



DISTRIBUTION DATE: October 19, 2020

MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Margaret O'Brien
Interim Director of Finance

SUBJECT: Status of Negative Funds Citywide
Through June 30, 2020

DATE: October 19, 2020

City Administrator 
Approval

Date: Oct 19, 2020

INFORMATION

The City has made significant progress in reducing negative fund balances since 2010. As of June 30, 2020 negative balances in the City's funds totaled \$65.0 million, a reduction of more than 50 percent from 2010 levels. Negative balances remain substantial despite this progress and sustained effort will be required to achieve further reductions.

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. Funds with negative balances partially offset other funds with positive balances, reducing the City's overall fund balance and net position. External auditors, rating agencies, and investors look to these metrics to assess the City's financial health and creditworthiness, providing a further basis for addressing negative funds.

In response to recent fiscal challenges, City Council authorized a postponement of scheduled repayments of negative balances for several funds as part of the Fiscal Year (FY) 2020-21 Midcycle Budget Amendment. Payments towards these negative balances are currently scheduled to recommence beginning in FY 2021-22. In addition, the Finance Department is working with operating departments during the current fiscal year to address funds with new or increasing negative balances.

BACKGROUND / LEGISLATIVE HISTORY

The City has taken a variety of policy actions over the years to address negative fund balances.

On June 30, 2009, City Council adopted 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, 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 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, 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 FY2019-21 Adopted Policy Budget provided for additional negative fund repayments and included a schedule for repayments through FY 2028-29 for selected funds. The FY2020-21 Midcycle Policy Budget postponed many of these repayments to address anticipated revenue shortfalls in the current fiscal year.

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 have declined substantially since FY 2009-10, largely because of budgeted repayments.

Table 1: Repayment Progress for Major Negative Fund Categories, FY 2009-10 to FY 2019-20

Negative Fund Category	Audited Fund Balance FY 2009-10	Preliminary Unaudited Fund Balance FY 2019-20	Total Repayment to Date
Negative Funds on Repayment Plan	(114,484,975)	(26,112,681)	88,372,294
Reimbursable Negative Funds	(23,055,796)	(38,340,747)	(15,284,951)
Non-Reimbursable Negative Funds without Repayment Plans	(4,380,319)	(534,381)	3,845,938
Total Negative Funds	(141,921,090)	(64,987,809)	76,933,281

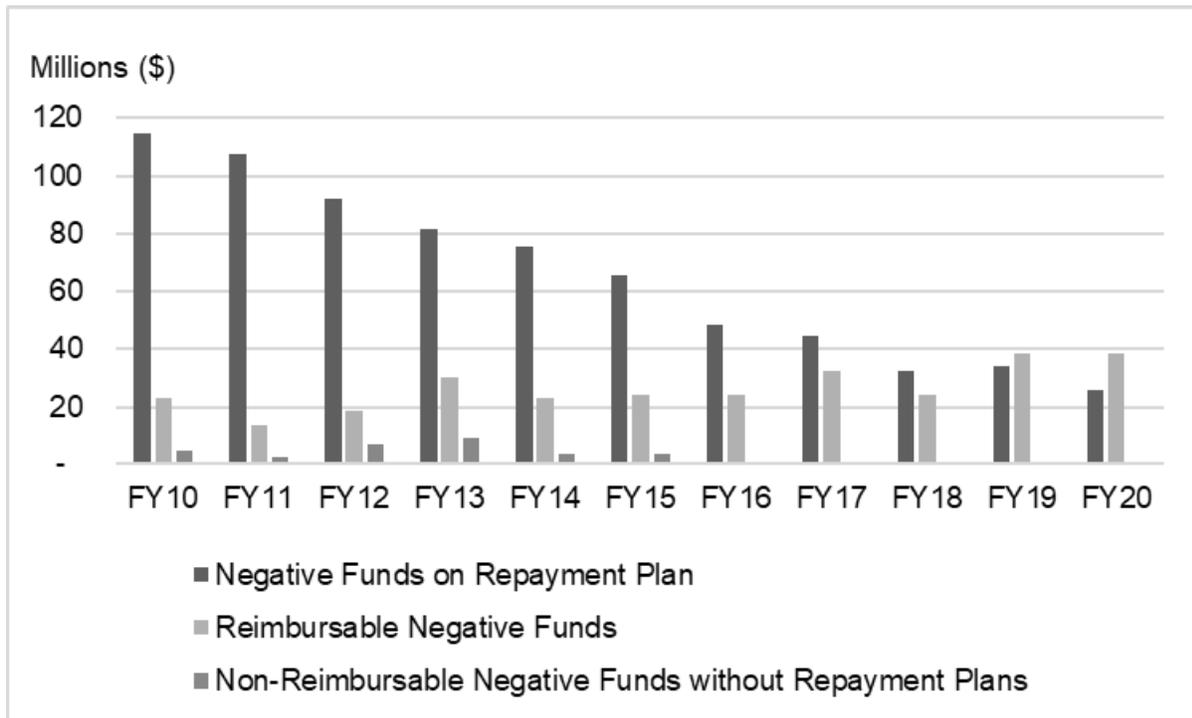
Negative funds on repayment plans include both Internal Service Funds and selected funds within the General Purpose Fund. Internal Services Funds (ISFs) are funds used to centralize certain services and allocate their costs to Departments, consistent with generally accepted accounting principles. These funds developed negative balances due to under-collection of revenues from operating departments, and the City has made steady progress in reducing these historic balances over the past decade. Negative funds with repayment plans in the General Purpose Fund support ongoing City services, such as the Self Insurance Liability Fund, but this category also includes a variety of legacy and special-purpose initiatives, such as the Henry J. Kaiser Convention Center Fund and the Underground District Revolving Fund. Negative balances within these funds generally result from spending in excess of revenue collections.

