



Staff Report

File #: 24-147
Version: 1

Date: 6/24/2024
Item #: 3.2a.

TO: Mayor and City Council
THROUGH: Keith Stahley, City Manager
FROM: Josh Eggleston, Chief Finance Officer

SUBJECT:

Internal Borrowing from the City’s Utility Fund to the General Fund to pay for the portion of the Public Works Operations building occupied by Parks staff.

Ward(s): All Wards
Councilor(s): All Councilors
Neighborhood(s): All Neighborhoods
Result Area(s): Good Governance; Safe, Reliable and Efficient Infrastructure.

SUMMARY:

Recently, the Public Works Department completed construction and moved into a new operations building. Due to the age and state of Building 14 at the City Shops Complex where Parks was previously located, as well as to maintain cross departmental efficiencies, Parks Operations staff also moved into the new Public Works building. As the building was paid for using Utility rates, which are to be used on Utility-related expenses, the General Fund is obligated to pay for the portion of the building that will be used by Parks. Approval of this resolution will execute an internal loan between the Utility Fund and the General Fund in an amount not to exceed \$2,108,690.

ISSUE:

Shall City Council adopt Resolution No. 2024-17, approving an internal borrowing from the Utility Fund to the General Fund to pay for the portion of the Public Works operations building occupied by Parks staff?

RECOMMENDATION:

Adopt Resolution No. 2024-17, approving an internal borrowing from the Utility Fund to the General Fund to pay for the portion of the Public Works operations building occupied by Parks staff.

FACTS AND FINDINGS:

The Utility Fund is in good fiscal health due to prudent financial management including the refinancing of outstanding debt, payoff of debt, and stable rate increases. This has resulted in sufficient balances and reserves to meet the requirements of Council Policy C-14, the Utility Fund Financial Policy. Due to the nature of the services provided, the Utility Fund has maintained unrestricted reserves which have been used in recent years for other internal borrowings.

The Utility is still able to meet its debt coverage and reserve requirements while the debt service payments that the Utility receives approximates the interest it would receive if the funds remained in the City of Salem's investment portfolio. The interest rate for the borrowing will be 4.21% for FY 2025. Annually, the rate will change as outlined in Council Policy C-2 on debt. Internal loans rates are updated annually and are calculated at 0.5% above the prior year's rate earned by the City's combined portfolio. The loan will total \$2,108,690 and will be paid back over a 10-year term with an estimated annual payment of \$260,100 (adjusted annually based on investment returns). The amount of the loan is based on the square footage of the building occupied by Parks Operations. There is no anticipated delay or disruption in Utility-funded projects because of this internal loan.

BACKGROUND:

Oregon Revised Statue 294.268 allows the City to conduct an internal borrowing between funds for capital projects provided that the funds are repaid within 10 years and that the borrowing is approved by resolution or ordinance. The City of Salem's Council Policy C-2 further outlines the City's debt management policy, including internal borrowings. In addition to the requirements outlined in ORS 294.268, consideration for an internal borrowing include cost benefit analysis where the rate of interest and borrowing costs from external sources are weighed against the anticipated interest earnings for internal funds, proper budget authority, and whether the borrowing fund can repay the loan.

Kelli Blechschmidt
Management Analyst II

Attachments:

1. Resolution No. 2024-17
2. Resolution No. 2024-17 Exhibit A, 2024 Utility Fund and General Fund Interfund Loan Amortization Schedule