



# AGENDA REPORT


**TO:** Jestin D. Johnson  
City Administrator

**FROM:** Erin Roseman  
Director of Finance

**SUBJECT:** Informational Report On The  
Equipment Services Fund

**DATE:** February 20, 2025

City Administrator Approval

  
Jestin Johnson (Feb 20, 2025 16:57 PST)

Date: Feb 20, 2025

## **RECOMMENDATION**

**Receive An Informational Report On The Amount Of Funds Available In The Equipment Services Fund And Information About, And A Copy Of All Directives Regarding, Allowable Use Of The Equipment Services Fund.**

## **EXECUTIVE SUMMARY**

This report contains relevant excerpts from the Second Quarter Revenue and Expenditure Report related to the Equipment Services Fund. The Equipment Fund is projected to have a zero balanced as a result of current year balancing actions. The internal service charges that fund the equipment fund are limited to the costs to maintain the City of Oakland's (City) vehicles and equipment. Per federal guidelines capital acquisition of vehicles cannot be made from the Equipment fund.

## **BACKGROUND / LEGISLATIVE HISTORY**

This report was requested to be provided as a standalone item at the February 6, 2025 Rules and Legislation Committee. The information contained herein is also provided in the Second Quarter Revenue and Expenditure Report.

## **ANALYSIS**

This report supports the Citywide priority of a **responsive, trustworthy government** by providing timely and up-to-date financial information and enhancing transparency allowing residents, stakeholders, and decision-makers to be informed of the City's fiscal health, promoting a culture of responsible financial stewardship.

## General Information Regarding Internal Service Funds

The use of internal service funds as a component of the City's cost allocation framework is an acceptable practice provided that the City complies with Federal guidelines, Generally Accepted Accounting Principles (GAAP), audit standards, and maintains a positive balance. Per federal cost allocation guidelines and regulations, internal service fund cannot be used for the acquisition of capital assets, nor can the City use them to build significant capital or operating reserve balances.

The Electronic Code of Federal Regulations (eCFR), specifically 2 CFR 200.439, governs Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. These regulations dictate that capital acquisition costs cannot be included as an indirect cost to federal grants. These funds represent a cost allocated charge under these federal regulations. As such, capital acquisitions, such a land acquisition, building improvements that materially increase the building's value or useful life, or vehicle purchases; must be directly funded from eligible sources.

Below are links to regulatory guidelines and audit findings on this matter.

- Guidance regarding direct and indirect cost is located here:  
<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRd93f2a98b1f6455>
- Specific Guidance for Local Governments is here:  
<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRd41a10959e1acab>
- Guidance regarding Capital Acquisitions is here:  
[§ 200.439 Equipment and other capital expenditures](#)

This City has had past Audit Findings of Material Weakness its use of Internal Service Funds. The 2009 Single Audit Report notes the following from the City's Independent Auditor. "If it is determined that the City does not intend to or cannot recover the full cost of providing goods or services within a reasonable period of time, then the use of internal service funds is no longer appropriate under GAAP and should not be used..." This finding relates to accumulated negative fund balances in Internal Services Funds.

The linked [negative funds report](#) produced in Fall 2009 indicated that by June 2008, the City had accumulated negative balances in its exceeding \$52 million in its Internal Service Funds. This is especially notable especially given these negative balances existed prior to the Great Recession of 2008 and substantially impaired the City's ability to deal with that fiscal crisis. As of this report, City's Internal Service Funds are projected to close with a collective positive balance of just over \$6 million which reflects the positive diligent work of policymakers, administrators, and finance staff since 2008. The City must maintain compliance with Federal guidelines and fiscal best practices going forward.

**Specific Information Regarding the Equipment Services Fund (4100)**

The Equipment Fund (4100) is reported on a modified full accrual basis to reflect current assets and liabilities. The Fund supports the Citywide function for maintenance of City-owned equipment.

Revenues - Through the second quarter (**Q2**) of FY 2024-25, revenue collections in the Equipment Fund have come in at \$23.81 million or 52.6% of the Adjusted Budget of \$45.27 million. The FY 2024-25 year-end revenues project to come in at \$17.37 million, which is \$27.89 million or 61.6% under the FY 2024-25 Adjusted Budget. The Adjusted Budget assumes \$2.87 million in use of fund balance to balance expenditures as adopted in the budget, and \$13.09 million in use of fund balance to balance carryforward expenditures. The actual internal service fund revenues are expected to come in at \$16.97 million which is \$12.26 million or 42% under budget due to corresponding FY 2024-25 ISF charges that are being returned to various funds as a result of excess available fund balance sufficient to cover current year costs.

