Overview and Initial Issues Identification
INTERFUND LOAN EXTENSION LEGISLATION

Staff: Erik Sund
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Introduction:

As part of his proposed 2015-2015 budget package, the Mayor has submitted legislation that would extend the deadline for repayment of outstanding interfund loans made from the City's consolidated cash pool to support the construction of the South Lake Union Streetcar and the Joint Training Facility in West Seattle. Background information about the loans follows, along with a discussion of the Council's options for responding to the proposed loan extension ordinances.

The City consolidates the investment of cash balances across all funds. The consolidated cash pool is managed by staff of the Department of Finance and Administrative Services (FAS). The purpose of the pool is to provide the City liquidity to meet its cash needs. The pool is invested in low risk securities such as US Treasury bills to ensure preservation of principal while generating a modest investment return. The pool also can also provide an efficient form of temporary bridge financing for specific projects that have a secure source of repayment.

Any interfund loan with a term longer than 90 days must be approved by the City Council through an ordinance. Interest is charged on the outstanding balance owed on interfund loans at a rate equal to the overall return on cash pool investments. This protects the other funds in the pool from lost returns and prevents cross subsidization between funds while still providing access to low cost of credit for borrowing funds. Loans of longer duration require the approval of the City Council and are typically used as "bridge" financing to allow a City department to begin work on a project for which a secure source of funding such as a planned bond sale or a grant award has been identified but for which the cash has not yet been received.

In the event that an interfund loan is made to a fund which is unable to repay because the expected revenues do not materialized, then the loan must either be extended or an alternate source for repayment (such as the General Subfund) must be identified.

Joint Training Facility

In 2003 the City Council approved Ordinance 121179, authorizing an interfund loan of up to $10,480,000 to the Unrestricted Subaccount of the Cumulative Reserve Subfund (CRS) to facilitate the purchase of land in West Seattle as a site for a new Joint Training Facility to be used by the Seattle Fire Department (SFD), the Department of Transportation (SDOT), and Seattle Public Utilities (SPU) for emergency training purposes. The site purchased for the JTF was larger than required and it was intended that a 31-acre portion would be sold to repay the loan and partially offset the overall cost of the project. Due to environmental issues (now resolved), market conditions, and a series of holds put on the sale by interested City departments, the sale of the excess land has been delayed repeatedly, leading FAS to request and the Council to grant six extensions, the last of which expires on December 31, 2014.

The current balance owed on the loan is approximately $13.7 million, which includes $3.2 million of accrued interest. While FAS has indicated that it intends to repay the loan using the proceeds from the sale of the surplus land at the JTF site, a sale is not imminent and so FAS has requested a further two year extension. If approved as proposed, the request would move the due date to December 31, 2016, at an estimated cost of $620,000 in additional interest.

South Lake Union Streetcar

In 2007 the City Council approved Ordinance 122603, authorizing an interfund loan of up to $5,945,000 to SDOT's Transportation Operating Fund (TOF) to support the construction of the South Lake Union Streetcar (SLUS) line. The loan was to be repaid using the proceeds from the sale of a surplus property adjacent to the Streetcar Maintenance Facility at 318 Fairview Avenue North; however, SDOT subsequently identified a possible need to expand the maintenance facility as part of the Center City Connector streetcar project and has retained ownership of the property. As a result of the delayed sale, SDOT sought and received two extensions to the original loan, the latest of which expires December 31, 2014.

The current balance owed is approximately $5.1 million. SDOT has requested a further extension of the due date to December 31, 2016. The site that SDOT originally intended to sell has been rented to Seattle City Light as a construction management site for the time being. The property is being leased to Seattle City Light for construction staging related to the Denny Substation project near South Lake Union.

Identified Issues:

Neither the TOF nor the CRS currently has the resources to repay the loans in question, so if the proposed ordinances granting additional time for repayment are not approved, FAS and SDOT will either request support from the General Subfund for repayment or will need to cut planned spending on other projects and programs. It is not clear, however, that the land intended to back either loan will be sold in the near future. The loan granted to FAS for the JTF land purchase has already been extended for 11 years. The loan to SDOT has been extended for 5 years, and the land may be needed for future transportation purposes. In order to prevent these loans from being extended indefinitely and continuing to accrue interest, it may be desirable to establish a more solid path to repayment.

In considering its response to the proposed loan extensions, the Council has a range of options including:

Option 1 – Approve loan extensions.
If Council approves the proposed ordinances as transmitted by the Mayor, the loans will be extended and neither department will require additional funding in the upcoming biennial budget. However, the question of how to resolve the loans will remain unanswered and the loans will continue to accumulate interest, currently estimated at a combined $840,000 over two years.

Option 2 – Deny loan extensions.
If Council does not approve the proposed ordinances extending the due dates of the loans, FAS and SDOT would need to balance their budgets either through (a) additional resources to repay the loans or (b) reduced spending on other projects or programs. The current combined value of these two loans is approximately $18.8 million.

Option 3 – Repay loans by issuing bonds.
Council could approve the sale of limited tax general obligation (LTGO) bonds to generate funds with which to pay off the interfund loans. This would close the matter of the loans but would replace those specific departmental obligations with a general City obligation to service the bonds. Debt service on $18.8 million of 20-year bonds paying 5% interest amounts to approximately $1.5 million per year.

Option 4 – Approve modified interfund loan extensions.
Council could approve the proposed loan extension ordinances in amended form with gradually decreasing limits on the approved loan amount and perhaps a longer overall duration. This action would have the effect of imposing a payment schedule for the loan, though it would not by itself produce any additional resources for FAS or SDOT to use for repayment.

As with Option 2, in order to balance the budget, FAS and SDOT would either need additional resources to make payments on the loan or would have to reduce spending on other projects/programs. In any event, interest rates would continue to be based on the interest earnings of the cash pool (currently about 1%); we expect Option 4 (modified interfund loan extensions) to involve lower interest rates and therefore lower debt service in the near term than Option 2 (issue LTGO bonds to pay off the loans).

Also, the City could structure the payments to begin in 2017, allowing FAS and SDOT some time to form a plan for how it will repay the loan.