

# Plan to Reduce Reliance on Short-term Financing and Improve Liquidity

Presentation at City Council Work Session  
August 27, 2012

# Excerpt from 2011 Management Letter

*“We recommend that the City adopt a formal documented plan to improve cash flow and to eliminate the deficit general fund unassigned fund balance. This will improve the financial condition of the City, and reduce the reliance on bank financing to meet normal cash flow requirements.”*

# General Fund Unassigned Fund Balance

- The General Fund Nonspendable Fund Balance totaled \$25.5 million at June 30, 2011
- Nonspendable Fund Balance is primarily composed of inter-fund loans (aka “Pooled Cash Deficits”) not expected to be collected in the next year
- Having a Nonspendable Fund Balance results in reliance on short-term borrowings, and liquidity concerns

# Pooled Cash Deficits

	Balances at June 30, 2012 <u>(Unaudited)</u>	Balances at June 30, 2011 <u>(Audited)</u>	Increase <u>(Decrease)</u>
Telecom	\$ 16,936,492	16,936,492	-
Wastewater Fund	1,249,774	2,531,914	(1,282,140)
Water Fund	2,168,587	2,065,706	102,881
Southern Connector	641,527	1,211,949	(570,422)
Westlake Garage	621,499	621,031	468
Waterfront Access	380,984	380,984	-
Stormwater Fund	290,535	273,264	17,271
<b>Total</b>	<b>\$ 22,289,398</b>	<b>24,021,340</b>	<b>(1,731,942)</b>

Note - Table above excludes the School Elevator Project

# Operating Deficits vs. Fund Deficits

- Operating deficits occur when a government's outlays exceed its inflows. In other words, spending more than you make and using a credit card to pay for things
- A fund deficit represents the cumulative balance over time of overspending. In other words, the balance owed on your credit card at a point in time

# Why We Need To Do This

- To improve liquidity and reduce reliance on short-term borrowings. In other words, to pay down the City's "credit card" balance
- To address one of Moody's major concerns as expressed in the latest ratings downgrade
- To address the material weakness that our audit firm included in the 2011 management letter

# What We Are Proposing

- General Obligation Bond issue for \$9 million
- The bond proceeds will not be used to fund spending, but will be used to reduce reliance on Tax Anticipation Notes (our “credit card”)
- Issuance is expected in Spring 2013
- Bond interest will be taxable to investors because of its intended use

# Why a \$9 Million Bond

# Details of Proposed Bond Issue

- The term of the bond will be 15 years
- Our financial advisor believes we will be able to obtain a 5% interest rate; the rates on taxable bond issues is not much higher than tax-exempt issues
- Reduction in general fund interest expense could be as high as \$300,000
- Expected cost per householder, based on a \$250,000 assessed value, is appx. \$60 per year

# Why We Will Still Need to Use Tax Anticipation Notes

- Property tax payment cycles are irregular, and the City must fund operations without any property tax payments from July 1 to August 12, or 1-1/2 months
- In the winter, there is a four month period between property tax payments – November 12 to March 12
- The City is only “ahead” on property tax payments from June 12 to June 30

# Accounting for the Bond Issue

- The bond proceeds will be used first to pay any tax anticipation notes outstanding at the time.
- Any unspent proceeds will be placed in a debt service reserve fund and invested (which is allowable because the bonds are “taxable”)
- As any of the Pooled Cash Deficits are repaid, the payments will be placed in the reserve fund

# Feedback From Moody's

- Long-term financing of \$9 million will improve our liquidity
- We must use the bond proceeds only to reduce reliance on short-term borrowings, and not spend it on operating or capital items
- We must improve controls over cash

# How We Are Improving Our Controls Over Cash

- The implementation of the New World financial reporting system has resulted in strong budgetary controls
- Implementation of New World has revealed many poor budget practices that are being corrected
- CAO and Assistant CAO's approve all purchase orders and invoices, and CAO approves all hiring in general fund positions

# Feedback From Our Audit Firm

- Reducing our reliance on Tax Anticipation Notes will improve our liquidity
- Must reduce our Pooled Cash Deficits as well

# Others With Us Tonight

- In Person
  - Audit Advisory Committee member (TBD)
- By Telephone
  - Scott McIntire, Audit Partner, Melanson Heath & Company, P.C., our audit firm
  - Jessica Cameron, Public Financial Management, our financial advisor