



METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Administration Committee

DATE: November 7, 2018

FR: Executive Director

W.I.: 1152

RE: MTC Resolution No. 4358 – Association of Bay Area Governments (ABAG) Operational Advance

This memorandum requests the Committee's approval to refer MTC Resolution No. 4358 to the full Commission authorizing an operational advance to ABAG in the amount not to exceed \$10 million to cover cash flow mismatch between project payments and grant reimbursement.

Serious cash flow issues exist with respect to the two main ABAG enterprise grant programs, SF Estuary Partnership and the BayREN Program. The problem is twofold: the growth in grants and payable accounts with a lack of available cash flow resources to meet the payments.

Background

Over the past few years ABAG's grants have more than doubled. The grants are principally issued through the California Department of Water Resources (DWR) and the California Public Utilities Commission (CPUC).

(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. 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 at the end of 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. 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.

MTC staff recommends initiating option 1 followed by option 3. As noted above, option 2 is not a viable 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 cash flow challenges.

MTC Resolution No. 4358 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.

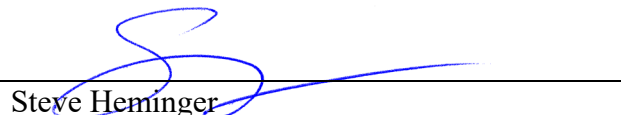
Proposed terms would be:

- 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 may be 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 ABAG's current financial operations.

Recommendation:

Staff recommends that the Committee forward MTC Resolution No. 4358, authorizing a \$10 million advance to ABAG to meet cash flow needs, to the full Commission for approval.


Steve Heminger

SH:bm
Attachment

Date: November 28, 2018
W.I.: 1152
Referred by: Administration

ABSTRACT

Resolution No. 4358

This resolution approves the terms and conditions to provide the Association of Bay Area Governments (ABAG) with an operational advance to meet liquidity and cash flow requirements.

Date: November 28, 2018
W.I.: 1152
Referred by: Administration

RE: ABAG Operational Advance

METROPOLITAN TRANSPORTATION COMMISSION
RESOLUTION NO. 4358

WHEREAS, MTC and ABAG extended a Contract for Services effective on May 30, 2017; and

WHEREAS, under the Contract for Services responsibility for ABAG financial services was transferred to MTC effective July 1, 2017; and

WHEREAS, in the process of administering ABAG finances, MTC determined that the volume of grants and contracts payable frequently exceeds the available cash to make timely payments; and

WHEREAS, the delay in processing ABAG payments potentially creates problems in project delivery and delays in reimbursement; and

WHEREAS, MTC proposes to resolve these issues through an advance of funds to be repaid by future grant reimbursements; now, therefore, be it

RESOLVED that MTC agrees to make an operational advance to ABAG not to exceed \$10 million; and be it further

RESOLVED the Executive Director or Chief Financial Officer is directed to set aside \$10 million from any available MTC undesignated reserve; and be it further

RESOLVED that ABAG will be allowed to draw on the advance to meet cash flow needs; and be it further

RESOLVED that ABAG will be charged the equivalent of 1.00% on any drawn amounts with no charge to be accrued on undrawn amounts; and be it further

RESOLVED that this advance shall be available until December 31, 2019, unless reauthorized in advance by MTC and ABAG; and be it further

RESOLVED the Executive Director and Chief Financial Officer are directed to report on the status of the advance at least quarterly.

METROPOLITAN TRANSPORTATION COMMISSION

Jake Mackenzie, Chair

The above resolution was entered into by the Metropolitan Transportation Commission at a regular meeting of the Commission held in San Francisco, California on November 28, 2018.