



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: May 7, 2012 REPORT NO: 12 - 061  
ATTENTION: Council President and City Council  
SUBJECT: Fiscal Year 2013 Tax and Revenue Anticipation Notes

REQUESTED ACTION(S):

1. Authorize the execution of the City's Fiscal Year 2013 Tax and Revenue Anticipation Notes ("FY 2013 TRANs") borrowing in an amount not to exceed \$143 million to fund the projected seasonal cash flow deficit of the City's General Fund in Fiscal Year 2013. The related financing documents include Accompanying Document to the Financing Resolution, the Notice Inviting Bids, the Preliminary Official Statement, the Continuing Disclosure Certificate, and the Paying Agent Agreement.
2. Authorize the City Attorney to retain Squire Sanders LLP to provide Bond/Disclosure Counsel services in connection with the issuance of the FY 2013 TRANs in a fixed amount totaling \$41,500, including out of pocket expenses.

STAFF RECOMMENDATION:

Approve the Requested Actions

SUMMARY:

**I. BACKGROUND**

Tax and Revenue Anticipation Notes ("TRANs") address temporary cash flow shortfalls arising from the fluctuations in annual tax and revenue receipts that the General Fund is dependent on to meet monthly cash flow needs during the fiscal year. The California Government Code (Article 7.6, Chapter 4, Part 1, Division 2, Title 5) and City Charter Section 92 permit the City to issue short-term notes in any fiscal year in anticipation of the collection of taxes and revenues of such fiscal year.

The City has issued TRANs to finance the General Fund cash flow needs in anticipation of the receipt of property tax revenues from the County in December and April of each year. TRANs are sold in June so that funds are available for General Fund disbursements that must be made commencing on the first business day of July of each year. Historically, the City has closed its TRANs on or around July 1 in order to pay the pension Annual Required Contribution ("ARC") at the beginning of the fiscal year. The size of TRANs borrowing is based on the General Fund

projected cash flow deficit in the fiscal year. Pursuant to Internal Revenue Service (“IRS”) regulations, the size of the borrowing cannot exceed the projected deficit as certified by the City.

The Fiscal Year 2012 Tax and Revenue Anticipation Notes were issued via a private placement with Wells Fargo Bank, N.A., in three series for a total amount of \$161.0 million. The effective interest rate was 0.62%. As of May 31, 2012, the one remaining outstanding FY 2012 note will be paid off.

## **II. DISCUSSION**

On April 25, 2012, staff presented preliminary financing considerations related to the Fiscal Year 2013 TRANs to the Budget and Finance Committee (“Committee”). Subsequent to the Committee meeting, Debt Management has worked with the FY 2013 TRANs Financing Team to develop the financing plan (including the estimated borrowing amount and final maturity of the note) and the financing documents, which are described in the following sections of this report.

Based on projected Fiscal Year 2013 General Fund cash flow needs, the FY 2013 TRANs borrowing is estimated at \$130 million, to be issued on July 2, 2012. The FY 2013 TRANs borrowing is lower compared to FY 2012 TRANs primarily due to the timing of transfers to the General Fund and the projected FY 2012 year end surplus. The borrowing amount is derived by calculating the maximum deficit that would occur in Fiscal Year 2013 without the issuance of the notes, based on the projected General Fund monthly cash flow schedule prepared by the City Comptroller’s Office (see Attachment 1 – FY 2013 Monthly Cash Flow Projections).

The cash flow projections are based on the Fiscal Year 2013 Proposed General Fund Budget. The Mayor’s May Revision to the Fiscal Year 2013 Proposed Budget (the “May Revision”) is expected to be released on May 23, 2012, subsequent to which the TRANs size and cash flow projections will be updated for the Preliminary Official Statement.

The TRANs proceeds, along with General Fund cash balances, are expected to support the General Fund portion of the ARC payment in July 2012.

### **Summary of Key Terms**

- ***Issuer:*** City of San Diego
- ***Estimated TRANs Proceeds:*** \$130 million
- ***Method of Sale:*** Public Offering, Competitive Sale

Notes sold on a competitive basis is where interested investment banks bid on the interest rate of the TRANs and the investment bank(s) with the lowest interest rate bid or bids will be awarded the FY 2013 TRANs. Current market conditions of strong investor demand and healthy short-term fixed income market generally make it advantageous for TRANs to be sold on a competitive basis. Strong short-term market conditions combined with the expectation to receive the highest short-term rating offer the City the opportunity to conduct the FY 2013 TRAN as a

competitive sale.

