PURPOSE

The purpose of this policy is to establish administrative procedures for the implementation of Section 21 (Interfund Loans) of Council Policy No. 1-18 titled “Operating Budget and Capital Improvement Program Policy”.

AUTHORITY


POLICY

To ensure that all interfund loans are appropriate, properly documented, and not established to the detriment of the fund issuing the loan, Council Policy 1-18 established the following interfund loan eligibility and documentation requirements:

   a) **Interfund Loan Eligibility Requirements** – Interfund loans may not be used to solve ongoing structural budget problems. Interfund loans must have an identified repayment source and date; include an interest component that equals the investment earnings the fund would have received had the loan not occurred; and be immediately due and payable if needed by the fund that provided the loan.

   b) **Interfund Loan Documentation Requirements** – Loan amount, term, and repayment source will be identified any time a loan is recommended. Loans will be coordinated with the City Attorney’s Office to ensure compliance with the Municipal Code and will be approved by the City Council. Payments made on outstanding loans shall be reflected in the Proposed and Adopted Budget and Annual Report, as applicable. A summary of all outstanding loans will also be included in the annual Proposed and Adopted Operating Budget and the Comprehensive Annual Financial Report (CAFR). The CAFR will also consistently include the loan term, rate of interest, and the interest amount due in its calculation of the total liability associated with the loan.

DEFINITIONS

Interfund loans are loans from one City fund to another City fund for a designated purpose.

PROCEDURES

The development of interfund loans requires coordination among several parties, including the departments overseeing the funds that would provide or receive the loans, the Budget Office, the Finance Department, and the City Attorney’s Office. Interfund loans must be approved by the City Council.

Following are procedures for processing interfund loans:

**Identify Funding Need**

1. When determining a potential funding need, analyze projected revenues and expenditures for the particular fund, including the
Interfund Loans

development of a five-year source and use of funds statement, at minimum, or other longer multi-year analysis of revenues and expenditures, as appropriate.

2. Determine if the funding need under consideration can be paid from moneys within the existing fund by re-prioritizing expenditure items.

3. If the funding need cannot be paid by the fund, determine the amount and term of the potential loan. There must, however, be an identified funding stream to repay the loan.

4. Determine if any of the funds managed by the requesting department have available resources to repay an interfund loan.

Submit Request for Interfund Loan to Budget Office

1. Provide information on the funding need, the status, including fund balance, of the fund receiving the loan, potential funding options, the term of the loan, and the loan repayment plan.

2. Identify any timing constraints associated with the potential loan (e.g., loan funding needed by a certain time in order to secure grant funding or to address time sensitive capital need).

Determine Appropriateness of Interfund Loan

1. Determine the nature of the funding need. Interfund loans cannot be used to address structural budget problems.

2. Determine if other funding mechanisms are available to address the funding need.

3. Determine if the fund receiving the loan has a repayment plan that can be implemented; identify any funding risks associated with the repayment plan.

4. Determine if there are legal issues associated with the interfund loan.

Determine Fund to Provide Interfund Loan

1. If the requesting department identified a potential fund to provide an interfund loan, analyze the viability of that loan using the following criteria:
   - availability of sufficient fund balance and/or uncommitted funds;
   - reliability of revenue stream in the fund, including volatility of revenue in the fund;
   - multi-year plans for the use of funding in the fund;
Interfund Loans

1. Potential risks if the loaned funds are needed by the lending fund before the end of the loan term; and

2. Any fund restrictions that would not allow an interfund loan.

2. If the fund identified by the requesting department is not a good candidate for being the source of an interfund loan, identify other potential funds that could provide an interfund loan, using the same criteria listed above.

3. Discuss the potential interfund loan with the department that manages the fund designated as the proposed source of the loan to determine if there are other factors to consider.

4. Determine if there are legal restrictions associated with the use of the identified funding source for the interfund loan.

