

— CDIAC PRESENTS —

TRANS: ESTABLISHED TOOL FOR EXTRAORDINARY TIMES

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Slides

Available in *Handouts* section of the menu

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Ask throughout the webinar, answers provided during Q&A session at end

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Outline

1

Budget Versus
Cash Flow -
*What is the
difference?*

2

Introduction
to TRANs

3

TRAN
Mechanics

4

TRAN Issuance
Process

Budgeting Practices & Concepts

Budgeting Practices & Concepts

Financial planning and budgeting is typically accrual accounting practices.

Revenues and expenditures are identified for a fiscal year but received or paid outside that period of time.

Alternative

Consider cash flow analysis as an alternative, which speaks to actual assets and available cash for use.

Escape Accrual Accounting

Cash flow analysis is based on actual (monthly) cash positions - ignoring accruals and other non-cash items. It does not address funds collected at a future point in time.

Any shortfall of cash must be addressed in order to process expenditures.

What is a cash flow?

A month-by-month evaluation of cash revenues deposited and cash expenditures paid.

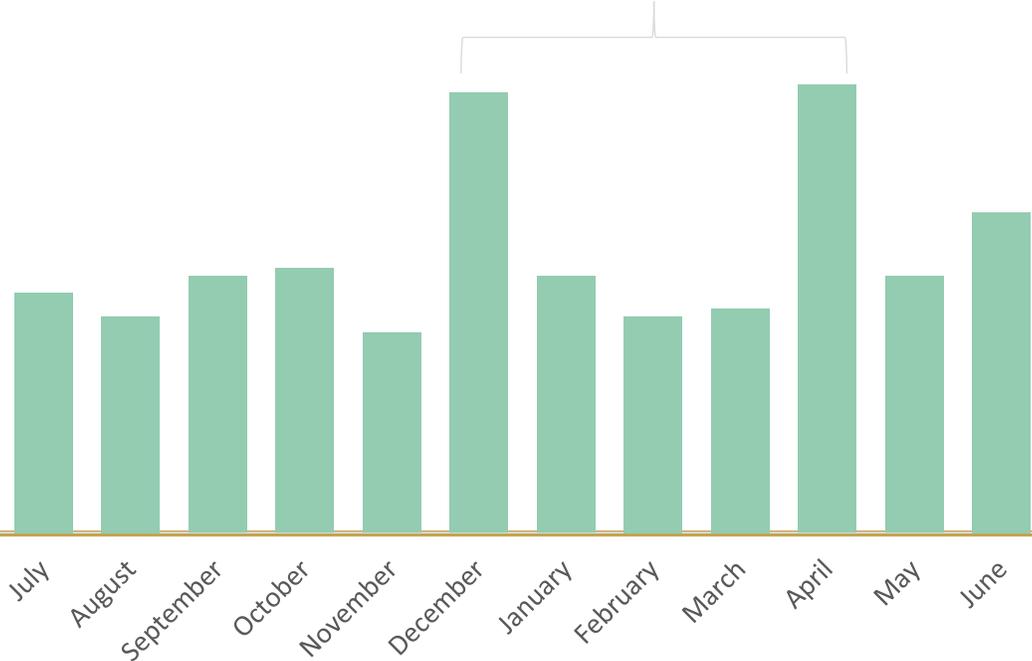
Non-cash revenues and expenditures are excluded from cash flow analysis to evaluate deficit.

Excludes bad debt expense, amortization, depreciation, etc.

