



# CITY OF SACRAMENTO

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April 19, 1982

**APPROVED**  
BY THE CITY COUNCIL

APR 27 1982

OFFICE OF THE  
CITY CLERK

City Council of the City  
of Sacramento  
Sacramento, California

Honorable Members in Session:

SUBJECT: City General Purpose (General Fund plus Revenue Sharing) Cash  
Flow Deficits for FY 82/83 and Proposed Financing Alternatives (TRANS)

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SUMMARY

The City Director of Finance and City Treasurer have analyzed the estimated flow of cash receipts and cash disbursements (cash flow) for each month of fiscal year 1982/83. The analysis shows that general purpose cash flow deficits will again occur in fiscal year 1982/83 (see Attachment A). This report presents the alternatives considered for dealing with the projected general purpose cash flow deficits and recommends:

- 1) Adoption of the attached Resolution (See Attachment B) authorizing staff to proceed with planning for the sale of a 1982/83 tax and revenue anticipation notes (TRANS) for FY 1982/83 general purpose cash flow deficits and,
- 2) Council authorization to incur financing costs not to exceed \$60,000 associated with the financing whether or not the TRANS issue is marketed and,
- 3) Approval for the City Manager and City Treasurer to enter into the financing agreement between the City and Blyth Eastman Paine Webber as financing consultant (Attachment C).

BACKGROUND

California statutes permit short-term borrowing against anticipated revenues by cities, counties, school districts and special districts to meet cash flow deficits. TRANS borrowing is not a revenue raising device--funds borrowed are secured by a pledge for future receipts and must be repaid within the fiscal year. A vote of the electorate is not required. Proceeds can be used for any legal purpose and may be reinvested pending disbursement.

The rationale for allowing such borrowing is that many local governments receive the bulk of their revenues, including property taxes, in large, periodic installments, while their expenditures are more evenly distributed throughout the fiscal year. TRANS borrowing helps agencies through these "dry" periods, and are a substitute for cumbersome interfund borrowing which would reduce the agencies' interest revenues, and which may fiscally disrupt other agency functions.

First authorized in 1949, tax anticipation notes were supplemented by the revenue anticipation notes in 1963, and by grant anticipation notes in 1972. Such borrowing has traditionally been utilized most by counties and school districts. For example, in 1980, the total volume of tax/revenue anticipation borrowing was \$670 million, by six counties, nine school districts, and only one city.

In 1981, TRANS financing were estimated at close to \$1 billion, with a number of cities and counties employing such financing techniques, including the City of Sacramento which issued a \$9.5 issue that matures June 30, 1982.

As of this writing, Bond Counsel and our financial advisor have estimated that there is a literal floodgate of TRANS financings by cities and counties in California that will be coming to market on or about July 1, 1982.

#### ALTERNATIVES

In order to deal with the projected General Purpose cash flow deficit during the FY 1982/83 dry period, the City has the following alternatives available.

1. DELAY IMPLEMENTATION OF THE CITY'S PLANNED 82/83 CAPITAL IMPROVEMENT PROGRAM

By borrowing from Revenue Sharing Funds currently appropriated to general government capital improvements projects (example: Public Safety Communications Center or downtown fire station #2). This would mean putting a hold on all Capital Projects funded from Revenue Sharing and could seriously impede the City Engineer's ability to get the projects under contract in a timely fashion. Therefore, this alternative is not recommended.

2. TEMPORARY BORROWING FROM CITY'S SELF INSURANCE FUND

This would require borrowing from the self insurance reserve for open cases (\$6.0 million) and/or contingent liability reserves (\$3.3 million). These reserves have already been reduced significantly to balance the City budget. On principle, staff would object to any intrusion into self insurance reserves but concedes this is a feasible alternative if required. Another drawback to this alterantive is that the City will lose interest income when it borrows money from itself in this fashion.

This option has previously been discussed with outside counsel who agrees with staff regarding the unavailability of the open case reserves.

