efforts to Research And Correct Negative Fund Balances

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### SUMMARY

This report provides a status update of staff efforts to clear the City's negative fund balances. It follows the Mayor's September 2008 report to Council on the City's financial condition, which discussed in detail the negative fund balances and recommended actions to address these negatives. One of the key initiatives intended to mitigate existing and avoid future negatives was the Mayor's December 2008 directive to staff:

- (a) assign each City fund (whether positive or negative) to a particular City department ("fund manager") to monitor revenue collection and spending;
- (b) require fund managers to develop specific plans and timetables to eliminate negative balances; and
- (c) require reporting of such plans in the FY 2009-11 budget.

Funds with negative fund balances were presented in the Mayor's FY 2009-11 proposed budget along with recommended strategies for resolving the negatives (see pages D-127 through D-137 of the Financial Summaries section). This report discusses progress made since December 2008 in clearing negative fund balances. *Attachment A* compares FY 2007-08 audited ending fund balances with FY 2008-09 unaudited ending fund balances for the negative funds, and provides status of the fund managers' clean-up efforts.

### FISCAL IMPACT

This is an informational report with no direct fiscal impact. However, negative balances continue to draw resources from other funds, and ultimately become the responsibility of the General Purpose Fund. As of June 2009, the unaudited total of the negative balances was \$145.9 million, with Internal Service Funds accounting for a third of this figure.

Item No. \_\_\_\_\_  
Finance and Management Committee  
September 15, 2009

## BACKGROUND

There are various funds in the City with negative balances, categorized as follows:

1. **Negative Internal Services Funds:** Internal services funds are funds used to account for goods or services given to one department by another on a cost reimbursement basis. These funds are profit and loss oriented. Repayment schedules were established in FY 2005-07 but not followed. For FY 2009-11, the City Council approved continuation of the negative fund repayment, as well as cost reductions for the Equipment and Facilities funds.
2. **Selected General Funds on Existing Repayment Schedules:** These include the Self-Insurance Liability, Henry J. Kaiser Convention Center, Telecommunications Reserve and Contract Administration Fee funds. Repayment schedules were also established in FY 2005-07 and have been followed since. However, for FY 2009-10 only, the City Council approved suspension of repayments to these funds, with resumption scheduled for FY 2010-11.
3. **Negative Funds Not Requiring One-Time Revenues:** These negative balances exist in other City-controlled funds including the Mandatory Refuse Program, Comprehensive Clean-Up, Multipurpose Reserve, and Grant Clearing funds. The FY 2009-11 adopted budget includes rate increases, cost reductions, and other transfers from positive funds to mitigate negative balances.
4. **Negative Funds Requiring One-Time Revenues:** These are funds with historical negatives whose only balancing option is an infusion of one-time revenues, or the write-off of negatives against the General Purpose Fund.
5. **Negative Grant Funds:** These negatives are generally caused by lagging draw-downs, requirements to expend prior to reimbursement and, in rare cases, disallowed expenditures. Departments have been developing plans and timelines to address these negatives, conducting research as necessary with assistance from the Finance and Management Agency along with the Budget Office.
6. **Other Negative Funds:** These funds are primarily capital, bond and trust/agency funds. They are minor, manageable and require follow-up by the Finance and Management Agency.

Negative fund balances accumulated over time and are largely due to years of operating gaps caused by charging expenses that could not be sustained; and/or ongoing expenditures that outpaced ongoing revenues, made worse by no proactive intervention to reduce costs or raise revenues.

Actions were taken in FY 2005-07 to address the negative balances in the following six funds:

- General Fund Group: *Self-Insurance Liability (1100); Henry J. Kaiser Convention Center (1730); Telecommunications Reserve (1760); and Contract Administration Fee (1790).*

- Internal Service Funds (ISFs): *Equipment (4100) and City Facilities (4400)*.

Repayment schedules were established for these funds such that negative balances would be eliminated after 10 years. For General Fund Group funds, repayments were based on structured transfers from the General Purpose Fund covering current operating appropriation and annual installments. For ISFs, repayment schedules were based on gradually increasing rates charged to other “using” funds over time. In most cases, these schedules were followed. Nonetheless, the actual rate increases charged to using funds to amortize ISF debt were substantially lower than recommended – and adopted by Council – in FY 2005-07. For the Equipment and Facilities funds, there was a three to six percent spread between budgeted and actual rates charged to using funds. Negative balances in these funds increased as a result of this variance, as well as a result of increased costs. Finally, it is important to note that for FY 2009-10 only, the City Council suspended repayment of selected General Fund Group negatives; repayment will resume in FY 2010-11.

