



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: County Executive Office

Subject: General Fund Internal Loan for the Liability and Property Fund

Meeting Date: June 24, 2025

Formal Title: Adopt resolution authorizing the conversion of prior advances into a loan agreement of \$18,961,471 for the Liability and Property Fund Internal Service Fund from the General Fund, and take related actions

Recommended Actions

1. Adopt resolution authorizing the conversion of prior advances into a loan agreement of \$18,961,471 for the Liability and Property Fund Internal Service Fund from the General Fund; and
2. Authorize the County Debt Advisory Committee to approve any loan modifications that do not alter the principal amount of the loan.

Executive Summary

At the close of Fiscal Year (FY) 2023-24 and FY 2024-25, the Liability and Property Fund Internal Service Fund (Risk Fund) required cash advances to pay costs that exceeded the funds cash balance. The General Fund has cumulatively provided \$18,961,471 in cash advances with the expectation that the Risk Fund would repay the advances in the subsequent year. The Risk Fund due to increasing costs is now unable to repay these total advances within a year, and staff recommend that the advances be converted into a long-term internal loan agreement.

Discussion

At the close of FY 2023-24 and FY 2024-25, the Risk Fund required an influx of cash and the General Fund provided \$8,870,183 and \$10,046,278, respectively, in short-term cash advances, as supported by the Board's concluding actions at the final budget hearing. At the time, staff expected that the increasing costs and liability claims were one-time in nature and that the Risk Fund would have the financial ability to reduce in the subsequent year each of the advances to the General Fund.

A combination of rising claims, high insurance costs, and high exposure to litigation (including climate disaster and public safety-related cases) have increased faster than the phased annual increases. As a result, the Risk Fund will be unable to fully repay the cash advances when expected.

Starting in FY 2021-22, the Risk Fund began phasing in annual increases from a \$4.8 million base charge with the goal to reach by FY 2026-27 its funding target. Although total annual revenue largely from internal cost allocation charges are now at \$12 million for FY 2025-26, the Risk Fund remains significantly underfunded with the most recent actuarial assessment placing the funding confidence level at only 46%, well below the County's policy goal of 80%.

To ensure fiscal transparency and compliance with interfund accounting standards, the County Executive Office and Personnel and Risk Management Department recommend converting the prior advances into a long-term loan. However, Title 2 of the Code of

Federal Regulations (§ 200.449 – Interest) does not allow internal service funds to pay interest on loans unless the loan is to "acquire, construct, or replace capital assets." This loan does not meet that criteria and, accordingly, does not include interest.

The County Executive Office and Personnel and Risk Management Department will meet at least annually to evaluate the Risk Fund's financial status and provide any recommended loan modifications. With this action, the County Debt Advisory Committee (Committee) would consider and be authorized to provide any loan modifications. The Committee would not be allowed to increase the total amount of principal balance owed. Loan modifications could include the Risk Fund paying down additional principal amounts in advance of annual payment dates. The Committee could also consider modification scenarios such as, but not limited to, proposing an alternative laddered repayment that could allow the Risk Fund to reduce the annual amount due by increasing payments for the remainder of the loan or reducing or skipping an annual repayment depending on the Risk Fund's cash position.

Financial Impact

The loan agreement amount of \$18,961,471 would be repaid to the General Fund over 10 years with no interest. As an internal loan, there would be no financing costs. The annual debt payments would be financed from the Risk Fund (GL Key 515200) and would begin with FY 2026-27 per the following debt amortization schedule.

10-Year Loan Amortization Schedule

	Fund No.	GL Key	Name
Lending Fund	10110001	131220	General Fund
Borrowing Fund	60120001	515200	Internal Service Fund: Liability and Property Fund

Values	
Loan amount	\$ 18,916,471
Interest rate	0.00%
Loan period in years	10
Payments Per Year	1
Start date of loan	1/1/2026

Year	Payment Date	Beginning Balance	Payment	Principal	Interest	Ending Balance
1	1/1/2026	\$ 18,916,471	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 17,024,824
2	1/1/2027	\$ 17,024,824	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 15,133,177
3	1/1/2028	\$ 15,133,177	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 13,241,530
4	1/1/2029	\$ 13,241,530	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 11,349,883
5	1/1/2030	\$ 11,349,883	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 9,458,236
6	1/1/2031	\$ 9,458,236	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 7,566,588
7	1/1/2032	\$ 7,566,588	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 5,674,941
8	1/1/2033	\$ 5,674,941	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 3,783,294
9	1/1/2034	\$ 3,783,294	\$ 1,891,647	\$ 1,891,647	0.00%	\$ 1,891,647
10	1/1/3035	\$ 1,891,647	\$ 1,891,647	\$ 1,891,647	0.00%	\$ -

Strategic Initiatives

Operational Plan - Operational Excellence

Submitted By:

Carlos J. Palacios, County Executive Officer

Recommended By:

Carlos J. Palacios, County Executive Officer

Artificial Intelligence Acknowledgment:

Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.