

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Resolution No. 336, 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:	Robert Hartwig, Administrative Services Director
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:

Due to outstanding claims by the general contractor for the 165th to 185th segment of the Aurora Corridor Improvements project, staff does not anticipate that project close out will occur until the second half of 2013. Several granting agencies that provided funding for this segment of the project are withholding a final payment until project closeout occurs. Construction activities for the 192nd to 205th segments of the Aurora Corridor Improvements project will begin during the first half of 2013. The majority of the funding sources for this segment are grants and utility reimbursements. 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 and approved Resolution No. 321 on January, 23, 2012 to extend the loan for a second year. Staff is requesting to extend the loan for another year through December 31, 2013.

RESOURCE/FINANCIAL IMPACT:

The Revenue Stabilization Fund is projected to end 2012 with a fund balance of \$5,146,616. 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 2013 or sooner, 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 approximately \$5,000. This expense would need to be absorbed within the current project budget.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 336 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, 2013.

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

BACKGROUND

The Aurora Corridor Improvements project will continue into 2013 with construction work on the 192nd to 205th segment beginning during the first half of 2013. The Adopted 2013 – 2018 CIP estimates that expenditures for this segment in 2013 will total nearly \$14.4 million with the City receiving approximately \$14.3 million in reimbursements from grant awards and utility agreements. All of the City's grant awards and utility agreements require that the City 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. Historically 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 165th to 185th will 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 2013 the Roads Capital Fund is projected to begin the year with a fund balance of approximately \$2.08 million. 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 2012 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 and borrowing 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. The planned schedule of repayment should specify the due date(s) of payment (s) needed to repay the principal and interest on the loan.*
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 able over the period of the loan to make the specified principal and interest payments as required in the authorizing resolution or resolution*
4. *The loan status should be reviewed annually by the legislative body at an open public meeting*
5. *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.)

6. *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, 2013. The Revenue Stabilization Fund has sufficient fund balance to provide a loan at this time. It is estimated to end 2012 with a fund balance of \$5,146,616. Staff is proposing that the Roads Capital Fund pay interest to the Revenue Stabilization Fund at a rate of approximately 0.2% 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 actual interest rate will be confirmed on January 1, 2013 based on that day's rate. The additional interest expense for the project is estimated to be approximately \$5,000.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 336 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, 2013.

ATTACHMENTS

Attachment A – Resolution No. 336

ATTACHMENT A

RESOLUTION NO. 336

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 and Resolution No. 321 on January 23, 2012 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 2012 is \$5,146,616; 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 0.2% beginning January 1, 2013 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 DECEMBER 10, 2012.

ATTACHMENT A

Keith A. McGlashan, Mayor

ATTEST:

Scott Passey, City Clerk