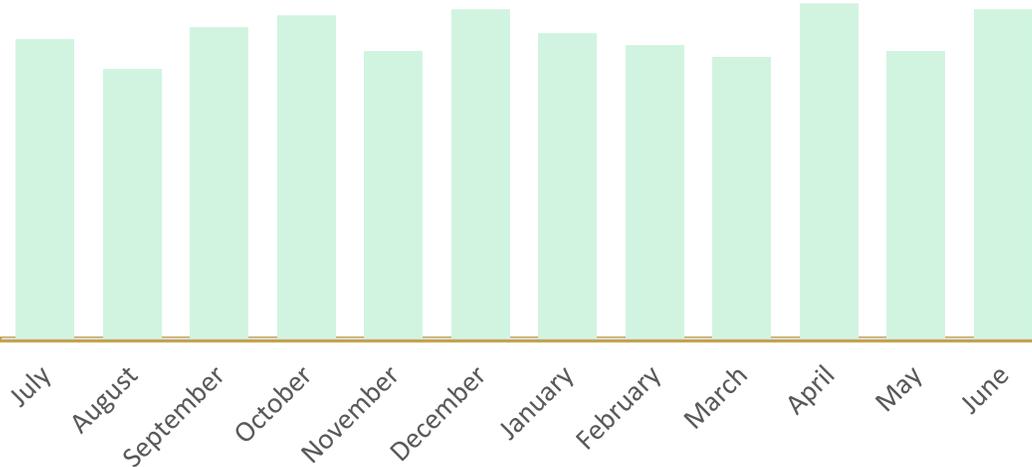
Revenue Cash Flow Profiles

Monthly cash flow profiles will vary from agency to agency. Public agencies that have significant sales tax revenues may have a smoother flow of revenues while property tax-reliant agencies will have revenue spikes corresponding to property tax deadlines.

Note the December and April property tax receipt days.



Property Tax Reliant
Revenue Profile



Sales Tax Reliant
Revenue Profile

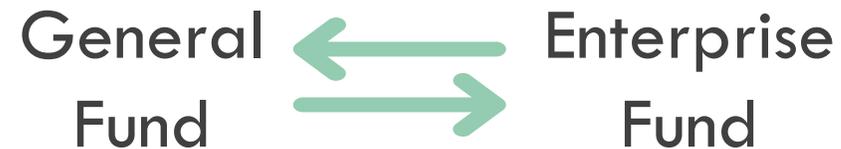
A General Fund has deficit in September, which is funded by cash on hand in the Water Fund (via interfund transfer).

Interfund Transfer covers expenses until revenues are received in a later month.

Example

Internal Solutions For Cash Flow Deficits

Public agencies often utilize internal borrowing from “Pooled Cash or Treasury Investments.”



If...

A public agency cannot find an internal solution, or they or want to preserve existing reserves...

...Then

Their cash flow deficit needs an external solution.

External Borrowing Considerations

During a time of economic uncertainty (i.e. COVID-19), cash is king.

Historically-low short-term interest rates mean lower costs of outside funding.

Alternative Borrowing Sources

Temporary County Pool Transfers

Allowed under California Constitution Article XVI, Section 6

School District / Community College District Temporary Transfers from County Superintendent of Schools

Allowed under Education Code Section 42621/85221

County Superintendent of Schools Conditional Apportionment to School Districts

Allowed under Education Code Section 42622/85222

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What is a TRAN?

Tax and
Revenue
Anticipation
Note

Short-Term Financing Programs

Final maturity is up to 15 months, but limited to 13 months according to tax-exempt rules.

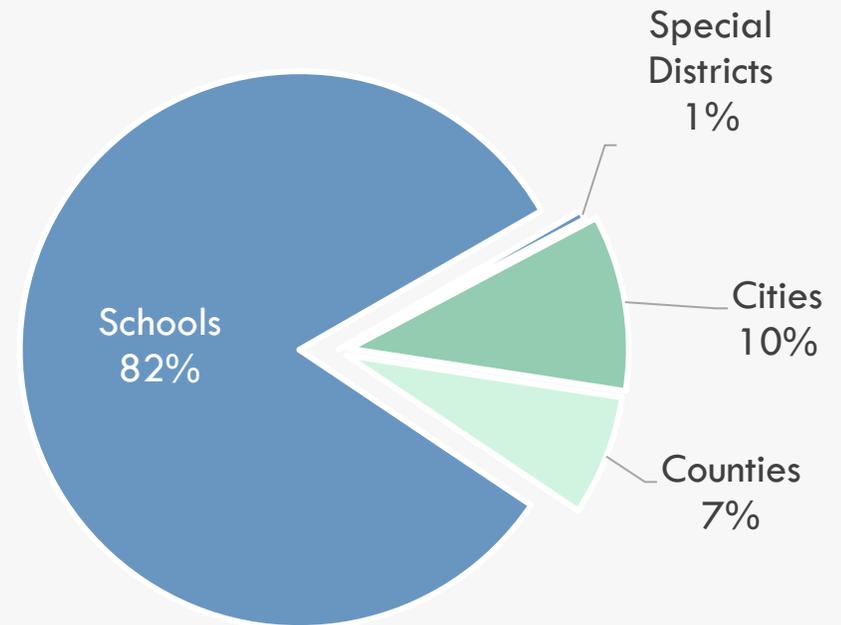
Most Widely-Issued Note Structures in California

