

Tahoe City Public Utility District Financial Policy

Interfund Loan Policy Policy Number: 2080

I. PURPOSE

This Policy sets forth the parameters and guidelines for the Board of Directors to authorize Interfund Loans and establish administrative procedures for the implementation of Interfund Loans. The District's Interfund Loans Policy documents the methods used by the District to demonstrate prudent financial management over interfund borrowings.

II. POLICY OVERVIEW

This Policy is established to ensure that all Interfund Loans are appropriate, properly documented, and not established to the detriment of the lending fund. Interfund Loans may be necessary from one fund to another fund that is experiencing a temporary cash position as a percentage of operating expenses below 50%.

Interfund Loans may be made for the following reasons:

- To offset timing differences in cash flow
- To offset timing differences between expenditures and reimbursements, typically associated with grant funding.
- To provide funds for interim financing in conjunction with obtaining long-term financing.
- For short-term borrowing in place of external financing.

Interfund Loans may not be used to solve ongoing Structural Budget deficit, must have an identified repayment source and date; include an interest component that equals the investment earnings the lending fund would have received had the loan not occurred. The Interfund Loan document must contain a loan amount, term, and repayment source.

The General Manager may initiate Interfund Loans under \$1,000,000 and must provide the Finance Committee and Board of Directors the details of the Interfund Loan at the next available meeting. Interfund Loans greater than \$1,000,000 need the approval of the Board of Directors prior to funding.

Interfund Loans that extend beyond the end of the fiscal year in which the loan is made, shall be evidenced by a Loan Agreement and a Board Resolution. The Loan Agreement shall include the following terms and conditions: date of Loan Agreement; amount of Interfund Loan; purpose of Interfund Loan; interest rate or rates on Interfund Loan; schedule of Interfund Loan principal and interest payments; source of Interfund Loan repayment by borrowing fund. At no time will the term of the loan exceed five years.

Interfund Loans will follow Generally Accepted Accounting Standards and will be included in the proposed and adopted budget and annual report, as applicable. The Annual Comprehensive Financial Report will also consistently include the loan term, rate of interest, and the interest amount due in its calculation of the total liability associated with the loan.

If any provision of this Policy conflicts with applicable law, applicable law shall prevail.

III. DEFINITIONS

As used in this Policy, the following terms shall have the meanings specified below:

- a. Cash Position – The cash that is remaining after reducing cash by the Fleet & Equipment Replacement Reserve, the Water System Acquisition & Infrastructure Improvement Property Tax Reserve, and the Priority Project Capital Reserve
- b. Cash Position %– The cash position divided by operating expenses
- c. District – Tahoe City Public Utility District.
- d. Interfund Loan – Interfund Loan means a loan of cash from one District fund to another District fund, subject to future repayment of principal and interest; but it does not constitute an expenditure or a use of retained earnings, fund balance, or unappropriated surplus of the lending fund.
- e. Loan Agreement – A Loan Agreement is a formal contract between the District’s lending fund and the borrowing fund. Loan Agreements shall specify all the details of the Interfund Loan, such as the principal amount, interest rate, amortization period, term, fees, payment terms and any covenants.
- f. Policy – This “2080 Policy.”
- g. Structural Budget Deficit - The structural budget represents the budgeted revenues and expenditures, and a deficit occurs when expenditures exceed revenues.

IV. PROCESS

This Policy is intended to apply uniformly and consistently to all funds within the District and to meet the District’s financial control, budget authority, and audit requirements as well as applicable law.

1. An analysis of the financial condition of each fund involved in the Interfund Loan process prior to approval is to be completed, including a review of cash positions, revenues, expenditures, assets, liabilities, and potential sources of revenue. The analysis will determine the funds’ ability to pay obligations such as ongoing operations, principal and interest payments for existing long-term debt, and agreements or contracts with third parties. To the extent possible, only funds with an ability to meet all expenditure and debt obligations will be included in an Interfund Loan.
2. The lending fund’s analysis of financial condition must also demonstrate that the lending fund fully covers its reserves per policy by 1.2 times; cash in excess of this amount can be made available for the interfund loan process.
3. If the analysis of the borrowing fund determines a cash position % below 50%, then an Interfund Loan may be initiated.
4. The cash position % will be determined as follows: Cash balance less Fleet & Equipment Replacement Reserve, the Water System Acquisition & Infrastructure Improvement Property Tax Reserve, and the Priority Project Capital Reserve divided by operating expenses.
5. If the determination has been made to establish an Interfund Loan, the Chief Financial Officer (CFO) will report to the General Manager the need for the loan. The General Manager upon accepting the report will request the CFO to prepare the necessary Finance Committee and Board documents and prepare the Loan Agreement, if required. The documents will have the following information:
 - ✓ the purpose for which the loan or advance is being made;
 - ✓ the identification of both the lending and borrowing fund, or funds;
 - ✓ the dollar amount of the loan;
 - ✓ the maturity date on which all principal together with all accrued and unpaid interest will be due and payable;
 - ✓ the applicable interest rate;
 - ✓ the financial plan for repayment

Attached: Loan Document

End Policy

INTERFUND LOAN AGREEMENT

This Loan Agreement (“**Agreement**”) is executed as of (Month Date, Year,) between the Tahoe City Public Utility District _____ Fund (“**Borrower**”) and the Tahoe City Public Utility District _____ Fund (“**Lender**”). Lender agrees to lend to Borrower, and Borrower agrees to repay to Lender an amount not to exceed the Principal Amount and interest accrued on the unpaid loan balance, in accordance with the following:

1. **Purpose of the Loan:** To provide funds for use by Borrower or its designee, to enhance Borrower’s cash position. The loan shall account for borrowing between the _____ Fund, Fund No. _____ and the _____ Fund, Fund No. _____ and shall not be available for appropriation or be considered revenue to the Borrower.
2. **Principal Loan Amount:** \$ _____. The loan will be recorded as receivable to the Lender and payable to the Borrower.
3. **Term of the Loan:** The term of this loan shall begin on _____ outstanding loan and the balance is to be repaid by _____.
4. **Scheduled Payments:** Borrower shall make payments no less than annually. Such payments are due within thirty (30) days following the final closing of the Borrower’s Financial Books for each fiscal year. At a minimum, annual Scheduled Payments shall equal the amount of any accrued interest through December 31st of that fiscal year. The loan may be prepaid, or paid prior to the end of the term, in part or whole without penalty. See Exhibit A – Repayment Schedule.
5. **Repayment Source:** Borrower must maintain a positive cash position % as defined in the Interfund Loan Policy 2080 to repay the loan; excess cash balance may be used to make additional payments. Missed scheduled payments shall be reported by the Finance Department to the General Manager and the Board of Directors.
6. **Rate of Interest:** Interest shall accrue annually on December 31 on the outstanding loan balance at the variable rates based on the District’s interest bearing account from which the money is being drawn, currently at XX% for fiscal year _____. Loan interest will be recorded as revenue to the Lender and expenditure to the Borrower.
7. **General Provisions:** This Agreement constitutes the full Agreement by and between the Borrowing Fund and Lending Fund and no other representations have been made regarding the contents of this Agreement. This Agreement shall not be amended, modified, or altered in any respect unless such amendment, modification or alteration has been reduced to writing and executed by both parties.

LENDER: Tahoe City Public Utility District,

Fund Name: _____ Fund, No. _____

BORROWER: Tahoe City Public Utility District

Fund Name: _____ Fund, No. _____

By: _____
Sean Barclay, General Manager