



# *CITY COUNCIL STUDY SESSION REPORT*

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MEETING DATE: JULY 12, 2011

ITEM NUMBER:

**SUBJECT: INTRODUCTION OF THE CITY'S MONTHLY CASH FLOW ANALYSIS**

**DATE: JULY 11, 2011**

**FROM: FINANCE DEPARTMENT /FINANCIAL PLANNING DIVISION**

**PRESENTATION BY: BOBBY YOUNG, BUDGET AND RESEARCH OFFICER**

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## **RECOMMENDED ACTION**

It is recommended the City Council discuss the City's (General Fund) Monthly Cash Flow Analysis.

## **BACKGROUND**

Due to the recent decline in the economy, the City's General Fund financial position changed. Over the last few years, the City's revenues sources significantly declined forcing the City to take necessary actions to reduce expenditures. Unfortunately, while working to reduce expenditures, the City used approximately \$33 million General Fund fund balance or reserves. This use of fund balance reduced the General Fund monthly cash balance.

Historically, the City's General Fund cash position declines during the months of June through November, with November being the lowest cash month of the fiscal year. This is due to the length of time between Property Tax revenue payments. This was most evident in November 2010, when the General Fund cash balance was \$5.4 million, as reported on the City's Treasurer's Report.

Recently, City Council has expressed a desire to determine the monthly cash flow for the General Fund in an effort to project the cash balance for the remainder of the calendar year (predominately November 2011). Given the City's historical healthy cash position, it had not been necessary to project monthly cash flow for the General Fund. Therefore, staff developed a cash flow model to better analyze the normal monthly activity and the changing trends in both revenue and expenditures for the next six months.

## **ANALYSIS**

The General Fund revenues and expenditures fluctuate on a monthly basis, affecting cash. In developing the cash flow model, staff used 5 years historical data for: individual revenue accounts and monthly cash activity. Staff believes the combination of the two appears to be the best way to accurately project ending monthly cash balance; however, there remains the possibility of aberrations when actual .

Staff currently projects the General Fund ending cash balances and monthly cash flow activity to be the following:

	<u>Ending Cash Balance</u>	<u>Monthly Cash Flow Activity</u>
May 2011	\$ 29.2 million	\$ 7.9 million
June 2011 (Proj)	27.2 million	( 2.0 million)
July 2011 (Proj)	23.7 million	( 3.5 million)
August 2011 (Proj)	21.6 million	( 2.1 million)
September 2011 (Proj)	14.2 million	( 7.4 million)
October 2011 (Proj)	11.3 million	( 2.9 million)
November 2011 (Proj)	9.6 million	( 1.7 million)
December 2011 (Proj)	15.8 million	6.2 million

As shown, staff is projecting an ending cash balance for the General Fund in November 2011 (lowest month of the fiscal year) of approximately \$9.6 million. This amount is \$4.2 million higher than November 2010. This increase is attributed to a few notable items when compared to last year: 1.) continued increase of cash receipts from Sales Taxes revenue, 2.) continued increase of cash receipts from TOT revenue, 3.) reduced payroll costs from a reduction/vacancy of staff positions, 4.) reduced payroll costs with employees contributing for PERS. Each is explained in more detail below.

It should be noted that these are not the only funds the General Fund has access to in order to make required payments during lean times. The City may use monies from other funds like internal service funds (via loans), however those loans would need to eventually be repaid. At this time, it is not recommended the City use those monies to further offset the General Fund annual budget. Also, as previously mentioned, this amount is an estimate and there factors that could change the projected ending monthly cash balance.

### **Assumptions:**

While compiling the data for the cash flow projection, staff noted a few areas that consistently affect cash on a monthly basis. For future monthly activity, staff made certain assumptions for those factors as described below.

**Revenues/Cash Inflows:** Staff observed that depending on the month, Sales Tax, Property Tax and TOT comprise between 65% and 95% of the total monthly revenue, which is consistent with the budget and the recent changes in the economy as to why the City's monthly cash inflow can be so volatile.

