

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** May 28, 2008

**TO:** Board of Commissioners

**FROM:** Bruce A. Warner, Executive Director

**SUBJECT:** Report Number 08-67  
Authorizing Short-Term Interfund Operating Loans to Cover Billing and Payment Timing Differences

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6590

#### ACTION SUMMARY

This action will authorize ongoing interfund operating loans pursuant to the provisions of ORS 294.460, which states that:

“It shall be lawful to loan money from any fund to any other fund of the municipal corporation whenever the loan is authorized by official resolution or ordinance of the governing body.”

Due to inevitable time lags between the end of a billing period and reimbursement from BHCD, PDC periodically experiences negative cash balances in the following funds:

Fund 110 – Housing and Community Development Contract Fund (CDBG)  
Fund 111 – Lead Hazard Abatement Program Fund  
Fund 185 – HOME Grant Program Fund

Negative balances in any fund represent de facto interfund borrowings that must be authorized by the Commission. PDC’s independent financial auditor, Moss Adams, stated in their December 20, 2007 letter to management that “...for both state legal and governmental accounting purposes, overdrawn cash balances represent inter-fund borrowings.....and cash balances should be monitored on a monthly basis to identify individual funds that are at risk for overdrawing their share of the pooled cash and investments. The revised monitoring procedures should include informing the Board of Commissioners of the need for an inter-fund borrowing timely enough to approve the loan via resolution in advance”.

See Attachment A for an illustration of the time lags that can occur between the time of expenditure and eventual repayment from BHCD on a monthly basis. For a given month, there will always be a negative cash balance in each of these funds at month end representing that month’s expenditures plus any unreimbursed prior month expenditures. In order to ensure that adequate cash balances are maintained on a monthly basis for audit purposes and to comply with Oregon state law and governmental accounting requirements, PDC staff requests that the Board authorize ongoing interfund borrowings between the “Enterprise Loans Fund (150, 412, 415, 425,431, 463, 464) and Special Revenue Funds: 110 Housing and Community Development Contract Fund; 111 Lead Hazard Abatement; and 185 HOME Grant Fund through December 31, 2008. Total expenditures for each fund

are not known until the close of the month by which time it is too late to seek authorization from the Commission to provide cash coverage. This blanket authorization will allow staff to shift cash as needed from the Enterprise Loans Fund to the recipient funds.

In March 2008, the Board approved Resolution 6567 which authorized an interfund loan of \$1,825,000 from the "Fund 415- CDBG Program Reserve Fund" ("Fund 415") to Fund 110 to appropriately reflect the overdrawn cash balance of Fund 110 due to failure of the City of Portland, Bureau of Housing and Community Development ("BHCD") to timely remit reimbursement payments to PDC for seven months of billings. The \$1,825,000 interfund loan has been repaid from Fund 110 to Fund 425. However, BHCD has not fully reimbursed PDC for outstanding billings as of this date. At this time, the past due outstanding amount owed to PDC by the City for Fund 110 is \$446,849. Because of the continued delay in reimbursement from BHCD and the expiration of the interfund loan request under Resolution 6567, management has extended its hold on disbursements from Fund 110 since February.

### **PUBLIC BENEFIT**

Compliance with Local Budget Law ORS 294.460 which requires Board authorization of an interfund loan to appropriately reflect the overdrawn cash balance of Fund 110.

### **PUBLIC PARTICIPATION AND FEEDBACK**

Given the administrative nature of this action, no efforts to engage public participation have been taken.

### **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

Adoption of this resolution is necessary to comply with Local Budget Law ORS 294.460 and governmental accounting standards.

### **FINANCIAL IMPACT**

In the event that CDBG does not reimburse PDC for billings, permanent funding sources will be identified in the next budgetary cycle to repay the lender funds.

### **RISK ASSESSMENT**

Adoption of this resolution reduces PDC's risk of noncompliance with Local Budget Law ORS 294.460. PDC is required to replenish the fund within the fiscal year or budget the repayment in the following fiscal year.

### **WORK LOAD IMPACT**

There is no anticipated work load impact.

### **ALTERNATIVE ACTIONS**

There is no alternative action available at this time. No action could result in an audit comment regarding unauthorized interfund borrowings.

