

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Authorization of an Inter-fund Loan to the Roads Capital Fund for the Aurora Corridor Improvements Project
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry

PROBLEM/ISSUE STATEMENT:

It is anticipated that during 2011, construction will be underway for the 165th-185th and 185th-192nd segments of the Aurora Corridor Improvements. At the same time it is anticipated that final design work and right-of-way negotiations and acquisitions will also begin for the 192nd-205th segment. Monthly expenditures during 2010 have averaged approximately \$1.5 million. Grant reimbursement requests are being received within 30 to 45 days of the payment of project expenses. This results in a cash flow deficit of \$1.5 million to \$2.5 million at any one time since city expenditures are paid before the grant reimbursement is received. As additional work gets underway, this cash flow deficit could grow even larger as work occurs simultaneously on multiple segments of the project.

FINANCIAL IMPACT:

The Revenue Stabilization Fund is projected to end 2011 with a fund balance of \$4.925 million. The Revenue Stabilization Fund could temporarily loan \$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 2011 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 \$10,000. This expense would need to be absorbed in the current project budget.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 311 to authorize an interfund loan from the Revenue Stabilization Fund in the amount of \$2.5 million to the Roads Capital Fund for the period of one year commencing on January 1, 2011.

Approved By: City Manager  City Attorney 

BACKGROUND

The Aurora Corridor Improvements project has been divided into three distinct segments as included in the Adopted 2011-2016 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 complete in the summer of 2011. At the same time, right-of-way negotiations and acquisitions have taken place for this segment and for the 185th-192nd segment. On December 13, 2010, staff will request that Council authorize the City Manager to execute a construction contract for the 185th-192nd segment with work beginning in mid January of 2011 with completion in early winter of 2012. Final design work for the 192nd – 205th segment is also underway and expected to be completed in early 2012.

The Adopted CIP estimates that expenditures for the three segments in 2011 will total nearly \$19.6 million with the City receiving approximately \$15.5 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. Monthly expenditures during 2010 have averaged approximately \$1.5 million. The majority of the expenditures are for the construction work on the 165th-185th segment. As construction work begins on the 185th-192nd segment, monthly expenditures are projected to rise until the first segment has been completed. We also know that there will be costs associated with the design and right-of-way acquisition for the 192nd-205th segment that will occur during 2011. All of this activity is projected to increase the average monthly expenditures in 2011 to approximately \$2.5 million.

Grant reimbursements are being received 30 to 45 days after payment of project expenses. We anticipate that during 2011, we will continue to experience the same turnaround time for reimbursements, but due to the level of activity, we could easily experience a cash flow deficit of up to \$3.5 million during the year as we wait for reimbursement from various granting agencies and utilities.

When construction began on the 145th-165th Aurora Avenue Improvements in 2005, the Roads Capital Fund began the year with a fund balance of over \$13 million. This resulted in sufficient cash balance available to cover any cash flow needs as the City waited for reimbursements. In 2011 the Roads Capital Fund is projected to begin the year with a fund balance of approximately \$5 million. The Adopted 2011-2016 CIP included the use of \$3.6 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

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 an interfund loan from the Revenue Stabilization Fund in the amount of \$2.5 million to the Roads Capital Fund for the period of one year commencing on January 1, 2011. This 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. The loan could be extended if necessary for an additional period if approved by Council. If this action is required, staff would bring the extension before Council in late 2011. Staff is proposing that the Roads Capital Fund pay interest to the Revenue Stabilization Fund at a rate of approximately 0.31% annually. This rate is based upon the current rate of return for investments that the City is receiving for a one year investment. This rate will be finalized at the time that the loan begins on January 1, 2011. 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 \$10,000.

ALTERNATIVES ANALYZED:

1. Council could approve Resolution No. 311 and approved the interfund loan from the Revenue Stabilization Fund to the Roads Capital Fund. This would provide sufficient cash flow to meet the needs of the fund during the reimbursement period (Recommended)
2. Council could not approve Resolution No. 311 and staff could delay work on one or more segments of the Aurora Avenue Improvements.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 311 to authorize an interfund loan from the Revenue Stabilization Fund in the amount of \$2.5 million to the Roads Capital Fund for the period of one year commencing on January 1, 2011.

ATTACHMENTS

Attachment A – Resolution No. 311

Attachment B – Aurora Corridor Improvements Projected Cash Flow

RESOLUTION NO. 311

A RESOLUTION OF THE CITY COUNCIL, CITY OF SHORELINE, WASHINGTON, AUTHORIZING AN 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 A PERIOD NOT TO EXCEED ONE YEAR

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 2010 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 loan the Roads Capital Fund up to \$2,500,000. The term of the loan is one year commencing on January 1, 2011.

Section 2. The loan amount will be assessed an interest rate which is equal to the current rate of return that the City would receive for a one-year investment on January 1, 2011. As of November 30, 2010 that rate is 0.31%. Interest charges will be assessed monthly based on the loan balance.

ADOPTED BY THE CITY COUNCIL ON DECEMBER 13, 2010.

Keith A. McGlashan, Mayor

ATTEST:

Scott Passey, City Clerk

Projected 2011 Cash Flow for Aurora Avenue Improvements Project

	Jan.		Feb.		Mar.		April		May		June		July		Aug.		Sept.		Oct.		Nov.		Dec.	
	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
EXPENDITURES																								
Aurora Corridor Project (165th to 185th)	\$ 513,157	\$ -	\$ -	\$ 672,000	\$ 665,000	\$ 887,000	\$ 1,135,000	\$ 1,130,000	\$ 1,130,000	\$ 605,000	\$ 110,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aurora Corridor Project (185th to 192nd)	\$ -	\$ 200,390	\$ 440,000	\$ 740,000	\$ 840,000	\$ 840,000	\$ 975,000	\$ 1,235,000	\$ 1,290,000	\$ 1,100,000	\$ 1,052,000	\$ 850,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000
Aurora Corridor Project (192nd to 205th)	\$ -	\$ -	\$ -	\$ 383,733	\$ 333,733	\$ 333,733	\$ 483,733	\$ 683,733	\$ 1,033,733	\$ 1,327,033	\$ 1,383,733	\$ 1,883,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733	\$ 933,733
Total 165th-205th	\$ 513,157	\$ 200,390	\$ 1,495,733	\$ 1,738,733	\$ 2,060,733	\$ 2,593,733	\$ 2,928,733	\$ 3,048,733	\$ 2,928,733	\$ 2,537,033	\$ 2,535,733	\$ 2,733,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733	\$ 1,833,733
REVENUES																								
Total Reimbursements Received	\$ -	\$ 463,124	\$ 205,227	\$ 1,359,418	\$ 1,640,254	\$ 1,942,401	\$ 2,438,729	\$ 2,874,684	\$ 2,787,996	\$ 2,428,787	\$ 2,409,008	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540	\$ 4,459,540
Net Monthly Cash Flow	\$ (513,157)	\$ 262,734	\$ (1,290,506)	\$ (379,315)	\$ (420,479)	\$ (651,332)	\$ (610,004)	\$ (54,049)	\$ 250,963	\$ (106,946)	\$ (324,725)	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807	\$ 2,625,807
Cumulative Cash Flow Without Loan	\$ (513,157)	\$ (250,423)	\$ (1,540,929)	\$ (1,920,244)	\$ (2,340,723)	\$ (2,992,055)	\$ (3,602,059)	\$ (3,602,059)	\$ (3,602,059)	\$ (3,656,108)	\$ (3,405,145)	\$ (3,512,091)	\$ (3,836,816)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)	\$ (1,211,009)