

TO: James L. App, City Manager
FROM: Jim Throop, Administrative Services Director
SUBJECT: Inter-Fund Loans for General Fund Cash Flow
DATE: July 1, 2008

NEEDS: For the City Council to consider delegating authority to the City Manager to approve short-term advances between City funds to provide General Fund cash flow.

- FACTS:
1. City expenses are relatively consistent each month, but General Fund revenues are staggered, with some major revenues, like property tax, occurring just twice yearly.
 2. With regular monthly expenditures but sporadic revenues, the General Fund relies on fund balance for cash flow.
 3. Due to the economic downturn, revenues have decreased, reserves (fund balance) are being used to support operations, so there could be occasions when cash on hand is not sufficient to cover General Fund expenses.
 4. The General Fund may require short-term cash advances from other funds to cover expenses, until revenues are received. Upon receipt, the advances would be repaid, with interest.
 5. All short-term inter-fund advances would be repaid an interest rate equal to the current Local Agency Investment Fund (LAIF) rate.

ANALYSIS &

CONCLUSION: The current economic downturn has put pressure on all revenue streams. General Fund expenses occur on a relatively consistent manner each month. However, revenue collected by the General Fund is much more sporadic. For instance, property tax is collected, primarily, in two main periods; once in November/December and again in April/May. Sales tax is essentially on a quarterly basis and is remitted by the State/County on a two-month lag-basis. So, as an example, revenue collected in January is not received until April.

There are many other revenue streams that are collected only twice per year or quarterly or on no real time table other than when distributed by the Federal/State/County. This lack of a consistent monthly revenue stream puts pressure on the General Fund to maintain enough cash to pay all expenses.

Allowing for short-term, one-year or less, cash advances from other City funds will allow the General Fund to meet all monthly obligations.

Advances would be repaid by the General Fund with interest at the prevailing interest rate on indebtedness of a comparable term issued by LAIF.

Advances would be limited not to exceed five million dollars (\$5,000,000) or an aggregate amount of fifteen million dollars (\$15,000,000) with a maximum one-year repayment period.

No advances will be made from a fund that is reasonably likely to need those particular funds during the course of the fiscal year.

Advances may not come from any fund that has Federal or State guidelines for special uses only.

Each advance would require approval by the City Manager in writing, and signed by the City Manager and the Administrative Services Director that states all of the following:

1. The purpose of the advance is for General Fund short-term cash flow purposes only;
2. The identification of both the lending and borrowing fund, or funds;
3. The dollar amount of the advance;
4. The maturity date on which all principal together with all accrued and unpaid interest will be due and payable;
5. The scheduled dates and amounts of all principal and interest installment payments;
6. The applicable nominal interest or discount rate;
7. The borrowing fund's right to make full repayment at any time without penalty;
8. The source or sources from which the borrowing fund or funds is expected to repay the loan or advance.

FISCAL

IMPACT: The long-term impact of the advances would be only from the interest paid. The amount of interest is dependent upon the amount of the advance.

- Options:
- a. Council adopt Resolution No. 10-XXX approving the delegation of authority to the City Manager to approve advances between City funds for the purpose of General Fund cash flow not to exceed five million dollars (\$5,000,000) for any individual advance or fifteen million dollars (\$15,000,000) in an aggregate amount; or
 - b. Amend, modify, or reject the above option

RESOLUTION NO. 09-_____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
DELEGATING AUTHORITY TO THE CITY MANAGER TO APPROVE LOANS AND
ADVANCES BETWEEN CITY FUNDS

WHEREAS, the City of Paso Robles uses fund accounting as required under the generally accepted accounting principles promulgated for governmental bodies by the Government Accounting Standards Board (GASB); and

WHEREAS, generally accepted accounting principles for governmental bodies permit, and provide accounting conventions for, loans and advances between the funds established within a fund accounting framework ; and

WHEREAS, unless otherwise prohibited by law or sound financial management practices, the City Council wishes to delegate the authority to the City Manager to approve short-term loans or advances of one-year or less between City funds under the terms and conditions specified in this resolution; and

NOW, THEREFORE, BE IT HEREBY RESOLVED, by the City Council of the City of Paso Robles, as follows:

Section 1. The City Manager of the City of Paso Robles is authorized to approve loans or advances of one-year or less between City funds; provided, that the City Manager notifies the City Council in advance, and such loans and advances comply with the terms and conditions of this resolution and that the City Manager and the Director of Administrative Services concur that such loans and advances are in the best financial interest of the City under the existing circumstances.

Section 2. Each loan or advance approved by the City Manager will be documented in writing and signed by the City Manager and the Director of Administrative Services that states all of the following:

1. The purpose of the loan is for General Fund cash flow purposes only;
2. The identification of both the lending and borrowing fund, or funds;
3. The dollar amount of the loan or advance;
4. The maturity date on which all principal together with all accrued interest and unpaid interest will be due and payable;
5. The scheduled dates and amounts of all principal and interest installment payments;
6. The applicable nominal interest rate or discount rate;
7. The borrowing fund's right to make full repayment at any time without penalty;
8. The source or sources from which the borrowing fund or funds is expected to repay the loan or advance.

Section 3. All loans and advances will be repaid by the borrowing funds. Because each loan or advance is expected to be free from risk of default, the Director of Administrative Services will establish the nominal interest rate or discount rate to be applied to each transaction using then prevailing interest rates on indebtedness of a comparable term issued by the Local Agency Investment Fund (LAIF).

Section 4. No individual loan or advance approved by the City Manager will exceed the sum of five million dollars (\$5,000,000), and the total of all loans and advances so approved and outstanding at any one time will not exceed the sum of fifteen million dollars (\$15,000,000).

Section 6. No loans or advances will be made from a City fund that is reasonably likely, during the contemplated term of the loan or advance, to need the same cash to pay for projects or activities for which the lending fund originally received the cash. No loan or advance will be made that will either violate any law, or cause the City and/or its affiliated agencies to breach any restrictive covenant, contractual

provision, or grant term. Any loan of developer impact fees will be reported in accordance with California Government Code Section 66006(G).

Section 7. No loan or advance will be made under authority of this resolution involving any of the following: any funds holding State Gas Tax proceeds (including, without limitation, the Special Gas Tax Street Improvement Fund), any funds holding Federal streets and highway monies, any funds holding revenues collected pursuant to voter-approved measures (including, without limitation, Proposition 1B funds and general obligation funds), trust funds or any of the City of Paso Robles Redevelopment Agency funds.

Section 8. The authority granted herein shall expire June 30, 2014.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 18th day of August 2009 by the following vote to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

Mayor, Duane Picanco

ATTEST:

Cathy David, Deputy City Clerk