

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Resolution No. 362, Authorizing an Interfund Loan to the Roads Capital Fund for the Aurora Corridor Improvements Project From the General Fund in an Amount Not to Exceed \$2,500,000 with Interest Charges
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:

Construction activities for the 192nd to 205th segments of the Aurora Corridor Improvements project began earlier this year. The majority of the funding sources for this segment are grants and utility reimbursements. The submittal of the reimbursement occurs within 15 to 30 days of payment of expenses each month. Grant reimbursements have been received on average within 30 to 45 days of submittal. This results in a deficit cash flow while the City waits to receive reimbursement from the granting agency. Given this, an interfund loan is needed.

RESOURCE/FINANCIAL IMPACT:

The General Fund is projected to end 2014 with a fund balance of \$8,158,541. Council policy requires the General Fund to retain a fund balance of \$3 million for cash flow purposes. The policy also requires a budget contingency of 2% of the budgeted operating revenues (\$663,459) and an insurance reserve (\$255,000). Both of which are already included in the 2014 budget. The General Fund could 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 the one year term (May 31, 2015) or sooner, returning the fund balance in the General 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 \$2,500. This expense would need to be absorbed within the current project budget.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 362 authorizing a one year interfund loan from the General Fund to the Roads Capital Fund in an amount not to exceed \$2.5 million for the period of one year commencing on June 1, 2014.

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

BACKGROUND

Construction activities for the 192nd to 205th segments of the Aurora Corridor Improvements project began earlier this year. The current 2014 project budget includes \$19.0 million in expenditures and nearly \$18.9 in revenues from grants and utility reimbursements. 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. 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 each month. This results in a deficit cash flow while the City waits for 45 to 75 days to receive reimbursement after invoices are paid.

During prior phases of this project, Council authorized an interfund loan to offset this reimbursement waiting period. Council approved Resolution No. 311 on December 13, 2010 for the 2011 fiscal year authorizing a \$2.5 million loan for the project from the Revenue Stabilization Fund. On January 23, 2012, Council approved Resolution No. 321, to extend the loan for a second year and subsequently approved Resolution No. 336 on December 10, 2012 to extend the loan for another year through December 31, 2013. As project work was completed during 2013, the project repaid the loan on October 30, 2013.

DISCUSSION

In 2014 the Roads Capital Fund is projected to begin the year with a fund balance of just over \$3 million. This leaves a limited amount of fund balance available to cover cash flow needs for this and other transportation improvement projects 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 2014 Budgeting, Accounting, and Reporting System (BARS) manual:

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 funds, 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 an interfund loan from the General Fund in the amount of \$2.5 million to the Roads Capital Fund for a one year period beginning on June 1, 2014. As noted earlier, the Roads Capital Fund began the year with an available fund balance of approximately \$3 million. Construction work on this project began in late January and very quickly ramped up. Payments to the general contractor were \$1,941,420 in May and \$1,972,078 in June for work that occurred during April and May. Since the City is required to make payment within 30 days of receipt of the invoices, the available fund balance (cash) was quickly used. Staff was not able to respond to the situation in time to get this item on the Council’s agenda prior to the summer recess. Now staff is requesting that Council approve the start of this interfund loan in June to provide adequate available cash in the Roads Capital Fund.

The General Fund has sufficient fund balance to provide a loan at this time. It is projected to end 2014 with a fund balance of \$8,158,541. Staff is proposing that the Roads Capital Fund pay interest to the General 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 approximately \$2,500.

RECOMMENDATION

Staff recommends that Council approve Resolution No. 362 authorizing a one year interfund loan from the General Fund to the Roads Capital Fund in an amount not to exceed \$2.5 million for the period of one year commencing on June 1, 2014.

ATTACHMENTS:

Attachment A – Resolution No. 362

RESOLUTION NO. 362

A RESOLUTION OF THE CITY COUNCIL, CITY OF SHORELINE, WASHINGTON, AUTHORIZING AN INTERFUND LOAN TO THE ROADS CAPITAL FUND FROM THE GENERAL FUND IN AN AMOUNT NOT TO EXCEED \$2,500,000 AND 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 General Fund at the end of 2014 is \$8,158,541; now therefore

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

Section 1. The General Fund is authorized to loan the Roads Capital Fund up to \$2,500,000. The term of the loan is one year commencing on June 1, 2014.

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 June 1, 2014. As of June 1, 2014 that rate is 0.10%. Interest charges will be assessed monthly based on the loan balance.

ADOPTED BY THE CITY COUNCIL ON JULY 14, 2014.

Shari Winstead, Mayor

ATTEST:

Jessica Simulcik Smith, City Clerk