



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Director of Finance & Administration
Teresa Levine, Accounting Manager

Date: July 22, 2010

Subject: Approve Property Purchase Interfund Loan

RECOMMENDATION:

The City Council review the attached Interfund Loan Policy and pass a resolution authorizing the Director of Finance and Administration to approve an Interfund Loan for the purchase of real property located at 11831 120th Avenue NE, Kirkland, WA.

BACKGROUND DISCUSSION:

At the June 1, 2010 City Council Meeting, the Interim City Manager was authorized to enter into a Purchase and Sale Agreement for acquisition of the property commonly known as the former Costco Home Building at 11831 120th Avenue NE. The feasibility analysis period will end on July 31 and, if the City agrees to the make the purchase, the scheduled closing date is September 1, 2010. The initial recommended funding source is an interfund loan from the Water/Sewer Utility and the Surface Water Utility to provide the cash flow necessary to fund the property purchase from the General Capital Fund. While the resolution indicates the loan term will be three years, the loan repayment will occur immediately following bond issuance for the Public Safety Facility purchase and capital improvement project, which is expected to occur during 2011.

Attached is an Interfund Loan Policy which clarifies the guidelines for this type of financial transaction based upon State guidelines and the City's internal Debt Management Policy.

The attached Resolution authorizes the Director of Finance and Administration to loan an amount not to exceed \$12 million for this purpose. We anticipate the amount due on the property will be in the range of \$10.6 to \$11 million, however, we will not have a closing cost estimate until after the feasibility period ends. Interfund loan requirements state that a reasonable rate of interest must be paid to the lending fund. Due to the poor economic times and historically low interest rates, the earnings projected for the City's portfolio for the 2011-2012 biennium is 0.75 percent. Therefore, the interest rate set for the interfund loan will be 0.75 percent as this would be the rate that the lending funds would have been expected to receive in that same period.

Interfund Loan Policy
Chapter
Policy
Effective Date

A. General

Interfund lending may be considered as an option to meet an immediate short term financing need between funds or accounts. The loan shall be accounted for as a temporary borrowing and this method of short- term financing will only be used to meet immediate financing needs or temporary cash deficiencies. The repayment period of the loan is expected within a reasonable time, should not be used to balance a budgetary shortfall, and should only involve amounts which are clearly in excess of anticipated cash needs of the loaning fund.

B. Purpose

This Policy authorizes and provides guidelines for the City Council to approve Interfund Loans.

C. Guidelines

1. The City Council must, by ordinance or resolution, approve all interfund loans. The ordinance or resolution shall contain the amount of the loan, the funds involved, the purpose of the loan, the source of funds for repayment, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest to be paid to the lending fund.
2. Interest should be charged to eliminate the loss of revenue to the loaning fund unless:
 - a. The borrowing fund has no other source of revenue other than the lending fund; or
 - b. The borrowing fund is normally funded by the lending fund
3. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.
4. The term of the loan cannot exceed three years unless the funds are legally permitted to support one another.

RESOLUTION R-4828

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND RELATING TO FINANCE AND AUTHORIZING AN INTERFUND LOAN FROM THE WATER SEWER UTILITY AND SURFACE WATER UTILITY FUNDS TO THE CAPITAL FUND IN AN AMOUNT NOT TO EXCEED \$12,000,000.

WHEREAS, funds are needed by the Capital Fund for costs associated with the purchase of the Public Safety Building; and

WHEREAS, the City expects the funds loaned to be repaid by the bond proceeds as authorized in Section 1;

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. A loan in the amount not to exceed \$12,000,000 is hereby authorized from the Water/Sewer Utility and Surface Water Utility Fund to the Capital Fund. The loan shall be repaid from bond proceeds, or other authorized funds, within three years. Interest shall be at the rate of .75 percent per annum.

Section 2. The Finance Director is authorized to advance funds from the Water/Sewer and Surface Water Funds to the Capital Fund as authorized by Section 1 of this Ordinance for the purpose of this interfund loan. The Finance Director is authorized and directed to repay sums advanced from monies received by the Capital Fund, plus interest, as required in Section 1.

Passed by majority vote of the Kirkland City Council in open meeting this ____ day of _____, 2010.

Signed in authentication thereof this ____ day of _____, 2010.

MAYOR

Attest:

City Clerk