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 to accelerate grant drawdowns. Some funds in this category, however, 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 increased materially in FY 2018-19 and dropped slightly in FY 2019-20 with increased grant drawdowns. The Finance Department is working with operating departments to accelerate grant drawdowns and reduce these negative balances further.

Non-reimbursable negative funds with no repayment plans include the Golf Fund, which has expended more than it collects in revenues for the last several years.

Annual changes in negative balances over the past decade are illustrated in **Figure 1**. Negative funds on repayment plans gave declined steadily while increased negative balances have arisen in both reimbursable and non-reimbursable funds over the past two years. Addressing these negative balances will require ongoing efforts by operating departments to manage external funding sources. Fund-level detail on negative balances is also provided in Attachment A.

Figure 1: Negative Fund Balances by Category – FY 2009-10 to FY 2019-20



Respectfully submitted,

Margaret L. O'Brien

MARGARET O'BRIEN
Interim Director of Finance
Finance Department

For questions, please contact STEPHEN WALSH, CONTROLLER, AT (510)-238-4906.

Attachments (1)

- Attachment A: Status of Negative Funds FY 2015-16 to FY 2019-20

Status of Negative Funds, FY 2015-16 to FY 2019-20

Fund	Fund Description	Assigned Agency / Dept	Audited Fund Balance FY 2015-16	Audited Fund Balance FY 2016-17	Audited Fund Balance FY 2017-18	Audited Fund Balance FY 2018-19	Preliminary Unaudited Fund Balance FY 2019-20	Explanation of Negative Fund Balance
Negative Funds with Repayment Schedules:								
1100	Self Insurance Liability	Finance	(10,964,949)	(10,310,411)	(4,784,433)	(7,260,192)	(6,398,345)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
1600	Underground District Revolving Fund	Public Works	(974,997)	(979,283)	(993,791)	(1,016,342)	(925,386)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
1700	Mandatory Refuse Program	Finance	(3,316,282)	(1,347,158)	(1,346,080)	-	-	Negative balance cleared.
1730	Henry J Kaiser Convention Center	Finance	(8,815)	(8,854)	(8,985)	-	-	Negative balance cleared.
1750	Multipurpose Reserve	Public Works	(2,631,841)	(635,706)	-	-	-	Negative balance cleared.
1760	Telecommunications Reserve	City Clerk	-	-	-	-	(210,908)	Prior negative balance cleared but recurred in FY2020-21 and will be addressed through surplus franchise fee revenues.
1791	Contract Administration Fee	City Administrator	(6,097)	(6,124)	(6,215)	-	-	Negative balance cleared.
2232	Gas Tax RMRA	Transportation	-	-	(559,723)	-	-	Negative balance cleared.
2241	Measure Q-Library Services Ret	Library	-	-	(386,057)	-	-	Negative balance cleared.
2310	Lighting and Landscape Assessment District	Public Works	(289,731)	(1,468,846)	(1,105,854)	(746,293)	(1,009,237)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
2992	Parks and Recreation Grants	Parks & Recreation	(2,589,917)	(2,587,228)	(2,593,208)	(2,597,201)	(2,315,314)	On Repayment Schedule per FY 2019-21 Adopted Budget
4100	Equipment*	Public Works	-	-	-	(4,221,422)	-	This fund was on a repayment plan and was paid off early as a result of underspending.
4300	Reproduction*	Information Technology	(1,583,924)	(1,853,889)	(1,769,605)	(1,791,568)	(1,500,693)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
4400	City Facilities*	Public Works	(11,371,299)	(9,651,781)	(2,347,587)	(418,093)	-	Negative balance cleared and repayment for any new negative balances delayed in FY2020-21 Midcycle Budget adjustments
4500	Central Stores*	Finance	(4,060,880)	(4,231,973)	(4,248,984)	(4,257,382)	(3,697,376)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
4550	Purchasing*	Finance	(227,040)	(577,956)	(530,078)	(449,684)	(124,983)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
5012	JPFA Admin Building: Series 1996	Public Works	(1,630,213)	(1,637,379)	(1,661,636)	(1,699,343)	(1,532,369)	On Repayment Schedule per FY 2019-21 Adopted Budget
5500	Municipal Capital Improvement	Finance	(5,469,869)	(5,494,985)	(5,602,415)	(5,729,550)	(5,145,449)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
5510	Capital Reserves	Public Works	-	(769,989)	(1,138,319)	(1,213,884)	(1,102,248)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
5999	Miscellaneous Capital Projects	Finance/Public Works	(3,278,531)	(3,197,490)	(3,170,791)	(2,846,895)	(2,150,374)	Repayment schedule delayed in FY2020-21 Midcycle Budget adjustments
Subtotal Negative Funds with Repayment Schedules			(48,404,386)	(44,759,051)	(32,253,760)	(34,247,848)	(26,112,681)	

