

K. INTERFUND LOANS

PURPOSE

The purpose of this policy is to provide guidelines regarding the establishment, management, and repayment of interfund loans.

POLICY

The City Council approved Resolution No. 7354 establishing and Interfund Loan Policy on December 17, 2013. The policy is stated as follows:

- 1.1 Interfund loans should be considered temporary or short-term borrowing of cash and may be made for the following purposes:
 - To offset timing differences in cash flow;
 - To offset timing difference between expenditures and reimbursements (typically associated with grant funding);
 - To provide for advance spending for a capital project prior to securing project financing; and
 - For other needs as deemed necessary by City Council.
- 1.2 The term of the interfund 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 the borrowing fund. Additionally, interfund loans should not hinder the accomplishments of any function or project for which the lending fund was established.
- 1.3 Interfund loads should not be used to solve ongoing structural budget problems.

PROCEDURE

- 2.1 The establishment of Interfund loans requires coordination among several parties, including the department overseeing the funds that would provide or receive the loan, the Finance Department, and the City Attorney's Office. Interfund loans must be approved by the City Council.
- 2.2 The following procedures should be followed in establishing an interfund loan:
 - 1) The department managing the borrowing fund should prepare a request of interfund loan. The request shall include amount requested, loan period, and monthly/annual payment plan. The department should analyze projected revenues and expenditures for the particular fund. The interfund loan request and supporting documentation should be forwarded to the Finance Department.
 - 2) The Finance Department should provide information on the status of the funds providing and receiving the loan, potential funding options, and estimated loan and interest repayment calculation. Interfund loans should include an interest component that equals the investment earnings the providing fund would have received had the loan not occurred.

- 3) Documents prepared in 1 and 2 above should be forwarded to the City Attorney's Office to determine if there are legal restrictions associated with the use of the identified funding source for the interfund loan, and to prepare the resolution with the loan terms.

REPAYMENT

- 3.1 Repayment of the loan is top priority of the borrowing fund once cash is available.
- 3.2 As part of the annual budget process, the Finance Department should ensure that the loan repayment is budgeted consistent with the loan terms.
- 3.3 If the borrowing fund continues to maintain negative cash balance for periods beyond the term of the loan, scheduled payments should be postponed until the fund has a positive cash balance. Interest should continue to accrue and be added to the principal of the loan.
- 3.4 If the borrowing fund is an operating fund, it must maintain positive cash balance of at least 10% of its operating expense/expenditure budget to be able to repay the loan; excess cash balance (over the 10%) should be used to make scheduled payments and catch-up payments.

MODIFICATION

- 4.1 Modification of loan term, interest rate, and/or repayment schedule of an interfund loan should be approved by a unanimous vote of the City Council.