

## **SULTAN CITY COUNCIL AGENDA ITEM COVER SHEET**

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**ITEM NO:** Action A 2

**DATE:** May 27, 2010

**SUBJECT:** Resolution 10-04 Interfund Loan to the Street Fund  
Resolution 10-07 Authorization for Interfund Loans

**CONTACT PERSON:** Laura Koenig, Clerk/Deputy Finance Director

**ISSUE:**

The issue before the Council is:

- 1) The adoption of Resolution 10-04 providing for an interfund loan from Fund 405 Water Reserve Fund to Fund 303 Street Construction to cover a negative balance in the 2009 Street Fund
- 2) The adoption of Resolution 10-07 to provide future administrative authority to the Finance Director (or designee) to make interfund loans as needed to keep funds solvent at the end of the fiscal year.

**STAFF RECOMMENDATION:**

Staff recommends the Council to adopt Resolution 10-04 to provide an interfund loan from Fund 405 Water Reserve Fund to Fund 303 Street Construction and adopt Resolution 10-07 to provide administrative authority to the Finance Director (or designee) to make interfund loans as needed to keep funds solvent.

**SUMMARY:**

The City has Capital Project funds for Street, Park, Water, Sewer and Stormwater improvement projects. Most of the construction and capital projects are fund through grant and loan programs. With few exceptions, these are reimbursable grants and loans. That means the City must expend the funds and then submit a request for reimbursement.

The process of requesting reimbursement can create problems at the end of the fiscal year when funds have been expended and reimbursement is pending. The City is required to have balanced funds with a positive fund balance. Negative fund balances are an audit concern and could result in an audit funding.

**Short Term Solution – Resolution 10-04 Interfund Loan to Street Fund:**

The past two years, the Street Construction Fund (303) has ended the year with a negative fund balance. The current balance in fund 303 is -\$75,697. This is the 13.5% match for the Sultan Basin Road project.

The City has received notification from the State that approximately \$250,000 in funding from the Transportation Improvement Board (TIB) for the Sultan Basin Road may be

available in June. This will provide the 13.5% matching funds for the project. If funds are not received from the State, the \$75,697 spent to date on the project will need to be transferred from the General or Street funds to cover the negative fund balance.

Resolution 10-04 provides for an interfund loan from Fund 405 Water Reserve to Fund 303 Street Construction in the amount of \$75,697.<sup>1</sup> The interfund loan would be repaid when the funds are available from the state. If funds from the State are not available, the promissory note (Attachment A) provision for a budget amendment with payment from the General and Street funds will be required.

The annual report is due to the State on May 31, 2010. In order to meet the mandatory deadline for submittal, Staff has prepared the report with the interfund loan and without the loan waiting for Council direction.

The policy questions for the Council are:

1. Does the Council want to proceed with an interfund loan to cover the deficit fund balance in the Street Construction fund. This option would be included in the 2009 closeout to bring the fund into balance.
2. If an interfund loan is not an option, does the Council want to transfer funds from the General, Street and Impact funds to cover the deficit pending receipt of funding from the state. This option will require a budget amendment in 2010 and leave the 2009 fund balance negative.
3. Does the Council want to risk an audit finding and leave the fund in a negative balance pending receipt of funds from the State. TIB has advised that if funds are allocated to the City, reimbursement would be retroactive to cover \$75,697 the City has spent to date.

**Long Term Solution – Resolution 10-07 Transfer Authority:**

Resolution 10-07 authorizes the Finance Director to make interfund loans as needed to keep funds solvent. As with any interfund loan, a repayment source must be identified and budget amendments may be necessary.

This is a recommendation from Camille Tabor (formerly with the State Auditor) to prevent negative fund balances at the end of the fiscal year. The problem generally occurs with construction funds that have expenditures in one fiscal year and receive reimbursements in the next fiscal year.

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<sup>1</sup> The yearend report provided to the Council in January showed a deficit of \$132,034. During the audit review to prepare the annual report, staff found that \$29,309 was for amounts encumbered but not paid. Since the city is cash basis, only those items actually paid are deducted from the fund. Staff also found that all engineering and design for the Basin Road Widening project was charged against the Street Construction Fund. This project included a waterline and the \$27,029 in design and engineering for that portion of the project should have been paid by the Water Construction Fund. The funds have been transferred from Water (409) to Street (303). This leaves the Street Construction fund with a deficit of \$75,697.

Interfund loans are a financing tool for the city. Staff is well aware that prior experience with interfund loans has been negative and a concern of the auditor. The General fund experienced decreases in revenues without sufficient decreases in expenditures and was not able to make the required loan payments. The loan has been restructured and is currently being paid as required.