- ***Term and Maturity:*** 12-month Note maturing on June 28, 2013

Based on current market conditions and the timing of the cash flows, it is currently economically advantageous for the City to borrow for a 12 or 13 month term with a single maturity and set aside funds in a repayment account. In consultation with the transaction Financial Advisor, PRAG, the FY 2013 TRANs is being structured as a 12 month note in order for the notes to be eligible to be purchased by tax-exempt money market funds. A large part of the demand for TRANs comes from money market funds, and keeping the TRANs money market fund eligible is expected to result in the City getting the most competitive rate.

The interest earnings on the proceeds and/or the amounts set aside to repay the TRANs can be reinvested at taxable rates, which are higher than the tax-exempt borrowing rate on TRANs. The earnings would be General Fund monies and can be applied to offset the interest cost of the TRANs borrowing. The net interest cost (interest cost of the borrowing minus the reinvestment earnings) incurred by the City on the TRANs issued with a 12-month maturity will be lower than the net interest costs that would be incurred if the TRANs were issued in 3 smaller series and paid down soon after the receipt of property tax revenues.

- ***Set-Asides:***

The City is required to deposit in a Repayment Fund from the first Unrestricted Revenues chargeable to the City's General Fund to be received by the City as follows:

- On and after January 1, 2013, and not later than January 31, 2013, an amount equal to thirty percent (30%) of the principal and interest due on the Notes at maturity;
- On and after April 1, 2013, and not later than April 30, 2013, an amount equal to thirty percent (30%) of the principal and interest due on the Notes at maturity;
- On and after May 1, 2013, and not later than May 31, 2013, an amount equal to forty percent (40%) of the principal and interest due on the Notes at maturity;

- ***Not to Exceed Amount:*** \$143 million

The \$143 million not-to-exceed amount recommended for authorization by the City Council is higher than the estimated borrowing amount of \$130 million to provide additional authorization capacity in the event the need for a larger issuance becomes necessary between the date the information in this report was prepared for docketing (May 7, 2012) and the date the notes are sold (the week of June 11).

The not-to-exceed amount is well below the legal limit set by Section 92 of the City Charter. City Charter Section 92 specifies that the aggregate amount of the TRANs borrowing issued in any fiscal year should not exceed 25% of the City's total budgeted General Fund appropriations for such fiscal year. Based on the Fiscal

Year 2013 Proposed General Fund Budget, the maximum amount of TRANs that may be issued pursuant to the City Charter is approximately \$288 million.

## **Financing Team**

The City's Financing Team for the FY 2013 TRANs includes the Chief Operating Officer, Debt Management, the City Treasurer's Office, the Comptroller's Office, Financial Management, the City Attorney's Office, and outside consultants, including Public Resources Advisory Group ("PRAG") as independent Financial Advisor, Squire Sanders LLP as Bond and Disclosure Counsel, and a Paying Agent (Deutsche Bank).

### Financial and Legal Services

PRAG was selected to provide independent financial advisory services in support of the FY 2013 TRANs from an as-needed list of financial advisory firms generated by a Request for Proposals ("RFP") process based on the firm's experience on note offerings and the fee estimate. The fee to PRAG for this issuance is for an amount not to exceed \$35,000, plus approved out of pocket expenses not to exceed \$2,500.

The City Attorney's Office has identified, through an RFP process, Squire Sanders LLP to serve as Bond and Disclosure Counsel for a fixed fee totaling \$41,500, including out of pocket expenses. In addition, General Disclosure Counsel fees paid to Hawkins Delafield & Wood are estimated at \$20,000. Deutsche Bank was selected through a competitive RFP process as Paying Agent for the FY 2013 TRANs, and would receive \$500 in fees for providing paying agent services. Other services that are expected to be used for the FY 2013 TRANs include - Muni Auction, the platform used for the competitive sale, Rating Agencies, and a financial printer; costs associated with these services will be paid from the Fiscal Year 2013 TRANs budget.

## **Financing Documents**

The Financing Resolution and documents that would be approved through the requested actions are described below:

- A. Financing Resolution** – The Financing Resolution authorizes the issuance of the FY 2013 TRANs, the approval of the Financing Documents (as described below), and any other actions of the Mayor and his designees that may be necessary to execute the FY 2013 TRANs. The resolution also determines the not-to-exceed amount at \$143 million and sets the not to exceed effective interest rate of 2.0%.
- B. The Financing Documents** – The financing documents include the Accompanying Document to the Financing Resolution, the Preliminary Official Statement, the Continuing Disclosure Certificate, the Paying Agent Agreement, and the Notice Inviting Bids.
  - 1. Accompanying Document to the Resolution – The Accompanying Document to the Resolution includes supporting information relating to the Fiscal Year 2013 TRANs, including information regarding the amount and term of the FY 2013 TRANs, the use of note proceeds, and the nature of the security for the notes.

