

MONTEREY COUNTY BOARD OF SUPERVISORS

MEETING: June 14, 2011	AGENDA NO: 51
SUBJECT: a. Approve the local agency resolution and approve the borrowing of funds for fiscal year 2011-12; the issuance and sale of Tax and Revenue Anticipation Note therefore, at the maximum legal amount, but not to exceed \$60 million, through participation in the California Communities Cash Flow Financing Program and b. Authorize the County Debt Manager to execute the required documents.	
DEPARTMENT: Auditor-Controller	

RECOMMENDATION:

- a. Approve the local agency resolution and approve the borrowing of funds for fiscal year 2011-12; the issuance and sale of Tax and Revenue Anticipation Note therefore, at the maximum legal amount, but not to exceed \$60 million, through participation in the California Communities Cash Flow Financing Program, and
- b. Authorize the County Debt Manager to execute the required documents.

SUMMARY:

The County of Monterey requires short term financing to provide cash flows to fund operating expenditures due to delayed State funding, delay in property tax receipts, and a dramatic increase in property tax delinquencies precipitated by the slowing economy and the current housing market difficulties. During previous years, it has been determined that the California State Communities Development Authority ("CSCDA") Cash Flow Financing program has provided the lowest cost method of providing cash flow borrowing.

DISCUSSION:

The County of Monterey is a member of the CSCDA, a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, formed to provide local governments and private entities access to low-cost, tax-exempt financing for projects that provide a tangible public benefit, contribute to social and economic growth, and improve the overall quality of life in local communities throughout California. An application for participation has been submitted on behalf of Monterey County by the debt manager for participation in the 2011-12 TRAN program. The resolution format is supplied by CSCDA. The resolution authorized various financing documentation, including a purchase agreement and a trust agreement which is on file in the Auditor-Controller's office. The resolution authorizes the Auditor-Controller, County Debt Manager, and CAO to sign financing documentation in connection with the issuance of the TRANs. The resolution also appoints the law firm of Orrick, Herrington, and Sutcliffe as bond counsel to the County of Monterey.

Prior to this year, due to limitations on the old accounting system and payroll priorities associated with the implementation of the countywide Enterprise Resource Project, the County used accrual based trial balances to report cash flow. Those reports did not accurately tie to actual cash receipts and disbursements. This deficiency was reported to the ratings agencies last year with the pledge to address proper reporting for the FY11-12 TRAN season. The Auditor-Controller's office recently completed work with CGI to successfully implement a cash flow reporting system which accurately accounts for daily cash flows in the general fund.

The exact issuance date will be determined by market forces, but will occur prior to the end of September when cash balances approach their traditionally lowest levels. Choosing to issue in

August 2010 resulted in the County receiving a yield of 0.33%. July 1 issuer yields ranged significantly higher from 0.75% to 1.5%. Diminished investment opportunity and lesser interest costs predicate the strategy of delaying issuance again this year. By watching market activity, the County plans to issue in late August or early September when demand for tax exempt paper is higher and supplies are lower, resulting in lower anticipated net costs for the TRAN.

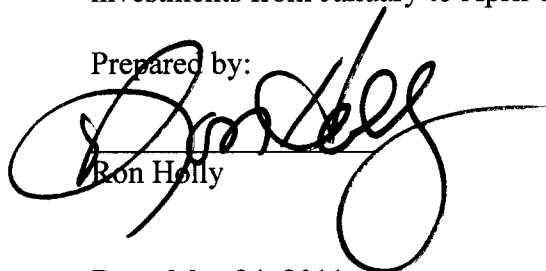
OTHER AGENCY INVOLVEMENT:

The Budget Committee and the County Administrative Office have been kept apprised of the potential TRAN issuance.

FINANCING:

Preliminary cash flow analysis indicates Monterey County qualifies for a TRAN of approximately \$50 million. Utilizing a projected coupon rate of 2.0%, the expected yield is 0.5%, resulting in net interest costs of approximately \$260,000. The cost of issuance expenses are estimated at \$152,883, bringing the total TRAN cost to approximately \$412,833. Investment of the proceeds will be determined at the time of issuance based on actual cash needs and then available investment opportunities. Upon issuance of the 10-11 TRAN, proceeds were immediately needed in the general fund, negating investment earnings. Similar cash pressures should be prevalent during FY12, therefore minimizing any investment returns. Provided funds are available prior to being needed to cover cash shortfalls in the general fund, those proceeds may be placed in the Treasury Pool, another approved pooled investment, or some other investment vehicle like a guaranteed investment contract. For conservative estimate purposes, arbitrage calculations will assume an annualized return while invested in approved set aside investments from January to April of 0.12%.

Prepared by:



Ron Holly

Date: May 24, 2011

Approved by:



Michael J. Miller, CPA, CISA
Auditor-Controller

Attachments:

Resolution

Purchase Agreement