

CITY COUNCIL AGENDA MEMORANDUM

SUBJECT

This agenda item continues the Council's discussion from September 9 and September 16 regarding the City's adopted 2013-2019 General CIP. This item establishes the authority for interfund loans to address short-term borrowing needs. Includes proposed action on Ordinance No. 6129 authorizing an interfund loan from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund in an aggregate amount not to exceed \$30,000,000 for the purpose of providing interim financing for projects included in the City's Capital Investment Program.

FISCAL IMPACT

Adopting Ordinance No. 6129 will authorize the Finance Director to advance funds, as needed, not to exceed \$30 million in aggregate from the Utility Capital Investment Program Fund (Utility CIP) to the General Capital Investment Program Fund (General CIP) to bridge the gap in financing for the General CIP. The loan shall be repaid from available CIP revenues or other available sources within the existing timeframe of the 2013-2019 General CIP. The outstanding principal amount of the loan shall bear interest, currently estimated at \$1.5 million in total, at a per annum rate equal to the net earnings of the City's internal investment portfolio until repayment of the loan in full.

STAFF CONTACT

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Finance Department

POLICY CONSIDERATION

Should the City authorize the Finance Director to advance funds from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund for purposes of an interfund loan to bridge the financing for the General CIP with an up to 3-year repayment schedule? Authority for and policy considerations related to the terms of such interfund loans are as follows:

- Cities are permitted to make temporary advances between solvent funds, subject to certain restrictions. Interfund loans may be completed from the city's general fund to a special fund, or vice versa. *Griffin v. Tacoma*, 49 Wash. 524, 95 P. 1107 (1908); *Von Herberg v. Seattle*, 157 Wash. 141, 288 P. 646 (1930).
- RCW 43.09.210 requires that the creditor fund, such as the utility reserve, be compensated for any transfer to another fund.
- Part III, Chapter 4(A) of the BARS manual describes the requirement that interest be paid as follows: "a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund".

Although not directly applicable to the 3-year interfund loan authority sought by proposed Ordinance No. 6129 adopted city code related to interfund loans within the Finance Director's discretion informs appropriate terms for the recommended interfund loan authority:

- **Bellevue City Code: 3.37.070 Director – Interfund loan authority.**

The director of finance is authorized to make loans from one city fund to another city fund for periods not exceeding six months. Such loans shall be authorized by the director only after he or she has made a determination, in writing, that the loaning fund will have adequate cash balances to meet current expenses payable from the fund after the loan is made and until the loan is paid in full. The loan shall be made available to enable the receiving fund to meet current payable expenses. Such loans shall bear a reasonable rate of interest to be paid to the lending fund. The director shall designate the appropriate interest rate of the loan based upon the net earnings rate of the city's internal investment portfolio until repayment of the loan in full, but in no event shall the interest rate be less than any rate of interest required by law.

BACKGROUND

As authorized by Council policy, the General Capital Investment Program (CIP) has historically been "frontloaded," meaning that while revenues over the 7 year period of the plan are sufficient to cover projected expenditures, the expenditures are historically incurred in the earlier years of the plan. As a result, to bridge the period between expenditures in the early years of the plan, and revenues received over all 7 years of the plan, the City has issued short-term financing to address the cash shortfalls. Through use of short-term cash flow borrowing, the City maintains a balanced CIP over the seven-year period of the program.

The current adopted 2013-2019 CIP was no exception, and included frontloading and contemplated a mix of long- and short-term borrowing. Previous forecasts (prior to the loss of revenue and cost increases described in detail in September) showed the need for short-term borrowing to be about \$3 million for 2014 and approximately another \$11 million in 2015.

As discussed in August and on September 9 and 16, while the current CIP remains in balance through 2019, an estimated need for short-term cash flow borrowing of up to \$44 million has been identified due to the following factors:

- Sound Transit alignment decisions made subsequent to the issuance of long-term debt
- Recommended project accelerations
- Loss of revenues
- Increased costs
- 2013 Debt service payment not originally included when the April bond package was approved (all other debt service payments for the later years were reflected).

