



STAFF REPORT

AGENDA NO: 8g

MEETING DATE: January 21, 2020

To: Honorable Mayor and City Council

Date: January 21, 2020

From: Carol Augustine, Finance Director – (650) 558-7222

Subject: Consideration and Adoption of a Resolution Approving an Interfund Loan Policy for the City of Burlingame

RECOMMENDATION

Staff recommends that the City Council review the attached proposed policy, and consider adopting a resolution approving an Interfund Loan Policy for the City of Burlingame.

BACKGROUND

Prior to the City Council recess in July 2019, the Council had a robust discussion of Affordable Housing Fund programs. Although no monies have been collected thus far, revenues from commercial linkage fees and residential impact fees will be directed into a dedicated Affordable Housing Fund to be used for the creation and support of affordable workforce housing in Burlingame. As part of the discussion of what types of programs could most effectively be supported, the ability to leverage these funds was of particular interest to the Council. Specifically, the Council questioned the possibility of borrowing from other City funds to allow for the initiation of affordable housing programs and activities *prior* to actual receipt of the fees.

DISCUSSION

In order to achieve important public policy goals, the City has established various special revenue, capital project, debt service, and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures, and fund equity.

Any *transfers* between funds for operating purposes are clearly set forth in the Annual Budget and can only be made in accordance with the adopted budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for temporary cash flow reasons. The purpose of interfund borrowing is to finance high-priority needs at reduced costs of interest, debt issuance, and/or administration.

Many cities address interfund borrowing within their debt management policies. The Debt Management Policy for the City of Burlingame, which the City Council adopted in March 2019, complies with the requirements set forth in SB 1029 and by the State Debt and Investment Advisory

Commission, and aligns with GFOA recommendations. However, there is no discussion of interfund borrowing within the policy.

In researching the possibility of interfund borrowing, staff noted that, to avoid violating debt limits as established through the California Constitutional Debt Limit (§ 18 of article XVI of the California Constitution), interfund borrowings cannot be made for a term beyond 12 months. Section 18 of article XVI of the California Constitution provides that no county, city, town, township, board of education, or school district may incur any indebtedness or liability in any manner or for any purpose exceeding the income and revenue without the assent of the voters. This constitutional debt limit was created to mandate fiscal responsibility in public borrowing at a time when the State of California was rapidly developing and local governments were under pressure to expand railroads and fund other infrastructure projects. Although the limitation can be described as a pay-as-you-go mandate, there are exceptions to this debt limit. Financing can be obtained through a lease agreement through a financing authority, for example. However, the Burlingame Finance Authority, established in 1995, can only be used to finance the construction of public capital improvements.

Another exception is Council-authorized interfund lending. The practice of interfund loans has long been a recognized and necessary aspect of municipal finance. Interfund loans are typically short-term in nature, and constitute the allocation of resources between individual funds for working cash purposes. The governing principle is that such borrowings must not interfere with the purpose for which the lending fund was established.

Communities are encouraged to adopt Interfund Loan Policies to ensure arrangements do not offend legal principles and generally accepted accounting practices. General Accounting Standards Board Statement No. 34 states that interfund lending is generally used where repayment of the source fund is expected within a “reasonable” time. The attached Interfund Loan Policy addresses anticipated short-term cash flow needs as well as short-term financing needs that arise outside the annual budget, and sets a maximum repayment period of 24 months. This term was determined to be both reasonable and mindful of delays that can be incurred in the receipt of revenues legally due to the debtor fund. The policy also allows for an adjustment of the terms of any interfund loan to be made only with the consent of the City Council. If the City Council wishes at some point to allow interfund borrowing for a term of greater than 24 months for specific purposes, the Interfund Loan Policy can be amended at that time.

If the Council wishes to address only interfund borrowings in lieu of issuing short-term bonds or other outside debt instruments within the City’s current Debt Management Policy, the policy can be updated to include a general clause regarding interfund borrowings: “The City may borrow internally from other funds with surplus cash in lieu of incurring third-party debt. Such interfund loans will be for terms of 24 months or less. Purposes warranting the use of this type of borrowing could include short-term cash flow imbalances due to grant terms, interim financing pending the issuance of bonds, or capital financing in lieu of bonds. Interfund loans will be evaluated on a case by case basis. Any borrowing between two City funds that exceeds 180 days requires a payment schedule approved by the City Council and shall include an interest rate based on market conditions at the time the loan was taken out.”

FISCAL IMPACT

Adoption of an Interfund Loan Policy, or amendment of the City's current Debt Management Policy, will not result in any direct impact on City resources. However, policies based upon the specific financing needs of the City's various funds supports sound financial management and enhances the transparency of the City's financial dealings

Exhibits:

- Resolution Adopting an Interfund Loan Policy for the City of Burlingame
- Proposed Interfund Loan Policy