

August 2, 2021

MEMORANDUM

To: Finance & Housing Committee
From: Tom Mikesell, Analyst
Subject: Council Bill 120147 – General Fund Interfund Loan

On August 3, 2021, the Finance & Housing Committee will discuss and possibly vote on Council Bill (CB) 120147 which would authorize a \$205 million interfund loan to the General Fund through June 30, 2021.

Background

Passed by the City Council on July 6, 2021, [Ordinance 126108](#) authorized a payroll expense tax on businesses with payrolls of \$7 million and higher annually. For 2021, the first year of the tax, payments from businesses with tax liability are due January 31, 2022. The 2021 Adopted Budget is balanced with \$214 million of revenue from the payroll expense tax. Though, as noted above, payments will not be received until early 2022, governmental accounting standards allow the proceeds to be counted as 2021 revenue for purposes of balancing the budget.

At an operational level, however, daily cash balances in City funds must be sufficient to pay vendor invoices, bi-weekly payrolls, and other claims on City funds when they are received by City accounting. Given the size of the estimated payroll expense tax revenues, which represent approximately 13 percent of the total 2021 General Fund (GF) budget, and the late timing of receiving the cash payments from taxpayers, Executive staff have determined that, absent an interfund loan, GF cash balances will be negative in the second half of 2021, and for a period in 2022.

[Seattle Municipal Code 5.06.030 \(c\)](#) authorizes the City Finance Director to address cash shortfalls shorter than 90 days through short-term lending between funds; temporary cash shortfalls that are projected to last longer than 90 days require an interfund loan that is authorized by ordinance.

Further, the [City's Debt Policy](#) requires that requests for interfund loans receive approval by the Debt Management Policy Advisory Committee (DMPAC), which is comprised of:

- Chair of the Council Finance Committee;
- Central Staff Executive Director;
- City Finance Director;
- City Budget Director;
- Director of Seattle Public Utilities; and
- General Manager and Chief Executive Officer of Seattle City Light.

On July 14, 2021, DMPAC voted to approve a \$205 million interfund loan to the General Fund.

CB 120147

To address the temporary cash shortfall posed by the delayed collection of 2021 payroll expense tax proceeds described above, CB 120147 would authorize a \$205 million interfund loan to the General Fund from a number City funds that Department of Finance and Administrative Services staff have determined to be viable candidates (no single fund can support a loan of this size and term). These funds include:

- Health Care Fund (10112);
- Move Seattle Levy Fund (10398);
- Families, Education, Preschool, and Promise Fund (17871);
- Seattle Park District Fund (19710);
- Transportation Benefit District Fund (19900);
- REET I Capital Projects Fund (30010);
- REET II Capital Projects Fund (30020); and
- Construction and Inspections Fund (48100).

The bill would authorize the Director of Finance to manage the loaned amount from each individual fund, or to carry the General Fund in a negative cash position. Lending funds would receive interest payments from the General Fund at the same rate as the City's investment pool. Materials provided at the July DMPAC meeting cited a 1.5 percent interest rate, though this rate will fluctuate based on the actual investment pool interest rate. Through December 31, 2022, materials provided by the Executive estimate \$1.9 million of interest would be paid from the General Fund to lending funds. To allow for the possibility of higher interest charges, the bill would provide for up to \$5 million for interest.

Next Steps

If the Committee votes on CB 120147 on August 3, the City Council will likely consider the legislation at its August 9 meeting.

cc: Dan Eder, Interim Director
Aly Pennucci, Policy and Budget Manager