

CITY OF OAKLAND

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OFFICE OF THE CITY CLERK
OAKLAND

2019 MAY 16 PM 5:42

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Director of Finance

SUBJECT: Status of Negative Funds Citywide
Projected Through June 30, 2019

DATE: May 6, 2019

City Administrator Approval

Date:

5/16/19

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report On The Status of Negative Funds Projected Through June 30, 2019.

EXECUTIVE SUMMARY

The City's audited balance of negative funds was \$60.16 million on June 30, 2018. Based on the FY 2018-19 third quarter projections, the estimated negative balances will decrease to \$54.34 million as of June 30, 2019. Between Fiscal Year (FY) 2017-18 and FY 2018-19 negative balances are projected to decline by \$5.82 million, and since FY 2009-10 negative balances have declined by \$84.44 million.

Table 1: Repayment Progress for Negative Fund Categories – FY 2009-10 to FY 2018-19

Negative Fund Category	Ending Fund Balance FY 2010	Audited Fund Balance FY 2018	PROJECTED Fund Balance FY 2019
1. Negative Funds on Repayment Plan	(114,484,975)	(32,253,760)	(30,062,241)
2. Reimbursable Negative Funds	(23,055,796)	(27,678,198)	(24,004,987)
3. Non-Reimbursable Negative Funds without Repayment Plans	(1,233,154)	(226,228)	(271,460)
Total Negative Funds	(138,773,925)	(60,158,186)	(54,338,688)

The City's historical negative balances largely arose from operating expenses that could not be sustained and/or expenditures that outpaced or preceded the receipt of revenues. There are three categories of negative funds:

1. Negative Funds on Repayment Plan
2. Reimbursable Negative Funds
3. Non-Reimbursable Negative Funds

Negative balances continue to draw resources from other funds, and ultimately become the responsibility of the General Purpose Fund (GPF). External auditors, rating agencies, and investors pay close attention to negative fund balances and the City's commitment to repayments.

Item: _____
Finance and Management Committee
May 28, 2019

This report provides the status of City efforts to clear negative fund balances since FY 2010.

BACKGROUND / LEGISLATIVE HISTORY

Ordinance No. 12946 C.M.S., amending 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 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 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 GPF.

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

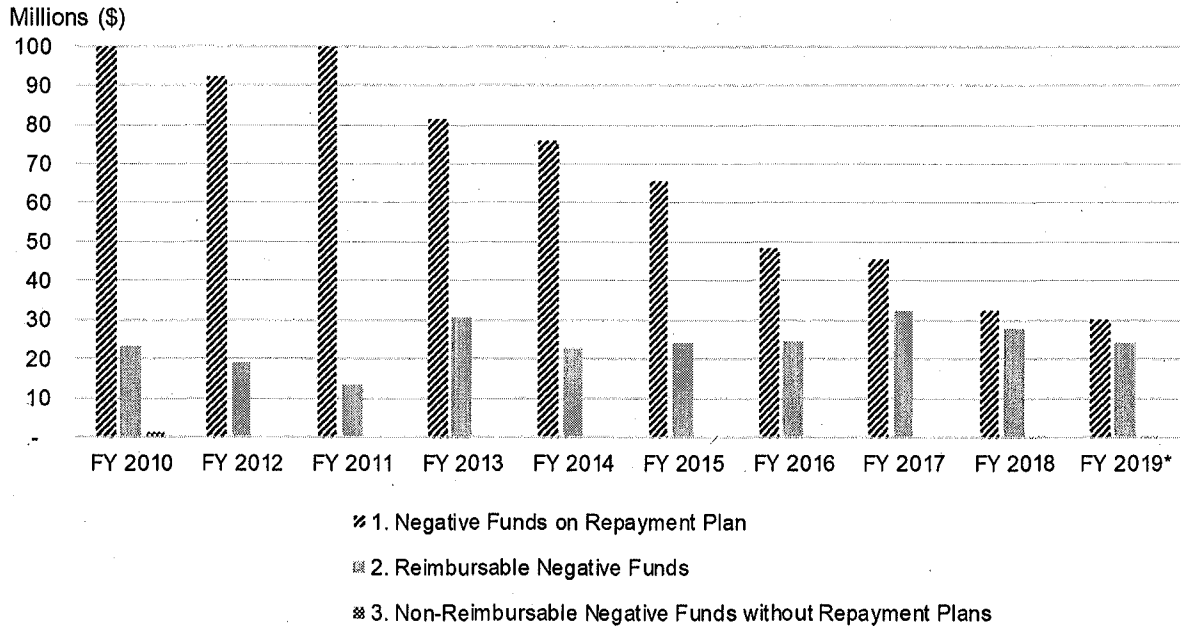
On April 17, 2018, Council adopted Resolution No. 87140 C.M.S. authorizing the City Administrator to eliminate appropriation balances in the Municipal Capital Improvement Fund (5500) in the amount of up to \$2.81 million, Capital Fund (5510) in the amount of up to \$2.04 million, and to restore the appropriations 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 budget development process.