2. Preliminary Official Statement (POS)– The POS describes the note offering to potential investors. It provides information that a reasonable investor in these types of securities would need to make an informed investment decision. Specifically, the POS for the FY 2013 TRANs includes information about the notes, sources of repayment of the notes, information regarding the City government and financial information (Appendix A to the POS), and certain demographic and economic information pertaining to the City (Appendix B to the POS). The financial information regarding the City includes information about the City’s General Fund budget, major General Fund revenues, the status of labor agreements, and information about the retirement system, post-retirement healthcare benefits, and litigation potentially adversely affecting the City’s General Fund. Other appendices include the Form of Bond Counsel Opinion and the Form of the Continuing Disclosure Certificate.

The Preliminary Official Statement was developed in accordance with the Disclosure Practices Working Group (“DPWG”) Controls and Procedures. It has been reviewed by DPWG, and appropriate certifications from DPWG, the Mayor, the City Attorney, and the Chief Operating Officer will be provided to City Council prior to the City Council hearing on the financing. The POS is expected to be released during the week of June 4, 2012, prior to which changes or updates of the POS will be distributed to the City Council after DPWG review and approval.

The cash flow projections and financial information in the POS will be updated to reflect the Fiscal Year 2013 May Revise and Fiscal Year 2012 Year-End Results that were not included in the docketed POS.

3. Continuing Disclosure Certificate– The Continuing Disclosure Certificate is a commitment by the City to provide notice to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System if any of listed significant events occurs during the term of the FY 2013 TRANs. These events include, among other things, principal and interest payment delinquencies and ratings changes. Due to the short-term nature of the FY 2013 TRANs, there will not be annual continuing disclosure filings.
4. Paying Agent Agreement – The Paying Agent Agreement is an agreement between the City and Deutsche Bank which sets forth the terms under which the Paying Agent agrees to perform its duties as specified under the Resolution and Accompanying Document to the Resolution. Such documents provide that the City will transfer to the Paying Agent on or before the maturity date of the FY 2013 TRANs, sufficient monies to pay the principal and interest payment on the FY 2013 TRANs when due, and that the Paying Agent will use these monies to pay all principal and interest on the FY 2013 TRANs to holders by the maturity date.
5. Notice Inviting Bids – The Notice Inviting Bids is a notice published for the investment community describing the TRANs sale date and bidding instructions.

The bids are accepted until a specified date when the winning bidder(s) is selected.

### **Financing Schedule**

In order to execute the FY13 TRANs by July 2, 2012, the following timeline is established:

May 21/22, 2012	Council approval of the financing documents and the Preliminary Official Statement
Week of June 11, 2012	TRANs sale
July 2, 2012	Closing, delivery of proceeds and payment of FY 2013 ARC payment

### **III. FISCAL CONSIDERATIONS**

The estimated fiscal impact of the FY 2013 TRANs is based on the following assumptions:

TRANs proceeds (est.)	\$130 million
Costs of Issuance <sup>1</sup>	\$200,000

Based on interest rates as of May 2, 2012, the estimated fiscal impact is:

Estimated effective interest cost <sup>2</sup>	0.25%
Estimated interest payment	\$321,700
Estimated interest rate earned on Set Asides	0.58%
Estimated interest earned on Set Asides	\$216,300
Net Interest Paid	\$105,400

The maximum effective interest rate established under the Financing Resolution is 2.0%. Under the current market conditions, it is not expected that the actual pricing for the FY 2013 TRANs will result in an effective interest rate of 2.0%; should that occur, the estimated interest cost would be approximately \$2.6 million.

In accordance with the City Council approved Debt Policy section 5.4, the FY 2013 TRANs will be issued on a fixed rate basis. The actual interest rate will be set when the notes are sold and will be based on market conditions that exist at the time of pricing.

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<sup>1</sup> **Not** funded with the note proceeds. Costs of Issuance of totaling \$200,000 is budgeted in the City's Tax and Revenue Anticipation Notes Fund (Fund No. 100005) in FY 2013 Budget to pay for Financial Advisory services, Bond and Disclosure Counsel services, Paying Agent services, Rating Agency fees, and electronic filing and printing of the POS. The actual costs of issuance will be known upon completion of the TRANs.

