



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Treasurer – Tax
Collector
Department No.: 065
For Agenda Of: 5/11/2010
Placement: Set Hearing
Estimated Tme: 10 minutes on May 18,
2010
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Bernice James, Treasurer – Tax Collector (805) 568 - 2490
Director(s) *Bernice James*
Contact Info: Stacey Matson, CPA, Investment & Debt Officer (805) 568 - 2158
SUBJECT: Tax and Revenue Anticipation Note Short Term Financing Program for Fiscal
Year 2010 - 11

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: Debt Advisory Committee

Recommended Actions:

That the Board of Supervisors set a hearing to:

- A. Adopt a Resolution "IN THE MATTER OF PROVIDING FOR THE BORROWING OF FUNDS FOR FISCAL YEAR 2010-2011 AND THE ISSUANCE AND SALE OF COUNTY OF SANTA BARBARA, CALIFORNIA, 2010-2011 TAX AND REVENUE ANTICIPATION NOTES";
- B. Adopt a Resolution "IN THE MATTER OF AFFIRMING THAT MONEYS IN INTERNAL SERVICE FUNDS ARE AVAILABLE ONLY FOR DESIGNATED PURPOSES AND ARE REASONABLY REQUIRED";
- C. Authorize the Treasurer – Tax Collector to execute the Contract of Purchase with De La Rosa & Company for the issuance of non-taxable Tax and Revenue Anticipation Notes in accordance with State and Federal law, in an amount not to exceed \$105,000,000, at a yield not to exceed 2.0%, to meet General Fund cash flow requirements during the 2010-2011 fiscal year;

- D. Authorize and execute an agreement with Orrick, Herrington, and Sutcliffe, LLP to perform legal services as bond counsel incident to the execution and delivery of 2010-2011 Tax and Revenue Anticipation Notes in an amount not to exceed \$20,000; and
- E. Authorize the Treasurer – Tax Collector to abandon this issuance if market conditions are deemed financially unfavorable.

Summary Text:

Statutory provisions allow public agencies to issue Tax and Revenue Anticipation Notes (TRAN) to address seasonal cash flow requirements during a specified fiscal year. Proceeds from the short-term issuance of a non-taxable TRAN will allow the County to cover deficits in its cash position that result from the uneven flow of revenues, while expenditures remain relatively level through-out the fiscal year.

Background:

Secured property taxes constitute a significant portion of the County of Santa Barbara's revenues. They are primarily collected in December and April of each fiscal year. In addition, State and Federal program reimbursements for County expenditures are often delayed and received intermittently throughout the year. The County's expenditures typically occur in level amounts for each month of the fiscal year. Government Code Section 53850 et sequence allows a short – term issuance by certain local governments, including counties, to alleviate the discrepancies in the timing of revenue collections and actual cash draw downs for the payments of expenditures.

The principal and the interest of the TRAN, by law, is payable from taxes, income, revenues, cash receipts and other moneys which are received by the County, for the General Fund of the County, and which are solely attributable to the fiscal year 2010-2011. The TRAN must mature within 13 months, or less, after the date of original issuance. It is anticipated that the 2010-2011 TRAN will be sized in an amount slightly below the 2009-2010 issuance proceeds of \$63.7 million. In the event that significant changes occur in revenue cash flow projections of the County, a Series B issuance up to the not-to-exceed amount (less the Series A amount already issued) could occur.

The Government Code allows the proceeds of a TRAN to be used and expended for any purpose for which the County is authorized to do so, including but not limited to, current expenses, capital expenditures, investment and reinvestment, and the discharge of any obligation or indebtedness.

The County issued a TRAN for the current fiscal year 2009-2010 in a principal amount of \$63.7 million. The authorizing resolution was for a not-to-exceed Series A and B aggregate amount of \$105 million. Cash flow projections for the 2010 – 2011 fiscal year similar to those for 2009-2010 include payment deferrals from State funding sources, including those due to delayed billings and delayed reimbursements for Alcohol, Drug and Mental Health Services, and continued local revenue changes resulting in demand on the general fund.

On March 25, 2010, the Debt Advisory Committee considered the issuance of a TRAN for the fiscal year 2010- 2011. They approved a motion recommending the County proceed with a TRAN issuance with the same financing team in place as was used for the current year's TRAN issuance. Accordingly,

De La Rosa & Co. and Orrick, Herrington, Sutcliffe, will serve as underwriter and bond counsel, respectively.

Performance Measure: N/A

Fiscal and Facilities Impacts:

Fiscal Analysis:

Principal and interest of the tax-exempt TRAN is a general fund obligation. The interest cost to the County is estimated to be \$365,000, at a yield of 0.50% for a TRAN with a \$70 million par and a 12-month maturity. In contrast, investors would demand an estimated yield of 1.00% for a taxable issuance, double that of the tax-exempt rate.

The County is evaluating earlier maturity dates for all, or a portion, of the TRAN issuance to take advantage of lower interest rates for earlier maturities.

Assuming a \$70 million TRAN that matures in 10 months (April 2011), the yield is estimated to be 0.45%, with an estimated cost of \$275,000, \$90,000 lower than a TRAN with a 12-month maturity.

Another option is to issue two TRAN series that mature at different dates. The County could issue half of the TRAN or \$35 million with a maturity in 6 months (late December 2010 or early January 2011) and the remaining \$35 million with a maturity in 12 months (June 2011). The yield for the 6-month maturity is estimated to be 0.35% and 0.50% for the 12-month maturity. Interest costs would be \$250,000, which is \$115,000 lower than a TRAN that matures entirely in 12 months.

The decision to shorten the TRAN maturity, or not, is dependent upon market rates for the issuance and projected earnings for TRAN proceeds. The recommendation for the maturity will be included in the May 18, 2010 hearing material.

The costs of issuance for the TRAN are included in the proceeds. In order for the County to issue a tax-exempt TRAN, bond counsel must issue an opinion that the issuance is in compliance with statutory requirements. Orrick, Herrington, and Sutcliffe, LLP will act as bond counsel to the County for this transaction in an amount not to exceed \$20,000. De La Rosa & Co. will perform underwriting services in an amount not to exceed \$50,000, plus other expenses that are not-to-exceed \$20,000. Other expenses include underwriter's counsel, regulatory agency filing fees, and printing costs of the Preliminary Official Statement and the Official Statement.

Staffing Impacts:

Special Instructions: N/A.

Attachments:

Pending: Attachments will be docketed timely for the May 18, 2010 hearing.

Authored by: Stacey Matson, CPA, CPFIM, Investment & Debt Officer