Status of Negative Funds, FY 2015-16 to FY 2019-20

Fund	Fund Description	Assigned Agency / Dept	Audited Fund Balance FY 2015-16	Audited Fund Balance FY 2016-17	Audited Fund Balance FY 2017-18	Audited Fund Balance FY 2018-19	Preliminary Unaudited Fund Balance FY 2019-20	Explanation of Negative Fund Balance
Reimbursable Negative Funds:								
1610	Successor Redevelopment Agency	Economic & Workforce Dev	-	-	(121,351)	(128,475)	(144,145)	Reimbursement anticipated from ORSA
1770	Telecommunications Land Use	Information Technology	-	(52,930)	(253,765)	-	-	Negative balance cleared
1831	Central City East Project Ar	Economic & Workforce Dev	(715)	(718)	-	-	-	Negative balance cleared
1883	2000 Subordinated Housing Se	Economic & Workforce Dev	(791,561)	(129,312)	(129,611)	(129,810)	(129,817)	Reimbursement anticipated from ORSA
2063	FEMA Declarations	Public Works/Fire	-	(614,330)	(457,875)	-	(2,548,247)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2102	Department of Agriculture	Human Services	(173,824)	(219,118)	(29,924)	(21,828)	(358,314)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2103	HUD-ESG/SHP/HOPWA	Human Services	(6,208,949)	(4,656,863)	(1,805,546)	(9,610,708)	(5,233,225)	Historical negative balance (pre FY1999-2000) requires one-time offset of \$3.9M. A portion of this uncollectible amount (approximately \$1.2 M) is due to HUD's modified cost reimbursement methodology.
2105	HUD-EDI Grants	Housing	(342,819)	(608,582)	(839,985)	(824,974)	(822,561)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2107	HUD-108	Housing	(294,261)	(1,863,969)	(1,389,416)	-	-	Negative balance cleared
2108	HUD-CDBG	Housing	(1,204,091)	(1,124,875)	(1,367,264)	(1,341,128)	(4,717,033)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2109	HUD-Home	Housing	-	(782,942)	-	-	-	Negative balance cleared
2111	2000 Local Law Enforcement B	Police	(80,332)	(80,249)	(80,434)	(80,558)	(80,563)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2112	Department of Justice	Police	-	(110,899)	-	(361,889)	(50,278)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2113	Department of Justice- COPS	Human Services	(1,708,978)	(1,864,312)	(1,176,117)	(1,400,907)	(1,347,687)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2114	Department of Labor	Human Services	-	-	-	-	-	Negative balance cleared
2116	Department of Transportation	Public Works	-	(3,118,186)	(1,404,423)	(4,118,089)	(1,983,156)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2120	Federal Action Agency	Human Services	(39,654)	(98,357)	(24,998)	-	-	Negative balance cleared
2123	US Dept of Homeland Security	Fire	-	(10,468)	(44,258)	(351,037)	(56,627)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2124	Federal Emergency Management	Fire	(1,514,094)	(1,974,548)	(267,908)	(472,329)	(1,343,764)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2128	Dept. of Health and Human Services	Human Services	(1,678,263)	(1,843,286)	(2,923,818)	(3,240,714)	(157,444)	Historical negative balance (pre-FY 2000) requires one-time offset; negative balance also due to time lag between spending grant funds and receiving reimbursement from the grantor.
2129	Trade Corridor Improvement F	Economic & Workforce Dev	(232,838)	(1,397,196)	(1,400,865)	-	-	Negative balance cleared
2134	California Parks and Recreation	Public Works	(1,078,478)	(1,848,212)	-	(327,656)	(357,107)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2140	California Department of Trans	Public Works	(1,030,167)	(1,760,959)	-	(68,132)	(345,349)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2144	California Housing and Community Development	Housing/Human Services	(635,171)	(1,604,310)	-	-	(965,532)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2152	California Board of Corrections	Police	-	-	(3,307,037)	(2,388,846)	(2,251,341)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2154	California Integrated Waste Management Board	Public Works	(82,668)	(98,303)	(64,003)	(70,350)	(71,047)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2159	State of California Other	Public Works	(1,480,938)	-	-	-	-	Negative balance cleared
2162	Metro Transportation Com: TD	Public Works	(58,866)	(193,189)	(27,514)	-	(9,044)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2163	Metro Transportation Com: Program Grant	Public Works	(368,176)	(810,965)	(291,802)	(455,850)	(336,840)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2164	Congestion Mitigation & Air	Public Works	(91,775)	(91,680)	(91,892)	(92,033)	(92,038)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2166	Bay Area Air Quality Management District	Public Works	-	(433,384)	-	(61,239)	(592,406)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2190	Private Grants	Various	(512,029)	(482,691)	(118,672)	-	-	Negative balance cleared

