City of Riverside
Interfund Loans Policy

PURPOSE:

To establish a framework for the justification, approval, and administration of interfund loans.

POLICY:

Interfund loans may be used to meet funding needs when appropriate, provided they comply with the requirements outlined in this policy. Interfund loans must preserve the fiscal health of both the borrowing and lending funds, be approved by the City Council, and be administered in a manner that supports transparency, accountability, and prudent financial management. All interfund loans must be clearly documented, disclosed at the time of Council approval, and monitored in accordance with applicable accounting standards and reserve policies.

Use of Interfund Loans as a Financing Tool

Periodically, it may be advantageous to borrow internally through interfund loans rather than utilizing the external debt market, particularly for short-term or modest funding needs, or when timing and flexibility are critical. Interfund loans offer a practical, cost-effective financing option that allows the City to address funding gaps using existing resources, while preserving interest earnings for the lending fund and avoiding the administrative complexity and lead time associated with issuing public debt.

The Chief Financial Officer/City Treasurer is the custodian of all funds under the control of the City (including the Successor Agency of the former Redevelopment Agency and other component units) and is responsible for administering existing interfund loans and ensuring that new interfund loans comply with this policy.

Interest Rate Charged

Interfund loans should carry a variable annual interest rate equal to the City's pooled investment portfolio rate of return for the applicable fiscal year. This ensures that the lending fund does not incur an economic loss as a result of making the loan and continues to earn interest consistent with its typical investment return. Because the pooled rate is typically lower than the cost of external borrowing, the borrowing fund benefits from reduced interest expense, while the lending fund continues to earn interest as if the loan had not been made.

If a loan is to be made at an interest rate lower than the City's pooled rate, it should be funded by the City's General Fund, which does not require interest earnings due to its unrestricted nature.

The proposed interest rate for any interfund loan must be clearly disclosed when City Council authorization is requested. If the proposed rate differs from the City's pooled investment portfolio rate of return, the variance should be specifically identified and justified as part of the approval request.

Repayment Term

In general, the repayment term of interfund loans should be limited to five years. However, longer terms may be considered for specific projects or when necessary to support the financial stability of the borrowing fund. The loan term must be clearly disclosed at the time City Council authorization is requested for the loan.

Funds that May Make Loans

Interfund loans may be made from any City fund that has sufficient available cash reserves, is not relying on those funds for immediate or near-term operational needs, and is not restricted by legal or fiscal policy constraints. The selection of a lending fund is determined based on a fund's overall cash position, fund liquidity, and the suitability of the fund to support the borrowing without compromising its core financial obligations.

While the City's General Fund, internal service funds (Liability Insurance Trust Fund and Workers' Compensation Insurance Trust Fund), and larger enterprise funds (Sewer Fund, Electric Fund, and Water Fund) have traditionally served as the primary sources for interfund loans, other eligible funds may be considered on a case-by-case basis, provided their participation aligns with applicable legal restrictions and fiscal policies.

Restricted funds should only be used when specific authorization exists to allow loans to be made from those funds (such as Municipal Code provisions permitting one restricted fund to loan to another), and all terms must be clearly defined and disclosed when City Council authorization is requested.

Interfund loans involving the Electric or Water Funds must be reviewed by the Board of Public Utilities and must fully comply with the applicable reserve policies. Final approval remains subject to City Council authorization.

Financial Condition of Borrowing Fund

In general, interfund loans should only be made to funds that do not have sufficient cash on hand for the stated purpose of the loan. The projected fiscal health of the borrowing fund should also be taken into consideration in making this determination. If cash expenditures for a given purpose may compromise the fiscal health of the fund in the near or long term, while a regular payment on an interfund loan would not, then an interfund loan is likely appropriate.

Funds that are frequently in the bond market should generally issue bonds or consider capital lease financing in lieu of borrowing through interfund loans. Interfund loans are therefore generally used by smaller funds that do not typically use external financing. However, larger funds may request interfund loans if there is a valid reason to do so, such as limited bonding capacity at the time the loan is required, or when a short borrowing duration does not warrant long-term debt issuance. For example, a borrowing of five years or less may be more appropriately financed by an interfund loan, while a capital improvement to construct new facilities may be more appropriately financed by the issuance of long-term debt.

