

**RESOLUTION NO. 3720-2014**

**RESOLUTION OF THE FORT BRAGG CITY COUNCIL APPROVING INTERFUND LOAN POLICY**

**WHEREAS**, on January 13, 2003, the Fort Bragg City Council adopted Resolution No. 2627-2003 establishing an interfund loan policy; and

**WHEREAS**, said interfund loan policy has been reaffirmed and updated from time to time since that date; and

**WHEREAS**, it is the desire of the City Council to approve a new Interfund Loan Policy as detailed in Exhibit A attached to this resolution.

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Fort Bragg does hereby approve the Interfund Loan Policy attached to this Resolution as Exhibit A and incorporated by reference herein.

The above and foregoing Resolution was introduced by Councilmember Kraut, seconded by Councilmember Courtney, and passed and adopted at a regular meeting of the City Council of the City of Fort Bragg held on the 23<sup>rd</sup> day of June, 2014, by the following vote:

**AYES:** Councilmembers Courtney, Deitz, Hammerstrom, Kraut, and Mayor Turner.  
**NOES:** None.  
**ABSENT:** None.  
**ABSTAIN:** None.



**DAVE TURNER,**  
Mayor

**ATTEST:**

  
Cynthia M. VanWormer, MMC  
City Clerk

## Exhibit A

### CITY OF FORT INTERFUND LOAN POLICY

The purpose of the City of Fort Bragg's Interfund Loan Policy is to specify the principles under which interfund loans may be considered and approved. The policy specifies the terms and conditions, it summarizes the due diligence necessary prior to the loan and provides guidance as to the repayment and accounting for these loans. This policy was designed to avoid the problems in interfund loans experienced in the past, facilitate future loans in a structured manner and set clear accounting rules for these loans. The principles of City's Interfund Loan Policy are as follows:

**1. All interfund loans require formal loan agreements which disclose rates, terms, collateral and repayment conditions.**

All interfund loans must be documented by formal agreements that specify the terms and conditions. A City Council resolution is needed to approve proposed interfund loans. The loan amount shall be approved at the amount minimally necessary to ensure the completion of the project for which the funding is required. This procedure recognizes the need for the Finance Department to treat each City fund as a separate financial entity and avoid commingling resources. Commingling of fund resources is expressly forbidden under Generally Accepted Accounting Principles (GAAP). The collateral and repayment conditions provide the lending fund some measure of security by earmarking unpledged assets of the borrower, such as cash or receivables. Such language is commonly used on loan documents and it prioritizes repayments from the borrower resources.

**2. The terms and conditions must be based on prevailing investment rates available to other City funds with short to medium terms not to exceed five years.**

The "prevailing investment rate" is defined as the average rate of return on the City's pooled investments at the commencement of the loan. The term of the loan is short to medium, not to exceed five years. This is designed to avoid long term lending, which may appear to be similar to fund balance donations. Long term funding saps the limited cash resources of the various city funds and denies the lending fund the cash necessary for its own operating and capital needs.

**3. All interfund loan proposals require a feasibility analysis demonstrating that (i) the borrowing fund has the capacity to repay the debt, (ii) the lending fund has the capacity to lend the funds, beyond its own operating and capital needs, and (iii) that the loan does not violate any debt covenants or other provisions of the borrowing and lending funds.**

As part of the due diligence review, each loan proposal must demonstrate that the funding can be repaid. It is important to avoid masking an operating deficiency in one fund with an interfund loan from another fund. This is the centerpiece of the policy, which seeks to avoid loans that fail the fundamental test of performance (repayment) under the contract. If a feasibility analysis does not show that the loan can be safely repaid, the appropriate recommendation may be a revenue enhancement or another correction of the underlying reason for the funding deficiency. An alternative financing recommendation may be a fund balance donation. This requirement is also designed to identify any conflicts with specific restrictions or requirements pertaining to certain funds. Such conflicts may arise from applicable debt covenants, fiduciary requirements on funds held by the City or legal hurdles that the funding needs to overcome.

4. There is to be no prepayment penalty, the interest is to be paid quarterly, while principle payments are subject to the feasibility analysis cash projections.
5. The interest expense from interfund loans is to be treated as user fund expense, while the interest income is to be treated as interest revenue to the loaning fund.