**CONCURRENCE**

Not applicable.

**ATTACHMENTS:** 1. **BCHD Billings to Date 2008 Analysis**  
2. **BHCD Cash Coverage Requirements – Generic Analysis**

**CC:** Julie Cody, Director of Central Services Department and Chief Financial Officer  
Tony Barnes, Principal Budget Analyst, Central Services Department  
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J. Jackley, Director of Communications and Business Equity Department  
J. Kingston, Accounting Manager

## Attachment 1: BHCD Billings to Date Analysis

	<b>110 HCD/CDBG</b>	<b>111 Lead</b>	<b>185 HOME</b>	<b>Total</b>
<b>July</b>	132,922.82	46,058.20	78,297.95	257,278.97
<b>August</b>	179,381.03	24,271.48	546,171.50	749,824.01
<b>September</b>	106,369.79	102,878.48	75,448.07	284,696.34
<b>October</b>	137,135.91	182,513.12	1,219,322.76	1,538,971.79
<b>November</b>	8,274.52	176,388.95	81,092.30	265,755.77
<b>December</b>	30,679.46	43,889.44	1,280,584.25	1,355,153.15
<b>January</b>	124,129.49	55,937.57	-	180,067.06
<b>February</b>	1,097,685.92	45,367.84	238,594.00	1,381,647.76
	<u>\$ 1,816,578.94</u>	<u>\$ 677,305.08</u>	<u>\$ 3,519,510.83</u>	<u>\$ 6,013,394.85</u>
<b># of Months</b>	8	8	7	
<b>Monthly Average</b>	\$ 227,072.37	\$ 84,663.14	\$ 502,787.26	\$ 814,522.76
<b>Largest Single Month</b>	\$ 1,097,685.92	\$ 182,513.12	\$ 1,280,584.25	\$ 2,560,783.29
<b>Second Largest Month</b>	<u>179,381.03</u>	<u>176,388.95</u>	<u>1,219,322.76</u>	<u>\$ 1,575,092.74</u>
<b>Largest Two Months</b>	\$ 1,277,066.95	\$ 358,902.07	\$ 2,499,907.01	<u><b>\$ 4,135,876.03</b></u>

**Attachment 2: BHCD Cash Coverage Requirements - Generic Analysis**

**Alternate Cash Requirement Scenarios**

<b>Transaction Description</b>		<b>Best Case:</b>	<b>Average Case:</b>	<b>Worst Case: No</b>
		<b>Timely Payments from BCHD</b>	<b>Partial Payments from BCHD</b>	<b>Payments from BCHD</b>
Beginning Cash Balance:		\$ -	\$ -	\$ -
<b>Month A:</b>				
1 <sup>st</sup> to 31 <sup>st</sup>	Expenditures Incurred (largest recent)	2,560,783.29	2,560,783.29	2,560,783.29
	Month A Ending Cash Balance	\$ (2,560,783.29)	\$ (2,560,783.29)	\$ (2,560,783.29)
<b>Month B:</b>				
1 <sup>st</sup> to 31 <sup>st</sup>	Expenditures Incurred (second largest recent)	\$ 1,575,092.74	\$ 1,575,092.74	\$ 1,575,092.74
15th	Billing for Month A			
29th	Payment Due from BHCD for Month A	(2,560,783.29)	(1,280,584.25)	-
30th	Program Expenditures Suspended for Non-Payment	N/A	YES	YES
	Month B Ending Cash Balance	\$ (1,575,092.74)	\$ (2,855,291.78)	\$ (4,135,876.03)
<b>Month C:</b>				
1 <sup>st</sup> to 31 <sup>st</sup>	Expenditures Incurred (based on average)	\$ 814,522.76	\$ -	\$ -
15th	Billing for Month B			
29th	Payment Due from BHCD for Month B	(1,575,092.74)	(1,219,322.76)	
30th	Program Expenditures Suspended for Non-Payment	N/A		
	Month C Ending Cash Balance	\$ (814,522.76)	\$ (1,635,969.02)	\$ (4,135,876.03)
<b>Maximum Three-Month Interfund Borrowing Requirements</b>		<b>\$ (2,560,783.29)</b>	<b>\$ (2,560,783.29)</b>	<b>\$ (4,135,876.03)</b>