

Amador Water Agency

Internal Loan Policy

Adopted: 12/11/14

Reviewed and Adopted 04-23-20

100.00 Purpose of the Policy

The primary purpose of this policy is to authorize inter-fund loans and transfers and prevent an Agency fund cash account from arriving at a negative balance and to allow the use of internal funds for Agency business activities when it is advantageous over the use of external loans. The Agency shall monitor cash needs for its individual funds through a monthly cash forecasting report.

200.00 Policy

At the time of approval of a new fiscal year budget, if a fund's cash balance is estimated to arrive at a negative balance during the forthcoming fiscal year, the Agency will consider the use of an internal or external loan based upon the borrowing fund's ability to repay the debt and the cash positions of potential lending funds. During the ensuing fiscal year, if a cash balance in a fund is forecasted to become negative, the Agency's Finance Manager shall so inform the General Manager and Board of Directors not less than 90 days before the negative balance is anticipated. The amount of an internal loan shall be sufficient to ensure that the borrowing fund's cash balance will remain in a positive position for the balance of the then current fiscal year or such other period as the Board of Directors may determine. When an internal loan is proposed for reasons other than positive fund cash, the Agency's Finance Manager shall prepare a report to the appropriate Board Committees and full Board explaining the purpose of the desired internal loan and identifying the benefits over external financing mechanisms. The Agency will authorize internal loans consistent with existing law and the provisions set forth below.

200.10 Authority: Pursuant to Government Code Section 53601(e), the Agency has the authority and may transfer surplus money in one enterprise fund that is not required for the immediate necessities of that fund to another enterprise fund or project as a form of investment. Court cases also have held that a public agency may invest its surplus or reserve funds in its own debt, so long as the following requirements are observed.

- The monies are indeed surplus, i.e., not required for the immediate necessities of the fund from which they are transferred.
- The monies are repaid at a reasonable rate of return.

- The monies are fully repaid by the time they are required for the necessities of the lending fund.
- There is a source(s) of money available to ensure timely repayment to the lending fund.

200.20 Internal Loan Requirements:

The Agency Board of Directors may authorize new internal transfers and loans pursuant to this policy. Each internal loan shall be approved by the Board of Directors by resolution, which shall state the following:

- The purpose for which the loan is being made.
- The identification of both the lending and borrowing fund, or funds.
- The dollar amount of the loan.
- The maturity date on which all principal, together with all accrued and unpaid interest, will be due, but such date shall be no later than when the loaned funds are expected to be needed by the lending fund.
- The schedule of dates and amounts of all principal and interest installment payments.
- The interest rate on the loan which shall provide a fair rate of return to the enterprise fund from which the loan is made.
- The borrowing fund's right to make full prepayment at any time without penalty.
- The source or sources from which the borrowing fund or funds is expected to repay the loan.
- The loans will be subordinate to encumbrances established by covenants related to external debt.
- The internal loan is wise and expedient and is consistent with the Agency's current investment policy.

200.30 Repayment of Internal Loan:

The Board of Directors will authorize an internal loan only if there is a mechanism in place to repay the internal loan. If there are no means for repayment, the Agency will need to consider other options for the cash account that is projected to become negative.

200.40 Decision to Authorize Internal Loan:

The Board of Directors may authorize the internal loan by resolution, following a publicly noticed meeting held for the purpose of providing notice to the ratepayers within the affected enterprises of the impending transaction. The notice shall be provided no less than 10 days prior to the scheduled meeting. No internal loan shall be made which will adversely affect the lending enterprise's operating reserves and financial stability. Loans made from participation fee funds shall not adversely affect the Agency's ability to carry out projected capital improvement projects.

300.00 Policy Review

This Policy shall be reviewed at least every two years.