



## Staff Reports

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**File #:** 217-2020, **Version:** 1

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**To:** Honorable Mayor and Members of City Council

**From:** Bret Prebula, Finance Director

**Prepared By:** Bret Prebula, Finance Director

**TITLE:**

Tax and Revenue Anticipation Note

**RECOMMENDED ACTION:**

Adopt a resolution approving the borrowing of funds to pay General Fund obligations for Fiscal Year 2020/21, the issuance and sale of a Note (which may be referred to as a Tax and Revenue Anticipation Note, or "TRAN") in an amount not to exceed \$15,000,000, the execution and delivery of a Note Purchase Agreement, and other related documents and actions.

**DISCUSSION:**

The City's FY 2020/21 revised budget approved by City Council on June 16, 2020, reflected \$20 million less in revenue compared to the original FY 2020/21 budget adopted June 18, 2019. The reduction was primarily made up of significant decreases in Transient Occupancy Tax (TOT) and sales tax.

These two revenue sources served as the cash flow bridge between the two property tax payments that occur in December and April. Although expenses were significantly reduced citywide, the timing of the remaining (lower) expenses is still generally consistent across the twelve months of the fiscal year, whereas the revenue comes in more inconsistently with the largest portion of revenue received in December and April. This creates an imbalance between cash coming into and payments (cash) going out of the General Fund requiring a bridge to ensure enough cash will be available throughout the fiscal year to pay all the City's obligations.

To mitigate the possible cash imbalance, the City may issue a Tax and Revenue Anticipation Note (TRAN), which acts as a short-term cash bridge during potential dry periods throughout the fiscal year. As COVID-19 has created additional variability in revenue amounts and timing, the City has created a financial structure that acts as a revolving line of credit, "revolver", which allows the City the option to borrow a maximum of \$15,000,000, but does not require the City to do so. The value of this type of instrument is that the rate for the unutilized portion of the loan is much lower than the utilized portion of the loan, thus saving the City net interest costs.

Additionally, and the primary cause for issuing the TRAN is to ensure the City can make its prepayment to CALPERS, approximately \$12,300,000 paid in late July. This is a cash expense that significantly reduces the City's cash position at the very beginning of the fiscal year. The ability to make this CALPERS prepayment saves the City approximately \$400,000. At the highest potential

cost of the TRAN (interest, lawyer, issuance costs) the net savings of making the prepayment versus the TRAN costs is \$180,000, with the likelihood of the net savings being far greater with a net savings cap of \$295,000. If for no other purpose than to ensure this prepayment can occur, the issuance of the TRAN has a significant positive budgetary impact to the fiscal year 2020/21 budget. Without the prepayment the City would be required to identify another \$400,000 in expense reductions or reserve use as the assumption of the prepayment was already built into the FY 2020/21 budget.

After consultation with the City's Municipal Advisor, KNN Financial, it was determined that a federally taxable private placement issuance with the City's banking institution (US Bank) was the most efficient structure. It is anticipated that the transaction will be completed before the middle of August 2020, allowing the City enough access to the potential needed funds for the remainder of the fiscal year. The TRAN is not a budget fix, it specifically focusses on cash flow (timing) issues. The TRAN outstanding balance, up to the \$15,000,000 is due no later than June 30, 2021.

\*Staff continues to negotiate the final aspects of the Note Purchase Agreement (NPA). It is not anticipated that any material changes will occur to the NPA, but the final NPA may have some small changes from the NPA attached to this agenda item. The City Manager and City Attorney shall determine if any changes are material in nature and require the document be brought back to City Council.

#### **FINANCIAL IMPACTS:**

The TRAN will be paid by the General Fund. The cost of the TRAN includes interest costs (.30 bps for the unutilized portion and LIBOR +120bps for any utilized funds), bond counsel (Jones/Hall) at a maximum of \$20,000, municipal advisor and issuance services (KNN Financial) at \$40,000. The minimum cost of issuance would be \$105,000 (the total of the unutilized interest and lawyer/municipal advisors), and an estimated maximum cost of issuance (utilized rate for maximum amount and lawyer/municipal advisors), approximately \$220,000. Considering the need to be able to secure the CALPERS prepayment savings of \$400,000, the net savings to the City to be able to achieve this objective even with the TRANs is between \$180,000-\$295,000.

#### **CEQA:**

The Finance Director has determined that the recommended actions described in this agenda report are not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

#### **DOCUMENTS ATTACHED:**

ATCH 1 - Resolution  
ATCH 2 - Term Sheet  
ATCH 3 - Note Purchase Agreement

#### **NOTIFICATION:**

None.