Financial Condition of Lending Fund

Interfund loans should only be made by funds with a strong projected financial position, ensuring that lending activity does not compromise the fund's ongoing operations or service levels. The fund's projected cash flows, reserve levels, and any applicable financial policies should support the determination that adequate liquidity will be maintained after the loan is made. Lending should not impair the fund's ability to carry out its intended purpose, support core programs, or respond to unforeseen financial demands.

Permitted Loan Purposes

Interfund loans may be made for any purpose deemed appropriate by the Chief Financial Officer/City Treasurer, subject to City Council approval. Loans for operating costs are not permitted. Interfund loans should generally be used for capital improvements, land acquisition, or equipment purchases. The specific purpose of an interfund loan must be clearly disclosed when City Council authorization is requested.

Any material change in the intended use of the loan proceeds should be approved by the City Council before the funds are repurposed. For example, if a significant portion of the loan proceeds is to be redirected to a different project, advance City Council approval is required. Minor changes in how loan proceeds are used, or failure to expend a small portion of the proceeds as originally planned, do not require City Council approval, provided the change is approved by the City Manager, reasonable discretion is exercised in making that determination, and full repayment of the loan remains in effect.

Revision of Loan Terms

Interfund loan terms are expected to remain in effect as approved by the City Council. However, if repayment becomes impractical under the original schedule due to changes in project timelines, fiscal challenges, or other justifiable circumstances, the borrowing fund may request revised terms.

The Chief Financial Officer/City Treasurer, exercising reasonable discretion, may approve non-substantial changes to the repayment schedule or loan amount, given sufficient justification. Interfund loans may be paid off early by the borrowing fund without City Council approval. Any proposed increase to the loan amount of more than ten percent, or any change to the approved interest rate, must be submitted to the City Council for approval.

Accounting Treatment

Interfund loans will be recorded in the City's financial records and reported in the Annual Comprehensive Financial Report (ACFR) in accordance with accounting principles generally accepted in the United States (GAAP) and guidelines promulgated by the Governmental Accounting Standards Board (GASB). Loan activity will be recorded in the fiscal year in which the cash is transferred, which may differ from the year in which the loan is approved by the City Council. Interfund loans are subject to annual review by the City's external auditors to ensure compliance with these requirements.

PROCEDURE:

Responsibility		**Action**
Borrowing Department	1.	Identifies a funding need and collaborates with the Finance Department to determine whether an interfund loan is an appropriate funding solution.
Finance Department – Budget Division	2.	Assesses the borrowing and potential lending funds for policy compliance, projected cash flows, reserve sufficiency, and legal or fiscal constraints.
Borrowing Department	3.	If the Electric or Water Funds are proposed as the lending source, prepares and submits a report for review by the Board of Public Utilities, inclusive of the same elements required for the Council report, prior to seeking City Council authorization.

PROCEDURE:

Responsibility		Action
	4.	Prepares a City Council report that includes: • Disclosure of the borrowing fund, recommended lending fund, loan amount, proposed interest rate, loan term, and purpose of the loan. • A statement confirming compliance with relevant policies and reserve requirements of the lending fund. • Applicable fiscal impact details for both the borrowing and lending funds. • Loan amortization schedule utilizing estimated or actual interest rates, and, if applicable, a statement of the variable rate based on the pooled investment portfolio rate of return for the applicable fiscal year.
City Council	5.	Considers the interfund loan proposal and takes action as appropriate.
Finance Department – Accounting Division	6.	Executes the loan transaction and records it in the City's financial records based on the terms approved by the City Council.
	7.	Monitors loan repayment activity to ensure compliance with the approved terms. If repayment delays or shortfalls occur, evaluates the need for revised terms and makes the recommendation to the Chief Financial Officer/City Treasurer.
Finance Department – Debt Division	8.	Includes the interfund loan in the Quarterly Debt & Investments report to the City Council.
City Manager	9.	Considers and approves minor changes in the use of loan proceeds, if applicable.
Chief Financial Officer/City Treasurer	10.	Considers and approves non-substantial changes to the repayment schedule or loan amount, if applicable.
	11.	Monitors aggregate interfund lending activity as part of the City's overall cash and investment strategy.