



# Interfund Loan

**From the Non-Utility Capital Fund (310)  
to the Utility Capital Fund (417)**

Finance & Administration Committee

June 16, 2026

# Background

- Council approved Ord. 1303 on May 12, 2025, which **established rates for the City's combined utility** (water, sewer, stormwater) from 2025 to 2030.
- The ordinance was supported by a **utility rate study**.
- The utility rate study described the **sources needed to cover the combined utility's forecasted \$169.87 million in operating, capital, and debt service costs** during the six-year rate setting period.
- Of the sources required, **\$40.86 million** was expected to come from the **issuance of debt**.

# Background

- The \$40.86 million in debt was expected to **cover a portion of the \$76.17 million in capital expenses** anticipated during the six-year rate setting period.
- Each debt issuance in the study assumed a **20-year term, with a 5.00% interest rate, and 1.00% for issuance costs.**
- To date, Council has only authorized an **\$8.65 million loan with the Washington State Department of Ecology** at a 1.60% interest rate.

# Problem Statement

- Without additional financing, the combined utility will **not have sufficient cash to cover its expenses** through at least 2026 and into 2027.
- **Considerations:**
  - **Financing comes at a cost.** A 20-year AA-rated municipal bond is yielding an approximate 4.04% interest rate in the marketplace. This is relatively high in comparison to history over the medium-term.
  - **The financing that is needed to sustain the combined utility through at least 2026 and into 2027 is relatively small** and would **not warrant the issuance cost** associated with competitively selling and/or privately placing a bond.

# Proposal: Interfund Loan

- **The Non-Utility Capital Fund (310) has a cash balance of \$25.64 million.**
- **The Non-Utility Capital Fund (310) would loan the Utility Capital Fund (417) an amount not to exceed \$4.90 million at a 3.91% interest rate.**
- **There is no plan to use the proposed \$4.90 million for non-utility capital purposes before the end of 2027.**

# Proposal: Interfund Loan

- The 3.91% interest rate comes from the June 3, 2026, 20-year term sale under the **Office of the Washington State Treasurer's (OST) "Local Option Capital Asset Lending (LOCAL)"** program.
- The interfund loan can be **repaid at any time** without penalty.
- The plan is **to repay the loan by rolling the outstanding principal into the currently anticipated 2027 bond issuance.**

# Impacts to Consider

- The interest paid by the combined utility **stays in the City**.
- **The debt service payment on the interfund loan is better than the original annual debt service payment** planned in the utility rate study.
  - **Original Annual Debt Service** (5.00% Interest Rate)  $\approx$  **\$432,000**
  - **New Annual Debt Service** (3.91% Interest Rate)  $\approx$  **\$358,000**
- The interfund loan provides a **“bridge”** to a future bond at a lower interest rate.