

## **CITY COUNCIL AGENDA ITEM**

### **CITY OF SHORELINE, WASHINGTON**

**AGENDA TITLE:** Adoption of Resolution No. 452 - Authorizing an Interfund Loan to the General Capital Fund for the Purchase of Property for a Future Shoreline Aquatics, Recreation and Community Center in an Amount Not to Exceed \$17,200,000 with Interest Charges

**DEPARTMENT:** Administrative Services Department

**PRESENTED BY:** Sara Lane, Administrative Services Director

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

**PROBLEM/ISSUE STATEMENT:**

The City Council affirmed its commitment to moving forward with the acquisition of property for a future Shoreline Aquatics, Recreation and Community Center (ShARCC). The City has executed a purchase and sale agreement for the property and is required to close on the property no later than January 30, 2020. At this time, the City's Financial Advisor believes that the City will not be able to issue Bond Anticipation Notes (BAN) for this purchase by January 30, 2020, thereby necessitating the use of a very short-term interfund loan to complete the purchase of the property.

Proposed Resolution No. 452 (Attachment A) would provide for this interfund load to the General Capital Fund from the General Fund and the Roads Capital Fund. Tonight, Council is scheduled to adopt proposed Resolution No. 452.

**RESOURCE/FINANCIAL IMPACT:**

The purchase of the property for a ShARCC is projected at \$17,200,000. The General Capital Fund does not have adequate cash balance to support this transaction. Proposed Resolution No. 452 would provide for the following funds to temporarily loan the General Capital Fund cash for this purpose:

|                          |                            |
|--------------------------|----------------------------|
| General Fund (001)       | Not to exceed \$11,000,000 |
| Roads Capital Fund (330) | Not to exceed \$6,200,000  |

The loans will be repaid upon closing of the BAN, anticipated to occur by February 12, 2019. Each of the funds will receive interest on the value of the short-term loan. Because the interest rate on the BAN is anticipated to be close to the interest rate currently earned by the City, no additional interest cost is anticipated for the project.

### **RECOMMENDATION**

Staff recommends that the City Council approve Resolution No. 452 authorizing short term interfund loans from the General Fund and Roads Capital Fund to the General

Capital Fund in an total amount not to exceed \$17.2 million for a period not exceeding one year commencing January 29, 2020.

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

## **BACKGROUND**

On August 6, 2018, the City Council approved [Ordinance No. 829](#) authorizing the issuance of Limited Tax General Obligation (LTGO) Bond Anticipation Notes (BANs) to support property acquisition for the Parks Recreation and Open Space (PROS) plan, including the Shoreline Aquatics, Recreation and Community Center (ShARCC). Ordinance No.829 authorized issuance of up to \$25 million in BAN. The ordinance included a delegated authority that allowed up to one year from the effective date of the Ordinance to issue the debt. Because the acquisition of property for the ShARCC was delayed while alternative sites were evaluated, Council authorized extension of the delegation period to February 1, 2020 by adoption of [Ordinance No. 864](#) on June 17, 2019. Council discussed and provided direction about the preferred location for a future ShARCC at its meeting on May 20, 2019. On January 6, 2020 Council confirmed its intent to complete acquisition of the property of the preferred location. And on January 13, 2020, Council approved [Ordinance No. 877](#) amending Ordinance No. 829 extending the term of the delegation to December 31, 2020.

## **DISCUSSION**

The City has executed a purchase and sale agreement for the property for the ShARCC and is required to close on the property no later than January 30, 2020. At this time, the City's Financial Advisor believes that the City will not be able to issue BAN for this purchase by January 30, 2020, thereby necessitating the use of a very short-term interfund loan to complete the purchase of the property. 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 following funds to the General Capital Fund in an amount not to exceed \$17.2 Million. The projected and unaudited ending fund balance for each fund is also noted:

- General Fund                      \$19.6 Million
- Roads Capital Fund              \$16.7 Million

Interest will be calculated and paid to each of the funds for the duration of the loan.

### **RESOURCE/FINANCIAL IMPACT**

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### **RECOMMENDATION**

Staff recommends that the City Council approve Resolution No. 452 authorizing short term interfund loans from the General Fund and Roads Capital Fund to the General Capital Fund in an total amount not to exceed \$17.2 million for a period not exceeding one year commencing January 29, 2020.

### **ATTACHMENTS**

Attachment A – Proposed Resolution No. 452

**RESOLUTION NO. 452**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, AUTHORIZING INTERFUND LOANS TO THE GENERAL CAPITAL FUND FROM THE GENERAL FUND AND ROADS CAPITAL FUNDS FOR THE PURCHASE OF PROPERTY FOR A FUTURE AQUATIC, RECREATION AND COMMUNITY CENTER IN AN AMOUNT NOT TO EXCEED \$17,200,000 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, with the adoption of Ordinance Nos. 829 and 864, the City authorized the issuance of Limited Tax General Obligation Bond Anticipation Notes ("BAN") to support property acquisition for recreational purposes; and

WHEREAS, the City entered into a Purchase and Sale Agreement for the acquisition of real property located at 17828 Midvale Avenue North for a future aquatic, recreation, and community center ("Property"); and

WHEREAS, the City placed a bond measure before Shoreline voters during the November 2019 General Election to provide funding for this acquisition, however, the voters did not pass this bond measure; despite the election results, the City Council has determined the it is in the best interests of the City to complete the acquisition of the Property at this preferred location; and

WHEREAS, the City will not be able to issue BAN for acquisition of the Property prior to the date the purchase is required to close, which is no later than January 30, 2020; and

WHEREAS, to complete acquisition of the Property a short-term interfund loan is necessary; and

WHEREAS, since the General Fund has a projected and unaudited 2019 ending fund balance of \$19.6 million, there are sufficient funds to provide for a temporary loan in an amount not to exceed \$11 million to the General Capital Fund to provide sufficient cash flow requirements for the property acquisition; and

WHEREAS, since the Roads Capital Fund has a projected and unaudited 2019 ending fund balance of \$16.7 million, there are sufficient funds to provide for a temporary loan in an amount not to exceed \$6.2 million to the General Capital Fund to provide sufficient cash flow requirements for the property acquisition; 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 \$11,000,000 (Eleven Million Dollars) and the Roads Capital Fund is authorized to loan the General Capital Fund an amount not to exceed \$6,200,000 (Six Million Two Hundred Thousand Dollars).

**Section 2. Term and Scheduled Repayment.** The term of the loan is one (1) year commencing on January 29, 2020. The interfund loan and accrued interest shall be repaid in one (1) payment due no later than January 29, 2021. 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 January 29, 2020. The projected rate in effect of January 29, 2020 is 1.75% 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 JANUARY 27, 2020.**

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Mayor Will Hall

**ATTEST:**

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Jessica Simulcik Smith  
City Clerk

Attachment A