### KEY ISSUES AND IMPACTS

Over the last year, Finance & Management Agency (FMA) and Budget Office staff, along with departmental fiscal officers, have taken proactive steps to reduce and eliminate negative fund balances. Beginning in December 2008 with the Mayor’s directive, the following has occurred:

- Specific departments were assigned as fund managers with responsibilities to monitor revenue collection and spending and alert FMA and the Budget Office of major deviations from the budget;
- Fund managers have undertaken development of plans and timelines to eliminate negative fund balances;
- FMA and Budget Office staff meet with departments quarterly to review the status of assigned funds and progress toward elimination of negatives, providing up-to-date cash balance status for all funds.
- **More recently, FMA and the Budget Office have enacted measures to cease activity in negative funds – including payments, journals, payroll and project balance carryforwards – that would increase negative balances.** The attached memo distributed to all fund managers reiterated the negative fund balance review process, departmental responsibilities and consequences for noncompliance (*Attachment B*).
- **Further, with the adoption of the FY 2009-11 budget, the City Council passed the financial policy (Ordinance No. 12946 C.M.S.; *Attachment C*), which provides the City with additional tools for managing negative fund balances.** It requires that half of one-time revenues be used to pay off negative ISF balances and half be used to pay off other negative funds’ balances.

<b>SUMMARY OF NEGATIVE FUNDS by Category</b>			
<b>Group</b>	<b>Ending Fund Balance P12- 08 (Audited)</b>	<b>Ending Fund Balance P12- 09 (Unaudited)</b>	<b>Variance</b>
1. Negative Internal Service Funds (Cash Basis)	(52,475,567)	(54,055,029)	(1,579,462)
2. Selected General Funds on existing repayment schedules	(33,579,844)	(31,465,411)	2,114,433
3. Negative Funds NOT requiring one-time revenues	(13,497,103)	(16,596,140)	(3,099,036)
4. Negative Funds requiring one- time revenues	(12,179,501)	(12,005,362)	174,138
5. Negative Grant Funds	(20,199,268)	(30,053,791)	(9,854,523)
6. Other Negative Funds	(2,400,243)	(1,791,580)	608,663
<b>Grand Total</b>	<b>(134,331,526)</b>	<b>(145,967,314)</b>	<b>(11,635,787)</b>

Comparison of FY 2007-08 audited negative balances to FY 2008-09 un-audited negative balances shows improvements made in funds that are currently on repayment schedules (Category 2 below), funds requiring one-time revenues or write-offs (Category 4 below), and other negative funds (Category 6 below). While negatives in the Internal Service Funds (Category 1 below) increased through June 2009, this was anticipated as the new accelerated repayment schedules were not approved until July 2009 (as part of the FY 2009-11 budget). The increase in negatives among funds that do not require one-time revenues or General Fund support (Category 3 below) is mainly due to not fully recovering the cost of operation with the historically low rates charged; increasing delinquencies of mandatory refuse in the wake of the economic downturn; and insufficient GPF transfers to cover the operation. Planned action to address these negative balances include raising rates charged, and instituting and/or adhering to repayment plans. It is also expected that collections of delinquent accounts will improve as the economy turns around, and liens through the county will be settled.

Lastly, an increase in negatives among Grant Funds (Category 5 below) was generally caused by the City having to make advance payments of program expenditures, while grant draw downs to reimburse the City lagged. City departments are working with FMA and Budget Office to develop a plan to address these negatives. The attached table provides comments from departments on the status of these funds. The \$9.9 million increase in negative balances is mostly comprised of the following funds:

- Lighting and Landscape Assessment District Fund 2310 – Negative fund balance was proposed to be eliminated through use of one-time revenues, which were diverted to balance the General Purpose Fund. No solution has been proposed at this time (\$2.0 million increase).
- Oakland Redevelopment Agency Grants Fund 2185 - Current drawdowns are expected to eliminate negative balance by the first quarter of this fiscal year (\$3.9 million increase).