**Table 54: FY 2024-25 Equipment Fund Revenues (\$ in millions)**

Revenue Category	FY 2024-25 Adjusted Budget	FY 2024-25 Q2 YTD Actuals	FY 2024-25 Q2 Year-End Estimate	Year-End \$ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Licenses & Permits	0.07	—	0.07	—	— %
Internal Service Funds	29.23	22.85	16.97	(12.26)	(42.0)%
Miscellaneous Revenue	—	0.02	0.02	0.02	— %
Transfers from Fund Balance	2.87	—	—	(2.87)	(100.0)%
Project Offsets & Carryforwards	13.09	—	—	(13.09)	(100.0)%
<b>Total Revenue</b>	<b>45.27</b>	<b>23.81</b>	<b>17.37</b>	<b>(27.89)</b>	<b>(61.6)%</b>

\* Fiscal Year (FY) 2024-25 Second Quarter (Q2) Revenue And Expenditures (R&E) Report

Expenditures - FY 2024-25 expenditures are projected to end the year at \$44.77 million, which is a savings of \$0.50 million, compared to the Adjusted Budget of \$45.27 million. The savings are primarily due to underspending in personnel costs.

**Table 55: FY 2024-25 Equipment Fund Expenditures (\$ in millions)**

Agency / Department	FY 2024-25 Adjusted Budget	FY 2024-25 Q2 YTD Actuals	FY 2024-25 Q2 Year-End Estimate	Year-End \$ Over / Under Adjusted Budget	Year-End % Over / Under Adjusted Budget
Fire Department	0.05	—	0.05	—	— %
Non Departmental and Port	2.37	—	2.37	—	— %
Oakland Public Works Department	42.84	14.76	42.34	0.50	1.2 %
<b>Total</b>	<b>45.27</b>	<b>14.76</b>	<b>44.77</b>	<b>0.50</b>	<b>1.1 %</b>

Fund Balance - FY 2024-25 revenue is projected to end the year at \$17.37 million. Expenditures ended the year at \$44.77 million. This results in a current year estimated operating shortfall of \$27.40 million. \$1.11 million of the fund balance will be used to balance the GPF in FY 2024-25. A review of the Equipment Fund was conducted for FY 2022, FY 2023, and FY 2024. This reconciliation identified excess fund balance that had been received from contributing funds. The excess amount will be returned to the respective funds and has been incorporated into the fund balance calculation. Therefore, the estimated available fund balance in the Equipment Fund (4100) is expected to decrease to zero in FY 2024-25. A detailed breakdown of the amounts returned to each fund is provided in **Table 57**.

**Table 56: FY 2024-25 Equipment Fund Year-End Available Fund Balance (\$ in millions)**

Equipment Fund (4100)	FY 2024-25 Q2 Year-End Estimate
<b>Beginning Fund Balance - Audited</b>	<b>46.24</b>
Revenue	17.37
Expenditures	44.77
Estimated Current Year Surplus/(Shortfall)	<b>(27.40)</b>
<b>Subtotal Fund Balance</b>	<b>18.84</b>
<b>Use of Fund Balance in FY 2024-25</b>	
GPF Balancing	<b>(1.11)</b>
Return of Excess Fund Balance in Equipment Fund	<b>(17.73)</b>
<b>Estimated Ending Fund Balance</b>	<b>—</b>

**Table 57: Fund Balance Return from Equipment Fund**

	FY21-22	FY22-23	FY23-24
<b>Beginning Fund Balance</b>	9,361,320	25,229,953	27,345,262
<b>Ending Fund Balance</b>	25,229,953	27,345,262	40,361,180
<b>Overage to Redistribute</b>	15,868,633	2,115,309	13,015,918
<b>Less: Restricted Funds</b>	(4,424,014)	(4,424,014)	(4,424,014)
<b>Net Overage to Redistribute</b>	<b>11,444,619</b>	<b>(2,308,705)</b>	<b>8,591,904</b>
<b>Fund Balance Redistribution by Fund</b>			
	<b>FY21-22</b>	<b>FY22-23</b>	<b>FY23-24</b>
<b>1010 - General Fund: General Purpose</b>	5,718,469	(1,128,927)	3,872,173
<b>1710 - Recycling Program</b>	5,317	(1,041)	4,119
<b>1720 - Comprehensive Clean-up</b>	2,555,347	(511,949)	1,683,667
<b>1760 - Telecommunications Reserve</b>	3,278	(647)	2,388
<b>1870 - Affordable Housing Trust Fund</b>	13,806	(2,727)	—
<b>2108 - HUD-CDBG</b>	—	—	—

