



## Legislation Text

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**File #:** 19-358, **Version:** 1

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*Report Prepared by: Venus Rodriguez, Finance Officer*

**SUBJECT:** Review, Discussion, and Recommendation Regarding Potential Modifications, if any, to Charter Section 1112 Regarding the Cash Basis Fund

### **REPORT IN BRIEF**

Review Charter Section 1112 Cash Basis Fund

### **RECOMMENDATION**

**Citizens Advisory Charter Review Committee** - Adopt a motion:

- A. Making a recommendation to the City Council to remove Charter Section 1112; or
- B. Making no changes to Charter Section 1112.

### **AUTHORITY**

Charter Section 1112

### **DISCUSSION**

The City of Merced Charter includes Section 1112-Cash Basis Fund, which states:

"The City Council shall maintain a revolving fund to be known as the "Cash Basis Fund", for the purpose of placing the payment of running expenses of the City on a cash basis. An operating reserve shall be built up in this Fund from any available sources in an amount that the City Council deems sufficient with which to meet all lawful demands against the City for the first five months, or other necessary period, of the succeeding fiscal year prior to the receipt of ad valorem tax revenues. Transfers may be made by the City Council from such Fund to any other fund or funds of such sum or sums as may be required for the purpose of placing such funds, as nearly as possible, on a cash basis.

All moneys so transferred from the Cash Basis Fund shall be returned thereto before the end of the fiscal year."

### **Business Practice**

The Finance Department established Fund 002 Cash Basis and transferred \$4,000,000 from the General Fund in order to comply with Section 1112 of the Charter. The purpose of the funding was to have cash flow to cover expenses due to the timing city receives certain large revenues. For example, the City does not typically receive installments of revenues from property taxes until

January and April of each fiscal year.

The City currently pools cash of all funds for investment and cash flow purposes. Since its inception, the City has only used \$329,219 of the Cash Basis funds in 1999 for Fund 021-Street Trees. The City's investment portfolio averages \$180 million, of which \$20 million is kept in the Local Agency Investment Fund (LAIF) with the State of California on a consistent basis. The funds kept in LAIF can be easily liquidated if needed.

As part of our month end process the finance Department completes a cash flow analysis to be sure we will be able to meet future cash needs. The City Council is provided monthly investment and financial reports, which includes details of investments, cash position, cash inflows and outflows, and expense and revenue by fund. The Finance Officer signs every investment report certifying that the city has adequate resources to meet the expenditure requirements for the next six months.

Through annual resolutions adopted during the budget process, the City Council applies the Government Finance Officers Associations best practice to determine the appropriate level of unrestricted fund balance in the General Fund. Currently the unassigned portion of the unrestricted General Fund fund balance is a minimum of the average of two months of revenue and expenditure. This means that the City Council will not appropriate for the fiscal year the average of two months of revenue and expense, calculated for Fiscal Year 2019-20 that amount is \$6,996,513.

### Charter City Comparisons

There are 121 charter cities in California. In order to narrow the research I focused on Cities that had similar population, budget size, and/or is a city in the valley. The following table shows the City of Merced compared to nine other charter cities.

City	Population	Budget Size (millions)	General Fund Budget (millions)	General Fund Percentage	Cash Flow Requirement in Charter	Amount Set Aside
Merced	87,110	\$255	\$46	18%	Yes	\$4,000,000
Alhambra	86,722	\$153	\$76	50%	Yes	\$ 450,000
Chico	95,476	\$ 95	\$50	53%	No	
Newport Beach	86,457	\$304	\$219	72%	Yes	None
Redwood City	84,602	\$290	\$137	47%	Yes	unknown
Santa Barbara	92,815	\$403	\$142	35%	Yes	unknown
Santa Monica	91,857	\$785	\$418	53%	Yes	unknown
Tulare	62,779	\$124	\$42	33%	No	
Visalia	131,074	\$214	\$72	34%	No	

Whittier	86,694	\$103	\$63	61%	Yes	None
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