

Capitola City Council

Agenda Report



Meeting: June 12, 2025

From: Finance Department

Subject: Interfund Loan from the General Fund to the Library Fund

Recommended Action: Adopt a resolution approving an interfund loan of \$856,000 from the General Fund to the Library Fund at an interest rate of 4.25% for the reimbursement of costs associated with the Library Improvement Project completed in June 2021 using Measure S funds.

Background: The Capitola Branch Library Project, completed in June 2021, included the construction of a new Library located at 2005 Wharf Road. The project was funded by multiple funding sources, including \$10.3 million from Measure S, \$2.7 million from the Capitola Successor Agency, \$600,000 from donations, \$510,000 from the County Library, \$856,000 from the Capitola General Fund, as well as \$130,000 of Capitola investment earnings.

The Santa Cruz Libraries Facilities Financing Authority Community Facilities District (CFD) was formed to levy Measure S, a special tax to fund library facilities for each of the members. The CFD began levying the special tax in 2016-17. Pursuant to the Amended and Restated Joint Exercise of Powers Agreement (JPA), the allocation of funding among members was \$77,500,000, with Capitola receiving approximately \$10.3 million.

The CFD's municipal advisor has prepared a projection of special taxes to remain after the issuance of the 3rd series of special tax bonds. To summarize, the projections show an approximate \$28 million in available special tax funds over 21 years after the 3rd series of bonds debt service is paid, or approximately \$1.3 million annually. Capitola's portion of the \$28 million is approximately \$3.5 million, or \$165,000 annually for 21 years.

Discussion: To formally account for the temporary use of General Fund resources to build the library and to preserve General Fund integrity, staff proposes establishing an interfund loan in the amount of \$856,000, with an interest rate of 4.25%, reflecting a fair return to the General Fund. This interest rate is in line with the California State Local Agency Investment Fund (LAIF) and current City investment returns.

The loan will be repaid in full from Measure S revenues, with repayment anticipated to begin in Fiscal Year (FY) 2025-26 and be completed during FY 2030-31.

A loan agreement outlining the principal amount, interest rate, repayment schedule, and other terms will be executed between the General Fund and Library Fund and monitored by the Finance Department.

Fiscal Impact: The proposed action will formalize an \$856,000 interfund loan from the General Fund to the Library Fund with an interest rate of 4.25%. This will result in interest earnings credited to the General Fund over the repayment term. There is no net fiscal loss, as the Library Fund will fully reimburse both principal and interest using Measure S funds.

Report Prepared By: Jim Malberg, Finance Director

Reviewed By: Julia Gautho, City Clerk; Samantha Zutler, City Attorney

Approved By: Jamie Goldstein, City Manager