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**Title:** Authorize the Controller to use cash in the General Fund Emergency Reserve to cover short-term deficit cash balances at year-end resulting from timing differences in the receipt of grant revenues/reimbursements and the incurrence of grant-funded expenditures.

**Sponsors:** Finance Department

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**REPORT TO THE CITY COUNCIL**

**DATE:** August 3, 2017

**FROM:** MICHAEL LIMA, Finance Director/Controller  
Finance Department

**BY:** MAVET MORA, Assistant Finance Director/Controller  
Finance Department

**SUBJECT**

Authorize the Controller to use cash in the General Fund Emergency Reserve to cover short-term deficit cash balances at year-end resulting from timing differences in the receipt of grant revenues/reimbursements and the incurrence of grant-funded expenditures.

**RECOMMENDATION**

Staff recommends that the Controller be authorized to use monies in the General Fund Emergency Reserve to cover short-term year-end deficit cash balances in grant funds.

**EXECUTIVE SUMMARY**

Temporary negative cash balances in certain funds may result from timing differences in the receipt of revenue compared to when expenditures must be incurred. This is particularly true at fiscal year-end, and especially when funds are heavily supported by grant funding. The Reserve Management Act (RMA) allows for monies held in the General Fund Emergency Reserve to be made available for

temporary loans at fiscal year-end with Council approval. Staff is recommending that the Controller be authorized to draw from the General Fund Emergency Reserve amount equal to that which is necessary to ensure the proper close out of the 2017 Fiscal Year. As required under the RMA, the loans will be repaid within 90 days after the end of the fiscal year.

## **BACKGROUND**

It is not unusual for local governments to loan resources from one fund to another fund experiencing a temporary cash shortage. These temporary shortages may result from timing differences in the receipt of revenue as compared to when expenditures must be incurred. This condition is particularly true at fiscal year-end, and especially when funds are heavily supported by grant funding. The City maintains the Treasury Cash Pool (Pool) in which all City monies are invested. While cash for all City monies are pooled together for investment purposes, the funds are separately identified for accounting purposes. When a fund experiences a temporary cash shortage, the Pool can function as a line of credit for the individual funds. Generally speaking, only funds within the Pool that have no restrictions on their usage, such as the General Fund or Internal Service Funds, can be used to make these temporary loans. However, funds whose use is restricted, like enterprise department operating funds or reserve funds, can only be used for temporary loans if the funds' restrictions expressly permit their usage. The RMA specifically allows for monies in the General Fund Emergency Reserve Fund to be used for year-end cash balancing purposes under the following conditions:

- Loans only apply to funds needing fiscal year end cash balancing
- Loans must be repaid within 90 days
- Loans require a five-vote super majority approval by the Council before they can be made.

Staff has been monitoring the City's cash position throughout the year, and believes that monies in the General Fund Emergency Reserve will be needed for year-end cash balancing. Currently, there is \$20.5 million in the General Fund Emergency Reserve Fund. Staff is recommending that the Controller be authorized to draw enough funds from the General Fund Emergency Reserve to ensure the proper close out of the 2017 Fiscal Year. Staff is confident that the funds will be replenished within the time frame specified by the RMA.

## **ENVIRONMENTAL FINDINGS**

By the definition provided in the California Environmental Quality Act Guidelines Section 15378, this item does not qualify as a "project" and is therefore exempt from the California Environmental Quality Act requirements.

## **LOCAL PREFERENCE**

Local preference is not applicable because this item does not involve the competitive bidding process.

## **FISCAL IMPACT**

If approved, staff will be authorized to borrow from the General Fund Emergency Reserve to address funds with temporary cash shortages at fiscal year-end. The loans will be repaid within the 90-day limit that is specified in the RMA.