

Policy Title:	<b>INTER-FUND LOAN POLICY</b>
Effective:	August 27, 2018

**I. PURPOSE**

**II.** Occasionally, it is necessary for City Departments to borrow funds to cover short term operational needs. It may be more advantageous from a cost and administrative perspective to obtain needed financing from another City Department rather than through a financial institution. This policy provides guidelines for the borrowing of cash or other assets using inter-fund (I-F) loans. Board of Finance and City Council must approve all I-F loans

**III. POLICY**

This policy applies to all loans made between two or more city funds. Only that portion of a given fund which is clearly inactive or in excess of current needs for the anticipated length of the loan may be loaned to other municipal funds. All I-F loans must be coordinated through and reviewed by the C/T Office.

**USE OF FUNDS**

I-F loans are temporary or short-term borrowing of cash and 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, revenue, or capital funding.
- ) To provide funds for interim financing in anticipation of obtaining long-term financing.
- ) For short-term borrowing in place of external financing.
- ) For other needs as deemed appropriate by the Board of Finance (BOF) and City Council (CC).

An authorizing resolution must be prepared for all I-F loans. ***I-F loan monies may only be used for the purpose identified in the authorizing resolution.*** Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions. A reasonable rate of interest, based on market rates, will be paid.

**INTEREST RATE**

Interest will be charged at a rate equal to the Northfield Savings Bank 9-month CD rate to ensure the “opportunity cost” if the funds were otherwise invested would be received.

*Exception:* Under the State of Vermont’s Tax Increment Financing statutes ((24 V.S.A. §§ 1891 -1900), the City is permitted to make I-F loans from one department to another within the municipality (so long as no interest is charged) in order to finance public improvements, and therefore, interest will not be charged in the following circumstances:

- ) The borrowing fund is a TIF loan, for eligible TIF expenses incurred for voter approved public improvements.

) The borrowing fund is a TIF loan, for eligible TIF expenses incurred as voter approved “related costs”.

## TERM AND REPAYMENT

- ) The borrowing fund must have an identified repayment source and must demonstrate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing resolution.
- ) Borrowing should be short term, typically less than two years. All loans that continue longer than two years will be scrutinized, and documented for the rationale of the extended repayment periods.

## III. AVAILABILITY OF FUNDS

The C/T Office will review all requests, and evaluate them compared to the currently outstanding and anticipated funding needs of the City.

The aggregate amount of outstanding I-F loans will be limited to 25% of the most recent year’s Unassigned Fund Balance, adjusted for any committed or anticipated users of funds, subject to the projected availability of liquid, unrestricted cash available over the course of the loan. In general, no single loan will be issued for a principal amount that is greater than forty percent (40%) of this limit.

The C/T team will review this limit at least annually, and will recommend adjustments as necessary to ensure the availability of sufficient operating cash and the overall health of the City’s financial needs.

## IV. PROCEDURE

It is permissible to make I-F loans of those municipal monies which are clearly inactive or in excess of current needs for the anticipated length of the loan and legally available for investment (i.e., no restrictions).

The requirements for making and accounting for I-F loans are as follows:

1. Identification of Need and Availability of Cash  
A department, or the C/T Office, may identify the need for short term financing. All requests for an I-F loan must be brought to the Chief Administrative Officer or Director of Financial Operations prior to any monies being committed or expended. The C/T team will determine which money may or may not be available for I-F lending, since the special character of some money involves commitments and restrictions which would require individual consideration.
2. Drafting of Authorizing Resolution  
The department, C/T Office, and City Attorney’s Office will draft an Authorizing Resolution that identifies:
  - ) the uses of the specific need for and use of the monies;
  - ) the funds making and accepting the loan;
  - ) all loan terms, including amount, interest rate, term, and repayment details.
3. Approval

The BOF and CC must approve by resolution all I-F loans.

4. Documentation

A formal loan agreement will be signed by all departments involved in the lending/borrowing. All agreements will be prepared and approved by the City Attorney's Office, based upon an approved template. Outside counsel may be consulted, as necessary.

5. Recordkeeping

Appropriate accounting records will be maintained by the C/T Office to reflect the balances of loans in every fund affected by such transactions.

- ) Loan interest on an I-F loan will be recorded as revenue to the loaning fund, and an expenditure of the fund receiving the loan.
- ) I-F loans receivable and I-F loans payable will be reconciled periodically.
- ) Outstanding balances will be reported each time a new request is submitted. Quarterly reports will be provided to the Board of Finance.