

W. H. B.

AGENDA COVER MEMO

AGENDA DATE: April 28, 2004

TO: LANE COUNTY BOARD OF COMMISSIONERS

DEPARTMENT: LANE COUNTY MANAGEMENT SERVICES

PRESENTED BY: Becky Koble, Financial Services Manager
David Suchart, Management Services Director

AGENDA ITEM TITLE: IN THE MATTER OF AMENDING CHAPTER 4 OF THE LANE
MANUAL TO ADD INTERFUND LOAN POLICIES (LM 4.035
THROUGH 4.040)

I. MOTION

MOVE APPROVAL OF ORDER 04-04-28-XX IN THE MATTER OF AMENDING CHAPTER 4 OF THE LANE MANUAL TO ADD INTERFUND LOAN POLICIES (LM 4.035 THROUGH 4.040)

II. BACKGROUND AND ISSUE

Lane County currently has no formal policies regarding the use of interfund loans. However, authorization for several interfund loans has been granted in recent fiscal years. At the direction of the County Administrator, Financial Services staff developed these policies in order to provide guidance to County departments regarding their responsibilities in this area and to better inform them of the expectations with regard to the use of interfund loans. The development of these Interfund Loan Policies is part of a larger effort to update and enhance the County's financial policies in a number of areas. Staff is also beginning work on an update of the existing Investment Policies, as well as developing a set of comprehensive Debt Issuance Policies for the first time.

On March 30, a discussion of this issue and the proposed new policies went to the Finance & Audit Committee. At that meeting the Committee voted unanimously to bring this motion forward for Board discussion and adoption.

III. DISCUSSION

A. Analysis

Interfund loans are one tool available to the County under Oregon Revised Statutes to assist funds and programs experiencing short-term, transitory cash imbalances created in the conduct of activities approved by the Board of County Commissioners. Interfund loans may appropriately be used to provide short-term financing resources to address temporary cash flow needs in County operations or capital financing plans.

However, without clear guidelines regarding the allowed sources and uses of interfund loans, and without any limits on the number or cumulative amounts of interfund loans, there is the potential that a fund, program or department could overextend their ability to reasonably repay the loan, while at the same time failing to address the underlying, root problem creating the need for additional short-term resources.

One of the key issues addressed by these proposed policies is the sources of funds that are prohibited for use in making loans. In addition to funds or resources carrying constitutional or statutory provisions as to their use, any funds restricted by bond covenants, grantor requirements, law or Board order/ordinance may also not be used to make interfund loans unless the purpose of the loan is an allowed use or unless the restricting entity grants express permission to do so.

The policies also address both the allowed and prohibited purposes for which interfund loans may be authorized. While loans may be made either for purposes of paying operating expenses or for capital purposes, they may not be made to fund on-going operating activities which have not been approved by the Board in some formal budget action. In other words, interfund loans may not be used to create additional spending appropriation for activities which were not considered by the Board either in the initial adoption of the budget or in some supplemental budget action.

The policies also require that consideration of and authorization for the loan take into account not only the financial needs and long-term plans of the borrowing fund, but that the adequacy of and intended plans around the resources of the lending fund also be considered. The policies require that a specific schedule for repayment be agreed upon up front, including the terms of repayment and whether or not interest is to be assessed.

Supporting procedures to these policies have been developed which require a review of all interfund loan requests by the Finance & Audit Committee prior to consideration by the Board. The procedures also call for the execution of an interfund borrowing agreement between the appropriate department directors, the administrator and the budget manager to help ensure a clear understanding of the terms of the agreement and to establish clear accountability thereto. Additionally, the procedures require a greater level of coordination between the lending and borrowing funds and central finance in the administration and monitoring of these loans.

While there is not a great deal of existing precedence for local governments to adopt policies regarding interfund loans, staff did look to the requirements related to interfund loans in Oregon Revised Statutes and the model procedures developed by the Oregon State Treasurer for use by State agencies. Input and comments were solicited from County department directors, key departmental fiscal staff and County Administration in the development of these policies.

B. Alternatives/Options

1. Move approval of the order amending the Lane Manual to add Interfund Loan Policies, as recommended by staff.
2. Move to amend the proposed Lane Manual language with regard to Interfund Loan Policies.

