

**CITY AUDITOR’S IMPARTIAL ANALYSIS OF THE PROPOSED CHARTER AMENDMENT TO KIDS FIRST - THE OAKLAND FUND FOR CHILDREN AND YOUTH ACT**

SUMMARY

Adoption of the proposed Charter amendment would mandate the City to set aside 1½% of annual total revenues for two years, beginning July 2009, and 2½% beginning July 2011, for the Kids First! Oakland Fund for Children and Youth (Fund). The Fund is used to award grants for children and youth programs. Additionally, the City must maintain the current level of spending for children and youth services from sources other than the Fund.

Currently, the City is required to annually set aside 2½% of the unrestricted general fund revenues for the Fund. The proposed set-aside calculation is based on the City’s total annual revenues; however, monies for the set-aside can only come from unrestricted general fund revenues. Unrestricted general fund revenues are used to pay for basic services such as police, fire, library, and parks. Under the proposed amendment, the Fund would receive these revenues together with any interest earned and any unspent or uncommitted amounts in the Fund.

FINANCIAL IMPACT

The proposed amendment would substantially increase the amount of the annual set-aside. The proposed set-aside would be calculated on annual total revenues, a substantially larger amount than the total unrestricted general fund revenues used now. The chart below uses fiscal year 2006-07 audited revenue totals, increased annually by 1½% to show the projected increase in the set-aside amount under the proposed amendment.

<b>Fiscal year</b>	<b>Current Set-aside: 2.5% unrestricted revenues</b>	<b>Proposed Amendment Set-aside: 1.5% total revenues</b>	<b>Proposed Amendment Set-aside : 2.5% total revenues</b>	<b>Increase in the Set-aside under the Proposed Amendment</b>
2009-2010 *	\$ 9,944,000	\$15,410,000		\$ 5,466,000
2010-2011 *	\$10,093,000	\$15,641,000		\$ 5,548,000
2011-2012 *	\$10,244,000		\$26,460,000	\$16,216,000

\* For analysis purposes, projected revenues were increased 1½% annually.

As the chart shows, in the first two fiscal years under the proposed amendment, the set-aside would be approximately \$5.5 million more than the current set-aside. In the third year, the set-aside would be over \$16 million more than the current set-aside. The proposed amendment has no expiration date compared to the existing legislation which expires in 2021.

Although the amount cannot be precisely determined, the mandated increase in the set-aside would increase interest income to the Fund and decrease interest income to the general fund. During the last fiscal year, the Fund's interest earnings totaled \$356,000. Although we cannot project future interest earnings on the Fund, we expect the Fund to earn at least 1½ to 2½ times more in interest than the Fund currently earns. Additional interest earnings to the Fund would decrease earnings to the general fund by a comparable amount.

Whether the proposed measure would increase the cost of government in Oakland is dependent on the City Council. If the Council reduces expenditures for basic services to offset mandated increases in the set-aside, there would be no increase in the cost of City government. However, the City's basic services would be reduced. If the Council does not reduce expenditures to offset mandated increases in the set-aside, the cost of City government would increase.

s/Courtney A. Ruby, CPA  
City Auditor