



Legislation Text

File #: 08-0898, **Version:** 1

Recommendation to adopt resolution authorizing the issuance of Tax and Revenue Anticipation Notes in an amount not to exceed \$55 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. For FY 09, the City will receive the proceeds from this issuance on October 1, 2008 and will repay the principal on September 30, 2009.

Due to the State's "Triple Flip" legislation and property tax in-lieu of VLF initiatives, which have dramatically changed the timing of the City's sales tax and VLF revenue receipts, the need for an annual TRAN has continued. The General Fund and Redevelopment Agencies are expected to experience short-term cash needs prior to the receipt of the City's first major property tax payments in December and the General Fund's property tax in-lieu payments in January. To bridge this projected cash need, the attached Resolution provides for the issuance of a TRAN in an amount not to exceed \$55 million. The TRAN will be competitively bid in late September 2008 through the use of an online bidding service.

This matter was reviewed by Assistant City Attorney Heather Mahood on August 25, 2008 and Budget Management Officer Victoria Bell on August 4, 2008.

The first property tax payments are due to be received from the County of Los Angeles on December 19, 2008, and the property tax in-lieu payments on January 20, 2009. The TRAN proceeds will be needed to meet the City's cash needs prior to those dates. Once approved by the City Council, the financing schedule requires approximately two weeks to finalize legal documents, advertise the transaction and arrange for the electronic bidding service. Therefore, City Council action on this matter is requested on September 9, 2008.

This transaction will provide a more consistent cash flow to the City's General Fund and Redevelopment Fund. TRANs are tax-exempt notes and, until needed, the proceeds are invested in taxable investments, which may generate a higher market interest rate. As long as the projected cash flow needs are met, the City is permitted to keep, rather than rebate positive interest earnings. The interest income will pay for the costs of issuance and interest expense associated with the TRAN. The Department of Financial Management has worked with the City's Financial Advisor, Public Financial Management; Bond Counsel, Kutak Rock; and all three rating agencies (Standard and

Poor's, Moody's, and Fitch Ratings) on this issuance.

As of the week ending August 29, 2008, TRAN borrowing costs were estimated to be approximately 1.9 percent. It is anticipated that the reinvested proceeds from the TRAN will earn approximately 3.1 percent, with the principal amount of the note being repaid by September 30, 2009. The cost of issuance for this transaction is estimated at \$120,000, which includes legal, underwriting 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 realize a net income of approximately \$200,000. This amount is included in the interest earnings projection of the Fiscal Year 2009 Proposed Budget.

Approve recommendation.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH PROVIDING FOR THE ISSUANCE OF 2008-2009 TAX AND REVENUE ANTICIPATION NOTES OF THE CITY OF LONG BEACH, CALIFORNIA

Lori Ann Farrell
Director of Financial Management/CFO

NAME
TITLE

APPROVED:

PATRICK H. WEST
CITY MANAGER