

Council Agenda Bill

AB Number

AB26-037

Agenda Bill Information

Title *

Interfund Loan to the Utility Capital Fund (417)

Action *

Motion

Council Agenda Section

Committee Report

Council Meeting Date *

06/22/2026 

Staff Member

Drew Bouta

Department *

Finance

Committee

Finance and Administration

Committee Date






06/16/2026 

Exhibits

Packet Attachments - if any

Drag and drop up to 10 files here to upload or [Choose files](#)

Files (3 uploaded)

 x1 Resolution - Interfund Loan.docx	31.88KB
 x2 Exhibit A - Interfund Loan Repayment Schedule.pdf 	76.99KB
 x3 Presentation - Interfund Loan.pdf 	411.9KB

Click [here](#) to review attachments.

Summary

Introduction *

Brief summary.

This resolution authorizes an interfund loan in lieu of the external financing that was included in the biennial budget and utility rate study. The interfund loan is anticipated to be repaid from an external bond funding in 2027, rather than in 2025/2026 as originally planned.

Proposed Motion

Motion to approve the resolution authorizing the interfund loan.

Background/Overview *

The City Council adopted Ordinance 1303 on May 12, 2025, which established rates for the City's combined utility (water, sewer, stormwater) from 2025 to 2030. The ordinance was accompanied by a utility rate study that described the funds required to cover the combined utility's \$169.87 million in operating, capital, and debt service costs during the six-year rate setting period. The funds required by the utility rate study included three issuances of debt totaling \$40.86 million. The proceeds from debt would cover a portion of the \$76.17 million in capital expenses expected over the six-year period. Each debt issuance included in the study assumed a 20-year term, with a 5.00% interest rate, and 1.00% for issuance costs. Of the \$40.86 million total, \$26.06 million was expected to be issued within the first three years. To date, the Council has only authorized an \$8.65 million loan with the Washington State Department of Ecology.

Analysis*

This resolution seeks to loan cash from the Non-Utility Capital Fund (310), which completed 2025 with a \$25.64 million balance, to the Utility Capital Fund (417), which needs cash in order to cover its capital expenses and maintain adequate reserves.

Because of the relatively high-interest rate environment, with a 20-year AA-rated municipal bond yielding an approximate 4.04% interest rate in the marketplace, the issuance cost associated with a bond, and the lack of a plan to use the proposed \$4.90 million for non-utility capital purposes before the end of 2027, an interfund loan to cover the cash flow needs of the Utility Capital Fund (417) is a prudent and practical option.

The proposed interfund loan assumes a 20-year term at an interest rate of 3.91%. The interest rate of 3.91% is derived 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)" real estate program which is available to all local governments and for which rates are published regularly on the OST's website. The terms of the interfund loan would result in an annual \$357,683 debt service payment (except for the first year) from the Utility Capital Fund (417) to the Non-Utility Capital Fund (310). Exhibit A to this resolution details the interfund loan repayment schedule.

This resolution allows the interfund loan to be repaid at any time without penalty. As a result, the outstanding principal on the interfund loan may be incorporated into a future revenue bond if the interest rate environment improves or if other conditions necessitate a change.

Budgetary Status*

This action has complex budgetary implications.

Budget Summary

An interfund loan of \$4.9 million from the Non-Utility Capital Fund (#310) to the Utility Capital Fund (#417) was not anticipated in the 2025-2026 Amended Biennial Budget and therefore requires an amendment, as proposed within AB26-034.

The original 2025-26 Biennial Budget assumed that the Utility Capital Fund would borrow funds in support of utility projects and pay debt service of \$5,984,443. Due to a delay in borrowing as compared to the assumptions in the Utility Rate Study, only \$4,821,080 is currently anticipated for debt service during the biennium, leaving \$1,163,363 available for payments on new borrowing. After factoring in the newly proposed 2026 payment of \$261,888, expected upon approval and completion of the interfund loan, Utilities Debt Service will have \$901,475 of appropriation remaining.

Fiscal Impact

Amount of Expenditure	Amount Budgeted	Appropriation Requested
\$ 0.00	\$ 5,984,443.00	\$ 4,900,000.00

Fiscal Impact

Screenshot below is an image of the budget summary table.

2025-2026 Biennial Budget		
	Non-Utilities (#310) Interfund Loan	Utilities (#417) Debt Service
Amended Budget	\$ -	\$ 5,984,443
Expenditures & Encumbrances	\$ -	\$ (4,821,080)
Current Available Budget	\$ -	\$ 1,163,363
Cost of the AB26-038 Agreement	\$ (4,900,000)	\$ (261,888)
Available Budget after AB26-038	\$ (4,900,000)	\$ 901,475

Comments: