



Legislation Details (With Text)

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Title: Authorize the Controller to use the Committed General Cash Reserve for Economic Uncertainties and Emergencies 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.
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REPORT TO THE CITY COUNCIL

July 14, 2016

FROM: MICHAEL LIMA, Finance Director/Controller
Finance Department

BY: KAREN BRADLEY, Assistant Finance Director/Controller
Finance Department

SUBJECT

Authorize the Controller to use the Committed General Cash Reserve for Economic Uncertainties and Emergencies 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 Reserve Fund; namely, the Committed General Cash Reserve for Economic Uncertainties (REC), 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 year end, and especially when funds are heavily supported by grant funding. While cash for all City funds are pooled together for investment purposes, they are separately identified for accounting purposes. When an individual fund “overdraws” its share of pooled cash due to timing differences, the Cash Management Pool (Pool) can function as a line of credit for individual funds. Changes to the Reserve Management Act (RMA) made last year authorized monies held in the REC and Committed General Cash Reserve for Contingency Stabilization (RCS) to be available for temporary loans at fiscal year-end. Staff is recommending that the Controller be authorized to draw from the REC an amount equal to that which is necessary to ensure the proper close out of the 2016 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 Pool in which all City monies are invested that are derived from both operating and non-operating revenues, such as fees for services, taxes, grants, leases, sales, and investment income. While cash for all City funds is pooled together for investment purposes, the accounts are separately identified for accounting purposes. When a fund experiences a temporary cash shortage due the reasons mentioned earlier, 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.

When the RMA was originally adopted, it did not expressly permit the use of the REC or the RCS for fiscal year end cash balancing. That use was made permissible on May 14, 2015, when Council enacted changes to the RMA. The revised Act clarified use of these funds for year-end cash balancing purposes as being permissible due to timing delays in the receipt of other governmental and/or grant related reimbursements or as a result of a fund's budgeted expenditures exceeding their revenues and 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 Reserve Funds will be needed for year-end cash balancing. There are no monies in the RSC, but there is \$15.8 million in the REC. Staff is recommending that the Controller be authorized to draw from the REC to ensure the proper close out of the 2016 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 REC 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.