All funds receiving loans will be charged interest except in those cases where:

1. The borrowing fund has no independent source of revenue other than the lending fund.
2. The borrowing fund is normally funded by the lending fund.
3. The lending fund is the General Fund, which, being unrestricted, can loan interest-free, except to proprietary funds.
4. The rates of interest will be that which the City would otherwise receive on the investment of excess cash.

Staff is recommending the following limitations on interfund loans:

1. May be done for construction funds where grant reimbursement is expected within 60 days.
2. Limit the loan to one year
3. Provide notice to the Council within 30 days.

**RECOMMENDED ACTION:**

Adoption of Resolution 10-04 to provide an interfund loan from Fund 405 Water Reserve to Fund 303 Street Construction in the amount of \$75,697.

Adoption of Resolution 10-07 to provide administrative authority to the Finance Director (or designee) to make interfund loans as needed to keep funds solvent.

ATTACHMENTS: A. Resolution 10-04 Interfund Loan  
B. Resolution 10-07 Authorization to Transfer Funds

**CITY OF SULTAN  
SULTAN, WASHINGTON  
RESOLUTION 10-04**

A RESOLUTION PROVIDING FOR A INTERNAL MUNICIPAL LOANS  
FROM THE LID BOND FUND TO THE STREET CONSTRUCTION FUND

WHEREAS, the Street Construction Fund (303) has a deficit balance of \$75,697; and

WHEREAS, the Water Reserve Fund (405) has sufficient reserves to cover principal and interest payments on the bonds; and

WHEREAS, it is required by State law that all funds be financially solvent and it necessary to borrow cash from other solvent funds in order to comply with the intent of the law;

WHEREAS, the City has worked with the Transportation Improvement Board to provide funding for the Sultan Basin Road which will include the \$75,697 expended in 2009; and

WHEREAS, it is the intent to repay the loan upon receipt of funds from the State;

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

- 1) An interfund loan from the Water Reserve Fund (405) to the Street Construction Fund (303) in the amount of \$75,697 be authorized.
- 2) The promissory note be provided for a payment of \$75,697 from the Street Construction Fund to the Water Reserve Fund. 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 27th day of May, 2010.

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Carolyn Eslick, Mayor

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Laura J. Koenig, City Clerk  
Approved as to form:

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Margaret King, City Attorney

**CITY OF SULTAN  
PROMISSORY NOTE**

For value received, the City of Sultan Street Construction Fund (303) promises to pay to the order of the City of Water Reserve Fund (405) in full payment for an internal loan, the sum of seventy five thousand six hundred ninety seven (\$75,697) to be paid as follows:

Principal to be paid in one installment of \$75,697 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.

The balance of the principle and interest shall be paid no later than December 31, 2010.

If the City is unable to make the December 31, 2010 one-time installment of \$75,697 a budget amendment will be prepared with payment from the General and Street Fund.

Dated this 27th day of May, 2010.

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Carolyn Eslick Mayor

Attest:

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Laura J. Koenig, City Clerk

**CITY OF SULTAN  
SULTAN, WASHINGTON  
RESOLUTION 10-07**

**A RESOLUTION AUTHORIZING THE CITY FINANCE DIRECTOR TO MAKE  
INTERFUND LOANS AS NEEDED TO KEEP FUNDS SOLVENT**

WHEREAS, each fund is required by State law to remain financially solvent, it becomes necessary to borrow cash from other solvent funds in order to comply with the intent of the law; and

WHEREAS, it required of the City Finance Director (or designee) to obtain City Council approval to make interfund loans; and

WHEREAS, it is in the best interest of the City to have one general loan resolution rather than numerous individual loan resolutions; and

WHEREAS, the City Finance Director (or designee) shall not allow a fund to exceed its budgeted appropriations and shall enact a budget amendment authorized by the City Council when such an interfund loan would cause a fund to exceed its budget; now

THEREFORE, the City Council of the City of Sultan do resolve as follows:

Section 1. Authorization is given to the City Finance Director (or designee) to make interfund loans as need to keep funds solvent with the following limitations.

1. May be done for construction funds where grant reimbursement is expected within 60 days
2. Limit the loan to one year
3. Provide notice to the Council within 30 days.

Section 2. All funds receiving loans will be charged interest except in those cases where:

1. The borrowing fund has no independent source of revenue other than the lending fund.
2. The borrowing fund is normally funded by the lending fund.
3. The lending fund is the General Fund, which, being unrestricted, can loan interest-free, except to proprietary funds.
4. The rates of interest will be that which the City would otherwise receive on the investment of excess cash.

Section 3. Quarterly summaries of loan activity will be submitted to the City Council.

Section 4. If an interfund loan causes a fund to exceed its budgeted appropriations, a budget amendment will be enacted by the City Council prior to or in conjunction with any interfund loan.

Passed and adopted by the City Council of the City of Sultan this 27<sup>th</sup> day of May 2010.

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Carolyn Eslick, Mayor

Attest:  
Laura J. Koenig, City Clerk