TRANs CANNOT Address Long-Term Budget Deficits

Must be payable only from revenue received or accrued during the fiscal year in which the TRAN is issued.

Who Issues TRANs?

Source: California Debt and Investment Advisory Commission (2017-2019)



84 CA School, City, County, and Special Districts Issuers

\$3.8B Approximation of Per-year Average

185 Issuances

\$8.45M Median Principal Amount

2/3 Approximation of TRANs Sold as Part of a Pool

\$500,000 to \$1.65B Range of Issuance Sizes

Deficits may arise due to disconnect between receipt of revenues and expenditures.

For example, property tax reliant agencies receive revenues in December/January, April/May, and June.

Why Issue a TRAN?

potentially save by prepaying payroll obligations or other prepayment incentive programs.

Recap: Determining Suitability of a TRAN

Issuing a TRAN is not necessarily a solution for everyone with a cash flow deficit.

Agencies may consider drawing down reserves, if sufficient reserves are available. They may also use a common approach of interfund borrowing to address short-term cash flow deficits.

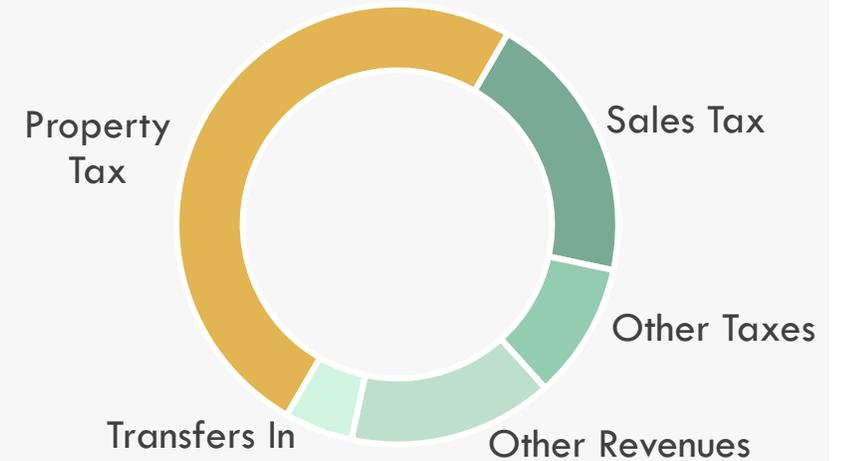
At the end of the day, determining suitability of a TRAN requires a complete look at the public agency's financial picture.

Security for TRANs

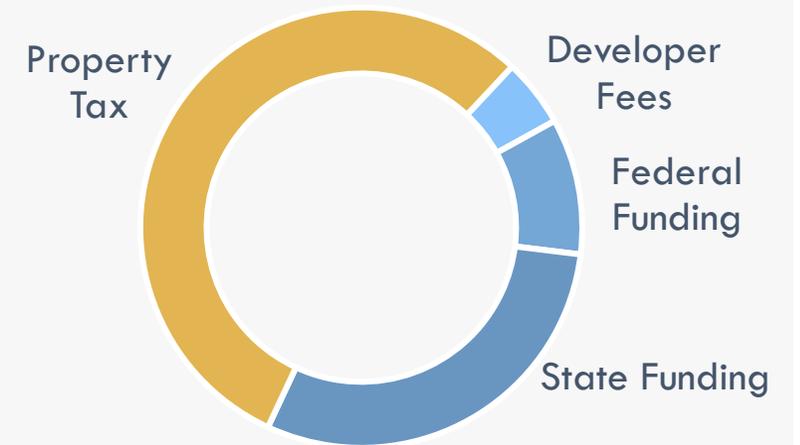
Revenue Pledge of Unrestricted Moneys

No assets pledged as security, which is different from a lease revenue financing and certificates of participation

