California Debt and Investment Advisory Commission

Webinar Transcript
TRANs: Established Tool for Extraordinary Times
June 11, 2020

A tax and revenue anticipation note (TRAN) is a short-term financing tool that may be a critical component of a cash flow solution. Local agencies are experiencing severe revenue disruption and unplanned COVID-19 related expenses. State and local government policies intended to soften the pandemic-induced financial shock on businesses and individuals have delayed the collection of taxes and fees and have relaxed the pursuit of delinquencies. This combination has created extraordinary revenue and expenditures patterns and cash flow problems not seen since the Great Recession. Join us in this webinar to gain a fundamental understanding of what TRANs are, how the securities are used, and how an agency prepares to access the market – individually or as part of a pool. Speakers will discuss the factors an agency should consider when analyzing whether this tool fits in their comprehensive financial strategy. This program qualifies for 1.25 hours of MCLE credit and is considered certifiable by most governing bodies.

[Editor's Note: This transcript has been prepared by the California Debt and Investment Advisory Commission (CDIAC) and it believes it to be a fair and accurate reproduction of the comments of the speakers. Any errors are those of CDIAC and not the speakers.]

Title Slide – TRANs: Established Tool for Extraordinary Times

ROBERT BERRY: Good morning everyone and welcome to TRANs: Established Tool for Extraordinary Times: a webinar presented by the California Debt and Investment Advisory Commission. My name is Robert Berry, I am the Executive Director here at CDIAC.

For about the next 75 minutes, our expert presenters are going to be walking you through the fundamental aspects of issuing Tax and Revenue Anticipation Notes: short-term borrowings repaid with revenues from the fiscal year in which they are issued. TRANs are an established public finance tool used to fund expenditures prior to the receipt of expected revenues – they are intended to mitigate cash flow shortages. Given the pandemic-induced delays in tax collection, the potential of state deferrals, and the prospect of unusual covid-related costs, TRANs may be a very critical part of a financial strategy to bridge these turbulent times. Although schools have been the most frequent and recurring issuers of TRANs over time because of nature of their cash flows, our panelists today have put together a program that applies to all agencies and is targeted to agency finance professionals that may be inexperienced with TRANs issuance or haven't issued TRANs since the last recession 10 plus years ago.

Now I am sure all of you are pretty familiar with webinars these days, but please allow me to cover just a few housekeeping items before we get started.

Slide 2 – Housekeeping **1:40**

ROBERT BERRY: The slides for today's presentation are available in PDF form in the *Handouts* section of your webinar control panel. There's one there, it says *Handouts*, and that's how you access it.

We have a very experienced panel today. I'd like to encourage you to submit questions using the box marked *Questions* near the bottom of your control panel. Submit your questions at any time during the presentation but I will hold them and pose them to our panelists during the question and answer session near the end of the program. Access to live captioning is available during the program at the address that you see on the screen.

We will send out certificates of attendance or participation in the webinar to anyone who was registered within a couple of weeks and if you'd like MCLE credits, this is important, send us an e-mail request with your bar number. All the registrants will receive a web-link to a replay in a couple of days. As soon as we get that replay ready, we'll be sending that out and then we'll follow up with another email with the availability of a transcript when we finish that in about a week or so. Lastly, if you are having any technical issues try the toll-free number or the link to GoToWebinar on the screen.

Slide 3 – Introductions 3:10

ROBERT BERRY: I am very excited to introduce our panelists today. First we have Chas Cardall, a partner in the San Francisco office of Orrick, Herrington, & Sutcliffe, chair of the firm's tax department and member of the public finance department. Chas has deep expertise in almost every tax aspect of municipal finance. Charter and independent schools are areas of his particular focus – of his practice, as are higher education short and long-term working capital, and various forms of pooled financings, including TRANs.

Next, we have Don Field, a partner at Orrick, Herrington & Sutcliffe's public finance group and the co-chair of Orrick's Practice Group focused on School and Community College Finance. Don has extensive experience in financing techniques used by schools, community college districts, cities, and counties in California. Don serves as the lead attorney for the California School Boards Association's annual TRAN pool, which I'll talk about a little bit later in the presentation.

And then joining Don and Chas today is Craig Hill. Craig is the managing principal with NHA Advisors. Craig has worked as a financial advisor to California public agencies since 1992 and has a focus on small to medium-sized public agencies. In addition to providing expertise on traditional bond financings including TRANs, Craig is recognized as an expert in public policy, budgeting, and capital planning.

So now that you have learned a bit about our presenters, I will turn it over to Craig to get us started. Craig?

Slide 4 – Outline - Budget Versus Cash Flow 5:01

CRAIG HILL: Thank you, Robert. I'll take control – there we go. Thank you all for joining us. I appreciate CDIAC putting this together as we've had a number of conversations with public agencies who have asked the question "Does a TRAN make sense for us?" So what we're going to do today is try to really break it down into four particular overviews of what it is and how it works and then, hopefully at the end, give you some options if this is a solution you want to pursue, what it takes to actually get a TRAN done.

Slide 5 – Budgeting Practices & Concepts 5:42

CRAIG HILL: So, I would like to first start at 65,000 feet for those of you in the middle of the budget cycle right now. Certainly, the big question everyone has right now is "What do my revenues look like for fiscal year 2020/2021?" and "How am I even going to get the governing board to approve something when I don't really know what the revenue stream is going to look like?" When you are doing a budget, you are doing a budget in the context of trying to come up with a balanced revenues equals expenditures, but that's really based on an entire fiscal year and is typically based on an accrual basis of accounting. What we're going to be talking about today is how, from how from a cash perspective, make sure you have the funds in the bank to pay the bills as they come in. So, it's cash accounting versus accrual. The big effort happening for most of you here in June is coming to a balanced budget and making sure that you are in a position for solvency during the course of the next fiscal year.

Slide 6 – Escape Accrual Accounting 6:52

CRAIG HILL: Let's escape accrual accounting for a minute. It is important that we recognize that there will be revenues, and we'll talk about this a little bit later. That you will account for during the current fiscal year 2020/2021. But they actually may be received later than during the actual fiscal year. So, what does that mean? It really means we're going to spend our time focusing on the daily operational impact of cash, how the cash is received, and then how it is pushed out the door to pay for expenditures.

Slide 7 – Revenue Cash Flow Profiles 7:35

CRAIG HILL: Now, typically, we got a pretty broad base of folks on the webinar today, that are in many different types of public agencies. Some of you are very dependent on property tax, and others of you have multiple revenue sources that actually help to balance out your deposits or your revenues that are received. As you can see from the graphic, if you are primarily property tax reliant, a lot of the school districts out there are as well as some of the public agencies like cities, you actually really see a big spike in your revenues during the months of December and April, and usually there's a cleanup in June.

