

Meeting Date: 6/9/2015

Report Type: Consent

Report ID: 2015-00548

Title: Policy Adoption: Interfund Loan Policy

Location: Citywide

Recommendation: Pass a Motion adopting the Interfund Loan Policy.

Contact: Dennis Kauffman, Operations Manager, (916) 808-5843; Leyne Milstein, Director, (916) 808-8491, Department of Finance

Presenter:

Department: Finance

Division: Finance

Dept ID: 06001011

Attachments:

1-Description/Analysis

2-Interfund Loan Policy

City Attorney Review

Approved as to Form

Steve Itagaki

6/3/2015 9:06:56 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 6/1/2015 4:55:33 PM

Description/Analysis

Issue Detail: As part of the FY2013/14 financial audit the City's external auditors recommended that the City adopt policies and procedures regarding the terms and conditions by which interfund loans are initiated and subsequently managed. Interfund loans are the lending of cash from one City fund to another for a specific purpose and with a requirement for repayment. The practice of interfund loans is a recognized and necessary aspect of municipal finance. While such loans are typically short-term in nature, the City Council has approved long-term interfund loans in the past without a Council-adopted interfund loan policy. The proposed Interfund Loan Policy includes the following attributes:

- Long-term interfund loans, for purposes other than short-term working capital, must be approved by the City Council. Council approval will include the terms of the loan including the purpose, the loan amount, the repayment schedule, the repayment source, and the rate of interest.
- Short-term interfund loans for working capital to cover Council-approved reimbursable grants and projects and other temporary cash flow timing differences are permitted.
- Interfund loans will not be used to solve ongoing structural budget issues or hinder the accomplishment of any function or project for which the lending fund was established.

Policy Considerations: The proposed policy (Attachment 1) is consistent with the Mayor and Council's budget priority to adopt financially sound policies and procedures that are prudent and take into account long-term financial planning and stability.

Economic Impacts: None.

Environmental Considerations: This action is not a project subject to CEQA because it involves only general policy and procedure making and government fiscal activities that do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment. (CEQA Guidelines § 15378.)

Sustainability: None.

Commission/Committee Action: The Interfund Loan Policy was presented to the Budget and Audit Committee on June 2, 2015. The Committee approved a Motion to forward the policy to the City Council for adoption.

Rationale for Recommendation: The purpose of the Interfund Loan Policy is to guide prudent financial management relative to the City's use of interfund loans.

Financial Considerations: Adoption of the Interfund Loan Policy will have no direct effect on the annual budget because the City already follows this proposed policy. The policy will formalize mechanisms already in place to manage temporary timing differences in cash flows.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of this report.

Interfund Loan Policy

I. PURPOSE

The City's Interfund Loan Policy documents the methods used by the City to demonstrate prudent financial management over interfund loans. The policy:

- Requires City Council approval of interfund loans, except for short-term working capital loans,
- Permits short-term interfund loans for working capital to cover Council-approved reimbursable grants and projects and other temporary timing differences in cash flows, and
- Prohibits interfund loans from being used to solve ongoing structural budget issues or hindering the accomplishment of any function or project for which the lending fund was established.

2. BACKGROUND

Interfund loans are the lending of cash from one City fund to another for a specific purpose and with a requirement for repayment. The practice of interfund loans is a recognized and necessary aspect of municipal finance. Such loans are typically short-term in nature, and constitute the allocation of resources between individual funds for working capital purposes.

3. POLICY

3.1 Long-term Loans

Interfund loans, other than short-term working capital loans, must be approved by the City Council. Council approval will include the following terms of the loan:

- Purpose of Interfund Loan
- Identification of the source fund
 - Availability of unrestricted funds in the source fund
 - Review of multi-year plans for use of source fund cash
 - Analysis of legal or contractual restrictions
- Repayment of Interfund Loan
 - Repayment must have a payment source and funding stream
 - Specific repayment schedule
 - Interest imposed at a rate equal to at least investment earnings if loan did not occur
- Other Considerations
 - Feasibility of repayment
 - Internal controls to monitor repayment

3.2 Short-term Loans

Short-term interfund loans for working capital to provide cash for Council-approved reimbursable grants and projects, are permitted. Short-term working capital loans are also permitted for temporary timing differences in cash flows when expenditures are incurred before revenue is collected. The source funds for working capital interfund loans are the Risk Fund and the General Fund.

3.3 Prohibited Uses

- Interfund loans will not be used to solve ongoing structural budget issues.
- Interfund loans will not hinder the accomplishment of any function or project for which the lending fund was established.