

## 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

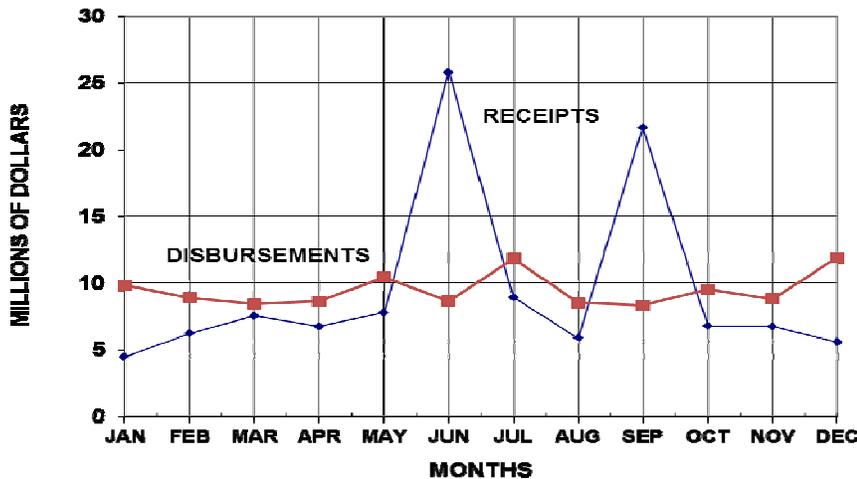
|      | <u>General</u> | <u>Sanitation</u> | <u>Library</u> |
|------|----------------|-------------------|----------------|
| 2008 | 28.8           | 22.9              | 81.6           |
| 2009 | 32.1           | 23.5              | 82.8           |
| 2010 | 36.0           | 0.2               | 78.6           |
| 2011 | 36.4           | 0.2               | 85.9           |
| 2012 | 37.0           | 0.2               | 87.1           |

The range of property tax revenue varies from nearly negligible for the Sanitation Fund to just over three of every four for the Library Fund.

### UNDERSTANDING CASH FLOW

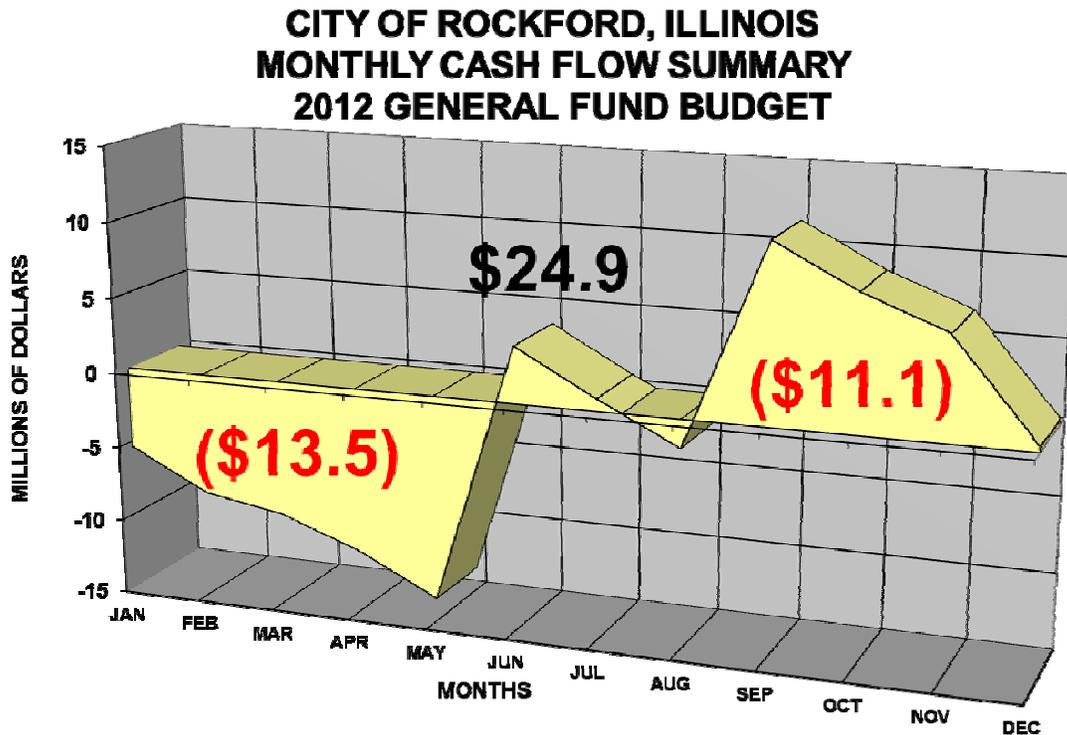
To completely understand the importance that property tax revenues have in cash management, the 2012 cash flow forecast summary for the General Fund graph is useful in illustrating the timing problem.

**CITY OF ROCKFORD, ILLINOIS  
CASH FLOW FORECAST SUMMARY  
2012 GENERAL FUND BUDGET**



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.



For the General Fund, the 30% range for property taxes as a percentage of total fund revenues and the elastic revenue surpluses have generated sufficient cash for internal financing. The Sanitation Fund changed in 2010 from being financed by property taxes (20%) and user fees (80%) to being totally financed by user fees. The result is an almost ideal match of revenues and expenditures. Due to its heavy reliance on property taxes, the Library Fund utilized short term financing internally until 2005.

### 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. 2012 cash flow demands will absorb all available funds.

#### CASH MANAGEMENT IN 2012

As in 2011, the City will utilize a \$15 million line of credit during the first five months of the fiscal year. It is anticipated that \$12 million will actually be drawn down. The line of credit will be repaid in June and September from the receipt of property taxes. While the General Fund almost has adequate cash, \$14.1 million, to deal with its beginning year mismatch, due to the operating losses in the last two years, common cash pool loans to other funds will have to be financed externally.

With General Fund levies increasing \$1.5 million in 2011 and \$1.4 million in 2012 (primarily due to increasing public safety pension contribution requirements), cash needs have increased.

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.

The City will continue to exert strong budget control and place importance on financial planning in 2012 in order to restore and maintain its cash position.