If you are a public agency that has more consistent revenue sources and maybe you run a utility and have monthly billing for water or you have hotels or sales tax, you are going to see those revenues come in more on a monthly basis which allows for a much more measured collection system. You also, if you are in that latter bucket, unfortunately with this pandemic, subject to the real shock of everything effectively being ground to a halt over the last 2 or 3 months, so we're seeing a lot of public agencies that were reliant on hotel tax or sales tax really taking an impact at the end of this current fiscal year 2019/2020.

Slide 8 – Internal Solutions for Cash Flow Deficits **9:10**

CRAIG HILL: So what does this mean? If you have this disconnect between the revenues that are coming in but your expenditures are fairly consistent, for most public agencies, the largest expenditure is salaries, and wages, and compensation expenses like pensions. We know those are typically fairly balanced over the course of the fiscal year, and if you don't have the revenues in any particular month, you need to make sure you have an overdraft account or you've got a source you can draw from to make sure you pay those bills. Ninety-nine percent (99%) of the time public agencies are managing other buckets of cash or funds. It might be capital replacement, or vehicle replacement, or depreciation, there are any number of different accounts or funds you have, that you can borrow from internally and we have this concept called "pooled cash" or a "treasury" that often is the first line of defense for needing money to pay bills out of your general fund.

Slide 9 – If… Then… **10:32**

CRAIG HILL: If you are not lucky enough to have buckets of cash sitting for other purposes, you need to start looking at external sources, and what does that mean if you don't have control of other funds that you can use? You must be thinking about either going to other agencies, and we'll speak to that in a minute, or you will look to the capital markets, which we'll talk about shortly. It is important that we're in this interesting time with the pandemic, where a lot of the conversations that our firm is having with public agencies is around really protecting and preserving existing cash balances. So, as you do projection work, that we will talk about shortly, you may realize that you have reserves that have been accumulated over the last couple years as the economy was really purring along, that you want to protect not knowing what will happen over the next 12 to 18 months. So, it introduces a new constraint in the conversation of "how much do I really need to borrow?".

Slide 10 – Alternative Borrowing Sources **11:43**

CRAIG HILL: So, I'm going to turn it over to Don to talk about one the primary external sources that school districts and other public agencies will use.

DON FIELD: Thank you, Craig. Before you go to the capital markets, take a pause if you've determined that you have a deficit, and you don't have the internal sources for it. Here's a couple of examples where there is some inter-governmental ability to have some temporary borrowing or transfer of funds.

The first relates to the ability under the California Constitution Article 16, Section 6. To do a temporary transfer from the county treasury pool. This is for county pool participants whose funds are paid out through the treasurer's office. In order to do this, you have to have a resolution requesting, the amount cannot exceed 85% of expected revenues, and the borrowing has to occur between the first day of the fiscal year and the last Monday of April. Now, I'll give you a caveat on this because I know there's a lot of counties on the webinar today. This is an extraordinary time where local agencies of all types are having cash flow troubles, so for all of these inter-governmental borrowing abilities here, you'll need to check with the county and the other 2, the county superintendent of schools, because their cash flows are being really affected by the pandemic as well. So, all these examples of inter-governmental transfers, or borrowings, are subject to their ability to do that.

So, the next one, or the next two that I will mention relate to school and community college districts having the ability to do temporary borrowing from the county superintendent of schools. I'll note in the first one that it must be repaid before the end of the fiscal year. School and community college districts and county offices are going to be in a unique situation this year once again with the State proposing deferred revenues.

So, the first temporary transfer would not be able to help a school or community college district with those months at the end of the fiscal year, where the State is likely to have revenues that are deferred from the first fiscal year to the following fiscal year. The second temporary transfer, which is called the *Conditional Apportionment to School Districts or Community College Districts* allows repayment in the following fiscal year. That could help a school or community college district to deal with the deferred revenues that are expected at the end of the fiscal year coming up. So, again, before you look to the capital markets, it's always good to look up and say "Is there another source of inter-governmental transfer or temporary borrowing before proceeding to doing a borrowing from the capital markets?". So next slide.

Slide 11 – Outline - Introduction to TRANS 15:35

DON FIELD: You have looked at your cash flow and determined you have a deficit, you looked at internal sources for ability to do some interfund transferring, you've looked at the inter-governmental sources for temporary transfer and borrowing. What next? Well, let's go to the next slide.

Slide 12 – What is a TRAN? 16:07

DON FIELD: Tax and revenue anticipation notes, give local agencies the ability to do a short-term borrowing to deal with cash flow needs when there are no other sources to help with that. In effect, a TRAN provides for a temporary advance of what revenues are you anticipating in the fiscal year. Just to give a sort of backdrop, there is a constitutional debt limit that provides that no county, city, town, board of education or school district can occur indebtedness exceeding in any year the income and revenue for such year without a vote of the people. So, a lot of local entities are subject to this debt limit. So, the authority to issue TRANs in the statutes which is that Government Code Section 53850, is really set forth to deal with the potential ability of the debt limit to a local agency, in that, it allows for short-term borrowing, but that borrowing can only be repaid with the current year's revenues.

Now, the borrowing and proceeds can be used or expended for any purpose for which the borrowing local agency can expend funds. The size of it is limited under state law to 85% of what your expected revenues are for the year, and we'll hear from Chas soon that there are further restrictions on the sizing if you are going to issue the TRAN on a tax-exempt basis.

One thing I want to emphasize, is again, it's payable only from the revenues that are to be received or accrued during the fiscal year in which the TRAN is issued. I would just like to emphasize the word "accrued." So, it's revenue received or accrued, and I know we started the presentation with Craig emphasizing that we wanted to get away from accrual accounting and focus on cash for analyzing your cash deficits, but the word "accrued" is important here. Especially this year coming up with the proposed deferred revenues for the State to school districts, where the State defers normal receipts in a month from one fiscal year to the following fiscal year. In order to borrow against that deferred revenue, the school district needs to know that it is revenues of the fiscal year in which you are borrowing. You could repay it in the following fiscal year because a TRAN can be issued for up to 15 months, 13 months if it's going to be tax-exempt. We have to know that the revenues are from the current fiscal year in order to pledge them. So, when the State has deferred revenues in the past, they've made it clear in the legislation that even though paid in the following year, it is revenues of the current fiscal year.

Other local agencies may have similar accruals for CARES funds and other things that are accrued to the current fiscal year but may be received after the fiscal year. And so, it's really an accounting to make sure you are paying only the TRAN that is issued in that fiscal year with revenues of that fiscal year. I'll turn it back to you Craig on the next slide.

