



REPORT TO COUNCIL

City of Sacramento

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CONSENT
June 9, 2009

**Honorable Mayor and
Members of the City Council**

**Title: Granting Authority to Implement Temporary Cash Transfers Between
Various Unrestricted City Funds**

Location/Council District: Citywide

Recommendation: Adopt a resolution giving the City Treasurer and Director of Finance authority to make temporary cash transfers between unrestricted City funds during Fiscal Year 2009/10.

Contact: Russell T. Fehr, City Treasurer (916) 808-5168

Presenters: Not Applicable

Departments: City Treasurer

Division: City Treasurer

Organization No: 05001011

Description/Analysis: For the last several years, annual expenditures have been greater than annual revenues. Significant efforts have been made to reduce expenditures in the face of declining revenues. In order to avoid even deeper reductions in service and staffing levels in general fund departments, the City has made extensive use of reserves and other one-time financing sources. In turn, this has resulted in a reduction in General Fund cash holdings of the City. This depletion of funds presents additional challenges to the management of the City's cash aimed at maintaining a positive cash balance in the General Fund to meet ongoing obligations. It is recommended that the City Treasurer and Director of Finance make and record temporary cash transfers among various unrestricted city funds during Fiscal Year 2009/10 to maintain a positive cash balance in the General Fund.

Policy Considerations: Positive cash balances in the General Fund must be maintained.

Environmental Considerations: California Environmental Quality Act (CEQA):

This action is not subject to the CEQA because it is not a "project" as defined in section 15378 of the CEQA Guidelines. Even if it were a project, it would be exempt under section 15061(b)(3) of the CEQA guidelines, which provides as follows: "Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA."

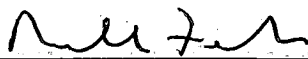
Sustainability Considerations: None

Commission/Committee Action: None

Rationale for Recommendation: There should be a positive cash balance in the General Fund during the entire fiscal year. Temporary cash shortages may be covered with transfers from unrestricted funds in support of the City Treasurer's proactive cash management program.

Financial Considerations: None

Emerging Small Business Development (ESBD): Not Applicable

Respectfully Submitted by: 
Russell T. Fehr
City Treasurer

Recommendation Approved:

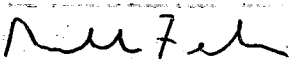

Russell T. Fehr
City Treasurer

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BACKGROUND

For the last several years, annual expenditures have been greater than annual revenues. Significant efforts have been made to reduce expenditures in the face of declining revenues. In order to avoid even deeper reductions in service and staffing levels in general fund departments, the City has made extensive use of reserves and other one-time financing sources. In turn, this has resulted in a reduction in General Fund cash holdings of the City. This depletion of funds presents additional challenges to the management of the City's cash aimed at maintaining a positive cash balance in the General Fund to meet ongoing obligations. It is recommended that the City Treasurer and Director of Finance make and record temporary cash transfers among various unrestricted city funds during Fiscal Year 2009/10 to maintain a positive cash balance in the General Fund.

The General Fund Cash Flow Challenge

The City receives the largest portion of its general fund revenues in the form of secured and other property taxes just twice per year in the months of December and April. However, the City's general fund expenditures are incurred on a fairly constant monthly basis throughout the fiscal year, e.g. payroll goes out every other week, health insurance premiums are paid on a monthly basis, service providers are paid on monthly billing cycles, etc. There are significant exceptions to consistent level of monthly expenditures including payments for debt service in the months of November, December, May, and June and the annual pre-payment to CalPERS of the entire employer pension plan contribution in July. This prepayment has resulted in cost reductions of approximately \$5 million per year, but the prepayment also results in a large cash outlay at the start of the fiscal year.