<sup>2</sup> Effective interest cost of 0.25% based on a note coupon of 2.0%

## Revenue Pledge

Under the terms of the financing documents, the FY 2013 TRANs are general obligations of the City payable from unrestricted taxes, income, revenue, cash receipts, and other moneys of the City's General Fund attributable to Fiscal Year 2013. The notes are secured by a pledge of the first revenues received by the City in Fiscal Year 2013, on or after the set-aside dates. The City is not authorized to levy or collect any tax for the repayment of the notes.

## **IV. ALTERNATIVES**

The FY 2013 TRANs is necessary to fund the projected seasonal cash flow deficit of the City's General Fund in Fiscal Year 2013 and meet the City's payment obligations in a timely manner.

## **V. PREVIOUS COUNCIL and/or COMMITTEE ACTION**

The City has annually issued TRANs to fund the General Fund seasonal cash flow deficit. The FY 2013 TRANs was presented to the Budget and Finance Committee on April 25, 2012. The Committee voted 4-0 to forward the item for City Council consideration.

## **VI. COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS**

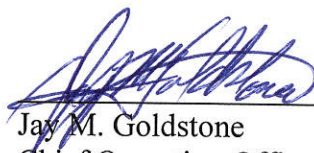
The Tax and Revenue Anticipation Notes Fund is incorporated into each of the City's annual budgets, and is included in the City's budget public review and discussion process.

## **VII. KEY STAKEHOLDERS AND PROJECTED IMPACTS**

Business entities involved in this transaction include Squire Sanders LLP (Bond and Disclosure Counsel); PRAG (Financial Advisor); and Deutsche Bank (Paying Agent).



Lakshmi Kommi  
Debt Management Director



Jay M. Goldstone  
Chief Operating Officer

Attachment: Fiscal Year 2013 Projected Monthly General Fund Cash Flow Schedule

**CITY OF SAN DIEGO**  
**Fiscal Year 2013 Projection**  
**General Fund Cash Flow Statement (In Thousands)**  
**(Unaudited)**