3. SHORT-TERM BORROWINGS IN THE FORM OF "TAX & REVENUE ANTICIPATION NOTES"  
(TRANS)

A "TRANS" financing has the major advantage of not disrupting normal operations at possibly no net cost to the City. Effectively, the City would be borrowing money through a pledge of future taxes and revenues off-set by maximum cash flow deficit plus the following month estimated disbursements. The entire TRANS balance in excess of deficits could be invested to offset the cost of borrowings.

The TRANS financing mechanism is recommended for implementation by City staff. As of this time, reinvestment rates are estimated at only 3.5% to 4% greater than the estimated TRANS financing cost and only \$170 thousand to \$200 thousand is estimated to be earned on a \$11.4 million TRANS financing. Last year when such a financing was implemented, reinvestment rates on TRANS balances were 6.3% greater than the TRANS financing cost and net earnings of \$327 thousand were estimated to be earned on that \$9.5 million 1981/82 issue.

FINANCIAL

The maximum projected General Purpose cash flow deficit will be \$4,654,000 (see Attachment A) in the month of November, 1982. By law, the City could borrow its maximum General Purpose cash deficit, plus the next month's projected disbursement of \$6,714,000 (see Attachment A). Using this criteria, the City of Sacramento could borrow up to \$11,368,000 on a TRANS financing. However, until bond counsel and the financial consultant review City fund balances, we cannot yet estimate the actual issue size for the 1982/83 TRANS financing.

The cost of the 1981/82 TRANS borrowing exclusive of interest expense was approximately \$50 thousand and is broken down into the following components:

CITY OF SACRAMENTO FINANCING COSTS <u>OF 1981/82 TRANS FINANCING</u>	
	<u>1981/82 COSTS</u>
FINANCING CONSULTANT	\$15,000.00
OUTSIDE LEGAL COUNSEL	4,466.60
PRINTING COST OF OFFICIAL STATEMENT	19,118.96
EXTERNAL AUDIT COSTS	6,500.00
MISCELLANEOUS COST	<u>4,814.39</u>
TOTAL	<u>\$49,899.95</u>

The 1982/83 TRANS borrowing costs exclusive of interest expense based on the previous issue of \$9.5 million should be approximately \$60,000.00.

The City Treasurer has designated First Interstate Bank and they have agreed to perform as Fiscal Agent for the same fees and conditions of the 1981/82 TRANS Paying Agent. Their fee was \$2,850.00 and was included in the 1981-82 miscellaneous costs of \$4,814.39.


The City Council should be aware that if the issue were to abort prior to sale there could still be type set-up and printing costs of approximately \$20,000 and potential up to \$10,000 for Bond Counsel fees. Furthermore, in the event that the deficits are greater than projected and/or the interest rate spreads are narrower than forecasted, it is conceivable that the TRAN financing could break even or cost money.

RECOMMENDATION

It is recommended that the City Council adopt the attached Resolution (Attachment B) expressing its intent to sell short-term Tax and Revenue Anticipation Notes and authorizing City staff to proceed with a competitive bid sale of approximately \$11.4 million borrowing estimated to occur in early July, 1982 and be repaid by June 30, 1983.

The City Council would be periodically advised as to the progress of the note sale process.

Respectfully submitted,

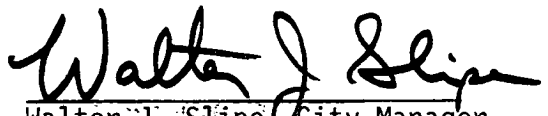
  
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THOMAS P. FRIERY  
City Treasurer

  
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JACK R. CRIST  
Director of Finance

TPF/JRC/lv

Attachments

RECOMMENDATION APPROVED:

  
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Walter J. Slipe, City Manager

April 27, 1982

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CITY OF SACRAMENTO  
 GENERAL PURPOSE (B)  
 ESTIMATED MONTHLY CASH FLOW  
 FISCAL YEAR 1982-83  
 (000's omitted)