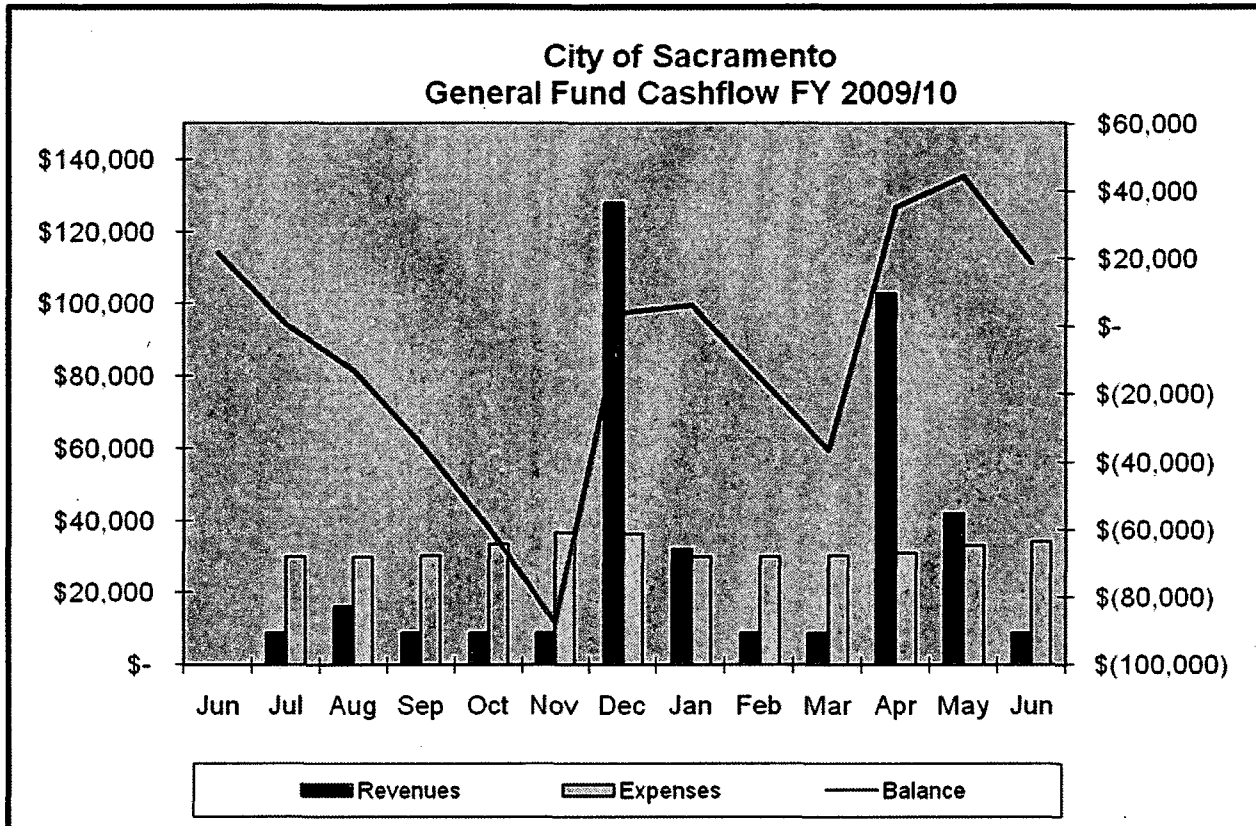
The result of the different patterns of monthly expenditures and revenue collections is that it is projected more cash goes out than comes in for the first four months of the fiscal year. During this period, and again between February through March, there can be a negative cash balance in the General Fund even though there is a healthy positive balance at the start and end of the year. The City Treasurer's Office actively manages cash on a daily basis to provide sufficient funds for the City's operations, including the investment of cash with maturities during periods of time when cash is needed to pay expenses. When general fund cash levels were higher, such allocation of revenues to meet expenses could be accomplished without the need to make inter-fund transfers. However, with the depletion of general fund cash levels that occurred during the past several years, it now appears some level of inter-fund transfers (borrowings) is needed to ensure the City can pay its bills throughout the year.

Fiscal Year 2009/10 Cash Flow

As described above, the City's cash flow challenge is one of timing and depletion of

funds. If the City Manager's Proposed Budget is approved and implemented, there will be a \$5 million depletion in the general fund's cash balance between the start and the end of FY2010. We estimate that between the start of the fiscal year and mid-December when the first property tax apportionment is received, general fund expenditures will have exceeded revenues by approximately \$85 million. Hence, there is a need for inter-fund transfers to overcome the effects of the normal timing of receipts of property tax revenue and the depletion of general fund cash in order to meet ongoing expenses.

The projected monthly cash flow is illustrated in the following graph:



There is projected monthly positive cash flow in July, December, January, April, May, and June. The overall annual cash balance reduction matches the use of one-time financing sources to support budget expenditures. There is a positive cash balance at the beginning and end of the fiscal year.