Fund	Fund Description	Assigned Agency / Dept	Audited Fund Balance FY 2015-16	Audited Fund Balance FY 2016-17	Audited Fund Balance FY 2017-18	Audited Fund Balance FY 2018-19	Preliminary Unaudited Fund Balance FY 2019-20	Explanation of Negative Fund Balance
2214	ACTIA Reimbursable Grants	Public Works	(1,088,728)	(361,046)	(865,292)	(995,089)	(1,506,075)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2217	Measure BB - OAB Roadway Infrastructure	Economic & Workforce Dev	-	-	-	(4,397,826)	(4,370,446)	Economic & Workforce Development staff are researching and the negative balance is expected to be resolved in FY2020-21
2244	Measure Q - Parks & Recreation	Parks & Recreation	-	-	-	-	(326,915)	Startup costs to be reimbursed from revenues collected in FY2020-21
2260	Measure WW: East Bay Regional Parks District Local Grant	Public Works	(1,285,583)	(565,059)	(547,787)	(1,979,386)	(786,413)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2270	Vacant Property Tax Act Fund	Finance	-	-	-	(35,318)	(417,902)	Startup costs to be reimbursed from revenues collected in FY2020-21
2411	False Alarm Reduction Program	Police	-	(387,241)	(1,315,781)	(1,673,860)	(1,789,200)	Fund balance will be recovered from False Alarm program revenue.
2416	Traffic Safety Fund	Transportation	-	-	-	(28,228)	(195,292)	Transportation staff are researching and the negative balance is expected to be resolved in FY2020-21
2418	Traffic Impact Program (TIP)	Public Works	-	(118,830)	(119,018)	(119,147)	(119,152)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2419	Measure C: Transient Occupancy Tax (TOT) Surcharge	Non-departmental	-	-	-	-	(141,730)	Negative balance resulted from revenue shortfall in FY2019-20 and will be addressed in FY2020-21
2605	Dept of Health & Human Services	Human Services	(133)	(129)	(117)	(99)	(85)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2613	Port Security Grant Program	Fire	(51,094)	(51,094)	(51,094)	(51,094)	(51,094)	Negative fund balance is due to lag time between spending grant funds and receiving reimbursement from the grantor.
2990	Public Works Grants	Public Works	(637,928)	(916,631)	(710,719)	(993,915)	(999,779)	OPW staff will continue efforts to coordinate with responsible departments to move ineligible grant charges to other matching fund sources.
2995	Police Grants	Police	(123,591)	-	-	-	-	Negative balance cleared
5008	Emergency Response: GOB Series 1992	Public Works	(157,405)	(158,097)	(160,439)	(164,080)	-	OPW staff will coordinate with responsible departments to move ineligible charges to other funds.
5200	JPFA Capital Projects: Series 2005	Economic & Workforce Dev	-	-	-	-	(103,004)	Economic & Workforce Development staff are researching and the negative balance is expected to be resolved in FY2020-21