Slide 13 – Who Issues TRANs? 20:02

CRAIG HILL: Great, thanks Don. So, what was interesting in looking at some of the CDIAC data, which is a database so many of us rely on, is that approximately 82% of the TRANs that have been done over the last 3 years are for primary school districts. We see around 10% of that coming from cities, 7% from the counties, with the balance coming to special districts. As you can see from the statistics that we posted up, there's been approximately inside $4 billion dollars a year that has been issued. This is a fairly common type of cash flow financing, that public agencies use. What we found really interesting is the median is around $8.5 million. So that puts it right there with what would be a typical public agency with a budget probably in the $30 million dollar range, and we have seen TRANs as small as half a million all the way up to $1.6 billion. Those are typically the larger countries that are either doing it as a pool or countywide.

The other interesting statistic I want to highlight right now, but will bring up as we get further in the presentation, is approximately 2/3 of the TRANs done, are part of a pool program as opposed to a stand-alone. I think that's important as you contemplate whether or not it makes sense to have a TRAN be part of your strategy for the coming fiscal year and if so, what is the best approach? Is it to do it as a stand-alone financing or to participate in some kind of a pool program?

Slide 14 – Why Issue a TRAN? 22:02

CRAIG HILL: One of the things we're trying to help you all with today is in contemplating "Why I would issue a TRAN? I haven't had to do it in the past." Don has already mentioned that there may be some deferrals out there on some of the revenues that you, otherwise, would have been receiving on a more timely basis. But in this case, we're in uncharted territory and we believe that a TRAN really may be something that setting up early in your fiscal year can really help to mitigate some of the stresses, you watch your account balances drop as you get further into the Fall.

The other reason that you might want to think about is there are some financial incentives to prepaying some of your obligations. We know that there are venders, often, where you have annual subscription accounts that if instead of paying them monthly you paid them up-front, they will give you some kind of a discount. We also know for many public agencies participating in CalPERS, if they were to prepay the entire projected amount that would be due during the normal payroll cycles, they can see a discount, I think the current discount is 3.5%, so there are financial incentives, and/or net-net benefits to a public agency to potentially consider prepaying certain expenses with the use of TRAN proceeds.

Slide 15 – Recap: Determining Suitability of a TRAN **23:49**

CRAIG HILL: So, suitability of a TRAN is very important. This is a tool in your toolbox, this is something that you can use. It's obviously an obligation or a debt so many public agencies have governing boards that are very conservative and would like to not borrow money if they don't need to. This is really a tool that needs to be considered as part of your management decision, or from your executive team, as you talk about what your monthly cash flow projections are. I will say just from a timing perspective, this is the time in the cycle with your budget right now to be doing these cash flow analysis to figure out whether or not a TRAN is really something you should even leave on the table.

Slide 16 – Security for TRANs **24:42**

CRAIG HILL: And as Don mentioned earlier on what the security for a TRAN is, it is really a revenue pledge of unrestricted monies, so there is a lot of different funding sources that come to public agencies that have very specific purposes. Those would not be part of this encumbrance, if you will, for a TRAN. It’s a pretty broad definition, and I'll let Don jump in if he wants to add clarity, but as you see from the graphic on the right, when we think from a city perspective and then we think about it from a school district perspective, we each have different types of buckets of money that come in. Those would be the revenues that would be pledged for a TRAN. It's important to understand that this is a different tool than other types of financings that each of you may have been involved with over your career. Whether it be a general obligation bond, which is supported by an *ad valorem* tax, or maybe you have done some kind of a lease financing which then has a pledged asset, so we consider TRANs very pure in their simplicity, their timing, and also their security.

DON FIELD: One thing I would add, Craig, on that slide if we could stay there for one minute. The security for the TRANs is the revenues that are expected to come in at a later date and one thing that is particularly difficult this year, and the Legislators are negotiating this right now, is that for school districts the Governor’s budget proposes some deferrals and the amounts look like those deferrals would be partially in April, May, and June. The Legislator’s proposal has a significant amount of more deferrals and so there could be deferrals in each of the months of February, March, April, May and June. The trouble with the negotiations, my understanding of them now, is that the State Legislature does not want to put a date on when those deferrals are going to actually be repaid in the subsequent fiscal year. That’s going to make it very difficult, if it stays that way, for school districts to be able to pledge that deferred revenue, because the revenue has to come in before the maturity of the notes and there needs to be a sense of when it's coming in so it can be pledged to have the proper credit analysis from the rating agencies and investors. That’s something to watch if you’re a school district or community college district.

CRAIG HILL: Great, thanks Don.

Slide 17 – 4 Ways TRANs Affect Cash Flows 27:54

CRAIG HILL: So, one of the ways that we think about "How does a TRAN help you?" Obviously, it's like somebody giving you a pot of money to drop right into your checking account that increases your balance, right? Your starting balance. It then helps you work through the months where you know that your expenditures are exceeding your revenues and starting from a higher spot working your way down.

The easiest conversation that we've had when in front of boards and city councils talking about this is, this truly is like an overdraft account or line of credit, although not technically, it is something that allows you to know that you have access to cash to cover expenses as they come in without needing to get fancy with changing or liquidating treasuries or other types of investments you may have in your portfolio.

Slide 18A – Examples – Without TRAN 29:04

CRAIG HILL: I'm going to try to see if I can demonstrate what it means to have a TRAN inside of your budget or inside of your operations for the year.

This graphic is kind of what your cash balance would look like if you were a typical public agency. The green bars representing your expenditures on a monthly basis and the gold bar really being your revenues you receive. And you can see in this example, you have these two spikes that are a function of primarily property tax collections that occur in December and April. You will notice in the gray bars, that that's a theoretical cash balance. So you start the year with $4 million dollars in the bank, and because expenditures are exceeding revenues in July, August, September, you can see that your balances are going down. You hit a negative here in September, October and November. So, if you didn't have any other access to capital you would not be able to pay those bills. Those would be the months you would have to defer payroll or defer your vendor payments, whatever it would be. But that's not a realistic answer. So, what we're trying to solve for are really the negative cash balances.

Slide 18B – Examples (Animation) – With TRAN 30:40

CRAIG HILL: Now what happens is if we add a TRAN, you can see the green where all of sudden it gives injection of cash and it now allows your balances to stay positive, you can see that in November you are really thin, and this speaks to Don's comment earlier about how much you can borrow. You don't want to over-borrow, but you want to keep yourself positive. Obviously, in December you get the injection of some significant revenues, it throws your balances back up over $10 million, you spend those down a little bit. April, another super injection. You get to the end of the year, and you have to pay back the TRANs. That's the red portion of the bar. So, inside the fiscal year, you've borrowed money and you've paid it back and kept yourself positive for every month.

Slide 19 – Outline – TRAN Mechanics **30:30**

CRAIG HILL: So, what we want to now

CHAS CARDALL: So –

CRAIG HILL: Go ahead, sorry.

