

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Resolution No. 427 Extending an Interfund Loan to the General Capital Fund from the General Fund in an Amount Not to Exceed \$2,100,000 with Interest Charges for the Police Station at City Hall Project
DEPARTMENT:	Administrative Services Department
PRESENTED BY:	Sara Lane, 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:

The City Council initially approved the Police Station at City Hall Project site analysis as part of the 2013-2017 Capital Improvement Plan (CIP), with design funding in the 2015 CIP Budget and construction funding included in both 2017 and 2018 CIP Budgets. The project is currently under construction and expected to be completed in May 2018.

The Police Station at City Hall Project Finance Plan includes resources from the sale of the current police station. Because the timing of this sale and receipt of the resulting proceeds is anticipated to occur after the completion of construction, an interfund loan in the amount of \$2.1 million is needed to address cash flow requirements for the project. Proposed Resolution No. 427 would provide for this interfund loan. Tonight, staff is requesting that Council adopt proposed Resolution No. 427.

RESOURCE/FINANCIAL IMPACT:

The unaudited 2017 ending fund balance in the General Fund is \$13.9 million. 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 (\$838,338) and an insurance reserve (\$255,000), both of which are already included in the 2018 budget.

The General Fund could temporarily loan up to \$2.1 million to the General Capital Fund to provide sufficient cash flow to cover the gap between the time of expenditure payments and the receipt of the proceeds from the sale of the old police station property. The General Capital Fund would draw on the interfund loan as necessary, up to the approved amount. The General Capital Fund would repay the loan upon closing of the sale of the current Police Station, anticipated to occur this summer, but not later than at the end of a one year term (April 30, 2019). Repayment will return 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. Staff is proposing that the General Capital Fund pay interest to the General Fund at a rate of approximately 2.07% 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 approximately \$3,620 per month, or \$43,440 if the loan continues through the full one year term. The Interest expense would need to be absorbed within the current project budget.

RECOMMENDATION

Staff recommends that the City Council approve Resolution No. 427 authorizing an interfund loan from the General Fund to the General Capital Fund in an amount not to exceed \$2.1 million for the period of one year commencing on April 30, 2018.

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

BACKGROUND

The current Shoreline Police Station facility on N 185th Street has long been recognized as sub- standard. Following an extensive feasibility study, the City Council directed that a new police station be incorporated into the City Hall campus. To this end, the Police Station at City Hall Project site analysis was included as part of the 2013-2017 CIP, with design funding in the 2015 General Capital Budget and construction funding included in both 2017 and 2018 General Capital Budgets. The project is currently under construction and expected to be completed in May 2018.

The Council has received numerous updates on the project, including:

- Police Station at City Hall Project Update on [May 16, 2016](#)
- Mid-year discussion and updates on the Capital Improvement Plan, [August 17, 2015](#), [June 6, 2016](#), [June 12, 2017](#)
- Presentation of the Capital Improvement Plan during the annual budget process on [October 10, 2016](#), [October 9, 2017](#)
- Contracts and Change Order approvals for Design and Construction Vendors on [June 1, 2015](#), [May 1, 2017](#) and [October 23, 2017](#)

At the May 1, 2017 Council meeting, the Council was updated by staff on the project, including an analysis of total project anticipated expenditures and budgeted project revenue. Included in that analysis was the sale of the current police station, which accounted for \$1,800,000 in project revenue. At the May 22, 2017 Council meeting, Council was updated on an increased valuation of the old police station property in the amount of \$2,100,000. However, the timing of the sale and resulting proceeds is uncertain, and will likely occur after the completion of construction of the new police station. This results in a projected deficit cash flow while the City waits to receive the proceeds from the property sale. Given this timing, an interfund loan is needed.

DISCUSSION

Staff is proposing an interfund loan from the General Fund to the General Capital Fund in the amount of \$2.1 million for a one year period beginning on April 30, 2018. As noted earlier, the sales proceeds of the old Police Station property have been anticipated and included in the revenue/expenditure analysis for the project, but a timing difference has been identified between the payment of construction costs and the actual receipt of the funds from the sale. The interfund loan proposed in Resolution No. 427 will bridge that gap.

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 Washington State Budgeting, Accounting and Reporting System (BARS) provides guidance to public entities on interfund loans, including:

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

1. *The legislative body of a local government 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 ordinance 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*

The interfund loan proposed by Resolution No. 427 meets these procedures.