- HUD/CDBG (Housing Urban Development)/(Community Development Block Grant) Fund 2108 - Current drawdowns are expected to eliminate negative balance by the first quarter of this fiscal year (\$3.0 million increase).

*Attachment A* provides a detailed comparison of FY 2007-08 audited ending fund balances with FY 2008-09 unaudited ending fund balances, along with the status of the fund managers' clean-up efforts.

**SUSTAINABLE OPPORTUNITIES**

There are no direct sustainable opportunities associated with this report.

**DISABILITY AND SENIOR ACCESS**

There are no direct disability and senior access issues associated with this report.

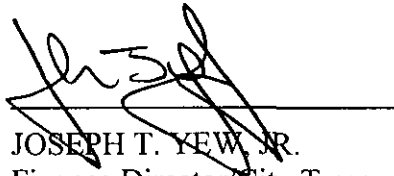
**RECOMMENDATION**

Staff recommends that the City Council accept this report.

Respectfully submitted,



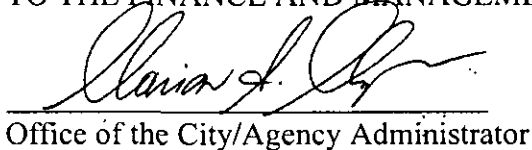
CHERYL TAYLOR  
Budget Director



JOSEPH T. YEW, JR.  
Finance Director/City Treasurer

Prepared by:  
Nila Wong  
Financial Analyst

APPROVED FOR FORWARDING  
TO THE FINANCE AND MANAGEMENT COMMITTEE:

  
Office of the City/Agency Administrator

**Attachments**

Attachment A: Status of Negative Fund Balances, FY 2007-08 Ending Fund Balance (Audited) Versus FY 2008-09 Ending Fund Balance (Unaudited)

Attachment B: Negative Funds memo from the Finance and Management Agency

Attachment C: Ordinance No. 12946 C.M.S. Amending Ordinance No. 12502 C.M.S. to Clarify General Purpose Fund (GPF) Reserve Requires; Require A Mayoral Declaration Of Fiscal Emergency And Approval By Council Or A Council Declaration Of Fiscal Emergency Before The GPF Reserve Can Be Drawn Down; Require That Excess Real Property Transfer Tax Revenues Be Used To Build Up The GPF Reserve, Pay Back Negative Internal Service Fund Balances, Establish Set-Asides For Other Post-Employment Benefits (OPEB) And Police And Fire Retirement System (PFRS) Liabilities, And Fund Capital Improvements Projects; Require That One-Time Revenues Be Used To Repay Negative Fund Balances In Internal Service And Other Funds; And Provide Criteria For Project Carryforwards And Encumbrances In The GPF

