

## RESOLUTION NO. 2010-06

**A RESOLUTION** of the City Council of the City of Bainbridge Island, Washington, providing for short-term borrowing from the Water Fund to the Sewer Fund of the Consolidated Waterworks Utility for the first five months of 2010.

**WHEREAS**, the City of Bainbridge Island, Washington (the "City") intends to manage its fiscal matters in a prudent manner; and

**WHEREAS**, the City has by Resolution No. 2008-14 sought to "establish conditions for the use of debt and to create procedures and policies that minimize the City's debt service and issuance costs, retain the highest practical credit rating, and maintain full and complete financial disclosure and reporting"; and

**WHEREAS**, the City has also by Resolution No. 2008-14 pertaining to "Purposes and Uses of Debt" established **Policy 15 - Short-term Borrowing** which states; "Except for LIDs and similar situations, the use of short-term borrowing, such as bond anticipation notes (BANs) and tax-exempt commercial paper will be undertaken only if the transaction costs plus interest of the debt are less than the cost of an interfund loan, or available cash is insufficient to meet working capital requirements"; and

**WHEREAS**, the City has reviewed the current financial position and its cash flow analysis for the fiscal year of 2010 for the General and the Water Fund of the Consolidated Waterworks Utility and has determined that it would be prudent for the General Fund to engage in short-term borrowing in 2010 of an amount not to exceed \$600,000 from the Water Fund within the Consolidated Waterworks Utility of the City, with a scheduled repayment date of no later than May 31, 2010, in order to maintain positive cash balances in the General Fund until the City receives property tax receipts for the first half of the year and/or the scheduled grant funds related to the Williams property acquisition and/or proceeds from the sale of surplus property currently in process; and

**WHEREAS**, the 2008 GAAP BARS Manual, Volume 1, part 3, chapter 4, page 1, states that "the legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund"; and

**WHEREAS**, the City has determined that the combination of transaction costs plus interest for the City to issue commercial paper or a note to a third party will exceed the costs to the General Fund of an interfund loan, primarily because an interfund loan entails no third-party transaction costs; and

**WHEREAS**, the use of an interfund loan allows considerably greater flexibility and timeliness than commercial paper or a note to a third-party lender, and thereby permits the City to reduce the interest cost to the General Fund by controlling the draws and prepayments from month to

month to ensure that the interest-bearing balance is not substantially in excess of that month's requirements; and

**WHEREAS**, the City Council finds that it has exercised due regard for the maintenance and operation expense of the Water System and finds that the Water Fund revenues and cash balances are expected to be more than sufficient to meet all of the needs of the Water Fund through the loan period and has funds available to make the interfund loan authorized herein; and

**WHEREAS**, the Water Fund of the Consolidated Waterworks Utility will be benefited by the interest rates of the interfund loan; now, therefore,

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BAINBRIDGE ISLAND, WASHINGTON, AS FOLLOWS:**

**Section 1. Authorization of Loan.** The City's Director of Finance is authorized and directed, on and after February 1, 2010, and from month to month thereafter until May 31, 2010, to cause the City's General Fund to borrow cash from the Water Fund of the Consolidated Waterworks Utility in one or more draws, where the outstanding principal amount of the loan shall at no time exceed \$600,000, and which may vary as determined by the said Director based on the Director's analysis of the cash needs of the General Fund from time to time between February 11, 2010 and the scheduled final repayment date in Section 2.

**Section 2. Scheduled Repayment.** The Director of Finance shall cause any and all outstanding balance of the said interfund loan to be repaid to the Water Fund by the General Fund within the Consolidated Waterworks Utility on (and in no event later than) May 31, 2010, and this interfund lending authorization shall terminate on that date.

**Section 3. Interest Payable to Water Fund.** Each draw shall bear interest at the interest rate set forth in this Section 3, which shall accrue from the date of that Draw and be adjusted monthly. Interest shall be computed monthly on the amounts outstanding on the basis of a 360-day year for the actual number of days. Each Loan draw shall bear interest at an annual rate equal to 25 basis points, plus the higher of the monthly net earnings rate for the preceding calendar month on investments in either (a) the Washington State Local Government Investment Pool, or (b) the Kitsap County Local Government Investment Pool. The City Council finds that the fixing of the interest rate set forth herein is reasonable and in the best interest of the City, its ratepayers and its taxpayers.

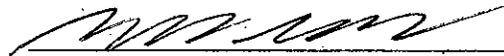
**Section 4. No Fees or Prepayment Penalties.** Prepayments shall be permissible in the discretion of the Director of Finance, and there shall be no fees or prepayment penalties on inter-fund loans and, subject to the \$600,000 overall principal limit on outstanding balance as stated in Section 1, there shall be no advance notice required for any additional interfund draw or prepayment.

**Section 5. Monthly Reporting to City Council.** The Director of Finance shall report monthly to the City Council from February 2010 through May 2010, the inter-fund loan reporting information shown on Exhibit A to this Resolution.

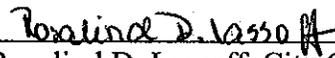
**Section 6. Effective Date.** This resolution shall be in full force and effect from and after its approval by the City Council until the date stated in Section 2.

PASSED by the City Council this 27<sup>th</sup> day of January 2010.

APPROVED by the Mayor this 28<sup>th</sup> day of January 2010.

  
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Bob Scales, Mayor

ATTEST:

  
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Rosalind D. Lassoff, City Clerk

FILED WITH THE CITY CLERK:	January 21, 2010
PASSED BY THE CITY COUNCIL:	January 27, 2010
RESOLUTION NO.	2010-06

**Sample Forms of Reports to City Council**

**Report of Interfund Loan Draws and Repayments**

Date	Draws	Repayments	Loan Principal Balance (Not to exceed \$600,000)
2/01/10			
5/31/10			\$0

**Monthly Report of Interfund Loan**

Date	Month-end Balance	Avg. Principal Balance For Month	Interest Rate For Month	Interest Amount For Month	Date of Interest Payment
02/28/10					
03/31/10					
04/30/10					
05/31/10					