

**SULTAN CITY COUNCIL
AGENDA ITEM COVER SHEET**

ITEM NO: Action A 8

DATE: November 12, 2009

SUBJECT: Resolution 09-23 Interfund Loan

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director 

ISSUE:

The issue before Council is to revise the terms of the Interfund Loan from the CR Utility Fund to the General Fund. The current balance of the loan is \$109,000. The balance of principle at the end of the year will be \$102,000. Unpaid interest is an additional \$20,054 as calculated by the State Auditor. The total outstanding is \$122,054.

STAFF RECOMMENDATION:

Staff recommends the monthly principle payment amount remain at \$3,500 and that the transfer be done on a quarterly basis (\$10,500 per quarter). This will provide for full payment of the loan by the end of 2012.

The 2009 budget included \$3,500 for interest and based on the current rate with the investment pool, the city has paid less than \$300. Staff recommends the balance of the budget amount (\$3,100) be used to reduce the unpaid interest from \$20,054 to \$16,954.

Staff recommends the adoption of Resolution 09-23 to revise the terms of the General Fund Interfund Loan to change payments to a quarterly basis and set the term of the loan to be paid no later than December 31, 2012.

SUMMARY:

In 2002 and 2003 the General Fund borrowed money from the CR Utility Reserve Fund (\$200,000 and \$95,000). Due to the financial condition of the General fund, it was not possible to make regular payments on the loan in 2003 and 2004. A total of \$21,000 was repaid in those years.

In 2005, the council combined the loans and set up payments of \$3,500 per month plus interest at the current rate earned with the State Investment Pool. The outstanding balance in 2005 was \$274,000.

Funds may not have a negative balance at year end and cannot transfer funds if they are not available. The General Fund was not able to make the full payments in 2005, 2006 or 2007 which has resulted in an underpayment of \$38,000 (Attachment A).

The State Auditor has addressed the issue of repayment of the interfund loan for the past three years. The concerns are based on the accounting policy in the BARS manual that reads:

4. 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.)

They have recommended the city pay the outstanding balance of \$38,000 plus interest to the Utility Reserve Fund for 2005-2007 and make monthly payments on the loan as required by the resolution. The Auditor estimates the amount of past payments is \$58,054 (\$38,000 in principle and \$20,054 in interest).

The Resolution 05-31 did not set a time from for completion of repayment of the loan; it only requires payments of \$3,500 per month. Staff recommends the Council continue to budget the same annual payment of \$42,000 for principle and change the payments from a monthly basis to a quarterly basis. This will be consistent with current practice by the Finance Department.

Additional funds will need to be budgeted in 2010 to 2011 to cover the underpayment of principle and interest on the loan. The 2009 budget included \$3,348 for interest and based on the current rate with the investment pool, the city has paid less than \$300. The \$3,100 will be used to reduce the unpaid interest from \$20,054 to \$16,954.

RECOMMENDED ACTION:

Staff recommends the adoption of Resolution 09-23 to revise the terms of the General Fund Interfund Loan.

Attachments:

- A. Loan Payment History
- B. Resolution 09-23 Interfund Loan
- C. Loan Amortization Schedule

Attachment A

ACTUAL LOAN PAYMENTS

Year	Loan	Principal Paid	Interest Paid	Balance
2004	295000.00	21000.00	4690.00	274000.00
2005	274000.00	32000.00	1234.00	242000.00
2006	242000.00	21000.00	5577.00	221000.00
2007	221000.00	35000.00	8000.00	186000.00
2008	186000.00	42000.00	4181.00	144000.00
2009	144000.00	42000.00	3348.00	102000.00
Total		186000.00	27030.00	

LOAN PAYMENTS DUE

Year	Loan Balance	Principal due	Principal Paid	Difference
2004	295000.00	21000.00	21000.00	0.00
2005	274000.00	42000.00	32000.00	10000.00
2006	242000.00	42000.00	21000.00	21000.00
2007	221000.00	42000.00	35000.00	7000.00
2008	186000.00	42000.00	42000.00	0.00
** 2009	144000.00	42000.00	42000	0
		231000.00	186000.00	38000.00

** \$7,000 will be paid in November and December

**CITY OF SULTAN
SULTAN, WASHINGTON**

RESOLUTION 09-23

**A RESOLUTION PROVIDING FOR A REVISED PAYMENT
SCHEDULE FOR INTERNAL MUNICIPAL LOANS FROM
THE C.R. UTILITY RESERVE FUND TO GENERAL FUND**