Typical City Revenue Sources



Typical School Revenue Sources



4 Ways TRANs Affect Cash Flows

ONE

Increases General Fund cash balance.

TWO

Higher cash balance prevents cash flow deficits and allows for more investment income.

THREE

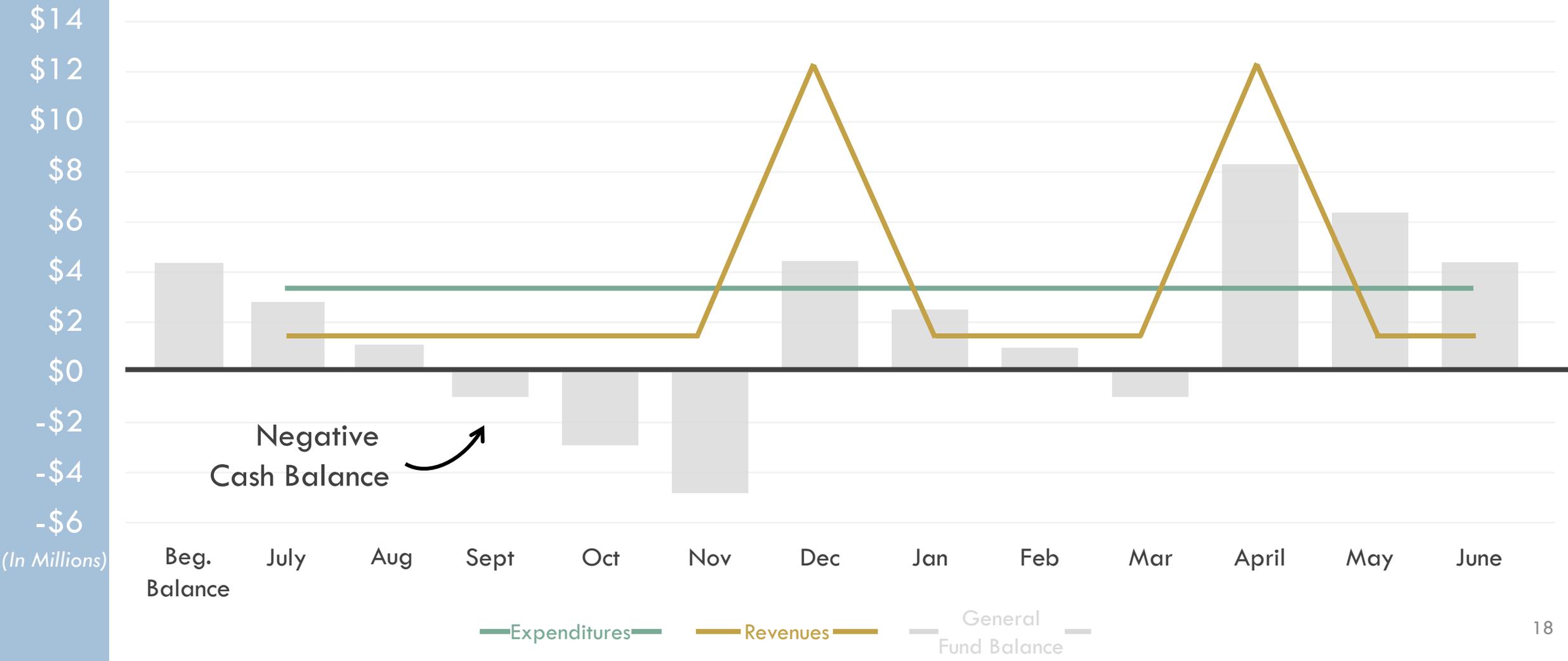
Maintains positive cash position throughout fiscal year.