3. Move to not approve the order as recommended by staff.

C. Recommendations

Staff recommends adoption of the Order as presented.

IV. ATTACHMENTS

Attachment A – Board Order 04-04-28-XX

Attachment B – Proposed additions to Lane Manual sections 4.035 through 4.040

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO.

IN THE MATTER OF AMENDING CHAPTER 4 OF
THE LANE MANUAL TO ADD INTERFUND LOAN
POLICIES (LM 4.035 through 4.040)

The Board of County Commissioners of Lane County orders as follows:

Lane Manual Chapter 4 is hereby amended by removing, substituting and adding the following sections:

REMOVE THESE SECTIONS

NONE

INSERT THESE SECTIONS

4.035 through 4.040
as located on pages 4-3 through 4-5
(a total of 3 pages)

Said sections are attached hereto and incorporated herein by reference. The purpose of these substitutions and additions is to add interfund loan policies (LM 4.035 through 4.040).

Adopted this _____ day of _____ 2004.

Chair, Lane County Board of Commissioners

APPROVED AS TO FORM

Date 4/15/04 Lane County



OFFICE OF LEGAL COUNSEL

(4) Other Lane County officials receiving money in their official capacity must deposit such funds with the Chief Fiscal Officer, or at the discretion of the Officer, in checking/negotiable order of withdrawal accounts.

(5) All investments shall be placed to ensure a competitive rate of return and be consistent with considerations of safety, liquidity and yield.

(6) The County Administrator is delegated the authority and responsibility to develop and maintain Administrative Procedures to implement these policies.

(7) LM 4.020 shall be adopted not less than annually by the Board of Commissioners. *(Revised by Order No. 94-6-28-7, Effective 6.28.94; 02-5-15-8, 5.15.02)*

MANAGEMENT POLICIES INTERFUND LOAN POLICIES

4.035 Purpose.

The purpose of these policies is to outline the requirements and responsibilities of departments regarding the use of interfund loans as a short-term financing resource to address cashflow needs in County operations or capital financing plans.

4.040 Policies.

The following are the policies to be used by departments entering into interfund loan transactions:

(1) Interfund loans are a tool employed by the County to assist funds and programs experiencing short-term, transitory cash imbalances created in the conduct of activities approved by the Board of County Commissioners.

(2) Interfund loan requests must be reviewed and approved by the County's Finance and Audit Committee prior to taking a request for authorization to the Board of County Commissioners.

(3) Interfund loans must be authorized by an order of the Board of County Commissioners, which shall state the fund from which the loan is to be made, the fund to which the loan is to be made, the purpose for which the loan is made and the principal amount of the loan, along with a schedule for repayment of principal and interest, or a statement that interest is not applicable to the loan.

(4) Interfund loans must be made in compliance with all other statutory requirements and limitations of ORS 294.460. The provisions of ORS 294.460 are included in LM 4.040(5) and (6) below.

(5) Interfund loans are to be characterized as either "operating" or "capital" and shall meet the following additional requirements, consistent with their character:

(a) An "Operating Interfund Loan" is defined as a loan made for the purpose of paying operating expenses. An operating interfund loan:

(i) Shall be budgeted and repaid no later than the end of the fiscal year subsequent to the period in which the loan was made;

(ii) If not repaid in the same fiscal year in which it is made, the full repayment of the loan shall be appropriated as a budget requirement in the subsequent fiscal year; and

(iii) Is required to be assessed interest, unless otherwise stated in the adopting order.

(aa) If interest is assessed, the rate of interest will be equivalent to the actual earnings rate in the Lane County Investment Pool, unless otherwise stated in the adopting order.

(bb) If interest is assessed, such interest will be computed as simple interest on the outstanding balance from the date of the loan to the date of repayment or partial repayment, unless otherwise stated in the adopting order.

