



## Legislation Text

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**File #:** 22-1075, **Version:** 1

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Recommendation to adopt resolution authorizing the Financial Management Department to record a 10-year interfund loan of \$21,832,202 between the Fleet Services Fund Group and the General Fund Group from the General Fund's contributions for vehicle replacement in the Fleet Acquisitions Fund, to reimburse \$21,832,202 from the General Fund Group to the Water Fund Group, pursuant to the outcome of Measure M litigation. (Citywide)

The outcome of the Measure M litigation requires the General Fund Group (General Fund) to reimburse the Water Fund Group (Water Fund) \$21.8 million by September 20, 2022. To avoid reducing the General Fund's cash reserves by that amount, City staff recommend a \$21.8 million interfund loan between the Fleet Services Fund Group and the General Fund. The loan amount will be funded from the General Fund's prior contributions to the Fleet Acquisition Fund (a fund within the Fleet Services Fund Group) for vehicle replacement. The Fleet Acquisition Fund is an internal service fund into which the General Fund has been prefunding vehicle replacement costs. Over the years, the General Fund has contributed 57 percent of the \$44.7 million in pooled cash and cash equivalents held by the Fleet Acquisition Fund as of September 30, 2021.

The term of the interfund loan is 10 years with an interest only payment in the amount of \$436,000 in Fiscal Year (FY) 23 and both principal and interest payments beginning in FY 24. Annual principal payments from FY 24 through FY 32 will be \$2,425,800, payable on the anniversary date of the loan, i.e., mid-September. Early each fiscal year, simple interest will be paid by the General Fund to the Fleet Acquisition Fund for interest earned the previous fiscal year, at the same rate earned by the pooled cash investment portfolio managed by the City Treasurer. By the time the interfund loan is fully paid off in September 2032, it is anticipated that the Fleet Acquisition Fund in the Fleet Services Fund Group will have earned the same amount of interest it would have earned had the interfund loan never been made in the first place. Finally, the interfund loan is pre-payable at any time, without penalty.

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony and Financial Management Director Kevin Riper on August 15, 2022, and by Revenue Management Officer Geraldine Alejo on August 19, 2022.

City Council action is requested on September 6, 2022, to ensure the interfund loan is recorded promptly, followed by reimbursement from the General Fund to the Water Fund, which the court ordered to occur no later than September 20, 2022

The recommendation will authorize a 10-year interfund loan between the General Fund and the Fleet Services Fund Group in the amount of \$21,832,202, for reimbursement to the Water

Fund pursuant to the outcome of Measure M litigation. The interfund loan will be from previous General Fund contributions to the Fleet Acquisition Fund (a fund within the Fleet Services Fund Group) to prefund vehicle replacement costs. Rather than reducing the General Fund's cash reserves to fund reimbursement to the Water Fund, the interfund loan will allow for General Fund reserves to remain at their current levels. An additional advantage of the General Fund borrowing internally from the Fleet Acquisition Fund, versus the capital markets, is that the City of Long Beach will be paying interest to itself, rather than to external bondholders. In this case, when the interfund loan is fully paid off in September 2032, it is anticipated that the Fleet Acquisition Fund will have earned the same amount of interest it would have earned had the interfund loan never been made in the first place.

For the Fleet Acquisition Fund, the interfund loan to the General Fund represents less than half of its cash available for vehicle replacement. Projections by Financial Management's Fleet Services Bureau indicate that after the interfund loan is made to the General Fund, there will likely be sufficient cash to acquire needed replacement vehicles for the next three years, and possibly beyond. A potential risk to the Fleet Acquisition Fund is that a sudden, unexpected surge of replacement vehicles might be needed ahead of schedule, or that vehicle costs will rise precipitously, at which time the Fleet Acquisition Fund itself might have to lease-purchase those replacement vehicles, thereby incurring debt.

The FY 23 budget includes appropriation of \$436,000 for the first year of interest on the interfund loan, with both principal and interest payments beginning in FY 24. Annual principal payments in the amount of \$2,425,800 will begin in FY 24 and conclude in FY 32. Early each fiscal year, simple interest will be paid by the General Fund to the Fleet Acquisition Fund for interest earned the previous fiscal year, at the same rate earned by the pooled cash investment portfolio. The FY 23 interest only payment assumes pooled cash investment portfolio interest earnings at a rate of two percent for the upcoming fiscal year. The actual pooled cash investment portfolio interest earnings rate is 0.83 percent as of June 30, 2022. However, this interest earnings rate is expected to increase as the Federal Reserve raises short-term interest rates. Additional cost beyond current estimates will be factored into future out-year projections.

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

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KEVIN RIPER  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA  
CITY MANAGER