

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Resolution No. 321, Authorizing a One Year Extension of an Interfund Loan to the Roads Capital Fund for the Aurora Corridor Improvements Project From the Revenue Stabilization Fund in an Amount Not to Exceed \$2,500,000 with Interest Charges for the Extension Period
DEPARTMENT:	Administrative Services Department
PRESENTED BY:	Debbie Tarry, Assistant City Manager
ACTION:	<input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution <input type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

It is anticipated that during the first half of 2012, construction activities for the 165th-185th and 185th-192nd segments of the Aurora Corridor Improvements will end and project close out will occur. Final design work and right-of-way negotiations and acquisitions will continue for the 192nd-205th segment. Grant reimbursements have been received on average within 30 to 45 days of submittal. The submittal of the reimbursement occurs within 15 to 30 days of payment of expenses. This results in a deficit cash flow while the City waits to receive reimbursement from the granting agency. Council approved Resolution No. 311 on December 13, 2011 approving a one year interfund loan to the Roads Capital Fund from the Revenue Stabilization Fund to offset the reimbursement waiting period. Staff is requesting to extend the loan through December 31, 2012.

RESOURCE/FINANCIAL IMPACT:

The Revenue Stabilization Fund is projected to end 2011 with a fund balance of \$4.925 million. The Revenue Stabilization Fund could continue to temporarily loan up to \$2.5 million to the Aurora Corridor Improvements project to provide sufficient cash flow to cover the gap between the time of expenditure payments and the receipt of grant reimbursements. The project would repay the loan at the end of 2012 returning the fund balance in the Revenue Stabilization Fund to its current projected level. As required by state law the borrowing fund must pay interest to the lending fund. The additional interest expense for the project is estimated to be less than \$5,000. This expense would need to be absorbed in the current project budget.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 321 to authorize a one year extension of the interfund loan from the Revenue Stabilization Fund to the Roads Capital Fund in an amount not to exceed \$2.5 million for the period of one year commencing on January 1, 2012.

Approved By: City Manager *JU* City Attorney *IS*

BACKGROUND

The Aurora Corridor Improvements project has been divided into three distinct segments as included in the Adopted 2012-2017 CIP: Aurora Avenue North 165th-185th; Aurora Avenue North 185th-192nd; and Aurora Avenue North 192nd-205th. Construction has been underway in the 165th-185th segment since January 4, 2010 and is scheduled to be completed and closed out in the next 60 to 90 days. On the 185th -192nd segment, construction began in January of 2011 with completion and closeout expected in the next three to six months. Final design work for the 192nd – 205th segment is expected to be completed in the second quarter of 2012 with right of way acquisition expected to be completed in the second half of the year.

The Adopted CIP estimates that expenditures for the three segments in 2011 will total nearly \$5.4 million with the City receiving approximately \$3.85 million in reimbursements from grant awards and utility agreements. All of our grant awards and utility agreements require the City to expend funds for the project and then request reimbursement from each agency as appropriate. Most of the agreements include a provision to reimburse the City within 30 days of receipt of a reimbursement request. During 2011, grant reimbursement requests have been received on average within 30 to 45 days of submittal. The submittal of the reimbursement occurs within 15 to 30 days of payment of expenses. This results in a deficit cash flow while the City waits for 45 to 75 days to receive reimbursement after invoices are paid. The close out process for the two segments may extend the waiting period for reimbursements as City staff works with contractors to determine the final construction contract payment amounts and with granting agencies to coordinate the final grant reimbursements.

In 2012 the Roads Capital Fund is projected to begin the year with a fund balance of approximately \$1.7 million. The Adopted 2012-2017 CIP included the use of \$1.1 million of fund balance during the year for various transportation projects. This leaves a limited amount of fund balance available to cover cash flow needs while the City waits for reimbursement payments. The City must ensure that each fund has sufficient cash available to meet its obligations during the year as we cannot end a month with a fund being in a negative cash position.

The City's Financial Policies contain a provision in Section VII Debt Policy that states: "The City will use interfund borrowing where such borrowing is cost effective to both the borrowing and the lending fund." The following guidance is included in the 2010 Budgeting, Accounting, and Reporting System (BARS) manual Volume 1, Part 3, Chapter 4, Page 1 as issued by the Washington State Auditor:

The minimum acceptable procedures for making and accounting for interfund loans are as follows:

- 1. The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, indicating the lending fund, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund.*
- 2. Interest should be charged in all cases, unless:*

- a. *The borrowing fund has no other source of revenue other than the lending fund;*
or
 - b. *The borrowing fund is normally funded by the lending fund*
3. *The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing resolution or resolution*
4. *The term of the loan may continue over a period of more than one year, but must be “temporary” in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a permanent diversion of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)*
5. *Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by the transactions*

Staff is proposing to extend the interfund loan from the Revenue Stabilization Fund in the amount of \$2.5 million to the Roads Capital Fund an additional year through December 31, 2012. The Revenue Stabilization Fund has sufficient fund balance to provide a loan at this time. It is estimated to end 2011 with a fund balance of \$4.925 million. Staff is proposing that the Roads Capital Fund pay interest to the Revenue Stabilization Fund at a rate of approximately 0.10% annually. This rate is based upon the current rate of return for investments that the City is receiving for a one year investment. Interest would be charged on a monthly basis for the duration of the loan. The additional interest expense for the project is estimated to be less than \$5,000.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 321 to authorize a one year extension of the interfund loan from the Revenue Stabilization Fund in the amount of \$2.5 million to the Roads Capital Fund for the year commencing on January 1, 2012.

ATTACHMENTS

Attachment A – Resolution No. 321

ATTACHMENT A

RESOLUTION NO. 321

A RESOLUTION OF THE CITY COUNCIL, CITY OF SHORELINE, WASHINGTON, AUTHORIZING AN EXTENSION OF ONE YEAR FOR THE INTERFUND LOAN TO THE ROADS CAPITAL FUND FROM THE REVENUE STABILIZATION FUND IN AN AMOUNT NOT TO EXCEED \$2,500,000 WITH INTEREST CHARGES FOR THE EXTENSION PERIOD

WHEREAS the City Council approved Resolution No. 311 on December 13, 2010 authorizing an interfund loan to the Roads Capital Fund from the Revenue Stabilization Fund in the amount not to exceed \$2,500,000; and

WHEREAS, the Roads Capital Fund was established to account for activities related to capital transportation projects; and

WHEREAS, the Aurora Avenue Improvements project is accounted for in the Roads Capital Fund; and

WHEREAS, a significant portion of the total project funding for the Aurora Avenue Improvements is from grants and utility reimbursements; and

WHEREAS, the City is required to expend monies for project costs before requesting reimbursement from granting agencies and utilities; and

WHEREAS, there is an approximate lag of 30 to 45 days between when payments for expenditures are made and reimbursements are received from granting agencies and utilities; and

WHEREAS, the projected fund balance for the Revenue Stabilization Fund at the end of 2011 is \$4,925,357; now therefore

THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, HEREBY RESOLVES:

Section 1. The Revenue Stabilization Fund is authorized to extend the term of the loan to the Roads Capital Fund which commenced January 1, 2011 for another year for an amount up to \$2,500,000.

Section 2. The loan amount will be assessed an interest rate of 0.1% beginning January 1, 2012 which is equal to the current rate of return that the City would receive for a one-year investment on that date. Interest charges will be assessed monthly based on the loan balance.

ADOPTED BY THE CITY COUNCIL ON JANUARY 23, 2012.

ATTACHMENT A

Keith A. McGlashan, Mayor

ATTEST:

Scott Passey, City Clerk