



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

DATE: JULY 28, 2015

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: INTERFUND LOAN UPDATE

ISSUES:

The issue for City Council consideration is to: 1) receive a report on the status of the current outstanding interfund loans; and 2) confirm the repayment strategy over the next five years.

RECOMMENDATIONS:

That the City Council:

1. Receive a report on the status of the current outstanding interfund loans; and
2. Confirm the interfund loan repayment strategy as outlined in this report which staff will use over the next five years to pay off the majority of the current outstanding balances of the interfund loans.

BACKGROUND:

The City has historically used interfund loans as a means of funding certain projects for which external, traditional bond or bank loan financing was not available or cost effective. All interfund borrowing has been authorized in advance by the City Council. These projects have most often been in the 3-5 year repayment term, though some have been approved with longer repayment terms for various reasons, consistent with the terms of the Interfund Loan Policy (Attachment 1).

The outstanding balance for all loans as of June 30, 2015 totals \$28,659,857 and consists of 13 individual loans. Six of those are loans to the former Redevelopment Agency, repayment of which had been held up by the Department of Finance (DOF). The City's successful efforts to challenge the decisions of the DOF in the courts will now allow the repayment of those loans to begin with the next Recognized Obligation Payment Schedules (ROPS) beginning in January 2016; debt will be made current by December 2016. Two loans with longer repayment terms will be made current and will continue to be repaid through maturity with subsequent ROPS payments.

The seven other remaining interfund loans are payable from other various City accounts. Most have been paying down each year in accordance with the adopted repayment schedule from when the loans were approved. For two of the loans – loans made to the Local Park Fees Fund – the City Council has taken specific action to defer the principal repayment and just pay

the interest accrued on the loans because funds have been inadequate to make payment without impacting the General Fund. With adoption of the Fiscal Year (FY) 2015/16 Budget, amortization of one of these loans has begun, with the second loan to commence in the FY 2016/17 Budget.

Attachment 2 illustrates the current balance for each outstanding loan and the anticipated balance during each of the upcoming six fiscal years. Per the City Manager's previous comments, attention has been placed on paying off the majority of the loans during the five year period highlighted in the table. As the table illustrates, by the beginning of FY 2020/21, all but three of the interfund loans will be paid in full (final loan principal payments are made on July 1, and so the \$702,609 balance on the fourth loan outstanding as of June 30, 2020 will be paid on July 1, 2020).

The presentation will detail for the City Council each of the outstanding loans – its original purpose, the current balance, the repayment strategy and the projected timing of repayment. Consistent with the City Manager's program to put the General Fund and other City funds in a more stable position for long-term financial success, the payments being made over the next five years will largely pay off all remaining balances of the currently outstanding interfund loans. Three of the loans have repayment terms that will keep them outstanding longer than the five year term. Two of these are loans to the former RDA and will continue to be serviced by the ongoing ROPS payments and do not affect the General Fund (or other City funds); RDA dissolution legislation does not allow for accelerating payments on these loans. The third loan relates to the acquisition of the Utilities Plaza property by the General Fund, and this loan's payments are fully covered by the rent received for the facility.

The Interim Community & Economic Development Department Director concurs with the above recommendations.

FISCAL IMPACT:

The scheduled repayment of the currently outstanding balances of the interfund loans is a priority of the City Manager and a key point in his fiscal sustainability program communicated at the public hearing for the adoption of the 2015/16 budget. Making the scheduled payments on the loans is currently either part of the budget or included in the financial projections for the subsequent years' budgets and is not anticipated to have a material impact on the operations of the General Fund, or other City funds.

Prepared by: Brent A. Mason, Finance Director/Treasurer
Certified as to
availability of funds: Brent A. Mason, Finance Director/Treasurer
Approved by: Deanna M. Lorson, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Interfund Loan Policy
2. Interfund Loan Summary
3. PowerPoint Presentation