

City of Burlingame, California
Financial Policy Document
Interfund Loan Policy

Adoption Date:

Last Revision Date:

Owner Department: Finance

Introduction

An Interfund Loan Policy sets forth certain fund management objectives, establishes overall parameters, and provides general direction in the appropriate establishment and administration of the City's interfund borrowings. The purpose is to maintain the City's ability to utilize existing resources to pursue opportunities that require financing in the short-term, where resources are not yet available in the appropriate funds. Accessing the capital markets for such short-term borrowings is not cost-effective. This policy supports the Council's goal of sustaining long-term financial strength in all funds.

The guidelines established by this policy will govern the issuance and management of all interfund borrowings and repayment. The Finance Department recognizes that funds are segregated according to their intended purpose and may be used only in compliance with finance-related legal and contractual provisions. Interfund loans may be used to forward specific capital financing needs or to initiate specific programs, and not for general operating functions. In cases that require exceptions to this Interfund Borrowing Policy, approval from the City Council will be necessary for implementation.

Objectives

The purpose of this Interfund Loan Policy is to establish a framework in which the City can work to effectively use the cash balances of other funds to provide a short-term financing option to funds in anticipation of revenues adequate to cover the loan. This low-cost borrowing will allow the City maximum flexibility in responding to opportunities that arise in the advancement of quality projects, programs, and services to the citizens of Burlingame, while maintaining financial integrity.

Such short-term financing is an efficient use of City resources in that it avoids the cost of issuance or establishment of debt with external entities. The City may *not* utilize this form of debt obligations between funds to finance long-term capital projects. However, interfund borrowing may be used for any interim financing purposes that meet the conditions and purposes outlined in this policy.

CONDITIONS AND PURPOSES OF INTERFUND LOANS

Acceptable Conditions for the Use of Interfund Loans – In the event of temporary shortfalls in cash flow in any fund established by the City, due to timing of receipt of revenues and the lack of cash on hand to cover the temporary deficit, the City may consider the use of an interfund loan. In compliance with applicable state law, any such note shall be payable either (i) not later than the last day of the fiscal year in which it is issued, or (ii) during the fiscal year succeeding

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the fiscal year in which issued, but in no event later than 24 months after the date of issue, and only if such note is payable only from revenue received or accrued during the fiscal year in which it was issued.

Interfund loans are not permitted without an identified repayment source. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make specified principal and interest payments. The lending fund may loan only that portion of the fund's cash that is clearly inactive or in excess of current needs.

Interfund loans may not be used to solve ongoing structural budget problems, unless a rigorous plan is in place to resolve the budget issue.

Acceptable Uses of Interfund Loans – From time to time, interfund borrowings may be appropriate. Such borrowings are subject to the following criteria in ensuring that the fiduciary purposes of the affected funds are met:

- The Finance Director is authorized to approve temporary interfund borrowings for cash flow purposes whenever the cash shortfall is expected to be resolved within 90 days. The most common use of interfund borrowing under this circumstance is for grant programs, where costs are incurred before drawdowns on the grant funds are initiated and received (reimbursements). However, receipt of funds is typically received shortly after the request for funds has been made.
- Any other interfund borrowings for cash flow or other purposes require case-by-case approval by the City Council.
- Any transfers between funds where reimbursement is not expected within 24 months shall not be recorded as interfund borrowings; they shall be recorded as interfund operating transfers that affect equity by moving financial resources from one fund to another.

All interfund loan proposals require an analysis by the Finance Department demonstrating that:

- The borrowing fund has the capacity to repay the debt;
- The lending fund has the capacity to lend the funds, beyond its own operating and capital needs; and
- The loan does not violate any debt covenants or other provisions of the borrowing and lending funds.

Any adjustment of the terms of an interfund loan that will result in the extension of repayment, an increase in the repayment amount, a write-off, or cancellation must be approved by the City Council.

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Interfund Documentation Requirements

Each interfund loan will be documented by formal agreements that specify the following terms and conditions:

- The purpose of the loan
- The identification of the borrowing and lending fund or funds
- The dollar amount of the loan and the interest rate*
- The terms for repayment, including the dates for installment payments and maturity date on which all principal and unpaid interest will be due
- The source of repayment and the ability to repay the loan within the terms without causing a negative impact to the fund's financial position

* All interfund loans are interest bearing, and the amount of interest to be paid on the loan must be at least equal to the investment earnings the fund making the loan would have received had the loan not occurred. There is no prepayment penalty on an interfund loan. Repayment of the interfund loan must be the top priority of the borrowing fund once cash is available.

The Finance Department will review all inter-fund borrowing at least annually to determine compliance with the agreed-upon terms.

Administration – Ultimate responsibility for all matters relating to the administration and proper reporting of interfund borrowings rests with the City's Finance Director. The Finance Director and other appropriate City personnel may also consult with legal counsel, auditors, and advisors as needed in establishing such loans, to ensure compliance with all applicable covenants and to safeguard the integrity of the purpose of all funds established by the City.

A copy of all debt-related records shall be retained at the City's offices. At minimum, these records shall include all legal documents/transcripts, resolutions, leases (if applicable), and notes.

The Finance Director is responsible for efficient cash management that ensures the timely and accurate payment of all interfund borrowings as delineated in the financial documents governing the loan.

Periodic Review of Policy

This Interfund Loan Policy will be reviewed from time to time as conditions warrant, or at any time it is determined that changes are necessary, to safeguard its effectiveness and relevance to the City's needs. All changes to this policy will be approved by resolution of the City Council.