The combination of factors above results in a revised forecast of the short-term cash flow needs for the CIP of \$44 million in 2014; no additional short-term borrowing is anticipated in 2015 or later years of the CIP.

At the September 9 and 16 Study Sessions, staff walked through each of the above drivers of the identified cash flow needs, which combined would create additional "frontloading." Proposed Ordinance No. 6129 represents staff's recommendation to authorize up to \$30 million of interfund lending authority, while pursuing additional detail about project acceleration opportunities with Sound Transit. Staff will pursue agreements with Sound Transit regarding those opportunities, and would return in early to mid-June 2014 for Council decisions on accelerating those projects, with a related cash flow need of approximately \$14 million.

Options for Cash Flow Authorization:

Of the total \$44 million cash flow need identified for 2014, Council could choose to provide authority for short-term borrowing through a series of incremental decisions rather than providing the authority in a single action. The timeline and discussion below depicts the timing and choices for Council consideration.

Cash Flow Timeline for Council Consideration:

Oct. 2013 (With award of NE 4 th St bid)	Nov/Dec 2013 (Mid-bi Budget Adoption)	Sometime in 2014 (As agreements are negotiated)
<ul style="list-style-type: none"> • NE 4th – revenue loss (PWTF, SBO, Grants) and project expenditure increase through 2014 ~\$9M • 120th Ave Stage 2 – revenue loss (SBO) ~\$2M • Cost increases across the CIP in various projects, plus 2013 unbudgeted Debt Service Payment ~\$6M 	<ul style="list-style-type: none"> • City Hall parking – NE 6th Street Station ~\$6M • Accelerate Design on: <ul style="list-style-type: none"> ○ 124th Ave NE 12th to NE 14th ○ 130th Ave NE – Bel Red to NE 20th ○ NE 15th Street Zones 1 and 2 • Accelerate Neighborhood Items <ul style="list-style-type: none"> ○ SCATS ○ Lakemont/Cougar Mtn Way ○ Minor Capital ○ Parks net of \$1.2M – driven by Hidden Valley <p style="text-align: center;">~\$7M</p>	<ul style="list-style-type: none"> • Accelerate and show ST cost sharing on 120th Ave Stage 3 and 124th Ave NE ~\$5.5M • Metro Site - NE 6th Street Station ~\$8M
Total: ~\$17M	Total: ~\$13M	Total: ~\$14M

Further description of each of these factors in the need for short-term borrowing is provided below:

October 2013 (~\$17M) – The first incremental point of decision on the amount of cash flow borrowing for 2014 comes tonight. At a minimum, Council is asked to authorize:

- Use of cash flow borrowing to address the lag between adopted revenues and the use of ending fund balance by 2019 on the adopted CIP projects and schedules (\$17M) – this need will be realized during the first quarter of 2014 as property acquisitions are finalized, either by settlement or litigation, on the following projects:
 - Use of cash flow borrowing to address the lag between NE 4th Street (award of Phase 1 construction contract and property acquisitions) adopted revenue and use of ending fund balance (\$9M),
 - Use of cash flow borrowing to address lag between 120th Avenue NE Stage 2 adopted revenue and use of ending fund balance (\$2M),
 - Net cost increases by 2014 on other CIP projects and cost of 2013 unbudgeted debt service payment (net \$6M).
- This minimum authorization allows continuation of adopted projects within the timeframe originally anticipated within the CIP

November 2013 at the Mid-Biennium Update (~\$13M) – The second incremental decision point for Council consideration would be at the Mid-biennium update which is programmed to come to Council on November 4. Although this authorization could be deferred to the Mid-biennium update process, staff is recommending including this authorization in proposed Ordinance No. 6129 to stream-line the mid-biennium process. The reasons for and cash flow implications of each of the below will not change between now and the Mid-biennium discussion:

- Use of cash flow borrowing to address the lag between the construction of expanded parking on the City Hall site that is needed prior to construction of East Link, and payment by Sound Transit (~\$6 million),
- Other minor cash flow borrowing needs for projects responsive to community requests and/or to accelerate design projects for coordination with East Link (not including construction) (\$7 million).
- This authorization adds a project (City Hall parking) to the CIP, and accelerates the identified adopted projects from 2015 to 2014 to better meet community needs

