



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Sara L. Hensley
Larry D. Lisenbee

SUBJECT: SEE BELOW

DATE: 01-04-05

Approved

Date

01.06.05

SUBJECT: ADOPTION OF APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN THE ANTI-TOBACCO MASTER SETTLEMENT AGREEMENT REVENUE FUND AND IN THE SEWAGE TREATMENT PLANT CONNECTION FEE FUND TO PROVIDE FOR A SHORT-TERM CASH FLOW LOAN IN THE AMOUNT OF \$4.8 MILLION

REASON FOR THE ADDENDUM

The 2004-2005 Adopted Budget anticipated the need for a short-term loan for cash flow purposes in the Anti-Tobacco Program Fund, given the fact that revenue from the national settlement is not received until late Spring. Recent estimates of the cash status of the fund and the planned cancellation of the January 18th City Council meeting make it necessary to advance the approval of the planned loan from the Sewage Treatment Plant Connection Fee Fund to the Anti-Tobacco Master Settlement Agreement Revenue Fund to the January 11th City Council meeting.

RECOMMENDATION

1. Adopt the following amendments to the Appropriation Ordinance and Funding Sources Resolution in the Anti-Tobacco Master Settlement Agreement Revenue Fund:
 - a. Establish a Short-Term Loan from the Sewage Treatment Plant Connection Fee Fund in the amount of \$4.8 million to be re-paid upon the receipt of Anti-Tobacco Master Settlement Agreement Fund revenue later this year.
 - b. Increase the Ending Fund Balance by \$4.8 million.
 - c. Appropriate the repayment of the Short-Term Loan from the Sewage Treatment Plant Connection Fee Fund in the amount of \$4.8 million to be re-paid upon the receipt of Anti-Tobacco Master Settlement Agreement Fund revenue later this year.
 - d. Decrease the Ending Fund Balance by \$4.8 million.

HONORABLE MAYOR AND CITY COUNCIL

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RECOMMENDATION (Cont'd)

2. Adopt the following amendments to the Appropriation Ordinance and Funding Sources Resolution in the Sewage Treatment Plant Connection Fee Fund:
 - a. Establish a Short-Term Loan to the Anti-Tobacco Master Settlement Agreement Revenue Fund in the amount of \$4.8 million.
 - b. Decrease the Reserve for Treatment Plant Expansion by \$4.8 million.
 - c. Recognize receipt of the repayment of a Short-Term Loan made to the Anti-Tobacco Master Settlement Agreement Revenue Fund in the amount of \$4.8 million to be re-paid upon the receipt of Anti-Tobacco Master Settlement Agreement Fund revenue later this year.
 - d. Increase the Reserve for Treatment Plant Expansion by \$4.8 million.

BACKGROUND

In 1998, the City became one of only four cities in California to settle its lawsuit with tobacco companies. The City has estimated that approximately \$10,000,000 will be received annually over 25 years from the national settlement with tobacco companies. The settlement monies are generally received in April and placed into a City account commonly known as "The Healthy Neighborhoods Venture Fund" (HNVF). For 2004-2005, appropriations were approved for programs and services funded by the HNVF requiring cash payments throughout the year, even though revenue from the settlement monies will not be received until approximately April 2005. Provisions were made in the budget for the interest payment requirements of such a loan, but the exact timing and source of the loan were left to be determined.

ANALYSIS

In order to meet anticipated commitments to organizations providing HNVF programs and services for the remaining period until our annual payment is received, a short-term loan from the Sewage Treatment Plant Connection Fee Fund is required in January.

The maximum estimated need is approximately \$4.8 million. This need includes cash to cover bills from January 2005 through April 2005. The month of April is factored into the estimate to ensure payment to organizations even if settlement monies are received after the April payments need to be made. Consequently, the amount of interest to be paid is estimated to be approximately \$112,000. Provisions were included in the 2004-2005 Adopted Budget to account for the interest to be paid at the City's pooled funds rate of interest earnings. The actual interest requirement will be determined in May, once repayment of the loan has occurred, and paid to the Sewage Treatment Plant Connection Fee Fund via the June year-end clean-up memorandum.

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ANALYSIS (Cont'd)

If approved, this loan would be drawn on an as-needed basis through coordination between the Finance Department and the Parks, Recreation, and Neighborhood Services Department to determine actual amounts. Drawing on an as-needed basis will minimize the final amount of interest which must be paid.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	RC #	Total Appn.	Amt. For Contract	Budget Page	Last Budget Action (Date, Ord. No.)
539	7681	<i>Reserve for Treatment Plant Expansion</i>		\$25,150,002,000		<u>2004-2005</u> Adopted Operating Budget, Page XI-67	10/12/2004, 27267

COORDINATION

This report was coordinated with the City Attorney's Office and the Finance Department.

CEQA

Not applicable.

Sara L. Hensley

SARA L. HENSLEY

for Director, Parks, Recreation and Director,
Neighborhood Services

Larry D. Lisenbree

LARRY D. LISENBEE
Budget Director

I hereby certify that there will be available for appropriation in the Sewage Treatment Plant Connection Fee Fund in the Fiscal Year 2004-2005 monies in excess of those heretofore appropriated, therefrom said excess being at least \$4,800,000.

Larry D. Lisenbree

LARRY D. LISENBEE
Budget Director