Finance Committee

City of Arts & Innovation

TO: **HONORABLE CHAIR AND COMMITTEE** **DATE:** **MAY 14, 2025**

FROM: **FINANCE DEPARTMENT** **WARDS: ALL**

SUBJECT: **INTERFUND LOANS UPDATE; REVISIONS TO INTERFUND LOAN POLICY**

ISSUE:

Receive an update on the City's outstanding interfund loans and review and provide feedback on the updated interfund loan policy.

RECOMMENDATIONS:

That the Finance Committee:

1. Receive an update on the City's outstanding interfund loans; and

2. Review and provide feedback on the revised interfund loan policy.

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 either unavailable or not cost-effective. All interfund loan borrowing was approved in advance by the City Council, in accordance with the City's Interfund Loan Policy in effect at the time.

The City has a long history of utilizing the interfund loan program to lower its borrowing costs and support capital improvement projects. Over the past 38 years, the City has approved more than 85 interfund loans, totaling over $140 million in loaned funds. These loans typically carried repayment terms of three to five years, though some have been approved with longer repayment terms for various reasons, consistent with the terms of the Interfund Loan Policy.

The most recent interfund loan, approved in September of 2024, funded the purchase of Solid Waste Trucks for the Refuse fund.

The City's interfund loan policy was informally updated with minor, non-substantive changes in March 2024 (Attachment 1).

DISCUSSION:

Outstanding Loans

As of March 31, 2025, the outstanding balance of all current interfund loans totals $8.5 million and consists of six individual loans. Attachment 3 illustrates the current balance of each outstanding loan and the anticipated balance during each of the upcoming six fiscal years.

The presentation (Attachment 4) details each of the outstanding loans, including its original purpose, the current balance, Council approval date, lender and borrower, and loan maturity date.

Interfund Loan Policy

In conjunction with the loan status update, staff has completed a comprehensive review and rewrite of the City's Interfund Loan Policy (Attachment 2). The revised Interfund Loan Policy provides a clear framework to guide the use of internal borrowing between funds. It outlines key requirements including interest charges based on the City's pooled investment portfolio rate, a general repayment term of five years, and strict eligibility criteria for both borrowing and lending funds. The policy is designed to ensure that loans are used appropriately and that they do not compromise the financial stability of either fund involved. Enhanced internal controls and oversight mechanisms, including City Council approval of interfund loans and ongoing reporting through the Quarterly Debt & Investment Reports, help maintain transparency and fiscal discipline in the administration of interfund loans.

STRATEGIC PLAN ALIGNMENT:

This action contributes to the **City's Strategic Priority 5 – High Performing Government and Goal No. 5.4** Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** –The interfund loan policy and program promotes transparency by clearly outlining how internal borrowing decisions are made, approved, and monitored.

2. **Equity** – Interfund loans leverage internal resources to enhance infrastructure that supports critical City services for the Riverside community at large.

3. **Fiscal Responsibility** – Interfund loans present lower borrowing costs than the public markets and allow the City to meet critical infrastructure needs in a timely manner. The revised interfund loan policy strengthens internal controls and provides guidelines that support the City's long-term financial health.

4. **Innovation** – The City uses interfund loans as a flexible, practical alternative to external financing, particularly for short-term or modest funding needs where external debt issuance may not be warranted.

5. **Sustainability & Resiliency** – The interfund loan policy ensures that interfund loans are only made when both the borrowing and lending funds can maintain their financial stability, operational capacity, and ability to respond to unforeseen needs.

FISCAL IMPACT:

The scheduled repayment of the outstanding balances for the active interfund loans, as outlined in the summary schedule of this report, has been incorporated into the currently adopted budget, with a total fiscal impact of approximately $1.2 million in Fiscal Year 2024/25. Repayment allocations for subsequent fiscal years have been programmed into the long-term budget plans of applicable funds.

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Attachments:

1. Interfund Loan Policy – Original
2. Interfund Loan Policy – New
3. Interfund Loan Summary
4. Presentation