Month	July	August	September	October	November	December	January	February	March	April	May	June	TOTAL
General Fund Beginning Cash Balance	\$ 85,551	\$ (22,015)	\$ (35,662)	\$ (52,976)	\$ (81,463)	\$ (95,519)	\$ (24,477)	\$ 21,133	\$ 6,743	\$ (8,361)	\$ 6,116	\$ 54,914	
<b>RECEIPTS:</b>													
Property Tax	-	5,781	5,466	4,651	8,309	99,818	89,334	3,148	7,855	77,164	81,294	6,286	\$ 389,106
Triple Flip	-	-	-	-	-	-	26,691	-	-	-	26,691	-	53,382
Sales Tax	15,156	15,330	19,457	11,768	15,609	18,653	12,477	16,636	16,092	10,964	16,081	12,811	181,033
Transient Occupancy Tax	4,818	10,275	8,389	6,634	6,616	6,213	5,525	5,541	6,601	6,412	7,226	6,213	80,464
Property Transfer Tax	530	530	530	530	530	530	530	530	530	530	530	530	6,359
Licenses and Permits	2,475	2,261	2,073	1,911	1,838	1,998	2,323	3,833	5,558	2,706	2,488	2,394	31,860
Fines, Forfeitures and Penalties	2,590	2,590	2,590	2,590	2,590	2,590	2,590	2,590	2,590	2,590	2,590	2,590	31,085
Investment Income	113	113	113	113	113	113	113	113	113	113	113	113	1,354
Franchise Fees	-	17,807	831	4	17,825	822	(11)	13,132	3,321	109	14,714	3,124	71,679
Rents and Concessions	3,574	4,807	4,569	2,693	2,955	2,536	2,331	2,405	2,293	2,902	3,652	6,499	41,216
Motor Vehicle License Fees	-	-	-	-	-	-	-	-	-	-	-	-	-
Revenue from Other Agencies	723	566	182	370	80	348	253	(28)	172	197	458	204	3,526
Charges for Current Services	2,576	14,136	9,572	9,964	10,695	9,845	8,289	13,666	14,608	16,497	11,970	58,590	180,410
Other Financing Sources	5,770	2,471	13,081	47	(11)	4,271	-	2,188	8,508	11,791	11,791	11,791	71,698
Other Revenue	320	320	320	320	320	320	320	320	320	320	320	320	3,838
TRAN Note <sup>1</sup>	130,000	-	-	-	-	-	-	-	-	-	-	-	130,000
<b>TOTAL RECEIPTS</b>	<b>168,645</b>	<b>76,989</b>	<b>67,173</b>	<b>41,596</b>	<b>67,470</b>	<b>148,057</b>	<b>150,766</b>	<b>64,074</b>	<b>68,562</b>	<b>132,296</b>	<b>179,917</b>	<b>111,464</b>	<b>1,277,008</b>
<b>DISBURSEMENTS:</b>													
Salaries and Wages	39,157	58,735	39,157	39,157	39,157	39,157	39,157	39,157	58,735	39,157	39,157	39,157	509,038
Retirement Advance <sup>2</sup>	188,966	-	-	-	-	-	-	-	-	-	-	-	188,966
Fringe Benefits	11,557	4,289	11,557	11,557	11,557	11,557	11,557	11,557	4,289	11,557	11,557	11,557	124,143
Supplies and Services	21,358	21,643	31,162	14,108	14,526	21,574	6,808	24,673	16,671	24,484	23,102	30,727	250,837
Data Processing	4,605	1,234	985	1,024	1,767	781	5,037	734	1,036	652	977	3,269	22,100
Energy	2,233	4,370	1,263	3,873	14,156	3,583	3,137	1,980	2,571	2,509	3,835	(757)	42,754
Capital Outlay	364	364	364	364	364	364	364	364	364	364	364	364	4,367
McGuigan Installment Payment	7,971	-	-	-	-	-	-	-	-	-	-	-	7,971
TRAN Note Repayment	-	-	-	-	-	-	39,097	-	-	39,097	52,129	-	130,322
<b>TOTAL DISBURSEMENTS</b>	<b>276,211</b>	<b>90,636</b>	<b>84,488</b>	<b>70,082</b>	<b>81,526</b>	<b>77,015</b>	<b>105,156</b>	<b>78,464</b>	<b>83,666</b>	<b>117,818</b>	<b>131,119</b>	<b>84,317</b>	<b>1,280,499</b>
Total Change in Cash	(107,566)	(13,646)	(17,315)	(28,486)	(14,057)	71,042	45,610	(14,390)	(15,104)	14,478	48,797	27,146	\$ (3,491)
General Fund Ending Cash Balance	\$ (22,015)	\$ (35,662)	\$ (52,976)	\$ (81,463)	\$ (95,519)	\$ (24,477)	\$ 21,133	\$ 6,743	\$ (8,361)	\$ 6,116	\$ 54,914	\$ 82,060	
<b>POLICY FUND:</b>													
Policy Fund Beginning Cash Balance <sup>3</sup>	\$ 83,015	\$ 81,051	\$ 82,361	\$ 83,004	\$ 96,507	\$ 101,987	\$ 103,984	\$ 106,767	\$ 110,852	\$ 106,281	\$ 116,021	\$ 142,642	
Policy Fund Net Transactions <sup>4</sup>	(1,964)	1,310	643	13,503	5,480	1,997	2,783	4,085	(4,571)	9,740	26,620	(59,627)	
Policy Fund Ending Cash Balance	81,051	82,361	83,004	96,507	101,987	103,984	106,767	110,852	106,281	116,021	142,642	83,015	
<b>Total Ending Cash Balance</b>	<b>\$ 59,036</b>	<b>\$ 46,699</b>	<b>\$ 30,028</b>	<b>\$ 15,044</b>	<b>\$ 6,468</b>	<b>\$ 79,507</b>	<b>\$ 127,900</b>	<b>\$ 117,595</b>	<b>\$ 97,920</b>	<b>\$ 122,138</b>	<b>\$ 197,555</b>	<b>\$ 165,075</b>	
<b>REPAYMENT FUND:</b>													
Beginning Cash Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Receipts	-	-	-	-	-	-	39,097	-	-	39,097	52,129	-	
Disbursements	-	-	-	-	-	-	39,097	-	-	39,097	52,129	-	
Ending Cash Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>[Debt Service Coverage]</b>							<b>4.27x</b>			<b>4.12x</b>	<b>4.79x</b>		
<b>[% of Principal and Interest]</b>							<b>30.0%</b>			<b>30.0%</b>	<b>40.0%</b>		

**Footnotes:**

<sup>1</sup> Note Borrowing: Principal amount of \$130,000,000 maturing on June 28, 2013

<sup>2</sup> General Fund portion of the Fiscal Year 2013 ARC payment. This advance includes amounts advanced on behalf of other funds which are refunded to the General Fund throughout the fiscal year.

<sup>3</sup> Beginning cash balance of the policy funds is comprised of amounts available to the General Fund as determined with the advice of the TRANs Tax Counsel.

<sup>4</sup> Policy fund activity is shown in the aggregate (receipts less disbursements).