

PERALTA COMMUNITY COLLEGE DISTRICT
Board of Trustees Agenda Report
For the Trustee Meeting Date of March 27, 2012

ITEM # 28

ITEM TITLE: *(Please define the subject; e.g., change order – Berkeley City College)*

Consider approval of Resolution #11/12-40 authorizing and approving the issuance and sale of 2012-13 Tax and Revenue Anticipation Notes (TRANs) through the use of the Community College League of California TRANs program.

SPECIFIC BOARD ACTION REQUESTED:

Approval is requested to allow the District to issue up to \$22 million in TRANs. The issuance of these short term notes will provide the needed cash flow to offset the anticipated \$18.2 million in State deferrals and ensure the continuity of operations.

ITEM SUMMARY: *(PLEASE DISCUSS THIS ITEM)*

The issuance of these TRANs will address temporary cash flow shortfalls arising from fluctuations in month apportionment payments from the State during the fiscal year. It is anticipated that the total cash deferrals from the State during Fiscal Year 2012-13 will exceed \$22 million. The Chancellor recommends approval.

SOURCE OF FUNDS (AND FISCAL/BUDGETARY IMPACT):

Cash flow source, not an expenditure.

BACKGROUND/ANALYSIS:

For the 2011-12 fiscal year, Peralta's proportionate share of the \$961 million State-wide deferral is \$18.2 million. To ensure fiscal stability and appropriate cash flow, in March 2011 the Board of Trustees approved the District's participation in the Community College League of California sponsored Tax and Revenue Anticipation Notes program. In the Governor's Proposed 2012-13 Budget, a scenario exists where Peralta would again be constrained by deferrals of approximately the same amounts as in fiscal year 2011-12. Due to this possibility, the District needs to plan appropriately and cautiously.

The League's Tax and Revenue Anticipation Note (TRANs) Program was established in 1995 and has provided over \$2.0 Billion in short term financing to 52 community college districts. TRANs are issued to finance short term cash flow deficits which occur due to the irregular receipt of certain taxes and/or revenues, and the ongoing requirement for regular disbursements of operating expenses.

There are two primary benefits of issuing TRANs. First, TRANs are an inexpensive method of financing short term cash shortfalls. Second, TRANs usually produce additional income through arbitrage earnings. Arbitrage is a gain which occurs when the cost of borrowing funds is lower than reinvestment earnings. TRANs are issued at tax exempt borrowing rates which are typically two percentage points lower than available reinvestment rates. It is legal to earn arbitrage provided the TRANs are issued in accordance with federal tax regulations relating to the tax exempt issuance of short term notes.

The League's TRANs Program offers Community College Districts numerous advantages, including:

- A Community College Program: The Program is limited to California Community College Districts which allows districts to maximize their combined strength in the financial marketplace.

- **Reduced Issuance Expenses:** The League selected its financing team following a competitive proposal process. The League's commitment is to provide a cost-effective TRANs program with maximum return to districts.
- **Streamlined Issuance Process:** Documentation has been standardized and credit criteria have been pre-negotiated to result in minimal work at the district level.
- **The League's Financing Team:** The law firm of Stradling, Yocca, Carlson & Rauth is serving as bond counsel and RBC Dain Rauscher is serving as underwriters for the Program.

DELIVERABLES/SCOPE OF WORK:

Not applicable.

ANTICIPATED COMPLETION DATE:

5 months from Board approval.

ALTERNATIVES/OPTIONS:

Not applicable

EVALUATION AND RECOMMENDED ACTION:

Approval for the District to issue up to \$22 million in TRANs. The issuance of these short term notes will provide the needed cash flow to offset the anticipated \$18.2 million in State deferrals and ensure the continuity of operations.

OTHER DEPARTMENTS IMPACTED BY THIS ACTION (E.G. INFORMATION TECHNOLOGY):

YES _____ No X

COMMENTS:

WHO WILL BE PRESENTING THIS ITEM AT THE BOARD MEETING? (VICE CHANCELLOR)

VICE CHANCELLOR GERHARD

(*****Board contract approval is subject to negotiation and execution by the Chancellor.)

Prepared by: *Ronald Gerhard*
Ron Gerhard, Chief Financial Officer

Date: 3/15/2012

DOCUMENT PRESENTED AND APPROVED BY:

Presented and approved by: *Ronald Gerhard*
Ron Gerhard, Chief Financial Officer

Date: 3/15/2012

FINANCE DEPARTMENT REVIEW

Finance review required Finance review *not* required

If Finance review is required, determination is: Approved Not Approved

If not approved, please give reason: _____

Signature: *Ronald Gerhard*
Ron Gerhard, Chief Financial Officer

Date: 3/15/2012

GENERAL COUNSEL (Legality and Format/adherence to Education Codes):

Legal review required Legal review *not* required

If Legal review is required, determination is: Approved Not Approved

Signature: _____
Thuy T. Nguyen, General Counsel

Date: _____

CHANCELLOR'S OFFICE APPROVAL

Approved, and Place on Agenda Not Approved, but Place on Agenda

Signature: *Wise E. Allen*
Wise E. Allen, Chancellor

Date: 3-20-12