WHEREAS, the City Council approved interfund loans from the C.R. Utility Reserve to the General Fund in 2002 and 2003 in amounts totaling \$295,000, and

WHEREAS, the intent of the loan issued under Resolution 05-31 was to provide for monthly payments of \$3,500; and

WHEREAS, the General Fund as an outstanding principle balance \$102,000 on the interfund loan which needs to be paid: and

WHEREAS, there is outstanding interest of \$16,954 on the loan which needs to be paid; and

WHEREAS, in 2004, 2005, 2006, and 2007 full payments were not made on the principle and interest which resulted in an underpayment of \$38,000 in principle and \$20,054 in interest; and

WHEREAS, the current practice of the Finance Department is to process the transactions on a quarterly basis instead of monthly; and

WHEREAS, it is the intent of the Council to reduce both the external and internal debt of the City; now

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Sultan as follows:

That the promissory note be revised to provided for quarterly payments of \$10,500 (\$3500 per month) from the General Fund to the C.R. Utility Reserve Funds. Such loan shall bear interest at the rate of the average interest paid to the City by the State Investment Pool for the prior fiscal year and shall be repaid in accordance with the Promissory Note signed this date and made part of this resolution.

REGULARLY ADOPTED this 22nd day of October 2009.

Carolyn Eslick, Mayor

Laura J. Koenig, City Clerk

Approved as to form:

Margaret King, City Attorney

CITY OF SULTAN
PROMISSORY NOTE

For value received, the City of Sultan General Fund promises to pay to the order of the City of C. R. Utility Reserve Funds in full payment for an internal loan, the sum of one hundred twenty two thousand and fifty four dollars (\$122,054) to be paid as follows:

Principal to be paid in quarterly installments of \$10,550 plus interest. Such loan shall bear interest at the rate of the average interest paid to the City by the State Investment Pool for the prior fiscal year and shall be paid on a quarterly basis.

The balance of the principle and interest shall be paid no later than December 31, 2012.

Dated this 12th day of November 2009.

Carolyn Eslick Mayor

Attest:

Laura J. Koenig, City Clerk

Loan Amortization Schedule

Enter values	
Loan amount	\$ 122,054.00
Annual interest rate	1.00 %
Loan period in years	3
Number of payments per year	4
Start date of loan	1/1/2010
Optional extra payments	\$ 163.00

Loan summary	
Scheduled payment	\$ 10,337.20
Scheduled number of payments	12
Actual number of payments	12
Total early payments	\$ 1,793.00
Total interest	\$ 1,965.34

Lender name:

Pmt. No.	Payment Date	Beginning Balance	Scheduled Payment	Extra Payment	Total Payment	Principal	Interest	Ending Balance	Cumulative Interest
1	4/1/2010	\$ 122,054.00	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,195.07	\$ 305.14	\$ 111,858.93	\$ 305.14
2	7/1/2010	\$ 111,858.93	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,220.56	\$ 279.65	\$ 101,638.37	\$ 584.78
3	10/1/2010	\$ 101,638.37	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,246.11	\$ 254.10	\$ 91,392.26	\$ 838.88
4	1/1/2011	\$ 91,392.26	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,271.72	\$ 228.48	\$ 81,120.54	\$ 1,067.36
5	4/1/2011	\$ 81,120.54	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,297.40	\$ 202.80	\$ 70,823.14	\$ 1,270.16
6	7/1/2011	\$ 70,823.14	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,323.15	\$ 177.06	\$ 60,499.99	\$ 1,447.22
7	10/1/2011	\$ 60,499.99	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,348.95	\$ 151.25	\$ 50,151.04	\$ 1,598.47
8	1/1/2012	\$ 50,151.04	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,374.83	\$ 125.38	\$ 39,776.21	\$ 1,723.85
9	4/1/2012	\$ 39,776.21	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,400.76	\$ 99.44	\$ 29,375.44	\$ 1,823.29
10	7/1/2012	\$ 29,375.44	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,426.77	\$ 73.44	\$ 18,948.68	\$ 1,896.72
11	10/1/2012	\$ 18,948.68	\$ 10,337.20	\$ 163.00	\$ 10,500.20	\$ 10,452.83	\$ 47.37	\$ 8,495.84	\$ 1,944.10
12	1/1/2013	\$ 8,495.84	\$ 10,337.20	\$ -	\$ 8,495.84	\$ 8,474.61	\$ 21.24	\$ -	\$ 1,965.34