Temporary Cash Transfers Permitted

Section 113 of the City Charter authorizes temporary transfers of unrestricted cash between funds, as follows:

Municipal obligations may be financed by cash pool operations and utilization of a warrant or check system. Except for those funds restricted by bond indentures, state or federal law, other sections of this Charter or specific

conditions of the legislation creating them, temporary transfers between funds are permitted.

The cash holdings of some funds and accounts are restricted in use and are not available to cover the cash flow requirements of other funds. Examples include community facility district funding, development impact fee and Quimby Act funds, and state and federal funding. There are, however, sources of potential cash transfers to the General Fund including the Parking Enterprise, the Convention Center Enterprise, the Risk Internal Services Fund, and other enterprise and special revenue funds.

The City Treasurer and Finance Director request authority to make and record temporary cash transfers between funds in a manner consistent with the Section 113 of the City Charter.

Cash Transfers Are Not Budgetary Actions

To the extent temporary transfers of cash between funds are necessary to implement the Approved Budget, **the transfers are not sources of general fund revenue**, i.e. the transfers do not augment the general fund. Rather, the transfers will be made and repaid (with interest at the Treasury Pool A rate) during the fiscal year. Repayment will be made from the large infusions of revenue the City receives in December and April. There is no net gain to the general fund or loss to the transferor fund.

Fiscal Year 2010/11 and Beyond

We propose to manage the cash flow needs of the General Fund with internal cash resources and inter-fund transfers as needed for Fiscal Year 2010. Staff does not propose debt financing for cash flow needs for the upcoming fiscal year. Many jurisdictions including the State of California, most counties, and many cities debt finance temporary cash flow needs by issuing short term notes. These notes are known as Revenue Anticipation Notes (RANs) or Tax Revenue Anticipation Notes (TRANS). The City issued TRANS as recently as 1995.

For Fiscal Year 2011 and beyond the City Treasurer and staff plan to evaluate both internal borrowing and borrowing on the financial markets. When issuing cash flow notes interest is earned on the borrowed funds before they are spent. This may result in the overall cost of issuing notes being lower than doing internal borrowing. We will begin working with the investment bank pool under contract, credit rating agencies, and others on evaluating cash flow notes for Fiscal Year 2011. The advantages and risks in the issuance of such debt may be the subject of future Council action.

Conclusion

In any given year the City faces the challenge of matching the timing of the receipt of revenue with the need to make ongoing payments. The extreme financial pressure on the City brought by the current global economic crisis has resulted in the depletion of general fund cash balances. Such depletion has made the management of cash flow more complex and will give rise to the need to augment general fund cash balances

through inter-fund transfers on a temporary basis during the upcoming fiscal year. The City Treasurer and Finance Director seek to utilize such transfers in a manner authorized by City Charter Section 113 and to repay the transfers before the close of Fiscal Year 2010.

RESOLUTION NO. 2009-_____

Adopted by the Sacramento City Council

GRANTING AUTHORITY TO CITY TREASURER AND DIRECTOR OF FINANCE TO IMPLEMENT CASH TRANSFERS BETWEEN VARIOUS UNRESTRICTED CITY FUNDS TO ENSURE THE GENERAL FUND HAS A POSITIVE CASH BALANCE THROUGHOUT FISCAL YEAR 2009-2010

BACKGROUND:

- A.** The City receives the largest portion of its revenues in December and April of each fiscal year while expenditures are incurred on a fairly constant monthly basis throughout the fiscal year. One of the key goals of the cash management operations of the City is to match available revenues to meet ongoing expenditures.
- B.** The vast disruptions in the financial markets and local, national and international economies has caused drastic reductions in the City's revenues. In the past several years, the City has used reserves and one-time funds to maintain public services and core functions. This has caused a depletion of general fund cash levels.
- C.** The City Treasurer and Finance Director have requested authorization to utilize inter-fund transfers, as permitted under Section 113 of the City Charter, to mitigate the effects of the timing of the receipt of revenues and the recent depletion of general fund cash, and to assist in the City's cash management program.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The City Treasurer and Finance Director are authorized to implement inter-fund transfers of funds in order to fund the approved budget for Fiscal Year 2009-2010.

Section 2. The inter-fund transfers implemented by the City Treasurer and Finance Director shall (a) comply with provisions of Section 113 of the City Charter; (b) be duly made during Fiscal Year 2009-2010 and recorded in the records of the City; and (c) be repaid from the general fund to the fund that is the source of the transfer before the end of Fiscal Year 2009-2010.