



Res.No.C-
28451

RES-29
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CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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September 14, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Resolution Providing for Issuance of up to \$35 Million Tax and Revenue Anticipation Notes (Citywide)

DISCUSSION

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), 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. The Fiscal Year 2004 (FY 04) TRAN was issued in the amount of \$30 million and will mature on October 4, 2004.

During FY 05, the General Fund will experience a short-term cash need just prior to the receipt of the City's first major property tax payment in December. To bridge this projected cash need, the City is proposing to issue a \$30 million TRAN. The attached Resolution provides for the issuance of up to \$35 million in TRAN, with the exact amount of the issuance to be determined prior to the sale. The \$35 million limit will allow staff to adjust the size of the TRAN issuance in the event of unforeseen changes to the FY 05 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 Chief Assistant City Attorney Heather Mahood on August 27, 2004, and Budget Management Officer David Wodynski on August 30, 2004.

TIMING CONSIDERATIONS

The first property tax payment is due to be received from the County of Los Angeles on December 20, 2004. The TRAN proceeds will be needed prior to that date. 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

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bidding service. Therefore, City Council action on this matter is requested on September 14, 2004.

FISCAL IMPACT

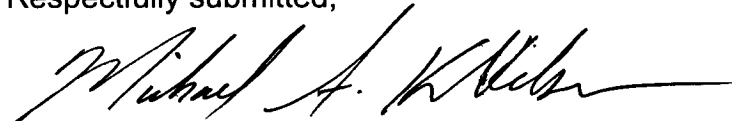
Based on current and projected market conditions, this transaction will provide a positive fiscal impact to the City's General Fund. TRAN are tax-exempt notes and, until needed, the proceeds are invested in taxable investments, which are expected to carry a higher market interest rate. As long as certain expenditure requirements are met, the City is permitted to keep, rather than rebate to the federal government, the positive interest earnings. It is this interest income that pays for the cost of issuance and interest expense associated with the TRAN.

As of the week ending September 11, 2004, the TRAN borrowing cost is estimated to be approximately 2.0 percent. It is anticipated that the reinvested proceeds from the TRAN will earn approximately 2.65 percent, with the principal amount of the note being repaid within 13 months. The cost of issuance for this projected \$30 million transaction is estimated at \$80,000, which includes legal, underwriter and related fees, with the final cost dependent on the TRAN amount and prevailing market conditions at the time of pricing. Based on these projections, and adjusting for the cost of issuing and repaying the TRAN, with interest, the General Fund is anticipated to receive a net benefit of approximately \$100,000. This estimated earnings amount is included in the FY 05 Proposed Budget.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

- (1) Adopt the attached Resolution providing for the competitive sale of FY 05 Tax and Revenue Anticipation Notes.
- (2) Authorize the City Manager to execute certificates, documents and agreements in accordance with the Resolution.

Respectfully submitted,



MICHAEL A. KILLEBREW

ACTING DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



GERALD R. MILLER
CITY MANAGER

MK:MM:EF

Attachment