



Legislative Department
Seattle City Council
Memorandum

Date: March 25, 2015

To: Councilmember Nick Licata, Chair
Councilmember Jean Godden, Vice Chair
Councilmember Tim Burgess, Member
Finance and Culture Committee

From: Erik Sund, Council Central Staff

Subject: C.B. 118346 – Seawall Project Financing Authorization

The Executive has offered Council Bill 118346, which would increase the authorization for interfund loans from the City’s consolidated cash pool in support of the downtown seawall construction project. Background information about the loans follows, along with a discussion of the increased loan authority that would be authorized by this legislation.

General Background – Cash Pool and Interfund Lending

The City operates a common investment pool (consolidated cash pool) in which the balances of various City funds in excess of current needs are combined and invested. The cash pool is managed by the Director of the Department of Finance and Administrative Services (FAS). The pool is invested in low risk instruments such as US Treasury bills. In addition to generating revenue from fund balances not immediately required by the City, the cash pool provides low cost credit in the form of interfund loans from the pool to individual member funds.

Any interfund loan with a term longer than 90 days must be approved by the City Council through an ordinance. Interest is charged on the outstanding balance owed on interfund loans at a rate equal to the overall return on cash pool investments. This protects the other funds in the pool from lost returns and prevents cross subsidization between funds while still providing access to low cost of credit for borrowing funds. Loans of longer duration require the approval of the City Council and are typically used as “bridge” financing to allow a City department to begin work on a project for which a secure source of funding such as a planned bond sale or a grant award has been identified but for which the cash has not yet been received.

Seawall Replacement Project

The City is currently working to replace the downtown seawall, a project supported by bond sales that were authorized by the voters in a 2012 referendum (Referendum 74). The value of the

bonds sold each year is intended to support the expected spending for that year, in order to minimize the interest costs associated with unnecessary debt. In 2014, the City issued \$17 million of bonds; however, the progress of the project has quickened since then and all of the proceeds from those bonds have been spent. The City is scheduled to issue additional bonds in April, but a temporary interfund loan is needed as a bridge until that time. Given the inherently uncertain timing of a project of this scale, the original ordinance approving bond sales for the seawall (Ordinance 124125) authorized up to \$29 million of interfund lending (10 percent of the total authorized bond issuance) to provide financial flexibility for the project. The amount of this authority, however, is no longer sufficient to cover project expenditures until the proceeds of the 2015 bond sale. This legislation would increase the authorized interfund loan amount for the seawall project from \$29 million to \$85 million to cover project expenditures.

Next Steps

If the Committee is prepared to vote on Council Bill 118346, the legislation could be considered at the full Council meeting on Monday, March 30th. On the other hand, if the Committee would like additional time for deliberation, then the next opportunity for Council staff to present a follow-up report on any issues that arise and for Committee action will be at the special Friday, April 3rd Committee meeting. If the bill is approved by the Committee on April 3rd, it would be eligible for full Council action on Monday, April 13th.