



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Status of Negative Funds Citywide
Through June 30, 2024

DATE: March 28, 2025

City Administrator Approval


Jestin Johnson (May 1, 2025 20:08 PDT)

Date: **May 1, 2025**

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On The Status of Negative Funds Through June 30, 2024.

EXECUTIVE SUMMARY

Since 2010, the City has made consistent progress in reducing negative fund balance, with year-over-year decreases observed through last year. However, in fiscal year ended June 30, 2024, there has been an increase in the City's negative balances to \$102.1 million, an increase of 46 percent from last fiscal year. The primary driver of this increase is the rise in reimbursable negative funds, which resulted from the City receiving additional reimbursable grants and expending the associated funds while awaiting reimbursement.

Additionally, negative funds on a repayment plan, which had shown consistent improvement in prior years, remained unchanged this year as no new repayments were included in the FY23-25 Adopted Policy Budget and FY 2024-25 Midcycle Policy Budget in response to budget pressures.

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 most of the reimbursable 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.

Despite this year's increase, the City's negative balance remains lower than it was in 2010 by 28 percent. It is important to note that the increase in the City's negative balances in fiscal year ended June 30, 2024, primarily reflects the City's proactive pursuit of grant opportunities. The Finance Department continues working with operating departments to ensure timely reimbursements.

Finance & Management Committee
May 13, 2025

BACKGROUND / LEGISLATIVE HISTORY

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

On June 30, 2009, the 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, the 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, the 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 and FY 2024-25 Midcycle 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 remain lower than the FY 2009-10 level, primarily due to budgeted repayments made in previous years. However, reimbursable negative funds have increased since FY 2009-10, largely due to the City's proactive pursuit of reimbursable grants.

Table 1: Repayment Progress for Major Negative Fund Categories – FY 2009-10 to FY 2023-24

| Negative Fund Category | Negative Balance FY 2009-10 | Negative Balance FY 2023-24 | Total Repayment to Date |
|--|--|--|------------------------------------|
| Negative Funds on Repayment Plan | (114,484,975) | (25,865,542) | 88,619,433 |
| Reimbursable Negative Funds | (23,055,796) | (75,190,003) | (52,134,207) |
| Non-Reimbursable Negative Funds without Repayment Plans | (4,380,319) | (996,442) | 3,383,877 |
| Total Negative Funds | (141,921,090) | (102,051,987) | 39,869,103 |

While repayment plans are referenced in the description for the first category of negative funds, it should be noted that all such repayments have been suspended since adoption of the FY 2020-21 Midcycle Policy Budget. This description is used here to refer to funds with negative balances that were addressed through repayment plans established in budgets adopted prior to the FY 2020-21 Midcycle Policy Budget.

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. For example, the negative balance in the Self-Insurance Fund approached \$29 million in 2011, but was steadily reduced over the years through budgeted General Fund support. Similarly, negative balances for Internal Service Funds were nearly \$50 million in 2010 but are now less than \$1 million.

Negative funds with repayment plans in the General Fund support ongoing City services, 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, which retain negative balances from overspending on capital projects that were completed more than a decade ago.

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

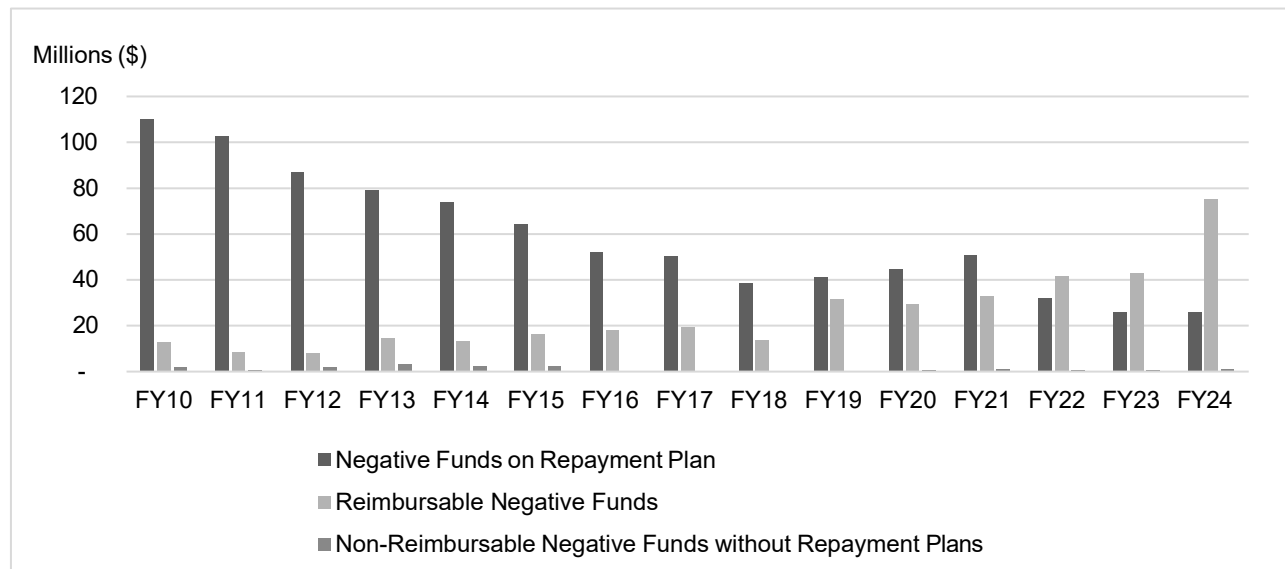
negative balances is accelerating grant drawdowns to reduce the time lag between project expenditures and reimbursement from external funders. However, some funds in this category include historic negative balances that are unlikely to be restored by the original grantors, regardless of the City's efforts. In such cases, the City's only option may be to write off longstanding negative balances.

Negative balances for reimbursable funds have increased primarily due to the City's success in securing reimbursable grants and temporarily using City funds for project expenditures before getting reimbursed. For instance, the California State Transportation Agency (CALSTA) grant facilitated the City in initiating significant infrastructure projects and the Homeless Housing, Assistance and Prevention (HHAP) grants enabled the City to enhance homeless programs and services. The City advanced funds for these projects, leading to temporary negative balances while awaiting state reimbursement. Indeed, for some grants contributing to these negative balances, reimbursements were received after June 30, 2024 and year-to-date results reflect improved balances. The Finance Department continues to monitor negative balances and is working with operating departments to accelerate grant drawdowns and reverse the trajectory of remaining negative balances.

Non-reimbursable negative funds with no repayment plans include the Golf Fund, which supports the operations of City-owned golf facilities and 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 additional efforts by operating departments to seek reimbursements from external funders promptly. Fund-level detail on negative balances is also provided in **Attachment A**.

Figure 1: Negative Fund Balances by Category – FY 2009-10 to FY 2023-24



Past efforts to address negative balances have typically been included as components of biennial budget proposals due to their reliance on General Purpose Fund resources. Scheduled repayments, for example, require General Purpose Fund appropriations. The write-off of negative balances would similarly impact fund balance in the General Purpose Fund. Accordingly, it can be difficult to address the challenges of negative fund balances in the face of significant budget constraints, such as those faced by the City in recent years.

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, 2024.

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

Respectfully submitted,



[Erin Roseman \(May 1, 2025 13:26 PDT\)](#)

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 2019-20 to FY 2023-24