RESOURCE/FINANCIAL IMPACT

The unaudited 2017 ending fund balance in the General Fund is \$13.9 million. 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 (\$838,338) and an insurance reserve (\$255,000), both of which are already included in the 2018 budget.

The General Fund could temporarily loan up to \$2.1 million to the General Capital Fund to provide sufficient cash flow to cover the gap between the time of expenditure payments and the receipt of the proceeds from the sale of the old police station property. The General Capital Fund would draw on the interfund loan as necessary, up to the approved amount. The General Capital Fund would repay the loan upon closing of the sale of the current Police Station, anticipated to occur this summer, but not later than at the end of a one year term (April 30, 2019). Repayment will return 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. Staff is proposing that the General Capital Fund pay interest to the General Fund at a rate of approximately 2.07% 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 approximately \$3,620 per month, or \$43,440 if the loan continues through the full one year term. The Interest expense would need to be absorbed within the current project budget.

RECOMMENDATION

Staff recommends that the City Council approve Resolution No. 427 authorizing an interfund loan from the General Fund to the General Capital Fund in an amount not to exceed \$2.1 million for the period of one year commencing on April 30, 2018.

ATTACHMENTS

Attachment A – Resolution No. 427

RESOLUTION NO. 427

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, AUTHORIZING AN EXTENSION OF AN INTERFUND LOAN TO THE GENERAL CAPITAL FUND FROM THE GENERAL FUND IN AN AMOUNT NOT TO EXCEED \$2,100,000 AND INTEREST CHARGES FOR A PERIOD NOT TO EXCEED ONE YEAR.

WHEREAS, the City of Shoreline is an optional code city, located in King County, Washington, duly organized and existing pursuant to the laws of the State of Washington; and

WHEREAS, the General Capital Fund was established to account for resources which are designated for general capital purposes to be used for the acquisition or construction of general facilities, parks, recreational facilities, or open space capital projects; and

WHEREAS, the General Capital Fund provides resources for the Shoreline Police Station at City Hall Project, which should be completed in May 2018, which includes financing from the sale of the current police station which has not yet occurred resulting in a projected deficit cash flow; and

WHEREAS, since the General Fund has an unaudited 2017 ending balance of \$13.9 million, there are sufficient funds to provide for a temporary loan in an amount not to exceed \$2.1 million to the General Capital Fund to provide sufficient cash flow requirements for the Shoreline Police Station at City Hall Project; and

WHEREAS, pursuant to RCW 43.09.200, the Washington State Auditor has developed a uniform system of accounting, the BARS Manual, which specifically allows for the use of interfund loans as a legal and fiscally prudent means of investing municipal funds that are in excess of current needs; and sets forth the acceptable procedures for both the loaning and borrowing fund; and

WHEREAS, the City Council recognizes that the interfund loan is repaid with interest and the use of an interfund loan is preferable to issuing external debt;

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

Section 1. Loan Authorization. The General Fund is authorized to loan the General Capital Fund an amount not to exceed \$2,100,000 (Two Million One Hundred Thousand Dollars).

Section 2. Term and Scheduled Repayment. The term of the loan is one (1) year commencing on April 30, 2018. The interfund loan and accrued interest shall be repaid in one (1) payment due no later than April 30, 2019. The General Capital Fund may pay off the interfund loan or make extra payments at any time during the life of the interfund loan. There shall be no fees or prepayment penalties on the interfund loan.

Section 3. Interest Payable to General Fund. 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 April 30, 2018. The projected rate in effect of April 30, 2018 is 2.07% annually. Interest charges will be assessed monthly based on the loan balance.

Section 4. Accounting Records. The Administrative Services Director is directed to keep and maintain appropriate accounting records to reflect the balance of the interfund loan as authorized herein.

Section 5. Severability. If any one or more sections, subsections, or sentences of this Resolution are held to be unconstitutional or invalid, such decision shall not affect the validity of the remaining portion of this Resolution and the same shall remain in full force and effect.

Section 6. Effective Date. This Resolution shall take effect and be in full force immediately upon passage by the City Council.

ADOPTED BY THE CITY COUNCIL ON APRIL 30, 2018.

Mayor Will Hall

ATTEST:

Jessica Simulcik Smith
City Clerk