Sometime in 2014 (~\$14M) - The final incremental decision point would be sometime in 2014 as cost sharing agreements with Sound Transit are further negotiated and approved by the City Council and Sound Transit Board:

- Use of cash flow borrowing to allow the City to construct portions of 120th Avenue NE (Stage 3) and 124th Avenue NE at the same time that Sound Transit is constructing East Link through Bel-Red. The adopted CIP fully funds construction of these projects with revenues available by 2019; however timing them with related East Link projects would accelerate the expenditures to 2014-2016, in advance of available revenues. This borrowing would not be needed unless a cost-sharing agreement is negotiated with Sound Transit, which is anticipated in early 2014 (\$5.5 million).
- With the East Link final alignment and NE 6th Street Station decisions made in April, the financial impact of purchasing the King County Metro property was solidified. The NE 6th Street alignment requires a larger portion of the Metro property for East Link facilities, which accelerates the timing of payment of acquisition costs for the Metro property from what was assumed in the adopted CIP (\$8M).

Finally, Council could choose not to authorize any cash flow borrowing and modify the adopted CIP to delay projects from current schedule. To achieve a “zero borrowing” option, at a minimum, no projects would be accelerated, City Hall parking would not begin construction until damages have been negotiated with Sound Transit, ROW acquisition and construction for the entire NE 4th Street roadway would be delayed until 2018-2019, and 120th Avenue Stage 2 construction would be delayed until 2016-2017.

- The “zero borrowing” option would eliminate any need for short-term borrowing, therefore saving the City interest costs;
- however, this option would also
 - slow project momentum,
 - add costs to mothball and then re-start project delivery for projects already underway,
 - realize sunk costs already incurred with some projects,
 - force return of grant funding that has already been secured, and
 - incur costs of inflation.

Staff Recommendation:

Staff recommends Council authorize cash flow financing up to \$30 million that combines the October 7 needs of \$17 million with the Mid-Biennium needs of \$13 million through use of an interfund loan. **The**

interfund loan would be repaid within the existing CIP and would only be drawn upon as needed. For instance, if the economy recovers quicker than current forecasts, the amount drawn would be reduced to reflect the additional unanticipated general taxes received or, if expenditures are made more slowly than modeled, the amount of the short-term borrowing would be less.

Staff recommends a not to exceed \$30 million interfund loan for the following reasons:

- The short term financing bridge will allow the adopted 2013-2019 CIP to be implemented and addresses the need for City Hall parking construction needed in advance of East Link construction.
- During the few weeks between October 7 and the Mid-Biennium, staff will have no new information regarding the mid-biennium decisions that has not already been presented to Council. The Mid-Biennium budget will reflect these decisions and allow focus on other aspects of the Mid-Biennium update.
- If Council chooses to combine the October 7 and the Mid-Biennium decisions, current CIP modeling shows that the \$30 million interfund loan is able to be repaid within 3 years as required by state statute.
- An interfund loan is an internal financing tool and, in comparison to a bank loan, provides greater flexibility and allows debt capacity to remain intact.
- If Council chooses to bifurcate the October 7 and the Mid-Biennium decisions into two separate authorizations, then two separate authorization ordinances will require Council consideration and action.
- With regard to the Metro property acquisition and acceleration of the 120th Avenue NE (Stage 3) and 124th Avenue NE projects, Council consideration and action will be scheduled in 2014 once agreements are reached with Sound Transit. Staff recommends pursuing cost sharing agreements with Sound Transit on both of those items and would bring forward the necessary cash flow authorization as a companion discussion at the time Council considers action on the final agreements.

The Utility Capital Investment Program Fund currently contains \$109 million in reserves. As background, these reserves are to be used for utility system renewal and replacement as identified in the Utility CIP. Consistent with Utility Financial Policies, reserves are accumulated in advance of major expenditures to provide utility rate stability over the long term. Because these funds are invested, they may be loaned for other purposes so long as the borrowing complies with rules imposed by the State Auditor's Office pertaining to time limitations and repayment with interest. At this time, within the 3-year period of this interfund loan, there is no programmed need for the Utility reserves that would be in excess of remaining reserves. Temporarily borrowing against the reserves carries the risk that if an emergent issue occurs that requires more than the remaining reserves, the City may then need to go to market for a bank loan or repay the reserve borrowings from other fund reserves.