	July	August	Sept.	October	November	December	Jan.	February	March	April	May	June	12 Month Total
Balance from prior month	<u>\$ 5,792</u>	<u>\$4,181</u>	<u>\$ 2,398</u>	<u>\$(1,327)</u>	<u>\$(3,100)</u>	<u>\$(4,654)</u>	<u>\$ 439</u>	<u>\$( 236)</u>	<u>\$(1,334)</u>	<u>\$(4,157)</u>	<u>\$3,347</u>	<u>\$4,321</u>	<u>\$ 5,792</u>
Receipts													
Property taxes		200		400	1,000	7,700	2,300			7,700	2,300	300	21,900
Sales taxes	1,150	2,300	2,250	1,200	2,300	2,250	1,200	2,300	2,250	1,200	2,300	2,250	22,950
Utility users Taxes	700	630	675	700	725	750	800	900	800	775	650	750	8,855
Real prop. trans. taxes	150	150	150	150	150	150	160	170	180	190	200	200	2,000
Construction permits	110	110	110	100	90	100	110	120	150	150	170	180	1,500
Intergovernmental Revenue													
Homeowner prop. tax reimb.	100						700					450	1,250
Cigarette tax	88	90	90	90	90	90	90	90	90	90	90	90	1,078
Revenue sharing	1,297			1,297			1,232			1,232			5,058
Other Receipts	1,210	1,702	720	1,255	1,561	767	1,545	1,616	757	1,874	2,145	1,047	16,199
Transfers from other funds	<u>214<sup>(A)</sup></u>												214
Receipts sub-total	5,019	5,182	3,995	5,192	5,916	11,807	8,137	5,196	4,227	13,211	7,855	5,267	81,004
Total cash available	10,811	9,363	6,393	3,865	2,816	7,153	9,576	4,960	2,893	9,054	11,202	9,588	86,796
Total disbursements	<u>6,630</u>	<u>6,965</u>	<u>7,720</u>	<u>6,965</u>	<u>7,470</u>	<u>6,714</u>	<u>9,812</u>	<u>6,294</u>	<u>7,050</u>	<u>5,707</u>	<u>6,881</u>	<u>6,713</u>	<u>83,921</u>
MONTH END BALANCE	<u>\$ 4,181</u>	<u>\$2,398</u>	<u>\$(1,327)</u>	<u>\$(3,100)</u>	<u>\$(4,654)</u>	<u>\$ 439</u>	<u>\$( 236)</u>	<u>\$(1,334)</u>	<u>\$(4,157)</u>	<u>\$3,347</u>	<u>\$4,321</u>	<u>\$2,875</u>	<u>\$2,875</u>

(A) Fleet Management Fund

(B) General Fund plus Revenue Sharing

**RESOLUTION NO. 82-284**

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

APR 27 1982

A RESOLUTION AUTHORIZING A SALE OF TAX AND  
REVENUE ANTICIPATION NOTES

WHEREAS, the City is projecting a temporary General Purpose (General Fund and Revenue Sharing Fund) cash flow deficits during the Fiscal Year 1982-83, and

WHEREAS, the City wishes to execute planned General Purpose operating and capital expenditures in a normal fashion without consideration of cash flow requirements, and

WHEREAS, this authorization is only for the FY 1982/83 and does not constitute a new source of revenue, and

WHEREAS, the City anticipates that it can sell short-term Tax and Revenue Anticipation Notes at little or no net cost to the City.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO THAT:

1. Staff is authorized to sell \$11.4 million par value of short-term Tax and Revenue Anticipation Notes within the next three months, said notes to be a competitive bid sale, to be repaid no later than June 30, 1983, and
2. That the City Manager and City Treasurer are authorized to enter into agreements retaining the firms of Blyth Eastman Paine Webber, Inc. and Orrick, Herrington & Sutcliffe as financing consultant and outside legal counsel respectively, and
3. That the City Manager is authorized to incur costs for such borrowing, said costs not to exceed \$60,000 and actual budget amendments to be processed at a later time and in a separate resolution.

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MAYOR**APPROVED**  
BY THE CITY COUNCIL

APR 27 1982

OFFICE OF THE  
CITY CLERK

ATTEST:

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CITY CLERK

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