

**COUNCIL POLICY
CITY OF CHULA VISTA**

SUBJECT: Interfund Loan Policy	POLICY NUMBER	EFFECTIVE DATE	PAGE
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ADOPTED BY: Resolution No.

DATED: December 16, 2014

AMENDED BY:

BACKGROUND

In order to achieve important public policy goals, and in accordance with generally accepted accounting principles (GAAP) and applicable legal requirements, the City has established various special revenue, capital project, debt service, and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures, and fund equity.

On occasion, cash flow constraints in a particular fund may necessitate interim financing of capital projects. Interfund borrowings are an appropriate capital project financing alternative to incurring external debt, provided that the fiduciary purpose of the loaning fund is not negatively impacted. Interfund borrowings should be limited to one-time capital expenditures and are not an appropriate funding source for ongoing operations and maintenance activities.

PURPOSE

To establish an interfund loan policy, including the standard terms and documentation required for interfund borrowings.

POLICY

All interfund loans require approval of the City Council. At the time of City Council consideration, the following information shall be provided, at minimum:

1. The purpose of the loan
2. The principal amount borrowed
3. The expected repayment term
4. The most recent monthly pooled investment earning rate
5. The estimated total financing cost
6. A proposed repayment plan, reflecting the above factors
7. The existing interfund loan and external debt obligations of the borrowing fund
8. The existing balance of interfund loan advances from the loaning fund

No fund should profit nor be penalized for internal borrowings. As such, all financing costs shall be calculated using the City's actual pooled investment earning rate, as determined by the Finance Director/Treasurer. Following Council approval, throughout the life of the loan, the actual financing cost shall be calculated based upon the City's actual pooled investment earning rate on a quarterly basis.

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In order to limit impacts to loaning funds, the shortest reasonable repayment term is preferred. The repayment of interfund loans shall, therefore, be considered priority expenses for debtor funds during the annual budget process.