

## CASH MANAGEMENT— MAXIMIZING RESOURCES

Each year the City adopts a budget. At the same time, this budget is converted into a cash budget internally to determine the cash flow for the budget year. Two revenue issues require consideration, property taxes and timing issues with shared revenues from the State. This requires the City to provide interim financing, internal or external, for certain operating funds. These funds and their percentage of revenue that is property tax are as follows.

### PROPERTY TAXES AS A PERCENTAGE OF REVENUE FOR CERTAIN FUNDS

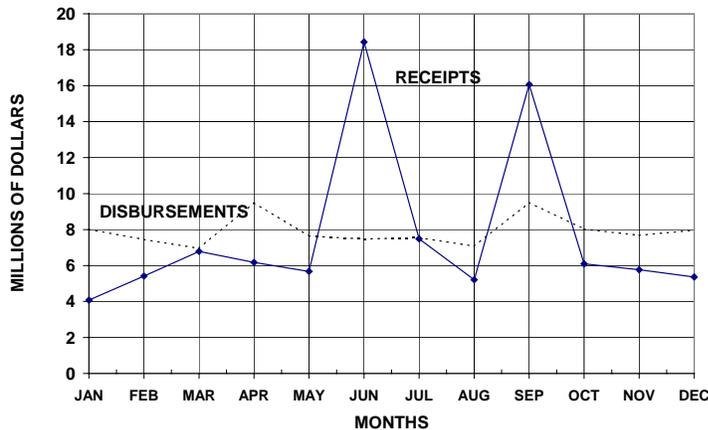
	<u>General</u>	<u>Sanitation</u>	<u>Library</u>
2001	30.9	20.0	83.2
2002	32.1	20.0	84.4
2003	30.8	18.1	86.7
2004	29.7	18.6	87.9
2005	29.9	19.4	78.6

The range of property tax revenue varies from one of every five dollars for the Sanitation Fund to less than four of every five for the Library Fund.

### UNDERSTANDING CASH FLOW

To completely understand the importance that property tax revenues have in cash management, the 2005 cash flow forecast summary for the General Fund graph is useful in illustrating the timing problem.

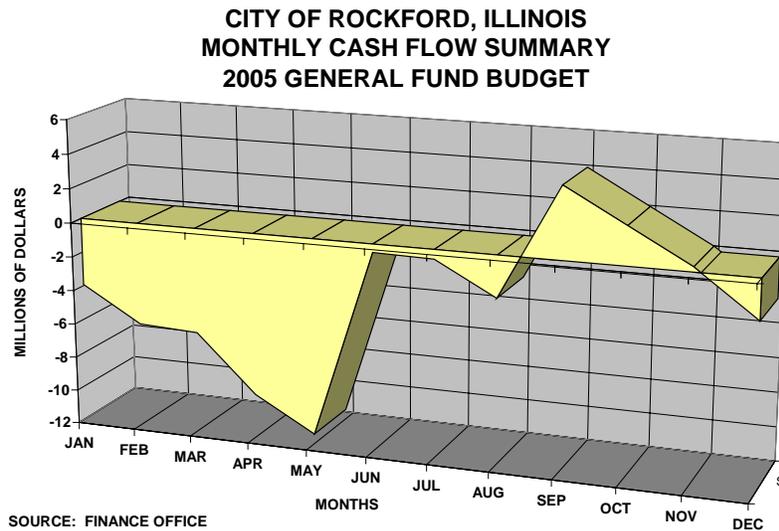
**CITY OF ROCKFORD, ILLINOIS  
CASH FLOW FORECAST SUMMARY  
2005 GENERAL FUND BUDGET**



SOURCE: FINANCE OFFICE

Illinois property taxes are collected the year after the budget for which they were authorized in two payments: June and September. As noted above, the collection of over a quarter of the fund's revenues distorts any semblance of an orderly flow of revenue that matches expenditures.

This produces a cash draw down for the first five months of a fiscal year as the monthly cumulative summary illustrates.



Since 1985, only the Library Fund has continued to use short-term financing. For the General Fund, the rollback from 32% to 30% for property taxes as a percentage of total fund revenues and the elastic revenue surpluses generated sufficient cash for internal financing. The Sanitation Fund changed from being financed by property taxes to having approximately eighty percent of the revenue generated from user fees. The result is an almost ideal match of revenues and expenditures.

### CASH POLICY REVIEW

The first City Financial Task Force recommended that the City develop balances that would allow it to accomplish two objectives:

- Reduce or eliminate the need to obtain short-term borrowing to cover operating expenses, and;

- Offset fluctuations caused by yearly excesses (deficits) of revenues over expenditures.

The current cash balance policy is:

- Assure adequate cash balances are available to meet the City's anticipated disbursements. Prior to budget deliberations, the Finance Department will annually develop cash flow analysis and recommend cash balance goals at specific points in time to meet those disbursements.

For 1987, a minimum cash balance equal to 70% of those levies that support the General Fund is recommended to be in effect at the beginning of the City's fiscal year, January 1.

The Council policy for the use of above 70% excess funds is:

Those funds available in excess of the minimum cash balance may be reappropriated for other municipal purposes by the City Council. The use of these funds should be limited to non-recurring expenditures outside of the City's operating budget. Funds may also be used for abating taxes if the City Council so approves.

In the past, excess funds have been used for capital construction needs. Due to increasing cash flow requirements and decreasing surpluses, excess funds have not been available since 1989. 2005 cash flow demands will absorb all available funds.

#### CASH MANAGEMENT IN 2005

For 2005 only one fund, the Library, will require interim financing. As in previous years since 1986, this will again be accomplished as a \$750,000 interfund loan (2004 - \$1,000,000) from the General Fund to the Library Fund. In 2006, the Library should not require a Library loan.

With General Fund levies increasing \$2.4 million in 2004 and \$0.4 million in 2005, cash needs have increased. With 2003 and 2004 having excesses, the 70% cash test percentage has improved to 61%.

It is anticipated that excess funds, should they materialize during future years, will be used exclusively to maintain the cash policy percentage of 70%. Management of the necessary cash flow will be the primary concern in the next few years for the City as property tax caps and binding arbitration continue to affect City operations.

#### 2005 ESTIMATED TAX ANTICIPATION NOTE ISSUES/INTERNAL BORROWING

<u>OPERATING FUND</u>	<u>AUTHORIZATION</u>	<u>ESTIMATED SALE</u>
General	\$21,045,900	
Sanitation	1,483,800	
Library	<u>4,694,300</u>	<u>\$750,000</u>
	\$27,224,000	\$750,000

The City will continue to exert strong budget control and place importance on financial planning in 2005 in order to maintain and improve its cash position. The benefits of such efforts, the 2000 bond rating upgrading by Moody's from A2 to A1 and the financial savings that can be passed on to the taxpayers, are too great to not continue.