

CITY OF OAKLAND

AGENDA REPORT

OFFICE OF THE CITY CLERK

2006 APR 20 PM 4: 23

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: April 27, 2006

RE: **A FOLLOW-UP REPORT ON THE 2.5 PERCENT SET ASIDE OF UNRESTRICTED GENERAL FUND REVENUE TO THE KIDS FIRST! FUND**

SUMMARY

At its October 11, 2005 meeting, the Finance and Management Committee heard reports from the City Auditor and the Finance and Management Agency (FMA) regarding the allocation of 2.5 percent of the unrestricted general fund revenue to the Kids First! fund. The Committee directed staff to return with a report delineating the fiscal impact of two options: 1) Allocate the difference between budgeted and actual unrestricted general fund revenue beginning in FY 2005-06, or 2) Allocate to the Kids First! fund the amounts due from previous fiscal years.

Staff returned to the Finance and Management Committee on December 13. At that meeting, the Committee directed staff to perform a reconciliation to actual unrestricted general fund revenues each year and to reflect the difference (between the payment based on the budgeted revenues and the payment based on actual revenues) in the following budget year. This policy was approved by City Council at its meeting of December 20 with the following proviso:

As it pertains to this motion, (i) The Council is making this decision solely as a compromise of a dispute regarding the requirements of the Kids First! statute; (ii) In making this decision the Council has not reviewed the sources of its general fund revenues to determine which funds are "restricted" and Council intends to do so prospectively at regular intervals.

Another topic of discussion at the December 13 committee meeting was the definition of unrestricted general fund revenues. The Committee directed the City Attorney's Office to provide an opinion as to the proper definition. Committee deferred any decision on the payment of any retroactive amounts to the Kids First! fund, pending this opinion.

In the opinion of the City Attorney's Office, the franchise fees are unrestricted revenues and, therefore, should not be excluded from the computation of the Kids First! set-aside. Should City Council adopt a policy consistent with this position, the funding for Kids First! would increase and revenues available for General Fund purposes would decrease.

FISCAL IMPACT

The Budget Office has calculated the impact of retroactively reimbursing the Kids First! fund by adjusting to actual revenues at \$1,672,735 for the period from FY1997-98 through FY2004-05. This amount does not take into account the effect of the City Attorney's opinion on franchise fees. The impact of treating franchise fees as unrestricted revenues is approximately \$195,000 per year. Were franchise fees included in the calculations for the period FY1997-98 through FY2004-05, the Budget Office has calculated an additional amount of \$1,465,600 would be due the fund. Should City Council make a policy decision to include franchise fees in unrestricted revenues going forward, the approximately \$250,000 in cuts to General Fund services would be necessary for FY2006-07 and in each future year.

BACKGROUND

The Kids First! fund resulted from an initiative (Measure K) approved by Oakland voters in November 1996. Measure K included two major requirements. The first is the set-aside of 2.5 percent of General Fund unrestricted revenues for appropriation in the Kids First! fund. The drafters of the measure wanted to ensure that this set-aside did not supplant the budget that already existed in the City's General Fund. The second requirement, therefore, provided a base level of appropriations and expenditures on youth programs in the General Fund.

Measure K provides for an appropriation of 2.5 percent of the General Fund budget at the start of the fiscal year. For the first six months of the fiscal year, the oversight committee allocates the appropriations to various non-profit groups. Expenditures of the appropriation are made during the calendar year, which begins in that fiscal year. For example, appropriations for fiscal year July 1, 2005 to June 30, 2006 will be awarded in late 2005 to be spent during the calendar year (January 1, 2006 to December 31, 2006).

The second requirement of Measure K is to maintain a level of baseline spending; so that the Kids First! 2.5 percent set-aside does not supplant funds previously spent on youth programs. This requirement also provides for an annual "true-up" of the baseline spending amount by the City Auditor, based on actual expenditure levels. No annual true up to actual revenues for the 2.5 percent set-aside is provided for in the legislation.

In 2003, the City Auditor requested an opinion from the City Attorney's Office on whether the 2.5 percent set-aside should be based on actual or budgeted unrestricted General Fund revenues. The City Attorney's Office opined, in a memo dated August 19, 2003, that the set-aside should be based on actual revenues. The Administration believes that the intent of the voters was to base the Kids First! set-aside on budgeted revenues.

KEY ISSUES AND IMPACTS

The City Council, by its action at the meeting of December 20, 2005, set a policy for the prospective true-up of Kids First! funding, based on actual revenues. No policy has been set regarding a retrospective true-up to actual revenues. A retrospective true-up would total approximately \$1.7 million. No provision was made for repayment in the adopted FY2005-07 Budget.

Similarly, no policy has been set for the prospective or retroactive treatment of franchise fees. Should franchise fees be treated as unrestricted revenues prospectively, the transfer to the Kids First! fund in future years would increase approximately \$195,000. This would result in a like decrease for the funding of General Fund services. If the City Council were to adopt a policy to retroactively treat franchise fees as unrestricted revenues, the Kids First! fund would be owed an additional \$1.5 million. No provision was made for a prospective change or a repayment in the adopted FY2005-07 Budget.

The fund balance of the Kids First! fund at June 30, 2005 was \$9.7 million. If both retroactive adjustments discussed above were to be made, the balance would increase to \$12.9 million. This would equate to almost 140% of the current adopted Kids First! budget. City Council may wish to review the size of this large reserve amount with regards to future budgeted spending levels.

SUSTAINABLE OPPORTUNITIES

None.

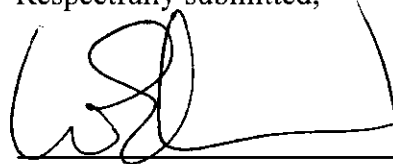
DISABILITY AND SENIOR CITIZEN ACCESS

There are no direct ADA or senior citizen access issues contained within this report.

ACTION REQUESTED OF THE CITY COUNCIL

This is an informational report. No action is requested.

Respectfully submitted,



WILLIAM E. NOLAND

Director, Finance and Management Agency

APPROVED AND FORWARDED TO THE
CITY COUNCIL:


OFFICE OF THE CITY ADMINISTRATOR

Item: _____
City Council
April 27, 2006