FOUR

TRANs act like “overdraft account or line of credit” covering expenses that would otherwise not be paid due to account balance.

Example: General Fund Cash Flows

Without TRAN



Negative Cash Balance

(In Millions)

Expenditures Revenues General Fund Balance

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Determining Cash Flow Need for A TRAN

Legalities

Cannot exceed 85% of unrestricted General Fund taxes and other revenues.

The working capital reserve is 5% of the prior fiscal year cash flow expenditures.

Final maturity limited to 13 months by tax law and 15 months by state law, but must be repaid with revenues from the fiscal year for which the funds were borrowed.

TRAN sizing is based on the maximum expected projected monthly cash flow deficit within 6 months, plus a 5% working capital reserve.

Impact of State Budget on Determining TRAN Size

Determination of the TRAN amount is based on expectation (an expected cash deficit)

For tax purposes, expectations must be reasonable

For most issuers, a substantial arbitrage rebate payment may be due to the IRS if the actual cash flows do not result in an adequate deficit

Thus, borrowing less than the maximum expected allowable amount is strongly advised

How are reasonable expectations determined in advance of a final state

Max deficit generally occurs prior to first installment of property tax

General Fund Cash Flows (In Thousands)

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	TOTAL
Beginning Balance	\$6,000	\$4,550	\$3,100	\$1,650	\$200	-\$1,525	\$5,025	\$3,575	\$2,125	\$675	\$7,225	\$5,700	\$6,000
CASH RECEIPTS													
Property Tax	\$0	\$0	\$0	\$0	\$0	\$8,000	\$0	\$0	\$0	\$8,000	\$0	\$1,500	\$17,500
Sales Tax	400	400	400	400	400	400	400	400	400	400	400	400	4,800
Other Taxes	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Other Revenues (Licenses, Fees, etc.)	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Transfers In (Real Revenues)	0	0	0	0	0	0	0	0	0	0	250	250	500
TOTAL RECEIPTS	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$9,000	\$1,000	\$1,000	0	\$9,000	\$1,250	\$2,750	\$30,000
						Non-Uniform Revenues (Due to Property Tax)							
CASH DISBURSEMENTS													
Salaries and Employee Benefits	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$1,600	\$19,200
Materials, Supplies & Maintenance	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Professional Services	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Other Expenditures	350	350	350	350	350	350	350	350	350	350	350	350	4,200
Debt Service	0	0	0	0	275	0	0	0	0	0	325	0	600
Transfers Out (Real Expenditures)	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL DISBURSEMENTS	\$2,450	\$2,450	\$2,450	\$2,450	\$2,725	\$2,450	\$2,450	\$2,450	\$2,450	\$2,450	\$2,775	\$2,450	\$30,000
						Expenditures Are Fairly Consistent							
Net Cash Flow	Exceed Revenues	-\$1,450	-\$1,450	\$1,450	-\$1,450	-\$1,725	\$6,550	-\$1,450	-\$1,450	-\$1,450	\$6,550	-\$1,525	\$300
Ending Balance		\$4,550	\$3,100	\$1,650	\$200	-\$1,525	\$5,025	\$3,575	\$2,125	\$675	\$7,225	\$5,700	\$6,000

Categorizing Expenditures

Public agencies categorize expenditures differently.

By Category

- Salaries and Employee Benefits
- Materials, Supplies & Maintenance
- Professional Services
- Other Expenditures
- Debt Service
- Transfers Out (Only Real Expenditures)

By Department

- General Government
- Public Safety
- Recreation
- Economic Development
- Debt Service
- Transfers Out (Only Real Expenditures)

Treatment of Available Amounts

The cash flow is a representation of the expected cash balances of unrestricted or “available” amounts.

Determination of which funds hold available amounts can be subtle.

