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AUTHORIZATION TO RECLASSIFY INTER-FUND ADVANCE TO INTERFUND TRANSFER

Staff Contact: Tom Duensing, Director, Finance and Technology

Purpose and Recommended Action

This is a request for the City Council to waive reading beyond the title and adopt a resolution authorizing that an amount recorded in the City's General Ledger as an Advance From Other Funds to the General Fund and an Advance to Other Funds from certain business type (Enterprise) funds be reclassified to an interfund transfer.

Background

On May 11, 2010, the City Council adopted a resolution granting authority to the City Manager to sign agreements and secure the financial mechanisms necessary to make a payment of \$25 million to the NHL to satisfy the National Hockey League's requirements for them to operate the city owned arena so that the Phoenix Coyotes could continue to play in Glendale for the 2010-2011 NHL season. The financial mechanism used was recorded in the City's general ledger as an inter-fund advance of \$21 million from the Landfill Enterprise Fund and a \$4 million inter-fund advance from the Sanitation Enterprise fund.

On May 11, 2011 the City Council adopted a second resolution granting similar authority for the City Manager to make an additional agreement with the NHL, secure the financial mechanisms necessary, and pay up to an additional \$25 million for operation of the arena for the 2011-2012 NHL season. The financial mechanism used was an inter-fund advance from the Water and Sewer Enterprise Fund for \$15 million and additional inter-fund advances totaling \$5 million from other general fund sub-funds. As part of the agreement with the NHL, an additional \$5 million is scheduled to be paid to the NHL in Fiscal Year 2016-17.

A repayment plan for the inter-fund advances was developed as part of the budget process and payments from the general fund to the enterprise funds have occurred each year starting in 2012. Including the budgeted payment for FY2015, a total of \$723,750 in principal and \$2,837,696 in interest has been or will be

paid to the enterprise funds for these advances. The amounts to be repaid each year were subject to Council approval as part of the budget process.

On March 17, 2015 at the Budget Workshop, staff presented information to the City Council on a plan for improving the financial stability and flexibility of the City by reclassifying the inter-fund advances to inter-fund transfers. The consensus of the Council was for staff to bring forward a resolution authorizing the City Manager or his designee to reclassify the advances in the City's general ledger.

Analysis

In 2011 and 2012, inter-fund advances were recorded on the City's general ledger as long-term borrowing agreements between the General Fund and certain Enterprise Funds. At that time, cash was transferred from the Enterprise funds to the General Fund to make cash payments to secure agreements with the NHL. The result of this accounting treatment is that a long-term liability was established from the General Fund to various Enterprise Funds. On the General Fund Balance Sheet this causes the City's unassigned fund balance to be a negative number despite the long term nature of the advance repayment. The City's bond rating was serially downgraded by both Standard and Poor's and Moody's rating services beginning in 2011 and continuing through 2013. In their 2014 rating report, Standard and Poor's cited "very weak budget flexibility, with a negative available fund balance in fiscal years 2012 and 2013" as a key factor affecting their rating of the City's bonds.

The balance remaining on the inter-fund advance, after making the budgeted payment amount for 2015, will be \$39,276,250 which consists of \$14,771,250 from the Water and Sewer Enterprise Fund, \$20,584,200 from the Landfill Enterprise Fund, and \$3,920,800 from the Sanitation Enterprise Fund. This action will reclassify the inter-fund advances in the City's general ledger to inter-fund transfers which will remove the liability from the General Fund balance sheet and make the transfers permanent in nature. This transaction does not involve any transfer of cash between funds. The Cash was recorded, via inter-fund advance, in FY11-12 and FY12-13. Currently, Council has the option to appropriate or not appropriate annual inter-fund advance repayments each fiscal year. Council may elect to continue to appropriate or not appropriation transfers from the General Fund to the Enterprise Funds to support their operations each year as part of each fiscal year budget process. Future transfers would not be recorded in the general ledger as principal and interest payments remaining inter-fund advance balances would not be recorded in the annual financial statements.

Budget and Financial Impacts

This reclassification would increase the General Fund, fund balance by \$39,276,250 during the fiscal year ending June 30, 2015. The reclassification does not affect cash in any fund and no budget appropriation adjustments are necessary to complete the transfer.

Capital Expense? No

Budgeted? No

Requesting Budget or Appropriation Transfer? No

If yes, where will the transfer be taken from?