EFFECTIVE DATE

If approved, this Ordinance will become effective five days after legal publication, on

OCTOBER 15, 2013

OPTIONS

1. Adopt Ordinance No. 6129 authorizing an interfund loan from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund in aggregate an amount not to

exceed \$30,000,000 for the purpose of providing interim financing for projects included in the City's Capital Investment Program.

2. Revise Ordinance No. 6129 authorizing an interfund loan from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund in aggregate an amount not to exceed \$17,000,000 for the purpose of providing interim financing for projects included in the City's Capital Investment Program.
3. Revise Ordinance No. 6129 authorizing an interfund loan from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund in aggregate an amount not to exceed \$44,000,000 for the purpose of providing interim financing for projects included in the City's Capital Investment Program.
4. Do not adopt Ordinance No. 6129 and provide alternative direction to staff.

RECOMMENDATION

Adopt Ordinance No. 6129 authorizing an interfund loan from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund in aggregate an amount not to exceed \$30,000,000 for the purpose of providing interim financing for projects included in the City's Capital Investment Program.

MOTION

Move to adopt Ordinance No. 6129 authorizing an interfund loan from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund in aggregate an amount not to exceed \$30,000,000 for the purpose of providing interim financing for projects included in the City's Capital Investment Program.

ATTACHMENTS

Proposed Ordinance No. 6129

CITY OF BELLEVUE, WASHINGTON

ORDINANCE NO. 6129

AN ORDINANCE authorizing an interfund loan from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund in an aggregate amount not to exceed \$30,000,000 for the purpose of providing interim financing for projects included in the City's Capital Investment Program.

WHEREAS, the City of Bellevue, Washington (the "City"), wishes to provide interim financing for certain projects included in the City's Capital Investment Program, pending receipt of Capital Investment Program ("CIP") revenues (collectively the "Project"); and

WHEREAS, the City expects the funds loaned to be repaid by available CIP revenues or other available sources; and

WHEREAS, such payment sources are anticipated to be sufficient to pay the principal of and interest on the loan when due; now, therefore,

THE CITY COUNCIL OF THE CITY OF BELLEVUE, WASHINGTON, DOES ORDAIN AS FOLLOWS:

Section 1. A loan in the aggregate amount not to exceed \$30,000,000 is hereby authorized from the Utility Capital Investment Program Fund to the General Capital Investment Program Fund. The loan may be funded through one or more advances, and shall be repaid from available CIP revenues or other available sources, within three (3) years from the date the advance is made. The outstanding principal amount of the loan shall bear interest at a per annum rate equal to the net earnings of the City's internal investment portfolio until repayment of the loan in full.

Section 2. The Finance Director of the City (the "Finance Director") is authorized to advance funds from the Utility Capital Investment Program Fund to the General Capital Investment Program 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 General Capital Investment Program Fund, plus interest, as required in Section 1.

Section 3. This ordinance shall take effect and be in force five (5) days after passage and legal publication.

3253-ORD
10/03/13

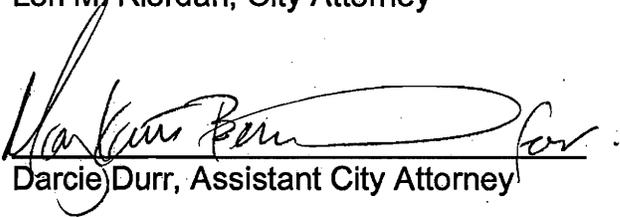
Passed by the City Council this _____ day of _____, 2013
and signed in authentication of its passage this _____ day of _____,
2013.

(SEAL)

Conrad Lee, Mayor

Approved as to form:

Lori M. Riordan, City Attorney



Darcie Durr, Assistant City Attorney

Attest:

Myrna L. Basich, City Clerk

Published _____