## SUMMARY OF NEGATIVE FUNDS BY CATEGORY

Group	Fund & Description	Assigned Agency / Dept	Ending FB P12-08 (Audited)	Ending FB P12-09 (UNAUD.)	Sum of Variance	Status
<b>1. Negative Internal Service Funds (Cash Basis)</b>						
	4100 Equipment	PWA	(20,181,922)	(15,496,396)	4,685,526	This fund is currently on a repayment plan as part of the FY 2009-11 Adopted Budget. Reduction in negative fund balance was largely due to the depreciation of the equipment assets
	4200 Radio / Telecommunications	DIT	55,718	(355,179)	(410,898)	Addressed prior years non-payments or underpayments from participating agencies during FY 09-11 budget development. Appropriations have been increased to cover negative fund balance.
	4300 Reproduction	DIT	(5,920)	(124,170)	(118,250)	Estimated revenue was overstated, creating a negative fund balance. Reproduction jobs have decreased due to budget constraints. Staff is developing a plan to eliminate the negative balance.
	4400 City Facilities	PWA	(26,416,474)	(31,314,583)	(4,898,109)	This fund is currently on a repayment plan as part of the FY 2009-11 Adopted Budget. The FY 2008-09 Adopted Budget had a structural deficit of \$5.8 million.
	4500 Central Stores	FMA	(4,376,202)	(5,319,566)	(943,364)	Negative balance will be paid down with funds collected through the established assessment schedule.
	4550 Equipment Parts Stores	DCP	(1,550,766)	(1,445,134)	105,632	Negative balance will be paid down with funds collected through the established assessment schedule.
	<b>Subtotal</b>		<b>(52,475,567)</b>	<b>(54,055,029)</b>	<b>(1,579,462)</b>	
<b>2. Selected General Funds on existing repayment schedules</b>						
	1100 Self Insurance Liability	Budget Office	(22,592,288)	(21,452,416)	1,139,872	Negative balance will be paid down with funds collected through the established repayment schedule; and recovery of legal costs.
	1730 Henry J Kaiser Convention Center	Budget Office	(5,215,747)	(4,682,662)	533,085	Negative balance will be paid down with funds collected through the established repayment schedule.
	1760 Telecommunications Reserve	Budget Office	(1,122,034)	(1,222,682)	(100,648)	Negative balance will be paid down with funds collected through the established repayment schedule.
	1790 Contract Administration Fee	DCP	(4,649,775)	(4,107,651)	542,123	Negative balance will be paid down with funds collected through the established assessment schedule.
	<b>Subtotal</b>		<b>(33,579,844)</b>	<b>(31,465,411)</b>	<b>2,114,433</b>	
<b>3. Negative Funds NOT requiring one-time revenues</b>						
	1700 Mandatory Refuse Program	FMA	(7,375,550)	(9,424,921)	(2,049,371)	Rising lien receivables due to non-payments of garbage fees, and previous multiple transfers to GPF. Negative Funds should be eliminated when liens are collected through sale of properties, and the recent increase of surcharge rate.
	1720 Comprehensive Clean-up	PWA	678,007	(513,567)	(1,191,574)	Staff is preparing analysis of the causes of the negative fund balance. Anticipated under spending will be used in FY 2009-10 to "pay back" current negative fund balance.
	1750 Multipurpose Reserve	CEDA	(3,170,176)	(3,887,067)	(716,891)	Garage rate increases and expenditure reductions were adopted for FY09-11. Additionally, Transportation staff will charge a percentage of their time directly to capital projects in other funds where possible, which will reduce personnel costs.