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.

ANALYSIS AND POLICY ALTERNATIVES

The City's total negative balances have declined substantially since FY 2009-10, largely because of repayment plans included in the last two biennial Adopted Policy Budgets. Figure 1 illustrates the City's progress over the last nine fiscal years. Negative balances for funds on repayment plans have fallen sharply and negative balances for non-reimbursable funds without repayment plans have been largely eliminated. Negative balances for reimbursable funds have held relatively steady over this period as new grants come online, replacing other reimbursed balances.

Figure 1: Negative Fund Balances by Category – FY 2009-10 to FY 2018-19¹



The City Council has directed the City Administrator to present a revised Repayment Schedule as part of the FY 2019-21 budget development process, which will support continued progress in reducing negative fund balances. The Council's action included all non-reimbursable negative funds without repayment plans, putting the City on track to have repayment plans for all negative funds other than reimbursable funds. In addition, the elimination of appropriation authority in the Municipal Capital Improvement Fund (5500) and in the Capital Fund (5510) will provide protection against new declines in these funds' balances.

¹ FY 2019 is projected based on third quarter revenue and expenditure data

There are three categories of funds in the City with negative balances:

1. Negative Funds with Repayment Schedules (\$30.06 million):

- a. Negative Internal Services Funds: Internal Services Funds (ISFs) are funds used to centralize certain services and allocate their costs to Departments, consistent with generally accepted accounting principles. Some of the City's ISFs have grown negative fund balances because of historical under-collection of reimbursements. Repayment schedules for several of these negative funds were established and followed for the past 10 years repaying approximately \$29.33 million.
- b. Selected General Funds on Existing Repayment Schedules: These include the Self-Insurance Liability, Mandatory Refuse Program, Henry J. Kaiser Convention Center, Telecommunications Reserve and Contract Administration Fee funds. Repayment schedules for these negative funds were established and followed for the past 10 years repaying approximately \$36.74 million.

General Fund Group repayments were generally based on structured transfers from the GPF. Internal Service Fund repayment schedules were based on reductions in costs and gradually increasing rates charged to Departments utilizing these services over time.

2. Reimbursable Negative Funds (\$24.0 million):

- a. Grant Funds: These negative balances are generally caused by lagging drawdowns, requirements to expend prior to reimbursement and, in rare cases, disallowed expenditures. Apart from disallowed expenditures, negative balances in this category result from the timing of reimbursements. Departments have been developing plans to address these negative balances, conducting research as necessary with assistance from the Finance Department. Departments are committed to completing most draw downs on a monthly or quarterly basis. With the new Grants functionality in Oracle R12 Departments are now able to bill grantors directly from the system which has improved the efficiency and timeliness of drawdowns.
- b. Other Reimbursable Funds: These funds include Federal Emergency Management Agency (FEMA) Declarations, Emergency Response, Housing loans, and revolving loan funds. These funds rely on reimbursements based on either drawdown of associated costs or loan repayments.

3. Non-Reimbursable Negative Funds without Repayment Plans (\$0.27 million):

- a. Golf Fund: The source of revenue for this fund comes from City golf course fees and concession charges. The revenue pays for City golf course operations, maintenance and capital improvements. Over the last five fiscal years, expenditures have significantly outpaced revenues which has resulted in a fund deficit of approximately \$0.27 million. This fund requires either an increase in fees or a reduction of expenditures to mitigate the growing deficit balance.

Departmental fiscal managers across the City have worked with the Controller's Bureau and Budget Bureau staff to take proactive steps to reduce and eliminate negative fund balances by reducing carryforward appropriations and monitoring spending. Specific departments were assigned as fund managers with responsibilities to monitor revenue collection, spending, and grant drawdowns, and alert the Finance Department of major deviations from the budget. **Attachment A** provides a detailed listing of all negative funds by category.

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.

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.

SUSTAINABLE OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental: No direct environmental impacts have been identified.

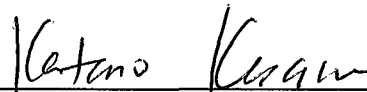
Social Equity: No social equity opportunities have been identified.

ACTION REQUESTED OF CITY COUNCIL

Staff recommends that City Council receive an informational report on the status of negative funds projected through June 30, 2019.

For questions regarding this report, please contact KIRSTEN LACASSE, CONTROLLER, at 238-6776.