Available amounts are amounts that can be used for general expenditures without an obligation to repay the source fund.

General fund balances and revenues are normally available, as are rainy day reserve funds.

Examples

To understand the nuances, consider:

CARES Act Funds

Enterprise Funds

Self-Insurance Funds

Treatment of Transfers

Cash flows can only reflect real revenues and expenditures.

Transfers out are not considered an expenditure until the funds are actually spent in the fund receiving the funds.

When you transfer the funds out, they are not expenditures in that month.

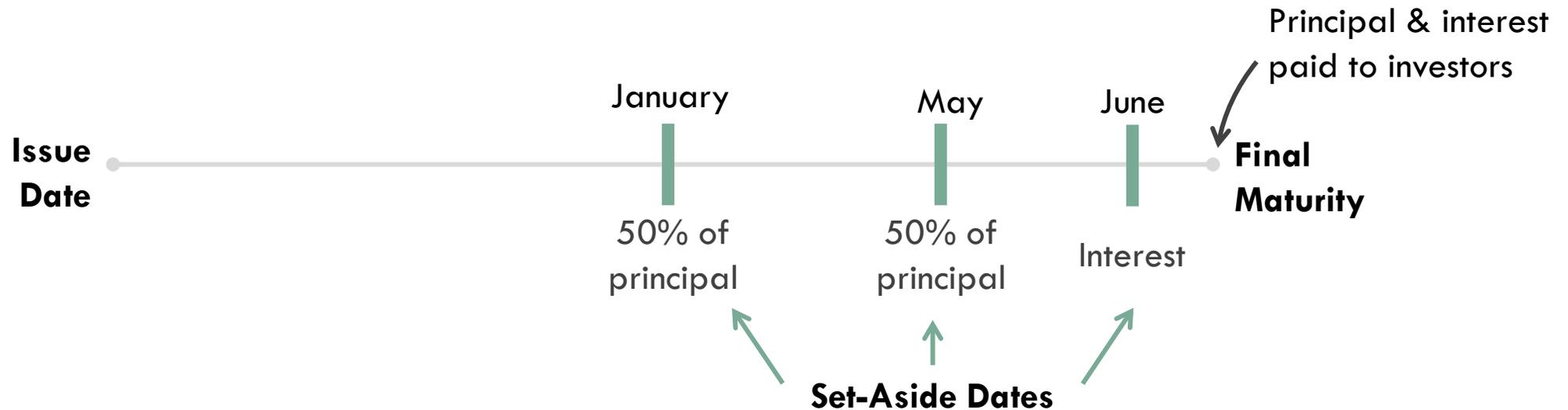
Common Strategy

January and May principal set-asides and June interest set-asides.

Issuer sets aside cash with full amount paid at maturity.

Establishing the TRAN Set-Asides

The credit quality of a TRAN improves with principal and interest set-aside pledges.



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TRAN Issuance
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Process Overview

Issuance Process is Typically 2-3 Months

1
Selection of
Financing Team

2
Evaluate Cash
Flows & Structure
the TRAN

3
Drafting Legal &
Disclosure*
Documents

4
Governing Body
Approval

5
Credit Review
Process*

6
Sale of Notes

7
Closing and
Funding the
Budget

*Assumes Public Offering

Selection of Financing Team

Paying Agent & COI Custodian

Ensures interest and principal payments are made to note owners; paying costs of issuance

Not needed if issuer willing to take on these roles.

Municipal Financial Advisor

Financing project manager; helps assemble financing team; structuring and financial analysis; reviews all documents; manages credit process

Underwriter / Placement Agent

Assists with structuring and credit process; markets and sells notes to investors

Bond & Disclosure Counsel

Prepares all legal documentation; provides tax status opinion; prepares offering document (Official Statement)

Prepare Legal Documents

Resolution, Legal Opinion,
and Purchase Agreement
Prepared by Bond Counsel

For Public Sale

Preliminary Official Statement (“POS”),
Continuing Disclosure Certificate,
and Notice of Sale*

*Notice of sale is used for a competitive public sale

Prepared by Disclosure Counsel

Required Actions of Governing Board

Authorization & Resolution

Authorization to issue notes through a single resolution.
No public hearing required.

