

DATE ISSUED: June 14, 2001

REPORT NO. 01-127

ATTENTION: Honorable Mayor and City Council
Docket of June 19, 2001

SUBJECT: De-appropriation of TransNet Commercial Paper

SUMMARY

Issues - 1) Should the City Council approve the de-appropriation of \$37,448,696 in TransNet Commercial Paper for the projects listed on Attachment "A"?

Manager's Recommendations - 1) Approve the de-appropriation of \$37,448,696 in TransNet Commercial Paper for the projects listed on Attachment "A".

Other Recommendations - None.

Fiscal Impact - Previously approved TransNet Commercial Paper appropriations will be reduced by \$37,448,696 for Fiscal Year 2001 of which \$26,916,925 will be reprogrammed in FY 2002 as part of the FY2002 budget document.

BACKGROUND

In addition to the City's annual share of TransNet revenues, the City can request funds from SANDAG in the form of TransNet Commercial Paper. City TransNet funds then must be budgeted in subsequent fiscal years as debt service against the Commercial Paper. The receipts of such commercial paper funds allow the City to construct projects early in the TransNet program instead of having to wait until sufficient revenues accrue. The previous Council approved the budget of numerous projects using Commercial Paper.

In an effort to better manage TransNet funding for capital improvement projects, a cash management process was implemented in 1997. Cash management is a process in which the City makes money available on an as-needed basis to complete a project.

The City's first priority is to use TransNet cash for projects as much as possible in an attempt to minimize the issuance of Commercial Paper. This is accomplished through a cash management system which identifies projects that require immediate financing and also identifies available cash. Cash is transferred to projects budgeted with Commercial Paper with an immediate financing need. To maintain the balance of appropriations within the capital improvement

program budget, an equal amount of commercial paper is then moved to the cash funded project. This cash management process continues throughout the year which reduces the use of debt and maximizes the use of available cash. This process has saved the City approximately \$4 million in interest costs avoided.

With this process, any Commercial Paper not issued during the current fiscal year must be de-appropriated and reprogrammed in the new fiscal year. This necessarily occurs as the reprogrammed Commercial Paper may or may not appear in the same project(s). This action is merely a deferral process and by itself does not constitute a reduction in the overall Commercial Paper funding. The reason is that, although, the issuance of Commercial Paper is deferred, the individual project needs remain the same which necessitates the sustenance of the programmed funding.

DISCUSSION

As part of the Fiscal Year 2001 Final Budget, the Mayor and City Council approved \$75.5 million in TransNet funded activities. Of this amount, \$25.5 million is from TransNet Sales Tax (cash and interest), \$26.2 million from new projects to be accomplished with FY 2001 Commercial Paper, and \$23.8 million which was Commercial Paper programmed from prior years and carried over as a result of our cash management process. The largest amount of commercial paper (\$26 million) appeared in the Resurfacing Program (CIP# 59-001.0)

Presently, there is \$37.4 million in Commercial Paper that remains at end of FY 2001. \$26.9 million of this amount is proposed to be reprogrammed in Fiscal Year 2002. The difference of \$10.5 million will not be reprogrammed as it is part of the Resurfacing Program and the Mayor and Council has directed staff to delete that from the Commercial Paper program.

(Of the \$26 million in the FY01 Resurfacing Program (CIP# 59-001.0), \$7 million has been awarded for contracts, \$10.5 million has been cancelled, and the remaining \$8.5 million are resurfacing projects awarded by the previous City Council and need to be reprogrammed for the reason explained above, in that the cash management process has not been completed for this project. The \$8.5 million is part of the \$26.9 million proposed to be reprogrammed in FY 2002.)

RECOMMENDATION

It is recommended that \$37.4 million be de-appropriated this fiscal year for the projects listed on Attachment "A". Of this amount, \$26.9 million will then be reprogrammed in the Fiscal Year 2002 Final Budget. With this action, there will be no fiscal impact to the projects listed on Attachment "A", except for the Resurfacing Program as described above.

If the Council decides not to reprogram the \$26.9 million in Commercial Paper, then capital improvement projects or other TransNet funded activities in this amount will need to be deferred, canceled, or reduced.

ALTERNATIVES

1. De-appropriate Commercial Paper in the amount of \$37.4 million, but do not reprogram any Commercial Paper. This is not recommended as there is more than \$26 million in Commercial Paper funding for a variety of capital improvement projects yet to be constructed.
2. De-appropriate \$10.5 million in commercial paper for the Resurfacing Program, and cancel the remaining \$26.9 million in Commercial Paper and defer the projects to future years when cash becomes available.

Respectfully submitted,

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Approved: George I. Loveland
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BELOCK/CBM