Respectfully submitted,



KATANO KASAINÉ
Director of Finance / Treasurer
Finance Department

Prepared by:
Kirsten LaCasse, Controller
Controller's Bureau

Attachments (1):

- Attachment A: Status of Negative Funds FY 2015 through Projected FYE 2019

Fund	Fund Description	Assigned Agency / Dept	Ending Fund Balance (as of 6/30/2015)	Ending Fund Balance (as of 6/30/2016)	Ending Fund Balance (as of 6/30/2017)	Audited Fund Balance (as of 6/30/2018)	PROJECTED Fund Balance (thru 6/30/2019)	Explanation of Projected Negative Fund Balance
Negative Funds with Repayment Schedules:								
1100	Self Insurance Liability	Finance	(15,374,053)	(10,964,949)	(10,310,411)	(4,784,433)	(6,658,143)	On repayment plan through 2022.
1600	Underground District Revolving Fund	Public Works	(971,381)	(974,997)	(979,283)	(993,791)	(1,007,824)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
1700	Mandatory Refuse Program	Finance	(3,851,273)	(3,316,282)	(2,745,667)	(1,346,080)	-	Negative balance cleared.
1730	Henry J Kaiser Convention Center	Finance	(1,765,491)	(8,815)	(8,854)	(8,985)	-	Negative balance cleared.
1750	Multipurpose Reserve	Public Works	(4,867,100)	(2,631,841)	(609,263)	-	-	Negative balance cleared.
1791	Contract Administration Fee	City Administrator	(1,214,270)	(6,097)	(6,124)	(6,215)	-	Negative balance was paid off in FY 2015-16. Final adjustment of negative interest allocation must be off-set with one-time GPF revenue
2232	Gas Tax RMRA	Transportation	-	-	-	(559,723)	-	Negative balance cleared.
2241	Measure Q-Library Services Ret	Library	-	-	-	(386,057)	-	Amount will be off-set by the Measure Q Reserve Fund (2242)
2310	Lighting and Landscape Assessment District	Public Works	(289,890)	(289,731)	(664,762)	(1,105,854)	(2,552,542)	Negative balance results from static revenue source and increasing costs.
2992	Parks and Recreation Grants	Parks & Recreation	(2,587,880)	(2,589,917)	(2,587,228)	(2,593,208)	(2,629,726)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
4100	Equipment*	Public Works	-	-	-	-	-	This fund was on a repayment plan and was paid off early as a result of underspending.
4300	Reproduction*	Information Technology	(1,651,661)	(1,583,924)	(1,853,889)	(1,769,605)	(1,704,592)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
4400	City Facilities*	Public Works	(17,537,264)	(11,371,299)	(9,651,781)	(2,347,587)	-	Negative balance will be paid off in FY 2018-19 from budgeted repayment plan.
4500	Central Stores*	Finance	(3,838,796)	(4,060,880)	(4,231,973)	(4,248,984)	(4,141,569)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
4550	Purchasing*	Finance	(1,351,632)	(227,040)	(577,956)	(530,078)	(301,185)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
5012	JPPFA Admin Building: Series 1996	Public Works	(1,624,167)	(1,630,213)	(1,637,379)	(1,661,636)	(1,685,100)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
5500	Municipal Capital Improvement	Finance	(5,414,975)	(5,469,869)	(5,494,985)	(5,602,415)	(5,681,526)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
5510	Capital Reserves	Public Works	-	-	(769,989)	(1,138,319)	(1,206,798)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
5999	Miscellaneous Capital Projects	Finance/Public Works	(3,317,981)	(3,278,531)	(3,197,490)	(3,170,791)	(2,493,236)	The City Administrator presented a revised Repayment Schedule as part of the FY 2019-21 Mayor's Proposed Budget.
Subtotal Negative Funds with Repayment Schedules			(65,657,814)	(48,404,386)	(45,327,032)	(32,253,760)	(30,062,241)	
Reimbursable Negative Funds:								
MISC	Reimbursable Negative Funds		(24,087,386)	(24,466,924)	(32,248,888)	(27,678,198)	(24,004,987)	Current negative balances in this fund category are mainly reimbursable grants where there is a lag time between spending grant funds and receiving reimbursement from grantors. The change year-over-year is not indicative of draw-down performance as new reimbursable grants come online each year.
Subtotal Reimbursable Negative Funds			(24,087,386)	(24,466,924)	(32,248,888)	(27,678,198)	(24,004,987)	
Non-Reimbursable Negative Funds:								
3200	Golf Course	Parks & Recreation	-	-	-	(226,228)	(271,460)	Revenues are insufficient to cover operating costs
Subtotal Non-Reimbursable Negative Funds			-	-	-	(226,228)	(271,460)	
Total Negative Funds			(89,745,200)	(72,871,310)	(77,575,920)	(60,158,186)	(54,338,688)	

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