Group	Fund & Description	Assigned Agency / Dept	Ending FB P12-08 (Audited)	Ending FB P12-09 (UNAUD.)	Sum of Variance	Status
	7760 Grant Clearing	CEDA / PWA	(2,859,594)	(2,064,986)	794,608	This fund is currently on a repayment plan (2-3 year) in conjunction with CEDA and FMA
	7780 Oakland Redevelopment Agency Projects (ORA)	CEDA	(769,790)	(705,599)	64,191	Funds are being advanced to the City from ORA to increase positive interest earning; research will be complete by 12/31/09 to identify any unreimbursed charges.
	<b>Subtotal</b>		<b>(13,497,103)</b>	<b>(16,596,140)</b>	<b>(3,099,036)</b>	
<b>4. Negative Funds requiring one-time revenues</b>						
	1600 Underground District Revolving Fund	PWA	(2,423,142)	(2,471,453)	(48,311)	Increase in negative balance due to negative interest charges. Existing large negative fund balance is due to old unreimbursable projects.
	5500 Municipal Capital Improvement	CEDA / CIP / Budget	(4,644,609)	(4,384,781)	259,829	Receivable of \$500k collected in FY08-09, but offset by interest charges
	5999 Miscellaneous Capital Projects	CEDA / CIP / Budget	(3,887,804)	(3,969,052)	(81,248)	Multiple departments have contributed to the negative fund balance (DIT, Non-Dept., CEDA/DEC, PWA). Staff is preparing analysis to identify source of overspending and develop plan for elimination of negative FB.
	7400 Security Deposits - California Waste Solutions	OPD	(46,608)	-	46,608	Negative balance eliminated.
	7660 Museum Preservation Trust	Museum	(137,338)	(140,077)	(2,740)	Proposed to use positive balance from Fund 7680 to eliminate negative and close the fund; pending FMA research/action
	7752 Rehabilitation Trust: City Funded	FMA	(1,039,999)	(1,039,999)	-	Staff is preparing analysis of the causes of the negative fund balance.
	<b>Subtotal</b>		<b>(12,179,501)</b>	<b>(12,005,362)</b>	<b>174,138</b>	
<b>5. Negative Grant Funds</b>						
	2061 2006 FEMA: 1628 Winter Storms	CEDA	45	(235,392)	(235,437)	Finalizing projects, draw downs and clean-up by 12/31/09.
	2062 2006 FEMA: 1646 Spring Storms	CEDA	(158,886)	(462,670)	(303,784)	Finalizing projects, draw downs and clean-up by 12/31/09.
	2081 2008 Winter Storm	PWA	(18,446)	35,879	54,325	Negative balance eliminated.
	2102 Department of Agriculture	DHS	(192,287)	(84,915)	107,372	Pending drawdown of \$20k; disallowed vehicle charges from Summer Food Service Program \$28k should be transferred back to Equipment Fund; and old non-DHS projects \$36k
	2103 HUD-ESG/SHP/HOPWA	DHS	(7,845,904)	(5,768,976)	2,076,927	Original existing uncollectible balance prior to program transfer to DHS (\$4.0M); Uncollectible amounts due to HUD modified cost reimbursement methodology (\$1.2M); and to be billed (\$0.5M).
	2105 HUD-EDI Grants	CEDA	104,527	(130,165)	(234,692)	FY08-09 final draw pending, which will eliminate negative.
	2106 Department of Defense	CEDA	(297,925)	-	297,925	Negative eliminated via payment from the Army Base redev area. Fund is closing.
	2108 HUD-CDBG	CEDA	1,947,139	(1,003,282)	(2,950,421)	FY08-09 final draw completed in July totaling \$2.2M, which eliminated the negative.
	2112 Department of Justice	OPD	10,403	(56,542)	(66,944)	Staff is preparing analysis of the causes of the negative fund balance.
	2114 Department of Labor	DHS	(1,072,891)	(173,142)	899,749	CEDA drew down over \$900k to close out DOL grants. DHS has \$12k pending drawdowns. Remaining negative balance are unallowed fringe benefits and pending overhead cost waiver adjustments for Senior AIDES participants (non-employees).
	2118 National Foundation of the Arts and Humanities	OPR	(83,697)	(83,697)	-	Staff is preparing analysis of the causes of the negative fund balance.
	2120 Federal Action Agency	DHS	(116,014)	(93,214)	22,800	Collected in FY09/10



