

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

**AGENDA TITLE:** Adoption of Resolution No. 435 - 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

**DEPARTMENT:** Administrative Services Department

**PRESENTED BY:** Mark Gregg, Finance Operations Manager

**ACTION:** \_\_\_\_\_ Ordinance      X   Resolution    \_\_\_\_\_ Motion  
                  \_\_\_\_\_ Discussion    \_\_\_\_\_ Public Hearing

**PROBLEM/ISSUE STATEMENT:**

On April 30, 2018, the City Council approved Resolution No. 427 extending an interfund loan from the General Fund to the General Capital Fund in the amount of \$2.1 million for the time frame May 1, 2018 through April 30, 2019, to ensure adequate cash flow in the Capital Improvement Plan (CIP) pending the sale of the former police station property on N 185 Street. Staff is requesting to further extend this interfund loan for period of up to one year and three months.

The former police station property has been on the market for several months and had an accepted offer which unfortunately fell through. There is a current accepted offer of \$2.45 million for the property, but the sale is not expected to close prior to the expiration of the current interfund loan. An extension of the original interfund loan will allow adequate time for the sale to close and for the funds to be available to pay off the interfund loan. Proposed Resolution No. 435 provides for this interfund loan extension. Staff is requesting Council adoption of proposed Resolution No. 435 tonight.

**RESOURCE/FINANCIAL IMPACT:**

The projected 2018 ending fund balance is currently anticipated to be \$17.8 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, and an insurance reserve, both of which are already included in the 2019-2020 budget. The General Fund could temporarily extend the loan up to \$2.1 million to the Police Station at City Hall project 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 former police station property.

The project would repay the loan at the end of the extension period (July 31, 2020) 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 from this extension is estimated to be approximately

\$66,940. This expense will require an amendment in the General Capital Fund that will be included with the April budget amendments.

### **RECOMMENDATION**

Staff recommends that Council adopt Resolution No. 435 authorizing an extension of the interfund loan from the General Fund to the General Capital Fund in an amount not to exceed \$2.1 million to be repaid by July 31, 2020 and commencing on May 1, 2019.

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

## **BACKGROUND**

The former Shoreline Police facility on N 185 Street was long recognized as sub-standard. Following an extensive feasibility study, Council directed that the police station be incorporated into the City Hall campus. Council subsequently authorized staff to proceed with the Police Station at City Hall Project, which was completed in 2018, and vacate the former police station facility.

At the May 1, 2017 Council meeting, 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 for \$1.8 million. At the May 22, 2017 Council meeting, Council was updated on an increased valuation of the police station property to the amount of \$2.1 million. On July 16, 2018 Council authorized the City Manager to enter into a contract with Colliers International, WA LLC for the sale of the property. The proceeds from the sale of the property are included as revenue for the Police Station at City Hall project.

At the April 30, 2018 Council meeting, Council approved Resolution No. 427, extending an interfund loan from the General Fund to the General Capital Fund in the amount of \$2.1 million for the time frame May 1, 2018 through April 30, 2019 to ensure adequate cash flow in the CIP pending the sale of the property. The staff report for the adoption of this resolution can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2018/staffreport043018-7c.pdf>.

## **DISCUSSION**

The former police station property has been on the market for several months and had an accepted offer which unfortunately fell through. The City has a current accepted offer of \$2.45 million, but the terms of the offer provide for closing up to 12 months after the feasibility period. Extending the current interfund loan from the General Fund to the General Capital Fund through July 31, 2020 will allow adequate time for the sale of the property to close and for the funds to be available to pay off the interfund loan. Proposed Resolution No. 435 provides for this interfund loan extension.

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 2015 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 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 General Fund has sufficient fund balance to continue to provide a loan at this time. The projected 2018 ending fund balance is currently anticipated to be \$17.8 million. Staff is proposing that the Roads Capital Fund pay interest to the General Fund at a rate of approximately 2.55% 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 \$66,940.

### **RESOURCE/FINANCIAL IMPACT**

The projected 2018 ending fund balance is currently anticipated to be \$17.8 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, and an insurance reserve, both of which are already included in the 2019-2020 budget. The General Fund could temporarily extend the loan up to \$2.1 million to the Police Station at City Hall project 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 former police station property.

The project would repay the loan at the end of the extension period (July 31, 2020) 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 from this extension is estimated to be approximately \$66,940. This expense will require an amendment in the General Capital Fund that will be included with the April budget amendments.

### **RECOMMENDATION**

Staff recommends that Council adopt Resolution No. 435 authorizing an extension of the interfund loan from the General Fund to the General Capital Fund in an amount not to exceed \$2.1 million to be repaid by July 31, 2020 and commencing on May 1, 2019.

### **ATTACHMENTS**

Attachment A – Resolution No. 435

**RESOLUTION NO. 435**

**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 FIFTEEN MONTHS.**

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 at City Hall Project, which was completed in May 2018, which includes financing from the sale of the now-vacant police station which has not yet occurred, resulting in a projected deficit cash flow; and

WHEREAS, since the General Fund has an unaudited 2018 ending balance of \$17.8 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 at City Hall Project; and

WHEREAS, pursuant to RCW 43.09.200, the Washington State Auditor has developed a uniform system of account, the BARS Manual, which specially 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 fifteen (15) months commencing on May 1, 2019. The interfund loan and accrued interest shall be repaid in one (1) payment due no later than July 31, 2020. 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 July 31, 2020. The projected rate in effect on July 31, 2020 is 2.5 percent 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 MARCH 25, 2019.**

\_\_\_\_\_  
Mayor Will Hall

**ATTEST:**

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Jessica Simulcik Smith  
City Clerk