Prepare Loan Memorandum for City Council Consideration

1. Describe the need for the interfund loan, the fund providing the loan, and the terms of the interfund loan.

2. The recommendation language should provide details on the terms of the loan: fund receiving loan; amount of loan, fund providing loan, amount of interest to be paid on the loan (must be at least equal to the investment earnings the fund would have received had the loan not occurred); duration of the loan, and provision that that loan be immediately due and payable if needed by the fund that is the funding source for the loan. The budget actions in both the fund providing the loan and the fund receiving the loan are also included in the recommendation.

3. Describe any potential alternatives to the interfund loan and the associated impacts.

4. Submit the memorandum to the Budget Office, the City Attorney’s Office, and the department that manages the fund that will be providing the loan for review; the Budget Director is a co-signer on all memoranda with recommended budget actions.

5. Review memorandum and provide any necessary edits.

6. Prepare the resolution with the loan terms.

Monitor the Interfund Loan and Budget Loan Repayment Consistent with the Terms of the Loan

1. As part of the annual budget process, ensure that the loan repayment is budgeted consistent with the loan terms.

Effective Date: March 5, 2013
Page 3 of 5
Interfund Loans

Budget Office and Department managing the fund that provided the loan

2. Verify that the loan repayment is budgeted consistent with the loan terms.

Report on the Status of the Interfund Loan

Finance Department


Budget Office

2. On an annual basis, report on the status of the interfund loan in the Annual Operating Budget.

Modifying Interfund Loan

Department managing the fund that received the loan

1. Identify the need for a loan modification and an analysis of the potential loan modification to the Budget Office, Finance Department, the City Attorney’s Office, and the department managing the fund that provided the loan. This analysis should include a description of the need for the loan modification, the impact on the fund that received the loan, the impact on the fund that provided the loan, the revised loan terms, and the repayment plan.

Budget Office, Finance Department, City Attorney’s Office, and department managing the fund that provided the loan

2. Determine if the loan modification is appropriate.

Department managing the fund that received the loan

3. If it is determined that a loan modification is needed, prepare the Council memorandum describing the loan modification, including the reason for the modification and the new loan terms. Include any necessary budget actions.

Budget Office, City Attorney’s Office, Department managing the fund providing the loan

4. Review memorandum and provide any necessary edits.

City Attorney’s Office

5. Prepare the resolution with the loan terms.

Approved:

/s/ Alex Gurza
Deputy City Manager

March 5, 2013
Date

/s/ Ed Shikada
Assistant City Manager

March 5, 2013
Date

Effective Date: March 5, 2013
Page 4 of 5
Sample Loan Recommendation Language:

Interfund loans require City Council approval and the following components are to be included in the loan recommendation language: fund receiving loan; amount of loan, fund providing loan, amount of interest to be paid on the loan (must be at least equal to the investment earnings the fund would have received had the loan not occurred); duration of the loan, and provision that that loan be immediately due and payable if needed by the fund that provided the loan.

Sample Language:

Adopt a resolution approving the loan in the amount of $[_____] from the [Name of Lending Fund] (Fund #[____]) to the [Name of Receiving Fund] (Fund #[____]) for the purpose of [describe use of funds] for the [Name of Project] with the following loan terms:

1. The [Receiving Fund] (Fund # [_____]) shall pay interest at a rate equal to the investment earnings of the Lending Fund (Fund #).

2. The loan shall be fully due and payable on [Repayment Date].

3. The loan shall be repaid with [describe the source of funds for repayment, i.e. grant reimbursements] from the [describe the nature of the funds, i.e. Name of Grant].

4. All [grant reimbursements or other identified funds] received by the City from [identified source of repayment] for the [insert the purpose and project] shall be budgeted to the repayment of the loan until it is fully repaid.

5. In the event that a shortfall arises in the [Name of Receiving Fund] (Fund # [_____]), another eligible source of revenue shall fully repay the loan.

6. The loan shall be immediately due and payable if required by [Name of Lending Fund] (Fund # [____]) to fund any eligible project.

7. A final balloon payment shall be paid to the [Name of Lending Fund] (Fund # [____]) no later than [Repayment Date] if the loan has not been fully repaid from the [source of repayment] by Repayment Date.