CHAS CARDALL: I was just going to say, this is Chas, and I think the next one was mine, but if you have something else to say Craig , fire away.

CRAIG HILL: No, I was just going to turn it over to you to talk through the mechanics.

CHAS CARDALL: Actually, if you don't mind backing up for just a second to the more general outline slide. You see how we're walking through this outline, and this next part gets to what we call ‘TRAN Mechanics’. A different way to think about this next part is TRAN sizing or what are the legal limits to the amount that can be borrowed in this kind of TRAN structure. And you probably hear people talk about TRAN sizing, or maybe that's a concept that’s familiar to you. Most of these rules I'll talk about in the next couple of slides are tax rules, federal tax rules. They’re the rules that relate to allowing the notes to be tax-exempt, the interest not to be taxable income to the holders. So, to the extent you were otherwise, for some reason and we see this from time to time, issuing a taxable TRAN, then almost everything in the next few slides really doesn't come into play. So, this really does focus on the tax-exempt. And the reason why you are interested in tax-exempt is because the interest rate is lower and you may even find that your borrowing rate on tax-exempt TRANs is less than what the investment rate would be. So, to the extent you are borrowing and you have a higher cash balance, as Craig was just describing, you might find that your overall borrowing cost, really does get down to being not very much, and maybe at least in some more extreme circumstances, there might even be some sort of a profit there and there are tax rules that relate to all that that we're going to get to. So, why don't we go to the next slide here.

Slide 20 – Determining Cash Flow Need for a TRAN **33:52**

CHAS CARDALL: So, this is talking about determining a cash flow, or the cash flow need. The name of the game here is what people refer to as a “cash” or “cash flow”, or maybe “available amounts,” and we'll talk about that concept in a minute, “deficit.” The drill is that a cash flow gets developed, that cash flow showing cash balances, remember not accrual, would show some deficit period, like just like we saw on some of the earlier slides, and the sizing of the TRAN or the maximum size of the TRAN really does key off of that.

And so, what this slide is kind of focusing on, apart from where it says legalities there, apart from the 85% limit which is really a State law limit that Don referenced a couple times, the key tax limitation or tax-sizing approach is to start with that deficit amount, that maximum deficit amount. It can be really any time or any day for that matter in the first 6 months that the notes are outstanding. But you look for that lowest balance, largest negative balance, and you get to add to that, an amount that we refer to as a “working capital reserve.” It's 5% of the expenditures in the prior fiscal year. So, if you were putting all this stuff together right now, you would be putting something together in the current fiscal year, but the borrowing would not take place until after

June 30th. So, it would take place next fiscal year, 20/21. You'd be looking at your largest deficit, let's say in the first 6 months of fiscal year 20/21, and this 5% amount would be 5% of expenditures in 19/20. That's the idea. It's that total, the deficit and this 5% amount, that add up to the maximum if you will.

I'm a tax lawyer, so, the normal drill here is for me to work with issuers, preparing the cash flow, going through this, and coming up with the size of it. What I would normally say to a client is "okay, based on everything you've given me, the maximum amount you can borrow is $20 million dollars on tax-exempt basis. And then I would say, "you know, you really shouldn't borrow that full 20. You should borrow something less," and we'll have a conversation about that margin for error. And to some extent, that's what you will see on the next slide. So why don't we go ahead to that.

Slide 21 – Impact of State Budget on Determining TRAN size 36:51

CHAS CARDALL: So one step back, and this is really a side line to all this stuff, but just so I don't forget. I think Don pointed out there was a 15-month maturity limit to TRANs for tax purposes, generally that's 13 months. It might be that in the circumstance like this year where there are potential longer deferrals, that tax law might stretch a little bit and conform to the 15 months. That's not something we've addressed in a long time, and the IRS has focused on 13 months as being a maximum. I just kind of throw that out as this seems to be an unusual year in the way the budget is coming together and that's my transition to this slide. The impact of the State budget, and the way it's coming together this year, is really a great prism to look at what I think of as being the fundamental dynamic as you are developing, or thinking about, a cash flow or thinking about the maximum size.

You know, here, you can think of this slide as really the expectations versus actual facts. That's a good way to think about it. We size a note, we give legal opinions with respect to the amount, and I give advice to what the maximum amount is that can be borrowed on a tax-exempt basis based on expectations. Often, people are doing that sizing in May or June, with a sale of notes and then a closing in July. This might be a good year for that to be delayed because there is some uncertainty and it is hard to know what the expectations are.

But we start with expectations and we say, okay, what is your expected cash flow? Develop that cash flow. What do you really expect to have happen? There is the actual facts element to this, you might issue your notes based on your reasonable expectations they are tax-exempt but if you don't actually have a deficit large enough to justify the amount that you actually borrowed, it's not that the notes become taxable, but you might owe, probably do owe, a payment to the IRS. That's what we call a rebate payment. Those who are familiar with tax-exempt financing have probably come across this. Essentially, you aren't allowed to borrow at a tax-exempt rate and invest at a higher rate, except in limited circumstances. Here, that limited circumstance is, if you actually have a large enough deficit within 6 months you don't have to make the payment. If you don't have the large deficit then you have to go through a calculation of whether a payment is due and what the amount is. That's the tension between expectations and the actual facts.

If you layer that into the current budget dynamic, think about the complication here. Whether it's a Governor proposal or the Legislature proposal, I think both of them right now, I haven't been following the latest stuff in the last couple of days, but both of them have the concept of "well, there is a base budget and that will change, either the expenditure amounts go up or down, depending on if more federal funding is coming to the State" and that's going to dramatically affect everybody. So, what do you do? Are you taking into account the worst case under either of those scenarios, or are you going to do what you expect to have happen, but is your expectation based on actions by the Congress and how do you know? That's a tricky dynamic and we have been talking to clients a fair amount about that. How that gets answered is going to be a little bit individual based on the type of entity that is issuing. But the key point really is: What are your reasonable expectations to start with? And if you decide to go with a smaller amount, just to be safe, which is a fine approach, maybe you build in the ability to issue an additional amount in September or something like that, once there is more clarity as to what will happen with the federal funding and how the overall budget process really is going to kind of fit together.

So, I think the next slide might be yours, Craig, if I have it right.

