



City of Sacramento City Council

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915 I Street, Sacramento, CA, 95814
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Meeting Date: 2/7/2012

Report Type: Staff/Discussion

Title: Implementation of Temporary Cash Flow Transfers Between Various Unrestricted City Funds and Use of Tax Revenue Anticipation Notes for FY 2013

Report ID: 2012-00089

Location: Citywide

Recommendation: Pass a Resolution authorizing the City Treasurer and the Finance Director (or other City Manager Designee) to make temporary cash transfers between unrestricted City funds during Fiscal Year 2013 and 2) Receive and file a report on the use of Tax Revenue Anticipation Notes for Fiscal Year 2013

Contact: Russell Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer, John F. Shirey, City Manager

Presenter: Russell Fehr, City Treasurer, (916) 808-5832, Office of the City Treasurer, John F. Shirey, City Manager

Department: City Treasurer / City Manager's Office

Division: City Treasurer

Dept ID: 05001011

Attachments:

- 1-Description/Analysis
- 2-Background
- 3-Resolution

City Attorney Review

Approved as to Form
Joseph Cerullo
1/24/2012 2:38:01 PM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
1/19/2012 4:23:54 PM

Approvals/Acknowledgements

Department Director or Designee: Russell Fehr - 1/23/2012 10:00:56 AM

Description/Analysis

Issue: To ensure continued operations, the City's General Fund must have a positive cash balance throughout the fiscal year. The cash balance in the General Fund at the beginning of the fiscal year is currently not sufficient to guarantee a positive balance throughout the fiscal year.

Policy Considerations: In order to avoid a negative cash balance in the General Fund at any point during the fiscal year, there is a continuing need for cash-flow borrowings from a combination of inter-fund transfers and the issuance of TRANS.

Environmental Considerations: 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: None

Commission/Committee Action: None

Rationale for Recommendation: The City's General Fund must have a positive cash balance throughout the fiscal year. Section 113 of the City Charter authorizes temporary transfers of unrestricted cash between funds. In conjunction with the Fiscal Year 2012/13 budget development, the City Treasurer's Office and the City Manager's Office will analyze cash-flow needs including the need for inter-funds transfers and the use of TRANS.

Financial Considerations: The cash holdings of some City funds are not restricted in their use and therefore are available, in accordance with Section 113 of the City Charter, to be used for temporary inter-funds transfers. Those transfers are not sources of General Fund revenue, as they will be made and repaid, with interest at the Treasury Pool A rate, during the fiscal year.

Emerging Small Business Development (ESBD): Not applicable



BACKGROUND: To ensure continued operations, the City's General Fund must have a positive cash balance throughout the fiscal year.

However, due to difficult local and global economic conditions, as well as policy decisions to limit disruptions in service levels provided to City residents, the cash balance in the General Fund at the beginning of the fiscal year (\$49.294 million for FY 2011/12) is currently not sufficient to guarantee a positive balance throughout the fiscal year.

Largely constant City expenses (such as bi-weekly payroll and monthly health-insurance premiums payments) accumulate from July to December, depleting the beginning-of-year General Fund cash balance before the first wave of property-tax revenues (the largest component of the City's revenues) is received mid-December.

A similar situation arises from January through April, until the second wave of property-tax payments is received in April (which ensures that the end-of-year cash balance in the General Fund is positive).

To avoid a negative cash balance in the General Fund at any point during recent fiscal years, the City has resorted to inter-fund transfers of unrestricted cash between various City funds in Fiscal Year 2008/09 and Fiscal Year 2009/10, and issuing cash-flow notes – Tax Revenue Anticipation Notes (or TRANs) – in Fiscal Year 2010/11 and Fiscal Year 2011/12.

There will be a continuing need for cash-flow borrowings from a combination of inter-fund transfers and the issuance of TRANs, for several more years and this situation will endure until it is resolved through a re-building of reserves, as proposed by the City Manager, to levels that would allow positive cash balances in the General Fund throughout the fiscal year.

As such, the City Treasurer and the City Manager request authority to make and record temporary cash transfers between various unrestricted City funds in a manner consistent with the Section 113 of the City Charter in order to maintain a positive cash balance in the General Fund.

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 City funds and accounts are restricted in their use and are therefore not available, in accordance with Section 113 of the City Charter, to be used for inter-funds transfers. However, other funds are not restricted in their use and therefore are available, in accordance with Section 113 of the City Charter, to be used for temporary inter-funds transfers. Those transfers are not sources of General Fund revenue, as they will be made and repaid, with interest at the Treasury Pool A rate, during the fiscal year.

As noted above, while inter-fund transfers may occur throughout the fiscal year, there will be a need to secure additional funds through the issuance of TRANs for Fiscal Year 2012/13.

In conjunction with the Fiscal Year 2012/13 budget development, the City Treasurer's Office and City Manager's Office will analyze cash flow needs and, if necessary, return to the City Council, at the same time as the adoption of the budget will be considered, for formal approval for issuance of TRANs and all related documents and necessary actions.

As economic conditions improve, and as the City makes further structural adjustments, the ability to increase the beginning-of-year cash balance in the General Fund, through increases in reserves as proposed by the City Manager for example, should negate the need to further utilize such borrowing, although the current situation (and the associated borrowing needs) is expected to endure for at least the next few years.



RESOLUTION NO. 2012-_____

Adopted by the Sacramento City Council

GRANTING AUTHORITY TO CITY TREASURER AND CITY MANAGER TO IMPLEMENT CASH TRANSFERS BETWEEN VARIOUS UNRESTRICTED CITY FUNDS TO MAINTAIN A POSITIVE CASH BALANCE IN THE GENERAL FUND THROUGHOUT FISCAL YEAR 2012/13

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.
- B. One of the key goals of the cash-management operations of the City is to ensure that available revenues are able to meet ongoing expenditures and to maintain a positive cash balance to the general fund throughout the fiscal year.
- C. In the past several years, the City has used reserves and one-time funds to maintain public services and core functions, causing a depletion of overall general fund cash levels, including beginning-of-year cash balance and cash-reserve amount.
- D. The City Treasurer and the City Manager are requesting authorization to utilize temporary 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 of the recent depletion of general fund cash balances, 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 the City Manager are authorized to implement temporary inter-fund transfers of unrestricted funds, as necessary, in order to maintain a positive cash balance for the general fund for Fiscal Year 2012/13.

Section 2. Those inter-fund transfers implemented by the City Treasurer and the City Manager must (a) comply with Section 113 of the City Charter; (b) be duly made during Fiscal Year 2012/13 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, with interest at the Treasury Pool A rate, before the end of Fiscal Year 2012/13.