For the majority of other revenue line items, staff used a 5-year monthly average. In other words, staff compiled amounts by revenue account and by month for the last 5 years and then projected using the average of those 5 years. Staff then reviewed each account for reasonableness in determining the final projection.

Sales Tax –Staff used the FY 11-12 budget to determine monthly sales tax amounts. With the growth rate of approximately 3.5% for the fiscal year, monthly cash from sales tax revenue is anticipated to grow slightly. The City has also seen consistent increases in monthly cash receipts for Sales Tax due to a slight rebound in the economy. Therefore the City is receiving more on a monthly basis when compared to 2010 and especially 2009.

Property Tax – For the months of June through November, the City historically does not receive much revenue from Property Tax. This is consistent with Property Tax distributions from the County which occur in December/January and April/May. This is also consistent with distributions made from the State relating to Property Tax (most notably the “Triple Flip”).

Transient Occupancy Tax (TOT) – Staff used the FY 11-12 budget to determine monthly TOT revenue amounts. With the growth rate of approximately 1.5% for the fiscal year, monthly cash from TOT revenue is anticipated to grow slightly. However, due to the voter approved increase in the TOT rate, when compared to 2010, the total revenue/cash could be about 33% more in 2011.

### **Expenditures/Cash Outflows:**

Payroll – With salaries and benefits comprising a significant portion of total expenditures, staff analyzed payroll cash outflows for the last 5 years. As expected, with reductions in staffing and contributions from employees, total payroll has reduced on average \$600,000 per payroll (including PERS payments). At the highest in FY 2008-2009, cash outflows for each payroll were approximately \$3.2 million. Based on recent payroll information, staff estimates outflows of approximately \$2.6 million for each payroll through December. Since the City has 26 payrolls over the course of an entire year, there are 13 payrolls through December.

Accounts Payable – Another constant monthly cash outflow are payments made to vendors or others doing business with the City. At each City Council meeting, the warrant registers are provided to report on accounts payable distributions. Since monthly activity can fluctuate during the year without notice, staff used an average monthly outflow of approximately \$1.2 million. This amount is about \$500,000 less than the average monthly payments made in FY 07-08. Accounts payable distributions are processed on a weekly basis.

Other Outflows – Staff also reviewed monthly journal entries that book changes to cash in the General Fund. The largest items booked through journal entries affecting cash flow are debt service payments. Since these payments are normally processed via wire transfer and therefore posted to cash with journal entries. As shown in the Monthly Cash Flow Activity above, the increase of out flow activity in September is due to anticipated debt service payments. Also charges to internal service funds (Equipment Replacement Fund and Self Insurance Fund) are posted to cash with journal entries. For projecting, staff used varying monthly amounts to account for journal entries.

### **ALTERNATIVES CONSIDERED**

Staff has not considered any alternatives at this time.

### **FISCAL REVIEW**

There is no fiscal impact regarding the City’s Monthly Cash Flow Analysis.

**LEGAL REVIEW**

There is no legal review necessary at this time.

**CONCLUSION**

Recently, City Council has expressed a desire to determine the monthly cash flow for the General Fund in an effort to project the cash balance for the remainder of the calendar year (predominately November 2011). Given the City's healthy historical cash position, it had not been necessary to project monthly cash flow for the General Fund. Therefore, staff developed a cash flow model to better analyze the normal monthly activity and the changing trends in both revenue and expenditures for the next six months.

Historically, the City's General Fund cash position declines during the months of June through November, with November being the lowest cash month of the fiscal year. This is due to the length of time between Property Tax revenue payments. Staff is currently estimating a General Fund cash balance in November 2011 of approximately \$9.6 million. It should be noted that these are not the only monies the General Fund has access to in order to make required payments during this time, however the use of monies from other funds (via loans) would need to eventually be repaid.

Should City Council desire, staff may include a section/analysis in the Monthly Treasurer's Report related to cash balance projections for the upcoming six months.

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