Slide 22 – Monthly Cash Flow Example 41:50

CRAIG HILL: Yeah, thanks Chas, and you set this up perfectly for an example for those on the webinar who are numbers folks. What we tried to do here is demonstrate a little bit about what Chas is talking about. In this case, this is a $30 million dollar budget, and you can see the different revenue receipts, sort of cash receipt line items: property tax, sales tax, other taxes, and you can also see on the cash disbursement side expenditures, salaries and benefits and everything. You will notice to what Chas said about walking through what a deficit looks like, the most important thing is, you know, what is your starting balance? You know, what do you really have going into the fiscal year? From that, what is going to cause this deferral or impact on the cash position? In this example is really these large chunks of cash that are going to come in these later months as part of your property tax. The key here is looking at total receipts on a monthly basis compared to total disbursements or expenditures, and what that creates is that you are actually bleeding cash in the first 5 months to the tune of, call it, just inside of a million and a half a month. The very bottom line, the ending balance, you'll see while it started at $6 million it quickly went to 4.5, to 3, to 1.6, and down to $200,000 dollars, and in November you were already negative 1.5. So, what happens, you are starting the month of December negative 1.5 and waiting for those county property tax revenues to show up and reinvigorate your cash position. So, in this example, to what Chas was just mentioning, that would be your maximum deficit in this scenario of $1,525,000. Then you have some of the working capital conversation that Chas mentioned.

Slide 23 – Categorizing Expenditures 44:03

CRAIG HILL: So, because we have different public agencies on this participating, these categories are not set in stone. We think about receipts and they can come in many different forms, I mentioned earlier they could be sales tax, hotel tax, property tax, State allocations for education, there is a whole basket of different revenue sources. Likewise, on the expenditure side some folks will identify their major expenditure items by things like salary, employee benefits, materials and services, and debt service, then transfers out - which we'll talk about that in a little bit. Other times, you will have a public agency that, for budget purposes, will categorize things as general government and/or very specific things like public safety or recreation. There is not, necessarily, a right or wrong way to create a cash flow, but it is important to be consistent in knowing where you are spending the money on a monthly basis.

Slide 24 – Treatment of Available Amounts 45:18

CHAS CARDALL: So, if we go to the next slide -- no, that's fine. Go to the next one here. Yeah.

So, there sort of has been an assumption, if you think back to the slide with the numbers in it that Craig just walked through or think about the way this discussion has gone. There has sort of been an assumption that we all know what goes into the cash flow. There is this categorization of expenses and revenues that Craig just described, but there actually are some pretty specific, though sometimes hard to apply and subtle, rules that relate to what goes into the cash flow. From a tax perspective, again focusing on tax-exempt TRANs, the question or the defined term is, “What are the available amounts?” The notion is, if you look at any agency - maybe that's broad maybe there are some revenue agencies that don’t have this - but certainly a city, county and school district there might be a number of different funds. In a county, might be hundreds of funds, trust funds, all different kinds of funds. So, what is the cash flow? Is it everything? Is it just the general fund? Is there something in-between? The idea is, that the money generally available to be used for budgeted expenses and that doesn’t have to be repaid to its source, those are available amounts. So, kind of, the definition of money that is in the general fund is "Hey, these are general revenues coming in - taxes or money coming in from the Feds or whatever it is”. And they are going into the general fund and by its term the general fund is money that’s generally available.

So, we generally always start with the general fund and then ask ourselves is there any other funds or accounts that ought to be included? You might think back earlier in the presentation, do you have reserves or enterprise fund, do you have some other funds that you can borrow from on an interfund borrowing basis. Are those amounts available just because you can borrow them? The answer is no, as long as from a legal perspective, State law perspective, it has to be paid back. It might be fine to temporarily use money from a different fund, but that doesn't make it available as long as it has to be paid back.

So, with that general backdrop really what we found is that we created, or those people that kind of do what I do, have created a set of rules that we apply in thinking about the different funds that we might look at. One thing to keep in mind is: You might have a self-imposed restriction, and those self-imposed restrictions often are things that from the IRS’ perspective might look suspect. So, you might say here we’ve got this reserve, and it can be used for anything, but we can't use it without an act of the City Council to say we can use it and whatever it is we say we can use it for, we have to repay it. If that’s all done by the governing board itself, maybe that's not really a restriction. But think about something like an enterprise fund - so you can look at the examples on the right-hand side of the slide - think about an enterprise fund, there is a lot of business reason around, and some legal limitations around, how enterprise funds operate and can be used. You have revenues coming in and expenses going out and you try to make that stand on its own, and typically we would say enterprise funds are excluded from this, they are not generally available and not really general fund money. Think about something like a self-insurance fund, you might have completely set that up and restricted it yourself, self-imposed, and maybe a red light goes off for a second. But there is a really good business reason for that, you need that fund. So typically, with something like that we're going to say "Well, what is the amount in there? Do you have an actuarial study that supports that, or documents or contracts you have that require you to be insured that support the notion of the amount in there?”. So maybe that's self-imposed in a sense, but we say that's fine, that gets excluded.

The top of these three examples here, that's interesting this year, is the CARES Act funds. Money has come out from the Federal Government, and initially, when it came out, I thought this is great. It's a general all-purpose grant to government agencies, well it turns out it's not. It can only be spent on COVID-19 related expenses. When you get into the details of what that means, well it's a pretty complicated analysis as to what you can spend the money on, what you can't, if you have to repay it, the timing of spending it, and that kind of stuff. So, one of the things we have been doing with clients is trying to figure out, okay, in your case, as you are thinking about this, how do those CARES Act monies fit into your cash flow? Do we really have to treat them as being generally available? They seem like they're restricted to certain purposes. How is that affecting what are you doing? Are you going to have to repay some of those amounts later? As a general matter, my personal view is that the CARES Act money is restricted and not "available". But it wouldn't surprise me if a number of agencies take the perspective that it's generally available and normally that's a fine conclusion from a tax perspective. The more you include as available, typically the smaller the deficit, and is kind of, a safe approach. Why don't we go to the next slide?

Slide 25 – Treatment of Transfers 51:38

CHAS CARDALL: So, this next one focuses on transfers and it's another way of kind of getting at the cash flow. So, you start with the idea that we've got to have this cash flow, got to come up with a deficit, cash flow is supposed to have the available amounts in it, and we start with the general fund and maybe layer in some other things. And the question we ask ourselves when we take a step back, just as a tax matter if the IRS is looking at things, is what are the inflows and outflows into this cash flow? Are you double-counting something or transferring money out of the cash flow that's creating a larger deficit that really isn't an expenditure. I see this vary a lot amongst different types of agencies, where dollars initially flow into the general fund, be held there for some period of time, and then be transferred out to some other fund. An obvious question that comes up there is "When you are transferring the money out of the general fund to the other fund, if that other fund is a fund that we are generally treating as being unavailable, if it held money that was available you wouldn't really show that transfer in the cash flow because it would all be available amounts and you would waiting for the expenditure of the available amounts, but if it's going from an available fund, like the general fund, to some other fund, do we really get to treat that as an expenditure?" That's what this is getting at. There is the notion of what are the amounts to be included? And when our cash flow shows dollars going out, is that a really expenditure? Or is it a transfer of some other sort that isn't really an expenditure by the agency? Then, what do we do? And in some cases, we treat that as being like an expenditure, and in other cases not. That's another one of these areas where it's a little bit subtle. As a general matter, you really do start with the general fund and say, "What do we layer onto that?" So, many transfers out, for various reasons, do get treated as expenditure for being excluded, but this is definitely an area we look at to make sure we're not artificially, if you will, creating too large of a deficit. And so, I think that's it for that slide. I think it goes back to you Craig? Not sure who is next.

