



CITY OF OAKLAND

MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Osborn K. Solitei
Controller

SUBJECT: Kid's First 3% True-Up Calculation
and Adjustment of Proposed Budget for
Kids First FY 2013-14 and FY 2014-15

DATE: June 18, 2013

City Administrator

Date

Approval

/s/ **Deanna J. Santana**

6/18/13

INFORMATION

This information memorandum provides a clarification on the Kid's First 3 % Calculation True-Up for FY 2009-10, 2010-11 and 2011-12 and adjustment for Kid's First allocation as noted in Errata Number 4 issued last week. The FY 2013-15 amendments are based on additional revenues projected for the next two fiscal years based upon updated General Purpose Fund revenue trends as reported in the FY 2012-13 Third Quarter Revenue and Expenditure Report and reported during the May 23, 2013 Special Budget Meeting for the FY 2013-15 Proposed Policy Budget.

Article XIII, Section 1300 of the Oakland City Charter mandates, effective July 1, 2009 and continuing through June 30, 2021, that the City set-aside three percent (3.0%) of the City's annual actual unrestricted General Purpose Fund (Fund 1010) revenues for the KIDS First! [The Oakland Fund for Children and Youth (the "Kids First! Fund" or "Kids First!")]. The actual funds deposited in the Fund pursuant to this Act shall only come from actual unrestricted General Purpose Fund (Fund 1010) revenues of the City of Oakland.

In accordance with the Charter requirement, the annual amount of actual unrestricted General Purpose Fund (Fund 1010) revenues shall be estimated by the City Administrator and verified by the City Auditor. Errors or adjustments in calculation for a fiscal year shall be corrected by an adjustment in the set aside depending upon whether the actual, unrestricted General Purpose Fund (Fund 1010) revenues are greater or less than the estimate.

The City performs an estimated annual calculation of the Kids First! Set-aside based on the budgeted unrestricted General Purpose Fund (GPF) revenues, and then performs a true-up calculation based on audited actual unrestricted GPF revenues. The calculation of the set-aside is to be made on the "*unrestricted General Purpose Fund revenue.*" The City's determination of what constitutes unrestricted General Purpose Fund revenue is based primarily on United States

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Generally Accepted Accounting Principles (“GAAP”), and City Attorney opinions interpreting City Charter Article XIII. GAAP is the professional financial reporting standard for governmental accounting, and the basis for the City’s audited annual financial statements, the Comprehensive Annual Financial Report (CAFR).

The City performed the Kid’s First set-aside true-up calculation of the unrestricted revenue of the General Purpose Fund based on audited financial statements of the City for FY 2009-10 and FY 2010-11 and determined that the City overpaid the Kid’s First fund and, therefore, no adjustment was required to true-up the Kids First fund for FY 2009-10 and 2010-11. On the Calculation of the FY 2011-12, the City determined that it has underpaid the Kid’s First Fund. The following table summarizes the budgeted 3% transfer amount and the total Kids First unrestricted revenue 3% allocation:

Description	FY 2009-10 Calculation Set-Aside Basis	FY 2010-11 Calculation Set-Aside Basis	FY 2011-12 Calculation Set-Aside Basis
Unrestricted GPF Revenue Subject to Kids First! Set-Aside	\$379,996,801	\$375,769,510	\$393,517,632
Total Kids First Unrestricted Revenue Allocation (3%)	11,399,904	11,273,085	11,805,529
Kids First Budgeted Actual Allocation (Transfer)	11,451,580	11,515,710	10,928,487
Due to / (From) Kid's First	\$ (51,676)	\$ (242,625)	\$ 877,042
NET Due to / (From) Kid's First FY 2010 - FY 2012: \$582,741			

As indicated in the table above, since the City overpaid in FY 2009-10 and then again in FY 2010-11 due to the budgeted unrestricted revenues being lower than the final actuals in each year, the City had to adjust the overpayments in FY 2011-12, after the audit was completed. Therefore, the City was not late in funding the Kid’s First fund per Article XIII of the City Charter, but had actually overpaid the fund until which time the City could make the adjustment in a subsequent year when the City underpaid the fund. Since the City underpaid for FY 2011-12, this is the first time that the City can make the necessary “true-up” to recoup the overpaid funds. As a result, this true-up calculation will fully fund the Kids First fund for FY 2011-12.