Resolution includes not-to-exceed principal amount (par), true interest cost (“TIC”), and underwriting fee.

Exception

Exception for county boards of education, school districts, charter schools, and community college districts that have not been accorded fiscal accountability status.

County board of supervisors to issue notes in the name of the county boards of education, school districts, charter schools, and community college districts.

If county board of supervisors does not issue, or indicates it will not issue, the notes within a 45-day window, county boards of education, school districts, charter schools, and community college districts may issue notes in their own name if issued in conjunction with one or more other county boards of education, school districts, charter schools, or community college districts.

Pooled vs. Stand-Alone Issuance

Stand-Alone Issuance

Sole responsibility for financing process

- Full credit rating process, drafting of disclosure documents, authorizing resolution, cash flows

Public agency controls timing

- Higher impact on staff resources
- Higher transaction costs
- Potential lower interest rate if strong credit

Pooled Issuance

Shared responsibility for financing process

- Limited credit rating process, authorizing resolution, cash flows
- Pool program manages credit and disclosure documents

Pool program controls timing

- Lower impact on staff resources and lower transaction costs
- Interest rate is a function of pool participants
 - Subject to blended rating of all participants (rating based on weakest credit)

Credit Rating Process

General Fund focused.

Specifically looking at short-term projections for:

- Monthly Cash Flows

- Reserves

- Sources of Alternate Liquidity

Municipal advisor leads this process with significant input from the issuer.

Criteria and ratings are different for short-term and long-term ratings.

Process Outline

Thorough
Review of
Credit



Discussion with
Analysts to Clear up
Any Questions



Receive
Rating

It is important that your issue be included with others of similar or better credit.

Decision of optimal method of sale will depend on several factors:

- Frequency issuer goes to market (i.e. market familiarity with name)
- Size of the financing
- Complexity of the underlying security
- Underlying credit rating

Selling the Notes

POS
Needed

Credit Rating
Generally Required

Issuance
Generally results in lowest available interest rate.

Private Placement

POS
Not Needed

Credit Rating
Generally Not Required

Issuance
Generally quicker process and lower costs of issuance.

Q&A

Please use the Question Box to submit questions for the panelists.

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Available TRAN Pools

Details for each pool, including when the next issuance is planned, are available online:

<https://www.treasurer.ca.gov/cdiac/webinars/2020/20200611/description.asp>

CSDA TRAN Pool

Jeff Land | Brandis Tallman | Jland@Brandistallman.com

[More Info](#)

CA Statewide Communities Development Authority (CSCDA)

James Hamill | Jhamill@cscda.org | (925) 476-5644

[More Info](#)

California School Cash Reserve Program (CSBA)

Open to CA school districts, COEs, and community college districts

Mark Farrell | mfarrell@dalescott.com | 415.956.1030 ext 111

[More Info](#)

California School Finance Authority (CSFA)

Open to California school districts, community college districts,

COE, and non-profit borrowers such as charter schools

Katrina Johantgen | Katrina.Johantgen@treasurer.ca.gov | (213) 219-9882

California Education Note Program

Open to All School & Community College Districts in California

Chris Hiatt | Chris.Hiatt@keygentcorp.com | (310) 322-4222

[More Information](#)

California Community College Financing Authority (CCCFA)

Open to California Community College Districts

Lisa Mealoy | lmealoy@ccleague.org | (916) 245-5027

[More Info](#)

Listed are known counties offering pools to districts in their jurisdiction in FY 20/21. Contact your county or county office of education to see if they have an available pool or other short-term financing available.

Kern County

Priscilla Quinn
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661-636-4215

Los Angeles County

Jeff Young
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(562) 922-6419
[More Info](#)

San Diego County

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Help us help you,
let us know what
you want to hear!



Education Programs

Announced via email and social media. All programs and replays are posted online.

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Thank You

CDIAC would like to extend our gratitude to those who contributed to this webinar.

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