

June 9, 2020

MEMORANDUM

To: Select Budget Committee
From: Dan Eder, Deputy Director
Subject: CB 119773: Payroll Expense Tax Package - Interfund Loan

On Wednesday, June 10, 2020 the Select Budget Committee (Committee) will continue the discussion on the proposed Payroll Expense Tax package. This tax package includes three separate but related Council Bills (CBs):

1. [CB 119772](#) – Tax
2. [CB 119773](#) – Interfund Loan
3. [CB 119774](#) – Spending Plan and Appropriation

This memo briefly summarizes CB 119773 and describes issues and options for the Committee’s consideration. Summary and background information on the proposed Interfund Loan (IFL) bill is available in the Central Staff memos posted to the [April 22](#) and [April 29](#) Committee agendas.

CB 119773: Description

The proposed Interfund Loan would authorize up to \$200 million in cumulative interfund loans to back the \$200 million of 2020 spending authorized in the separate Spending Plan and Appropriations bill.

An interfund loan is the practice of one City fund borrowing from a different City “source” fund; the source fund has a cash balance that will be needed to meet future obligations, but the cash balance is temporarily used for other short-term spending priorities.

Specifically, the IFL bill would authorize each of six City source funds to loan up to \$50 million to the General Fund (GF). In 2021, the GF would repay each of the source funds the full amounts (plus accrued interest) using the payroll expense tax revenues.

CB 119773: Issue Identification

This section is a discussion of issue areas identified to date and potential amendment options for the Committee’s consideration. The issues and options are not exhaustive; Councilmembers may identify additional amendment options in the course of the Committee’s review, discussion, and public engagement.

1. Source Funds

The IFL bill would authorize up to \$50 million from each of six source funds. However, after further investigation, it appears that one of those funds – the Housing Incentive Fund – is a subfund in the Low-Income Housing Fund, which in turn is one of the six source funds.

Councilmembers may wish to consider removing the Housing Incentive Fund from the list of authorized source funds.

Options:

1. No action.
2. Remove the Housing Incentive Fund from the list of source funds.

2. Authorized Loan Amounts

Based on information presented to the Select Budget Committee at the April 29, 2020 meeting, the City Budget Office (CBO) indicated that the Low-Income Housing Fund is expected to have a 2020 year-end fund balance of \$257 million. It is not yet clear what the projected 2021 ending fund balance will be, and this could materially affect the ability of the Low-Income Housing Fund to provide an interfund loan lasting through the end of 2021 without impacting planned project and program spending from the Low-Income Housing Fund. Other currently identified source funds are expected to have significantly smaller 2020 year-end fund balances.

Councilmembers may wish to consider amending the IFL bill to authorize the Low-Income Housing Fund to be the sole source fund for the entire \$200 million loan.

Options:

1. No action.
2. Change the authorized loan amount from the Low-Income Housing Fund from \$50 million to \$200 million.

3. Cumulative Loan Amount

As discussed at the April 29, 2020 meeting, the City will likely need to make significant changes to its 2020 budget due to a dramatic decrease in several municipal funding sources as a result of the COVID-19 health emergency. Decisions about how to “rebalance” the 2020 Adopted Budget in light of these revenue and spending changes could alter the availability of source funds in the proposed IFL bill.

Councilmembers may wish to consider changing the interfund loan amount or reject the proposed interfund loan altogether.

Options:

1. No action.
2. Decrease the amount of the interfund loan (below \$200 million).

cc: Kirstan Arestad, Executive Director