



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: RES 12-0065, **Version:** 1

Adopt Resolution to:

- a. Approve the local agency resolution and approve the borrowing of funds for fiscal year 2012-13; the issuance and sale of Tax and Revenue Anticipation Notes therefore, at the maximum legal amount, but not to exceed \$65 million, through participation in the California Communities Cash Flow Financing Program (“CSCDA”), and;
- b. Authorize the County Debt Manager to execute the required documents.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Adopt Resolution to:

- a. Approve the local agency resolution and approve the borrowing of funds for fiscal year 2012-13; the issuance and sale of Tax and Revenue Anticipation Notes therefore, at the maximum legal amount, but not to exceed \$65 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 increases in property tax delinquencies precipitated by the current economy and housing market difficulties. Research indicated the most efficient and lowest cost method of completing a cash flow borrowing was on a Competitive Sale Basis issued through the CSCDA Cash Flow Financing program.

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. Over the past decade, CSCDA has only issued TRANs on a Negotiated Sale Basis, whereby underwriters are selected in advance who agree to purchase all of the proceeds of the TRAN issuance, with the hopes of remarketing at a profit to the ultimate holder of the Notes. For taking that risk, underwriters in Negotiated Sales are compensated through what it termed as “underwriters takedown”. Analysis of TRAN sales nationwide indicated that for favorable credits, issuance on a Competitive Sale Basis produced lower costs of issuance and lower overall yields because the underwriter takedown is not paid. Instead, the purchasers (bidders) simply quote the lowest yield at which they wish to invest which greatly reduces costs.

Having not previously issued the TRAN through a Competitive Sale, the Debt Manager sought to eliminate the possibility of a failed sale (i.e. no bids being received or less bids than the issuance amount). As such, the CSCDA Board approved a Competitive Sale specifically for Monterey County, with the resolution and

indenture providing for an immediate Negotiated Sale should the Competitive Sale fail for any reason.

An application for participation was submitted on behalf of Monterey County by the debt manager for participation in the 2012-13 TRAN program. The resolution format is supplied by CSCDA. The resolution authorizes the two separate sales methods, various financing documents, including a Bond Purchase Agreement and a trust agreement which are on file in the Auditor-Controller's office. The resolution authorizes the Auditor-Controller, County Debt Manager, and CAO to accept terms of sale and to sign financing documentation in connection with the issuance of the TRAN. The resolution also appoints the law firm of Orrick, Herrington, and Sutcliffe as bond counsel to the County of Monterey.

The exact issuance date will be determined by market forces, but is tentatively scheduled to occur prior to the end of August before cash balances approach their traditionally lowest levels. It is further anticipated that the TRAN issuance will be in two series, one with a maturity of January 31 after collection of property taxes in December and another with a maturity of May 15 after collection of taxes in April. Bifurcating the issuance reduces costs due to the lack of arbitrage available for investment.

OTHER AGENCY INVOLVEMENT:

The County Administrative Office and the Budget Director 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 approximately 0.25%, resulting in net interest costs of approximately \$125,000. The cost of issuance expenses are estimated at \$80,000, bringing the total TRAN cost to approximately \$205,000. 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 11-12 TRAN, proceeds were immediately needed in the general fund, negating investment earnings. Similar cash pressures should be prevalent during FY13, 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.

Prepared by: Ron Holly, Chief Deputy Auditor-Controller, x5493

Approved by: Al Friedrich, Asst. Auditor-Controller, x5343

Attachments:

Resolution

Bond Purchase Agreement