



# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 9.1b

**Meeting Date:** April 25, 2011

**Subject:** Resolution No. 2653: Authorizing the Issuance and Sale of the 2010-11 Tax and Revenue Anticipation Notes (TRAN)

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading
- Conference/Action
- Action
- Public Hearing

**Learning Support Unit/Department:** Administrative Services

**Recommendation:** Approve Resolution No. 2653, Authorizing the Issuance and Sale of the 2010-11 Tax and Revenue Anticipation Notes (TRAN).

**Background:** Tax and Revenue Anticipation Notes (TRAN) are authorized by law for use by school districts. TRANs are short-term borrowing instruments used by school districts to meet cash flow short falls of the General Fund caused by the uneven distribution of revenues, primarily state aid and property taxes. TRANs are commonly issued by school districts. Our district has issued TRANs in previous years.

During periods when the TRAN proceeds are not required to meet current operating expenses, the proceeds may be invested in a higher-yield, interest-bearing account. The additional interest earnings help to offset the costs of the TRAN issuance. Due to the state of the current financial market, the interest earned will not completely offset the issuance costs. The cost to the district is estimated to be \$253,500.

District staff are working with a TRAN financing team to assist with the issuance. The financing team includes financial advisory services provided by KNN and bond counsel services provided by Orrick, Herrington and Sutcliffe. The 2010-11 Tax and Revenue Anticipation Notes, not to exceed \$50 million, will be sold by a negotiated sale on or about May 3, 2011.

**Financial Considerations:** Potential net cost of approximately \$253,500 is included in the district's budget.

**Documents Attached:**

1. Executive Summary
2. School Services of California Fiscal Report
3. Draft Resolution No. 2653
4. Draft Preliminary Official Statement
5. Note Purchase Contract
6. Paying Agent Agreement

**Estimated Time:** N/A

**Submitted by:** Patricia A. Hagemeyer, Chief Business Officer

**Approved by:** Jonathan P. Raymond, Superintendent

# Board of Education Executive Summary

## Administrative Services

Approve Resolution No. 2653: Authorizing the Issuance and Sale of the 2010-11 Tax and Revenue Anticipation Notes (TRAN)

April 25, 2011



### I. Overview/History:

School districts in California have suffered devastating reductions in funding over the past several years. Cash reserves for most districts are low and Sacramento City Unified School District is no exception. The continued deferral of state revenues has impacted the district to the extent that staff project a negative cash flow in the General Fund by June 30, 2011. The attached document from School Services of California outlines the current and proposed deferral scheduled. Throughout the year, there are three options to assist districts with cash flow issues. First, is the option of inter-fund borrowing. If another fund in the district (Child Development, Nutrition Services, etc.) has cash reserves, the district can "borrow" those funds to get through a negative cash flow period. The district has used this option in the past, however, cash reserves in other funds have declined and there may not be enough cash to cover the General Fund by the end of this year. Another option is dry-period financing or borrowing from the County. From July through the last Monday in April, the County Treasurer will cover a district's negative cash, up to 85% of anticipated tax collections. A district must have a positive cash flow by that last Monday in April, through May and end the fiscal year with a positive cash flow in June. Dry-period financing is automatically activated should the district have a negative cash position prior to the last Monday in April. The third option is to borrow funds from an outside source. A low cost option available to districts is a Tax Revenue Anticipation Note (TRAN).

A TRAN is a short-term, tax-exempt, interest-bearing note issued by a district in anticipation of taxes and other revenues that will be received later. Because of the economic crises of the state and deferrals in revenues to school districts, many districts are experiencing a spring cash flow deficit in addition to the November shortage of cash. An alternative to a district with this problem is a "cross-year" TRAN. This means that the district receives the funds from a TRAN this fiscal year and will pay it back the following fiscal year from deferred revenues that are expected to be received in July and August of 2011.

During prior Board presentations regarding the Certificates of Participation and Qualified School Construction Bonds, it was discussed that the district would most likely need to issue a TRAN in the spring. District staff are working with the financial advisor from KNN. While a TRAN is not free, (there are costs associated with any type of borrowing), this option is the lowest cost option available to districts.

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## Administrative Services

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The attached resolution, draft preliminary official statement and related documents provide the background for approving the TRAN.

### II. Driving Governance:

- California Government Code Title 5, Division 2, Part 1, Chapter 4, Article 7.6, Sections 53850 to 53858 which indicate a local agency may borrow money with the indebtedness to be represented by a note or notes; proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes; note or notes shall be issued pursuant to a resolution authorizing the issuance adopted by the legislative body of the local agency; identifies the types of funds that may be pledged to the payment of the note or notes; any note issued pursuant to this article shall be a general obligation of the local agency; note or notes shall not exceed 85 percent of the estimated amount of uncollected taxes, income, revenue, cash receipts and other moneys.
- Education Code Section 42133 which states "a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable."

### III. Budget:

- Fifty million dollars in bonds will be sold, maturing November, 2011. The cost of issuance including the underwriters discount is estimated to be \$138,500. An estimated amount of interest that will be paid is \$115,000 (assumes 2% coupon at .55% yield). The estimated cost is \$253,500. These funds are included in the district budget.

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### IV. Goals, Objectives and Measures:

Generate cash through a Tax Revenue Anticipation Note in order to maintain a positive cash flow at June 30, 2011. Throughout the discussion of the district's financial plan, staff along with the district's financial advisor from KNN, have closely monitored cash and the potential of issuing a TRAN has been discussed with the Board in previous Board meetings.

### V. Major Initiatives:

- Maintain positive cash flow through June 30, 2011 until dry-period financing through the County Treasurer is available.
- Continuous review of financial options available to the district.

### VI. Results:

The successful marketing of the TRAN will address the potential impact of a negative cash flow at June 30, 2011. This is another step in addressing the district's short- and long-term financial plan.

### VII. Lessons Learned/Next Steps:

- The attached documents are presented to the Board as an action item.
- Continuous review of district's financial plan.