Group	Fund & Description	Assigned Agency / Dept	Ending FB P12-08 (Audited)	Ending FB P12-09 (UNAUD.)	Sum of Variance	Status
	2123 US Dept of Homeland Security	Fire	(244,858)	(915,459)	(670,601)	Homeland Security Grants received payments subsequently in P01-10 and P02-10. This is a reimbursement grant and thus, it is showing negative until the grants are fully reimbursed before December 2009.
	2124 Federal Emergency Management Agency (FEMA)	Fire	(3,471,623)	(3,638,832)	(167,209)	USAR Grant received payments subsequently in P01-10 and P02-10. This is a reimbursement grant and thus, it is showing negative because it is not rolled over to FY 2009-10. There is cash drawdown in the amount of \$174K.
	2126 Department of Education	Library	(154,390)	(154,875)	(484)	Staff is preparing analysis of the causes of the negative fund balance.
	2128 Department of Health and Human Services	DHS	(80,921)	(1,213,611)	(1,132,690)	\$1,170,000 are negative fund balances that originated from FMS (pre-Oracle). The likelihood of collecting this amount is remote. \$40,000 of net expenditures are pending collection.
	2134 California Parks and Recreation	CEDA	(1,093,726)	(848,097)	245,629	Draw down requests on current grants are up-to-date; research will be completed by 12/31/09 to identify cause of historic negative.
	2141 State Traffic Congestion Relief - Proposition 42	CEDA	(198,216)	243,653	441,869	Negative eliminated by underspending compared to actual revenue.
	2144 California Housing and Community Development	CEDA/DHS	746	(4,102)	(4,848)	Request for reimbursement is in process. To be received in Q1 of FY09/10
	2148 California Library Services	Library	2,372	(1,196,510)	(1,198,882)	Staff is preparing analysis of the causes of the negative fund balance.
	2152 California Board of Corrections	OPD	(80,935)	(15,034)	65,901	Staff is preparing analysis of the causes of the negative fund balance.
	2154 California Integrated Waste Management Board	PWA	(330,692)	(343,428)	(12,736)	Staff is preparing analysis of the causes of the negative fund balance. Once variances are identified, departments will be contacted to assist in preparing prior year adjustments to move ineligible grant charges to other matching fund sources.
	2158 5th Year State COPS Grant, AB 1913, Statutes of 2000	OPD	340,587	(165,149)	(505,735)	Staff is preparing analysis of the causes of the negative fund balance.
	2162 Metro Transportation Com: TDA	CEDA	(127,524)	(64,116)	63,407	Draw down requests on current grants are up-to-date; research will be completed by 12/31/09 to identify cause of historic negative.
	2163 Metro Transportation Com: Program Grant	CEDA	(72,734)	(231,347)	(158,613)	Draw down requests on current grants are up-to-date; research will be completed by 12/31/09 to identify cause of historic negative.
	2164 Congestion Mitigation & Air Quality (CMAQ)	CEDA	(890,728)	(147,367)	743,362	Draw down requests on current grants are up-to-date; research will be completed by 12/31/09 to identify cause of historic negative.
	2185 Oakland Redevelopment Agency Grants	CEDA	2,441,934	(1,338,787)	(3,780,721)	FY08-09 final draw was completed to eliminate negative; positive cash of \$1.4M as of P02-10.
	2190 Private Grants	DHS	(409,906)	(276,592)	133,314	Negative funds originating from City Attorney's Office and Capital Improvement Projects. DHS in contact with CAO and CIP to determine resolution.
	2213 Measure B: Paratransit - ACTIA	DHS	38,979	(250,358)	(289,337)	All drawdowns on current grants will be processed in the current year and will eliminate negative balance.
	2214 ACTIA Reimbursable Grants	CEDA	(342,795)	(378,635)	(35,840)	Draw down requests on current grants are up-to-date; research will be completed by 12/31/09 to identify cause of historic negative.
	2230 State Gas Tax	PWA	(12,887)	(971,147)	(958,261)	Additional revenue for FY08-09 is still anticipated to come and should eliminate the negative fund balance.

Group	Fund & Description	Assigned Agency / Dept	Ending FB P12-08 (Audited)	Ending FB P12-09 (UNAUD.)	Sum of Variance	Status
	2310 Lighting and Landscape Assessment District	PWA / CEDA	(4,032,012)	(6,020,497)	(1,988,485)	Negative FB was proposed to be eliminated through use of one-time revenues, which were later diverted to balance the General Purpose Fund. Negative balance was due to past structural deficits.
	2400 Senior Citizens Bonds	DHS	(3,576)	44	3,620	Negative balance eliminated.
	2511 Local Law Enforce Block Grant (LLEBG) 2001	OPD	(17,087)	(17,087)	-	Staff is preparing analysis of the causes of the negative fund balance.
	2513 Local Law Enforce Block Grant (LLEBG) 2003	OPD	(239,153)	(239,153)	-	Staff is preparing analysis of the causes of the negative fund balance.
	2602 Department of Labor (ARRA)	DHS	-	(3,014)	(3,014)	Collected in FY09/10
	2810 Rehabilitation Trust Loans	CEDA	(2,499)	(2,499)	-	Fund inactive; CEDA is working with FMA to identify appropriate source to eliminate negative and close fund.
	2820 Community Development Rehabilitation Loan Section 3	CEDA	(3,172)	(3,172)	-	Fund inactive; CEDA is working with FMA to identify appropriate source to eliminate negative and close fund.
	2822 Title I Loans: Revolving	CEDA	(30,431)	(30,431)	-	Fund inactive; CEDA is working with FMA to identify appropriate source to eliminate negative and close fund.
	2824 FHA 203k Loan: Revolving	CEDA	(17,808)	(17,808)	-	Fund inactive; CEDA is working with FMA to identify appropriate source to eliminate negative and close fund.
	2916 Vice Crimes Protection - Court Ordered to Police	OPD	(1,973)	(1,973)	-	Staff is preparing analysis of the causes of the negative fund balance.
	2990 Public Works Grants	PWA	(856,569)	(1,161,436)	(304,867)	Staff is preparing analysis of the causes of the negative fund balance by Agency, and will ask responsible departments to assist in preparing prior year adjustments to move ineligible grant charges to other matching fund sources.
	2992 Parks and Recreation Grants	OPR	(2,583,736)	(2,590,857)	(7,121)	The large negative balance occurred in FY 1993-94 and likely cannot be recovered. OPR was not the custodian of the fund, and no supporting documentation was found. \$7,121 we are awaiting grant reimbursement.
	<b>Subtotal</b>		<b>(20,199,268)</b>	<b>(30,053,791)</b>	<b>(9,854,523)</b>	
<b>6. Other Negative Funds</b>						
	5012 JPFA Admin Building: Series 1996	CEDA	(1,661,739)	(1,596,959)	64,779	CEDA proposed to FMA to use positive balance from Fund 5502 to eliminate negative and close fund; pending FMA research/vaction.
	6015 COP-Oakland Museum 2002 Series A	FMA	(547,309)	(2,945)	544,363	Negative balance will be eliminated in FY09-10.
	6570 JPFA Pooled Assessment: 1996 Revenue Bonds - Asses Non Dept / Debt Serv		(139,781)	(142,324)	(2,543)	Negative balance will be eliminated overtime through transfers of excess funds from lower bonds.
	6999 Miscellaneous Debt Service	FMA	(48,386)	(49,351)	(965)	Staff is preparing analysis of the causes of the negative fund balance.
	7520 Caring for Oaklanders in Need (COIN)	Library	(2,727)	-	2,727	Negative balance eliminated.
	7700 Earthquake Relief Efforts	Fire	(302)	-	302	Prior year accounting adjustment will eliminate negative fund balance.
	<b>Subtotal</b>		<b>(2,400,243)</b>	<b>(1,791,580)</b>	<b>608,663</b>	
<b>Grand Total</b>			<b>(134,331,526)</b>	<b>(145,967,314)</b>	<b>(11,635,787)</b>	