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The following table summarizes an update on the estimated budgeted 3% transfer amount and the total Kids First unrestricted revenue 3% allocation:

Description	FY 2013-14 Estimated Calculation Set-Aside Basis	FY 2014-15 Estimated Calculation Set-Aside Basis
Unrestricted GPF Revenue Subject to Kids First! Set-Aside	\$406,054,159	\$416,250,516
Total Kids First Unrestricted Revenue Allocation (3%)	12,181,625	12,487,515
Kids First Budgeted Allocation (Transfer) – Proposed Budget	11,763,186	12,125,533
Adjustment to Proposed Budget for Kid's First	\$ 418,439	\$ 361,982
NET Adjustment to FY 2013-15 Proposed Policy Budget for Kid's First : \$780,421		

The adjustment for the Proposed FY 2013-15 Policy Budget for Kids First is the result of the revised General Fund revenue trends as identified in the FY 2012-13 Third Quarter Revenue and Expenditure Report, as reported during the May 23, 2013 Special Budget Meeting. As reported in the 3rd Quarter, *“The City continues to experience modest economic recovery and growth and, however, anticipated additional expenditures accompany this new revenue”*. Staff updated the estimated FY 2013-14 and FY 2014-15 3% Kids First unrestricted General Purpose Fund 3% allocation and therefore, recommends adjusting the Kids First proposed budget.

As indicated above, the City’s determination of what constitutes unrestricted General Purpose Fund revenue is based primarily on Generally Accepted Accounting Principles (“GAAP”), and the City Attorney opinions interpreting City Charter Article XIII. During the City Auditor’s audit of the Kids First allocation, questions have come up by the City Auditor and the City Administration that warranted a request for a review and legal analysis by the City Attorney in which the legal opinions could impact the amount due to Kids First per the Charter.

As the issues have been discussed between the City Administration and the City Auditor during the course of the audit, on April 22, 2013, a meeting was held by the City Auditor with representatives from the City Attorney’s Office and the City Administration. During the meeting and subsequent follow-up discussions, the City Administration raised certain issues regarding the Kids First 3% Set-aside calculation and the City Attorney agreed to issue an opinion. The following are some of the items that the City Administration requested for the City Attorney’s opinion on Kids First 3% Set-aside calculation that may have an impact on the amount of the final allocation from the City:

- Measure Q – Library Services Retention and Enhancement Act – Per City Resolution No. 78223 C.M.S. section 8, *“For any year during which this tax is in effect, the City Council may collect this tax only if the General Fund appropriation for Library services is maintained at a level that is no lower than the General Fund appropriation for fiscal year 2000-01. The General Fund appropriation for Library services for fiscal year 2000-*

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01 was \$9,059,989". Question posed to the City Attorney's Office: Should the revenue allocated to the minimum Library appropriation prerequisite at fiscal year 2000-01 level be treated as restricted revenue, and therefore be excluded from the Kids First 3% Set-aside calculation?

- GAAP provides that in some specific instances, that increases in current financial resources are to be reported as "*other financing sources*," and not revenue. The list below according to GAAP should not be considered revenue, but instead be classified as "other financing sources":
 - The issuance of long-term debt (face amount and premium)
 - The inception on capital lease
 - Debt service on demand bonds reported as fund liabilities
 - Sale of capital assets
 - Insurance recoveries
 - Transfers

Question posed to the City Attorney's Office: Should the above categories be restricted per GAAP definition, and therefore be excluded from the Kids First 3% Set-aside calculation?

Rental Income received for business around the "City Administration Building". The City currently has debt on the Administration building "**OAKLAND JOINT POWERS FINANCING AUTHORITY, LEASE REVENUE REFUNDING BONDS (OAKLAND ADMINISTRATION BUILDINGS) 2008 SERIES B.**"

Question posed to the City Attorney's Office: Should the City restrict the rental Income received from the leased properties around City Administration Building as defined in the bond document for Debt Service Payment, and therefore be excluded from the Kids First 3% Set-aside calculation?

- Notes and Loans Receivables, should the funds received for notes and loan repayment be subject to Kid's First 3% Set-aside?
- City Officers – According to the City Charter, some offices are required to be formed, for example, City Council, Mayor, City Administrator, City Attorney, City Auditor, City Clerk and department heads. Should the GPF revenue allocated to the minimum operation of these offices be restricted and removed from the Kids First 3% Set Aside Calculation?

The City Attorney has not provided a final legal opinion on the above items and this could affect the Kids First true-up calculation from FY 2010 through FY 2013 as well as future Kids First 3% allocation amounts.

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For questions regarding this report, please contact Osborn K. Solitei, Controller, at 510-238-3809.

Respectfully submitted,

/s/

OSBORN K. SOLITEI
Controller