(b) A "Capital Interfund Loan" is defined as a loan made for the purpose of financing the design, acquisition, construction, installation, or improvement of real or personal property and not for the purpose of paying operating expenses. A capital interfund loan:

- (i) Shall not exceed 60 months in duration;
- (ii) Shall set forth in the adopting order a schedule under which the principal amount of the loan, together with interest thereon at the rate provided for pursuant to LM 4.040(5)(b)(iii) below, are to be budgeted and repaid to the lending fund;
- (iii) Shall be assessed interest at a rate that is equivalent to the actual earnings rate in the Lane County Investment Pool, unless otherwise stated in the adopting order; and
- (iv) Shall accrue interest computed as simple interest on the outstanding balance from the date of the loan to the date of repayment or partial repayment, unless otherwise stated in the adopting order.

(6) Loans shall not be made from the following funds or restricted resources:

- (a) From debt service reserve funds to the extent that the amount of the loan exceeds the amount required to be held in the reserve fund by covenant with the holders of the bonds or other obligations;
- (b) From debt service funds; nor
- (c) From monies restricted to specific uses under constitutional provisions, unless the purpose of the loan is an allowed use under constitutional provisions.

(7) In addition to the statutory requirements and limitations of ORS 294.460, listed in LM 4.040(5) and (6) above, the following additional policies and provisions shall apply to all County interfund loans:

(a) Interfund loans shall not be made from funds otherwise restricted by law, bond covenants, grantor requirements, Board order or ordinance for specific uses, unless the purpose of the loan is an allowed use under those restrictions or the restricting entity approves the loan transaction.

(b) Interfund loans are not to be used to fund on-going operating activities other than those approved by the Board of County Commissioners in a formal budget action.

(c) Interfund loans are not to be used to balance the on-going operating budget of the borrowing fund due to a shortage of spending authorization.

(d) Interfund loans will be granted only after it has been demonstrated that reasonable consideration was given to other potential resources available to the fund and when the loan is required to meet a pressing need or to take advantage of a special opportunity.

(e) Total interfund loans to an individual fund may not exceed the greater of

(i) 40% of available unrestricted fund balance of the borrowing fund, or

(ii) 20% of annual "total revenue" plus "other financing sources" of the borrowing fund, both as determined in accordance with GASB 34.

(f) Interfund loans made to General Fund departments or programs shall not obligate unrestricted General Fund general revenue sources for future loan repayments beyond the current fiscal year.

(g) Interfund loans may be made only if there is a likely expectation that the fund receiving the loan will have the ability to repay it. In other cases, the use of an interfund transfer should be considered for appropriateness.

(h) Consideration shall be given to the adequacy of resources in the lending fund, and in no case shall an interfund loan be made when the consequence of that loan would be to deter or otherwise interfere with any function or project for which the fund was established.

(i) Interfund loans may be repaid in advance without any additional accrual of interest (if applicable) or any other penalties.

(8) No County fund shall carry a deficit cash balance for more than six months during any 12-month period without the written authorization of the County Administrator. Lacking that authorization, the fund managers shall be required to proceed with initiating an interfund loan authorization discussion with the Finance and Audit Committee and request to the Board of County Commissioners

(9) At no time shall a County fund carry a deficit fund balance at fiscal year end.

**ROAD FUND REAL PROPERTY ASSETS
REAL PROPERTY ASSETS PURCHASED WITH STATE GAS TAX REVENUES
PRIOR TO 1980**

4.050 Purpose.

The purpose of these provisions is to address the appropriate use of real property assets originally acquired with State Gas Tax Revenues prior to 1980. At that time, the Road Fund was comprised primarily of Gas Tax Revenues, governed by Oregon Constitution, Article IX, Section 3, which could be used generally only for roads, police and parks; and Federal Forest Receipts, governed by 16 USC Section 500, which could be used generally only for roads. Article IX, Section 3a was adopted by the voters on May 20, 1980, amending Section 3 by limiting the permissible use of Gas Tax Revenues to roads and highways, and deleting police and parks as permissible uses. The amendment was prospective only. It is presumed that the Federal Forest Receipts have been lawfully expended for roads; the appropriate use of these revenues has not changed and they are therefore not addressed by the policies below. The policies below are based on advice of counsel presented to the Board at the time of their adoption. *(Revised by Order No. 98-7-29-18; Effective 7.29.98)*

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Bold indicates material being added
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