**CITY OF OAKLAND**  
**Memorandum**

**DATE:** July 29, 2009  
**TO:** Distribution List  
**FROM:** Finance and Management Agency  
**SUBJECT:** Negative Funds

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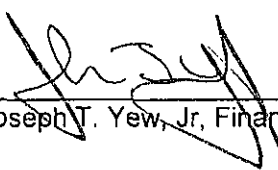
Attached please find the "Negative Fund Balance / Cash Balance Report" for the period ending May 31, 2009. This report will be distributed to all departments on a monthly basis to aid in the monitoring and management of all city funds, especially those with negative balances. Consistent with the Mayoral directive issued December 17, 2008, each city fund has been assigned to a specific department as a manager. These managers are responsible for the following:

- Monitor revenue collection and spending in the assigned fund on a monthly basis;
- Report any deviations from the budget (in revenues or expenditures) to the Budget Director or Finance Director / City Treasurer;
- For negative funds, develop and implement measures to eliminate negatives within a reasonable time period (multi-year repayment schedules will be considered for larger negatives); and
- Meet with the Budget Office and Finance and Management Agency quarterly to review the financial status of the assigned funds (and, for the negative funds, discuss progress on eliminating the deficits).

Please note that **effective immediately**, activity in these negative funds (payments, journals and payroll) which will increase the negative balance will not be processed AND carry-forward budgets (78811) in these funds will not be allowed to move into spending accounts until the fund's Responsible Department has provided to the Finance and Management Agency, Accounting Division:

- Documentation showing that offsetting revenues will be received (For grants, provide copies of the billing or draw-down requested); and/or
- A detailed plan with a timeline to address negatives

FMA and Budget Office will schedule monthly meetings with relevant City Agencies/Departments to review the negative fund balance report. Please contact Osborn Solitei, Acting Controller, at 510-238-3809 or [osolitei@oaklandnet.com](mailto:osolitei@oaklandnet.com) if you have any questions.

