



Legislation Text

File #: 06-0905, **Version:** 1

Recommendation to adopt resolution authorizing the issuance of Tax and Revenue Anticipation Notes in an amount not to exceed \$60 Million; and authorize City Manager to execute all necessary documents. (Citywide)

The Tax and Revenue Anticipation Note (TRAN) is a cash management tool used by public agencies to fund cash flow needs during a fiscal year. It is typically issued at the beginning of a fiscal year and matures within 13 months. In no case may a TRAN be outstanding for more than 15 months. A TRAN enables public agencies that receive revenues sporadically throughout the year (e.g., property taxes, property tax in-lieu of Vehicle License Fees and property tax in-lieu of sales tax) to have the cash on hand needed for expenditures while awaiting the receipt of these revenues. The City annually issues a TRAN and repays it within 13 months. During Fiscal Year 2007, the General Fund and Redevelopment Agency will experience short-term cash needs just prior to receipt of their first major property tax payments December, and the General Fund's property tax in-lieu payments in January. To bridge this projected cash need, staff is proposing to issue a \$54 million TRAN. The attached Resolution provides for the issuance of a TRAN in an amount not to exceed \$60 million. The \$60 million limit will allow staff to adjust the size of the TRAN issuance in the event of unforeseen changes to the FY 07 cash flow and/or changes in market conditions. The TRAN will be competitively bid in early October through the use of an online bidding service. This item was reviewed by Assistant City Attorney Heather Mahood on July 13, 2006 and Budget Management Officer David Wodynski on August 31 2006.

The first property tax payments are due to be received from the County of Los Angeles on December 20, 2006, and the property tax in-lieu payments on January 22, 2007. The TRAN proceeds will be needed prior to those dates. Once approved by the City Council the financing schedule requires approximately 30 days to prepare legal documents, advertise the transaction and arrange for the electronic bidding service. Therefore, City Council action on this matter is requested on September 12, 2006.

Based on current and projected market conditions, this transaction will provide a positive fiscal impact to the City's General Fund. TRANs are tax-exempt notes and, until needed the proceeds are invested in taxable investments, which will carry a higher market interest rate. As long as projected expenditure requirements are met, the City is permitted to keep, rather than rebate to the federal government, positive interest earnings. The interest income will pay for the cost of issuance and interest expense associated with the TRAN. As of the week ending August 29, 2006, TRAN borrowing costs were estimated to be approximately 3.5 percent. It is anticipated that the reinvested proceeds from the TRAN will earn approximately 4.44 percent, with the principal amount of the note being repaid within 13 months. The cost of issuance for this projected \$54 million transaction is estimated at \$100,000, which includes legal, underwriter and related fees, with the final cost dependent on the TRAN amount and prevailing market conditions at the time pricing. Based on these projections, and adjusting for the cost of issuing and repaying the TRAN, with interest, the General Fund is anticipated to realize a net income of approximately \$200,000. This amount is included in the

FY 07 Proposed Budget.

Approve recommendation.

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NAME
TITLE

APPROVED:

GERALD R. MILLER
CITY MANAGER