Slide 27 – Establishing TRAN Set-Asides 54:07

CRAIG HILL: Yeah, no, thanks Chas, and if we haven't completely confused you at this point in this conversation, we wanted to take it one step further, which is this concept of a set-aside. Now we told you the way a TRAN works, for those who know how notes work maybe from an investment perspective, you typically have all the principal and interest due at the final maturity date. In this case we are talking about a year out from the time that you borrowed the money, in early July or in September. The fact is, that because it's so dependent on revenues, investors and the rating agencies, or the credit agencies, will often ask that we build into these financings this concept of a set-aside. What it really is a pledge, if you will, or a lockbox concept where when you do finally get those big chunks of change that we talked about, maybe in December or April, that you are actually putting a portion of it aside, holding it aside, as the funds that will be used to finally pay the note off in advance.

So, we want to make everybody aware of it, it is still, you know, you are holding on to the money, it's not that it's necessarily getting paid back to the investor. But it is something that oftentimes gets built into these and is a credit concern, obviously the risk being for all the purposes that we just discussed earlier about what are the sources of repayment. If a note is due, let's say, on June 30th of any year and you really haven't been setting aside funds, come June if you need to come up with $8.5 million dollars, depending on the cash position it could be a little difficult. So, everybody takes more comfort knowing that you have the set-aside requirements that mean you will effectively put it internally aside and lock it up so it's not spent on anything else.

Slide 28 – Outline 56:26

CRAIG HILL: So, with that, we kind of get into the final chapter, and what we want to really do is walk through the process for issuing a TRAN. So, you have done some internal work and figured out maybe a TRAN does make sense, and now what? What does this really mean?

Slide 29 – Process Overview 56:42

CRAIG HILL: It's really kind of a 7-step process. When you have decided this is something you are interested in, you need to, obviously, bring to the table professionals that can help you look at your actual cash flow, and/or from a legal perspective, as both Don and Chas have been saying today, really analyze it from a technical perspective to see whether a TRAN is something that is important. Once you get through that, that's kind of Step 2, you get into the documentation that is required that includes the approval process from the governing board and then you really go to market. And that's going through a credit review process, that's going out and selling the note, and then getting the cash or closing on the transaction and putting the cash in the bank.

Slide 30 – Selection of Financing Team 57:38

CRAIG HILL: So, a little more detail, who is all involved when you need to do a TRAN? It's really a function of having potentially a third-party paying agent or custodian. For a lot of the sophisticated clients, or those who can manage it, this is done internally, it doesn't have to be your bank or a custodian bank. You typically would have a municipal advisor, bond and disclosure counsel, and then an underwriter or placement agent, depending on the avenue you take to actually sell the TRANs, and we'll talk about that in a second.

Slide 30 – Prepare Legal Documents 58:19

CRAIG HILL: So, I'll let Don speak to what is all included if you decide to do the TRAN and now need you need to paper up the transaction.

DON FIELD: Thank you, Craig. The statutory framework in the resulting legal documents are fairly straightforward in TRANs, which is helpful. On the bond document side, there is typically a resolution authorizing the issuance and there is a note purchase agreement. You're also, on the disclosure side, going to have a preliminary official statement and continuing disclosure certificate. If it's a competitive sale, of course, you have a notice of sale instead of a purchase contract, but fairly straightforward documents.

A couple things I would emphasize on the documentation, one, on the bond, or note, document side, is although the documentation is straightforward -- fairly straightforward, in times where budgets are uncertain, the emphasis needs to be focused in on what we've been talking about. On the tax side, there is a 6-month lookout for a deficit to size and a 13-month repayment if you are issuing tax-exempts, and then there's analysis of when the revenues are coming in so you can set the set-aside amounts to repay the TRAN. In times like this, the analysis of that is critical because you may need, for instance, in school districts, you may run into a deficit in the first 6 months in the coming fiscal year, but you also know you will have deficits likely in the following 6 months of the year because of the State deferrals. So, it's critical to understand how you are going to set up your cash flow set-asides for repayment, and also to set up in the documentation the ability to issue additional notes if you are going to issue notes that deal with the deficit in the first 6 months and then have another series of issuance in the second 6 months. Similarly, for even counties, you are trying to figure out what your cash flows look like and budget, you don't know exactly how the CARES Act funds will work their way through your cash flows, and with tax rules and other things you may decide to size something a little bit lower so that you comply with the tax rules knowing that there could be a scenario that you need more cash in the latter half of next year. So, setting up the documents to provide for that is critical. The things to consider are making a documentation that pledges something that gives you best pricing for your bigger issuance on the first time you go to market, but allows for the second issuance to occur, that is set up with security that allows you to price that one as well.

On the disclosure side, I just emphasize that the SEC has some kind of release relating to the current pandemic situation really emphasizing the need for issuers to discuss how the pandemic is affecting their cash flows because it's unique a lot of times to different types of issuers and is affecting issuers differently. We don't have a historic perspective on it, and so putting some emphasis on what you expect with respect to that, knowing it's a fluid situation is important in the disclosure. Can we go to the next slide?

Slide 31 – Required Actions of the Governing Board 1:02:50

DON FIELD: So just a couple of things again, there is going to be an authorizing resolution to authorize the issuance of the TRAN. That's a fairly simple process. There is an exception for county boards of education, school districts, charter schools, and community college districts that don't have fiscal accountability status. For those entities, their governing board adopts a resolution requesting the county board of supervisors to issue on their behalf. There is an exception to allow schools, community college districts, etc., to issue on their own behalf, and that is if the county does not issue within 45 days of the request, or indicates that it will not issue within that 45-day period, and, and I emphasize the 'and', the school district, community college district, county board, issues in conjunction with one or more other county board, school districts, community college districts. In other words, if you don't have fiscal accountability status as a school or community college district, you can issue on your own if the county doesn't want to issue and you issue a connection with a pool. We're going to go to the next slide in a minute, but this provision in the law really has an impact on school districts, most of the TRANs and community college districts are issued through pools. In fact, in 2017 through 2019, 82% of the school districts and community college districts issued through a pool. 18% issued stand-alone.

Next slide, and Craig is going to talk more about how to decide whether to issue through a pool or stand-alone TRAN issuance.

Slide 32 – Pooled vs. Stand-Alone Issuance 1:05:03

CRAIG HILL: Thanks, Don. We're trying to bring this down now really into the details, so you have kind of gone through and done a cash flow, determined you can issue a TRAN of whatever dollar amount needs to be, you've done the tax analysis understanding what your maximum is, now you've got to figure out the best way to go about actually issuing the TRAN. There are really 2 primary approaches.