5320	Measure DD: 2003A Clean Water,	Public Works	-	(78,038)	(77,644)	(71,252)	(8,346)	Will be reimbursed by Measure DD bond proceeds
5660	West Oakland Projects	Economic & Workforce Dev	(1,362,109)	(1,398,883)	(1,419,623)	(1,451,867)	(1,477,023)	Economic & Workforce Development staff should cleanup
5642	Central City East TA Bonds Series 2006A-TE	Economic & Workforce Dev	-	-	-	-	(18,743)	Economic & Workforce Development staff are researching and the negative balance is expected to be resolved in FY2020-21
5653	Coliseum: TA Bonds Series 2003	Economic & Workforce Dev	-	-	-	-	(38,572)	Economic & Workforce Development staff are researching and the negative balance is expected to be resolved in FY2020-21
5655	Coliseum: TA Bonds Series 2006B-TE	Economic & Workforce Dev	-	-	-	-	(49,789)	Economic & Workforce Development staff are researching and the negative balance is expected to be resolved in FY2020-21
5670	Oakland Base Reuse Authority	Economic & Workforce Dev	-	-	(202,893)	(297,039)	(335,685)	Economic & Workforce Development staff should cleanup
6570	JPFA Pooled Assessment: 1996 Revenue Bonds	Non-Departmental	(95,086)	(95,503)	(97,357)	(99,567)	(101,292)	Fund balance was expected to be covered by assessments but plan must be re-examined in light of recurring negative balance
6612	JPFA Lease Revenue Refunding	Non-Departmental	(3,084)	(3,132)	(3,867)	(8)	-	Negative balance cleared
7130	Employee Deferred Compensati	Human Resources	(37,181)	(215,575)	(72,557)	(5,317)	(32,259)	Due to overspending on personnel. Remaining balance will be corrected in FY 2019.
7450	Affordable Housing	Housing	-	-	(1,043,836)	(848,434)	(853,229)	Housing & Community Development staff should cleanup
7760	Grant Clearing	Public Works	-	-	-	-	(622,569)	Negative balance cleared
7780	Oakland Redevelopment Agency Projects	ORSA	(16,356)	(24,798)	(25,044)	(32)	-	Negative balance cleared
7901	Oakland Senior Center: Downtown	Human Services	-	-	-	-	(2,587)	Human Services staff are researching and the negative balance is expected to be resolved in FY2020-21
Subtotal Reimbursable Negative Funds			(24,466,924)	(32,248,888)	(24,331,549)	(38,758,109)	(38,340,747)	

Status of Negative Funds, FY 2015-16 to FY 2019-20

Fund	Fund Description	Assigned Agency / Dept	Audited Fund Balance FY 2015-16	Audited Fund Balance FY 2016-17	Audited Fund Balance FY 2017-18	Audited Fund Balance FY 2018-19	Preliminary Unaudited Fund Balance FY 2019-20	Explanation of Negative Fund Balance
Negative Funds without Repayment Plan:								
3200	Golf Course*	Parks & Recreation	-	-	(226,228)	(321,447)	(534,381)	Revenues are insufficient to cover operating costs
Subtotal Non-Reimbursable Negative Funds			-	-	(226,228)	(321,447)	(534,381)	
Total Negative Funds			(72,871,310)	(77,007,939)	(56,811,537)	(73,327,404)	(64,987,809)	

* Negative balance reported on cash basis for funds subject to full accrual accounting.