

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



Date: November 8, 2018

To: ABAG Finance Committee
ABAG Executive Board

From: Executive Director

Subject: **Authorization of ABAG Operational Advance**

Executive Summary

Staff recommends that the ABAG Executive Board authorize acceptance of an advance from the Metropolitan Transportation Commission (MTC) in the amount of \$10 million to help meet cash flow needs.

Background

Over the years, ABAG has been successful in obtaining grant funds from long term grant programs. The amount of these grants, mainly from the Department of Water Resources (DWR) and the California Public Utilities Commission (CPUC), increased from a budget of \$22 million in FY 2012-13 to \$52 million in FY 2016-17 and another \$36 million in FY 2017-18. The ABAG success in obtaining these grant funds has also created a strain in the ABAG cash flow.

Grant programs generally require the agency, ABAG, to pay the contractor and request subsequent reimbursement from the respective granting agencies. The problem is that the reimbursement can take up to 90 days or even longer if there is a question on the request from the granting agency.

(amount in millions)

Fiscal Year	Available Cash	Accounts Payable	Net Available	Grant Revenue
2018	\$5.5	\$4.8	\$0.70	\$36
2017	\$5.9	\$7.0	\$<1.10>	\$52
2016	\$7.3	\$26.4	\$<19.1>	\$31
2015	\$8.1	\$6.1	\$2.0	\$26
2014	\$7.2	\$2.8	\$4.4	\$23
2013	\$5.1	\$2.3	\$2.8	\$22

If we assume 90 days from payment to reimbursement and even monthly payments, the cash flow demand on ABAG has increased from \$5.5 million to over \$9 million in the past five years.

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The current estimate at \$9 million is greater than the entire annual cash flow of the ABAG administrative fund. Even more, “net” available cash (available cash after accounts payable) has dropped from \$2.8 million in 2013 to \$700,000 ending FY 2017-18.

There are three potential remedies to the problem:

- (1) Request advances from grantors. This is possible with the CPUC grants but unlikely with the DWR grants.
- (2) Run the checks through the MTC checking account. This is the process we use with payroll reimbursement for the MTC employees charging ABAG grants. MTC has the liquidity to carry the projects, however the grants are in ABAG’s name and under an ABAG tax ID, thus, we believe that using the MTC checking account now could actually compound problems with reimbursement.
- (3) Provide a formal liquidity advance to ABAG to meet cash flow needs. We estimate up to \$10 million would be necessary to manage the cash flow of current grants. The advance would be repaid through grant reimbursements and could be renewed annually based on projected budget need. Once ABAG has adequate liquidity the program could be terminated.

Staff recommends initiating option 1 followed by option 3. As noted above, option 2 is not an alternative solution. Our project managers are already contacting sponsor agencies to either provide operating advances or expedite the reimbursement process. However, even an expedited payment process will leave ABAG with potential cash flow issues.

Staff proposes to expand the practice we currently use to cover payroll by authorizing MTC to cover project advances up to a credit line of \$10 million.

Proposed terms would be:

- Advance would be renewed annually in December
- Amount of advance initially \$10 million but subject to review with renewal
- Rate would be 1% on drawn amounts with a charge only if ABAG draws on the advance
- Advance can be used for any approved budget costs with a reimbursement mechanism

The advance should resolve cash flow issues that are plaguing ABAG grant processes. The current backlog of reimbursements and payments is over \$4 million. Unfortunately, if invoices are not paid we cannot apply for reimbursement and projects stall.

ABAG is only a few years away from financial independence from OPEB obligations which would significantly improve asset levels for programming and liquidity. In the interim, resolving the cash flow issue will improve current financial operations.

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Recommended Action

The ABAG Finance Committee is requested to recommend ABAG Executive Board acceptance, and the ABAG Executive Board is requested to authorize acceptance, of an advance from the Metropolitan Transportation Commission in the amount of \$10 million to help meet cash flow needs. The MTC Administration Committee is scheduled to consider this item on November 14th, with the full Commission acting on November 28th.



Steve Heminger