  
\_\_\_\_\_  
Joseph T. Yew, Jr, Finance Director/City Treasurer

CC: Dan Lindheim, City Administrator  
Marianna Maryshéva-Martinez, Assistant City Administrator  
Cheryl Taylor, Budget Director

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

APPROVED AS TO FORM AND LEGALITY

INTRODUCED BY COUNCIL MEMBER \_\_\_\_\_

2009 JUN 17 PM 5:14

  
CITY ATTORNEY

**OAKLAND CITY COUNCIL**  
ORDINANCE No. 12946 C.M.S.

ORDINANCE AMENDING ORDINANCE NO. 12502 C.M.S. TO CLARIFY GENERAL PURPOSE FUND (GPF) RESERVE REQUIREMENTS; REQUIRE A MAYORAL DECLARATION OF FISCAL EMERGENCY AND APPROVAL BY COUNCIL OR A COUNCIL DECLARATION OF FISCAL EMERGENCY BEFORE THE GPF RESERVE CAN BE DRAWN DOWN; REQUIRE THAT EXCESS REAL PROPERTY TRANSFER TAX REVENUES BE USED TO BUILD UP THE GPF RESERVE, PAY BACK NEGATIVE INTERNAL SERVICE FUND BALANCES, ESTABLISH SET-ASIDES FOR OTHER POST-EMPLOYMENT BENEFITS (OPEB) AND POLICE AND FIRE RETIREMENT SYSTEM (PFRS) LIABILITIES, AND FUND CAPITAL IMPROVEMENTS PROJECTS; REQUIRE THAT ONE-TIME REVENUES BE USED TO REPAY NEGATIVE FUND BALANCES IN INTERNAL SERVICE AND OTHER FUNDS; 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 and on the adequacy of the 7.5% reserve level. 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. Each year, the City Administrator shall determine whether the 7.5 % reserve level requires adjustment, and recommend any changes to the City Council.

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. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of 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 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 fiscal emergency declaration necessary for the use of GPF reserve, the City Manager/Administrator will have the authority to allocate from the contingency or reserves. For the purposes of this Ordinance, "fiscal emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by Council majority vote.

~~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 Build Up the GPF Reserve, Pay Back Negative Internal Service Fund balances, Establish Set-Asides for Other Post-Employment Benefits (OPEB) and Police and Fire Retirement System (PFRS) Liabilities, and Fund Capital Improvements Projects.**

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:
  - a. Replenish General Purpose Fund (GPF) reserves until such reserves reach to 10 percent of current year budgeted GPF appropriations.
  - b. After such reserves have been replenished, the order of use of the remaining excess collection is as follows: 50 percent to repay negative internal services funds balances; 30 percent set aside for the Police and Fire Retirement System (PFRS) liability until this obligation is met; 10 percent to establish a trust for Other Post-Employment Retirement Benefits (OPEB); and 10 percent to replenish the Capital Improvements Reserve Fund until it reaches \$10,000,000.
- 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. For the purposes of this Ordinance, "emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of the City Council.

**E. Use of One Time Revenues To Repay Negative Fund Balances in Internal Service and Other Funds; and Provide Criteria for Project Carryforwards and Encumbrances in the GPF.**

- 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, but not including additional Real Estate Transfer Tax revenues discussed in Section "D" above.
- 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 in the Internal Service Fund, and another 50 percent to pay off negatives in all other funds.
- 3) Use of the "one time revenues" for purposes other than those established above may only be allowed upon declaration of a fiscal emergency. For the purposes of this Ordinance, "emergency" may be declared (1) by the Mayor and approved by the majority of the City Council or (2) by a majority vote of 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 Director shall liquidate all unspent project carryforwards and encumbrances in the GPF and advise affected City departments of said action.
  - The Budget Director shall provide a report of all unspent project carryforwards and encumbrances to the City Council for review and direction.
- 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.
- 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, JUN 30 2009, 2009

PASSED BY THE FOLLOWING VOTE:

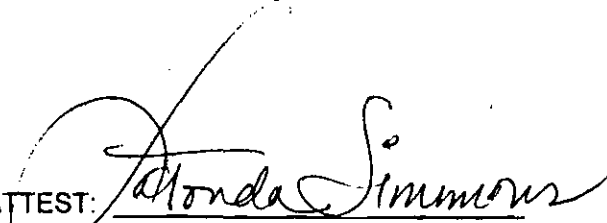
AYES--- BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID and PRESIDENT BRUNNER — 8

NOES--- 0

ABSENT--- 0

ABSTENTION--- 0

Introduction Date: JUN 16 2009

ATTEST:   
 LATONDA SIMMONS  
 City Clerk and Clerk of the Council of  
 the City of Oakland, California

Attestation: July 9, 2009