From: McFarlane, Megan (SAO)
To: Strzalka, Amy (SAO); Wilson, Zachary (SAO); Ehlinger, Carol (SAO); Seibert, Melinda (SAO)
Subject: RE: Homeward Bound Trust Questions
Date: Sunday, June 10, 2018 10:48:54 AM

I agree with Zac loaning money to individuals/businesses could be allowable in some situations when it is part of a grant program, but this just doesn't seem like it. The city is choosing to participate and using its own money to do this. It just screams Lending of Credit to me, but definitely something legal from both sides should work out and decide.

Megan McFarlane
Assistant Audit Manager
WA State Auditor's Office
Port Orchard
(360) 895-6133 x 103

From: Strzalka, Amy (SAO)
Sent: Friday, June 8, 2018 1:25 PM
To: Wilson, Zachary (SAO) <wilsonz@sao.wa.gov>; McFarlane, Megan (SAO) <mcfarlanem@sao.wa.gov>; Ehlinger, Carol (SAO) <ehlingerc@sao.wa.gov>; Seibert, Melinda (SAO) <seibertm@sao.wa.gov>
Subject: RE: Homeward Bound Trust Questions

Thank you both for your thoughts. Apparently the $250,000 loan was issued first, and then the $834,000 loan was recently approved by Council, but the contract with Homeward Bound has not been officially signed and the money has not yet been lent. Part of the $834,000 will be used to pay off the $250,000, so it's $834K total. The Attorney wouldn't let us see the contract since it's not yet official, but per the Finance Manager they have it written so if Homeward Bound defaults on the loan, the property and any improvements on it revert back to the City.

The Finance Director said originally Homeward Bound tried to get the loan from the bank itself, but the bank wanted the City to back the debt, and the City Attorney said it would be cleaner for the City to just obtain the loan themselves, and then lend the money to Homeward Bound.

I have a really hard time getting in the middle of stuff that the City Attorney has already advised on – it seems like a lot of these things we end up just saying "we're not going to give you a straight answer, but suggest you consult your attorney". That is why I'm checking in advance to see what pieces we can/should look at, if anything – I've had way too many hotlines that we spend a bunch of time/research on and then when the hotline goes through review, legal just says "we're not going to weigh in on this".

I am hoping the city program manager has some advice ☹

From: Wilson, Zachary (SAO)
Sent: Friday, June 8, 2018 8:56 AM

To: McFarlane, Megan (SAO) <mcfarlanem@sao.wa.gov>; Strzalka, Amy (SAO) <strzalkaa@sao.wa.gov>; Ehlinger, Carol (SAO) <ehlingerc@sao.wa.gov>; Seibert, Melinda (SAO) <seibertm@sao.wa.gov>
Subject: RE: Homeward Bound Trust Questions

Some more thoughts…

The loan makes me think about the CDBG loans where other cities are loaning money to people and businesses which is ok.
If it is in support of poor and infirm that they could just make payments to private companies to carry out this task for the City (thinking that this deal may be ok because essentially they are paying for the service, but it is structured differently. Although not sure if the way it was structured is ok? Then it made me think of did they solicit bids given the large amount; although they are not actually paying them the money since it is expected they will get the funds back so not sure how that fits into procurement requirements?

Hoping the debt is secured on the property in case of default; although not required.

Zac Wilson

From: McFarlane, Megan (SAO)
Sent: Friday, June 8, 2018 7:04 AM
To: Strzalka, Amy (SAO) <strzalkaa@sao.wa.gov>; Ehlinger, Carol (SAO) <ehlingerc@sao.wa.gov>; Wilson, Zachary (SAO) <wilsonz@sao.wa.gov>; Seibert, Melinda (SAO) <seibertm@sao.wa.gov>
Subject: RE: Homeward Bound Trust Questions

Yikes! Here's my thoughts:

The $250,000 loan to the "trust" (non-profit) and the $834,000 loan to the trust – I would think these would be a lending of credit, which would not be allowed.

The interfund loan between the GF and the Transmission Line Replacement Fund – Yes, this appears to be allowable, given the repayment information you provided in your email. Although I think the underlying problem is I don't think the GF can loan the money to the Trust in the first place, so it may not matter.

Yes, they have the authority to surplus property and infrastructure, but would still need to follow specific requirements. We don't have enough info to answer if the land and building was given to the Trust properly. That is something we could certainly look at in an Acct Audit.

The City has now taken on $834,000 plus interest that they loaned to this non-profit for 42 years at 0% interest. Again, I don't think this is allowable. A local government can hold debt of another local government, but I don't know that they can for a non-profit. Also, what happens if the non-profit goes "out of business" or can't make a loan payment?

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From: Strzalka, Amy (SAO)
Sent: Thursday, June 7, 2018 3:36 PM
To: Ehlinger, Carol (SAO) <ehlingerc@sao.wa.gov>; McFarlane, Megan (SAO) <mcfarlanem@sao.wa.gov>; Wilson, Zachary (SAO) <wilsonz@sao.wa.gov>; Seibert, Melinda (SAO) <seibertm@sao.wa.gov>
Subject: FW: Homeward Bound Trust Questions

Hello,

At the City of PT entrance today, a councilmember gave us the following list of concerns (page 1) regarding some loans to a non-profit the City has approved. (Page 2 includes some additional information from the finance department).

The transactions have all been thoroughly reviewed by the City Attorney and were approved by City Council. (The Council member submitting the concerns was the only "no" vote). I'm not sure how deeply we should delve into any of this, if at all.

We've looked at the interfund loan and it was properly approved and has an appropriately brief repayment period (less than 3 years) and an assigned interest rate (the LGIP rate). As far as the rest goes, I feel like cities have a very broad "authority" as to what they are allowed to do with their money, and if they choose to use City funds to assist a local non-profit in creating additional low-income housing, that seems like it would fall under the "poor and infirm" exception that isn't a gift of public funds.

Any thoughts/advice?

Amy

From: Nora Mitchell <NMitchell@cityofpt.us>
Sent: Thursday, June 7, 2018 3:23 PM
To: Strzalka, Amy (SAO) <strzalkaa@sao.wa.gov>; Schneider, Melody (SAO) <schneiderm@sao.wa.gov>
Cc: Sheila Danielson <SDanielson@cityofpt.us>; David Timmons <dtimmons@cityofpt.us>
Subject: Homeward Bound Trust Questions

Please find a copy of Bob Gray's questions, brief staff answers to these questions and the associated resolutions. In all cases, there are additional agreements, documents and agenda bills related to the items that were approved by City Council. If you need further information, have questions or

would like additional documents, please let Sheila or me know.

Thanks!

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