	FY21-22	FY22-23	FY23-24
<b>2128 - Department of Health and Human Services</b>	66,589	(13,227)	3,666
<b>2211 - Measure B: Local Streets &amp; Roads</b>	2,927	—	—
<b>2218 - Measure BB - Local Streets and Roads</b>	9,467	(2,631)	8,964
<b>2230 - State Gas Tax</b>	178,585	(35,258)	119,691
<b>2232 - Gas Tax RMRA</b>	517,589	(155,199)	582,830
<b>2244 - Measure Q - Parks &amp; Recreation Preservation, Litter Reduction, and Homelessness Support Act</b>	196,977	(38,134)	261,604
<b>2270 - Vacant Property Tax Act Fund</b>	39,928	—	—
<b>2310 - Lighting and Landscape Assessment District</b>	797,524	(157,229)	1,059,274
<b>2332 - Gateway Industrial Park</b>	87	(87)	830
<b>2411 - False Alarm Reduction Program</b>	2,587	(510)	—
<b>2415 - Development Service Fund</b>	143,388	(28,834)	98,515
<b>2416 - Traffic Safety Fund</b>	10,583	(2,089)	—
<b>3100 - Sewer Service Fund</b>	774,289	(152,892)	571,286
<b>3200 - Golf Course</b>	2,915	(576)	2,127
<b>4100 - Equipment</b>	126,224	(24,922)	111,387
<b>4200 - Radio / Telecommunications</b>	12,183	(2,405)	12,340
<b>4400 - City Facilities</b>	186,125	(32,986)	140,371
<b>4500 - Central Stores</b>	2,302	(454)	1,677
<b>7760 - Grant Clearing</b>	78,132	(15,978)	54,996
<b>Total</b>	<b>11,444,619</b>	<b>(2,308,705)</b>	<b>8,591,904</b>

Regulatory Compliance and Use of Funds

As stated above, the Equipment Services Fund covers the costs associated with the maintenance, upkeep, and fueling of the City's motorized fleet. This includes staff salaries and benefits, maintenance and fueling equipment, parts and supplies. However, per federal cost allocation guidelines and regulations, this fund cannot be used for the acquisition of capital assets such as vehicles.

The Electronic Code of Federal Regulations (eCFR), specifically 2 CFR 200.439, governs Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. These regulations dictate that capital acquisition costs cannot be included as an indirect cost to federal grants. This fund, which generates charges (e.g. master lease debt service or outright vehicle purchases) billed to other funds, represents an indirect charge under these federal regulations. As such, capital acquisitions, such a vehicle purchases, must be directly funded from eligible sources.

Below are links to the regulatory guidelines and audit findings on this matter.

- [eCFR :: 2 CFR 200.439 -- Equipment and other capital expenditures.](#)
- [Oakland Single Audit Report](#) (with citation and findings)

### **PUBLIC OUTREACH / INTEREST**

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

### **COORDINATION**

This report was prepared in coordination between the Finance Department, the City Administrator's Office and various departments.

### **SUSTAINABLE OPPORTUNITIES**

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

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

***Race & Equity:*** No direct Race & Equity opportunities have been identified in this informational report

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**ACTION REQUESTED OF THE CITY COUNCIL**

Receive An Informational Report On The Amount Of Funds Available In The Equipment Services Fund And Information About, And A Copy Of All Directives Regarding, Allowable Use Of The Equipment Services Fund.

For questions regarding this report, please contact Bradley Johnson, Budget Administrator, at (510) 238-6119.

Respectfully submitted,



Erin Roseman (Feb 20, 2025 16:05 PST)

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ERIN ROSEMAN  
Director of Finance, Finance Department

Reviewed by:  
Bradley Johnson, Budget Administrator