There is the stand-alone, you have a great credit [rating], or you feel because you are an active issuer that you have access to all the information that Don talked about for the disclosure, official statement. So, you just believe that you are ready to go alone. Or you are significantly, from a dollar perspective, the size of the TRAN is big enough that your incremental cost of financing is not that high. For those of you who are less frequent issuers, or who are not really in a position to have the staff resources to do a lot of the heavy lifting and you want to rely on professionals, and/or a group to kind of move you along, you have this pooled concept. And the pool obviously has some efficiencies involved that really helps to minimize the individual effort of each of the public agencies.

They each have pros and cons. There are benefits to doing it on your own. You really get to set the parameters. It is your own credit, you are not impacted by others, and you control the timing. If you are part of a pool program, the way these work best is they do group the public agencies by credit, so you try to keep everybody not hurting or helping the others, but going in uniform process. But there is also very much a tight timeline, they will mandate that your board will have had to approve a resolution by X date, and will have provided information by Y date, and they're going to fund on Z date. So, it may or may not work for your timing if you are unable to get the information together or you are still working through your cash flow. On the other hand, a lot of these pools will have subsequent series, so they might do an early setting pool where the first series is going out in, call it, July, and they might do a September. Certainly, we're in uncharted waters right now as both Don and Chas talked about with deferments and understanding what the pandemic is doing to revenues. We are actually expecting there may be many public agencies that will be looking at this as a solution at multiple times during the year when they reset their revenue projections for the current year. So, some of the information you will get part of this package is references for some of the pool programs that you can reach out and talk to them about possibly participating, should a TRAN be something you are interested in.

Slide 33 – Credit Rating Process 1:08:24

CRAIG HILL: So finally, we want to just talk about the credit process. For those of you who have issued debt in the past, long term debt for capital projects, let's say. You will be familiar with how the credit process works. There is always the analysis related to the bond structure and/or to the underlying legal parameters for the financing. When you do a TRAN, it's a little bit of a different credit review process, because it's very short-term. While you might say that we project in 5 years we are going to have reserves of $20 million , that really doesn't help the credit analysis for a TRAN, because the TRAN is really how are you going to get through the next fiscal year, and are you going to have enough money at the end of the fiscal year to pay us back. So, it's really about analyzing those cash flows, analyzing the reserves, and this other source we call "alternative liquidity". For a public agency, what do you really have in other buckets that you might be able to release. So, a vehicle replacement account, other something else, these other set-asides that you might have that you could, if you had to, release them to help pay back the TRAN should your revenues end up lower than you anticipated.

But, it's a very short-term analysis or credit. It really doesn't help to be able to say, “We're going to sell a piece of property in 2022, and that will give us $5 million dollars”. That doesn't solve anything for the fiscal year 2021. So, just want to bring that up, that there is a differentiation between the normal credit review process for traditional bonds and what is looked for from a TRAN.

Slide 34 – Selling the Notes 1:10:22

CRAIG HILL: Finally, as we get into selling the notes - you assembled your team, received your approvals, and you’ve gone through credit. Now you need to figure out, and this is independent of being in a pool or not, are we going to the public markets and selling our notes, like you would normal bonds through an underwriter that would either be selected in a competitive bid process or a negotiated process, or are you doing what we call a private placement, which is having a direct conversation with a financial institution, or a bank, and having them do their own credit analysis on the agency and offering up to buy your note, or loan you the proceeds for a period of time. While the private placement is a much more minimized process, it doesn't necessarily become the lowest cost of funds, depending on what interest you have from financial institutions. Likewise, on a public sale, you need a public offering document and you need a rating, so there is a lot more lift involved in a public offering, but it may ultimately result in a lower cost of funds.

Finally, just speaking as a municipal advisor, I think right now the way the market is, we're in an interesting time where getting underwriters to work for a public agency and put their best foot forward is really playing into negotiated transactions. While you may still go through some kind of an RFP to select an underwriter prior to going to market, it's a lot different than taking your note and putting it out on the market, like you would a public bid project, and hoping on Tuesday at 8 o'clock to get 10 bids, with the lowest bid being the one you select. Obviously, there is a lot of uncertainty out there, the firms that are working are focusing on the projects they know they have in hand, and so there is, with the uncertainty out there, there is a little concern that thinking that competitive may be the way that you sell your transactions right now or would sell the notes. But we have not yet seen -- There are competitive deals in the larger counties in the market this week, and so that will help to give an indication what the appetite is in the competitive market.

Slide 34 – Selling the Notes 1:13:15

CRIAG HILL: So, with that, I think turning it back over to Robert.

ROBERT BERRY: Thank you, guys. We may run over a little bit, looks like we have only about minute or so on our allotted time, but there are a few questions we would like to take the opportunity to run past our panelists. If we don't get to all the questions that have come in, we will follow-up with all attendees with a FAQ answer package with the replay information. Just a couple here to get us started, this is related to the sizing of the TRANs. Given the uncertainty that may be built into the timing of the revenue assumptions and the possibility of unexpected deferrals, perhaps 6 months after you issued the TRAN, what does an issuer do if they find they did not size the TRAN issue large enough? Can they issue again in the same fiscal year, and what are the financial implications of that?

CRAIG HILL: Want to take that, Don?

DON FIELD: Sure, I'll take the legal side and I will let you answer the financial implications. So, going into this fiscal year with the clients I have been working with, both on an individual stand-alone basis, and the pool programs as well, is analyzing up-front if there is any possibility that there will be a need to issue additional notes, for any reason, whether it's sizing smaller for the first issuance not knowing what is going to happen in the latter part of the year, or any other reason. Just make sure the documentation allows for the additional notes. Craig, do you want to talk about the financial implications of a subsequent issuance?

CRAIG HILL: Yeah, I think, you know -- I'm going to start with this is uncharted waters and so we want to make sure that what initially happens, in terms of documentation and/or the approval process, does allow for what we would call a "parity note concept", where you would be allowed to, basically, create a secondary cash flow for an infusion of cash. We have personally never worked with a public agency that has needed to go to market twice in the same year, but it seems to be a conversation that doesn't want to go away where we are right now.

CHAS CARDALL: Maybe one example. We have, back at the time when there were pretty significant deferrals for school districts, issued notes a second time for many districts and had them maturing out in, I don't know, Don, do you remember in October or November? I think the idea was, some of that was based on the specific timing on the deferrals that was set forth in the State budget, and with the notion of "let's give it an extra month or two beyond that", just to be safe. But to allow for the notes to mature that far out, that far into the next fiscal year, to use those revenues accrued in the prior fiscal year, but paid in the following year, typically those were a second round of borrowings for those same borrowers.

DON FIELD: Yes, in fact, the California School Boards Association TRAN pool this year is planning 3 different issuance periods to deal with the difficulties of cash flow for school districts this year. Some may participate just in one of the pools, but we have seen in the past, a number of school districts that issue beginning of the year and then in the January, February time period to deal with the deferrals that tend to come in the latter months of the year when the State has been deferring revenues.

ROBERT BERRY: A follow-up question that just came in here is, instead of issuing a second time; issuing more TRANs than you need at the outset. Is it possible there will be easing of "arbitrage rebate rules" because of the extreme budget uncertainty, is that anything you heard about?

CHAS CARDALL: This is Chas again, I think it's highly unlikely that there will be some change in law either as a statutory matter coming from Congress, or regulatory matter from the IRS that will change the basic dynamic I described before. I think the sizing process is going to be the same and the rebate dynamic is going to be the same. You might say to yourself, does it make sense to max out on what we think is reasonable and be prepared to make a rebate payment? Or you might say should we do a taxable note together with a tax-exempt note to put more dollars in the system, and now you are, kind of, safe with the smaller tax-exempt size. I think what we are potentially going see in terms of new rules that relate to this a little bit, is new rules that allow for, at least from a tax perspective, it to be easier to borrow on a multi-year basis for covering current deficits, so a longer-term working capital financing. The challenge with that is going to be, are there legal structures under state law that would allow for the issuer, whoever they are, to borrow on that basis? But don't think we are going to see much change to the tax rules relating to TRANs as we're talking about today.

CRAIG HILL: I would add to that, from a practical perspective, what we're looking at is the rebate. The arbitrage rebate calculation is a 100% tax on all earnings above the yield on the TRAN. So, as an example, if you are borrowing money at 1.5%, let's say that is your arbitrage yield, and your own treasury while you are holding onto the money is earning 2%. And it turns out you borrowed more than you should have, which might be wise in these uncertain times, your tax is going to be that 50-basis point spread between what you actually earned and what you were allowed to earn. It's not punitive to a public agency in the sense that they're actually losing money - they're just giving back the extra interest that they earned while they were holding onto the note. Is that a correct statement?

CHAS CARDALL: Yeah, I think that is right. I mean, there are some nuances to it, but that's the basic point. I agree with you.

ROBERT BERRY: Alright, a related question. Understanding the security pledge for TRANs are unrestricted revenues, what are the alternate liquidity sources that I think Craig mentioned a little bit about. If your sales taxes fall short of projections and the timing is not as expected? We had a specific question relative to the use of bond proceeds, and I know there is particular sensitivity to general obligation bonds, both constitutional and tax reasons to avoid using those proceeds, but a specific question came in, with respect to the use of taxable pension obligation bond proceeds. Can you talk about alternative liquidity?

CRAIG HILL: Yeah, I'll start and maybe Chas or Don can talk about the limitations. I think the short answer would be bond proceeds would not be considered alternative liquidity. Just to give people an example of what we have seen in the past, you might have parking funds, you might have equipment replacement funds, workers comp fund, pension deferral savings account to help offset rising pension costs in the future that's not part of a trust but is more of just a regular set-aside, you have catastrophic economic uncertainty reserves, you've got stabilization funds within a general fund, and you've got capital improvement funds that you are holding on to that are from the general fund maybe they're for a project you are setting aside half a million dollars a year for a future City Hall and you are 5 years into it and 10 years out from doing the project you might look at that for a source that would be available. Those are the kinds of funds that are originated within, for this example, a city or special district that would be available. I'll let the lawyers speak to using bond proceeds as alternative liquidity.

DON FIELD: Chas will probably go into detail on the differences between the use of TRAN proceeds, which is a working capital financing, versus a capital financing. There are restrictions in State law between the two of them. I think pension obligation bond proceeds were specifically referenced.

ROBERT BERRY: Yeah, specifically POB proceeds.

DON FIELD: Typically, pension obligation bonds, how they are issued, is that you issue pension obligation bonds to pay off the pension obligation. Once that obligation or the bonds are issued, that money goes to the pension fund to pay off that obligation, it's really the only way the pension obligation bond structure works. So, unless you are then going to be borrowing from the pension system, those proceeds would be over at the pension side of things and not subject to the issuer's use. Chas, do you want to add on the tax side?

CHAS CARDALL: Yeah, just really quick. Separating out the world, if you had some taxable bonds, although Don just answered the pension bond point and it doesn't sounds like a very good option. If you had some taxable-bond proceeds, you have more flexibility tax-wise because the bonds are taxable and the basic tax rules that I deal with don't apply. If you have tax-exempt bonds, say you had a tax-exempt bond issued as a GO or revenue bonds, whatever it is, for capital projects, that's a big fund sitting there waiting and you are saying "can we use that to help cover our operating costs?". That gets challenging. I will say that we have gotten asked that question and I've been asked 5 or 6 times over a pretty long career, and there are some angles to use those funds, but you ought to talk to your bond counsel for that transaction, and see what they say. There is very little uniformity amongst the tax lawyers on how to handle that, and it's tricky. There are some approaches, but none of them are perfect.

DON FIELD: One thing I will say is that there may be a way to do this indirectly, and Chas can tell me if I'm getting out of line, but for instance if you are a city that had a capital project, typically you are conservative and you don't issue your capital project bonds with money for capitalized interest, but legally you are able to issue with capitalized interest. By doing so in a year like this year, you shift money from the general fund that would be paying interest currently on the newly issued bonds, to having that be paid from capitalized interest and so you could free up some cash flow in other ways that don't directly finance the cash flow deficits.

CHAS CARDALL: Right, the tax law does allow for, on new money transactions, for interest to be funded for up to 3 years, just kind of generally. The tax law also allows for a certain amount of initial operating costs for a new project to be funded. So, there is some ability to do some working capital on the de minimis amount level in connection with other transactions and that might be useful at this time.

ROBERT BERRY: I think if folks will hang in here, I think we have one more question I'd like to pose to our panelists that has to do with market optics. Does issuing TRANs reflect negatively on an entity like a county? Does it have an impact on the viability of future non-TRAN issues by the county? What are your thoughts on that?

CRAIG HILL: I'll take that from a market perspective. While we're not underwriters, generally the conversations we've always had around the issuance of a TRAN - it's not deemed to be a negative. It is simply a mechanism or a tool for cash flow, it is not a representation of budget or overall balances. We do not see it as a negative, nor have we seen any commentary in credit reports that the fact that someone is issuing a TRAN is cause for concern.

DON FIELD: Yeah, this is Don Field, we don't advise on the financial aspects of whether it's a good idea to do the TRAN, but we're aware and work with a number of counties that are highly rated that do issue TRANs regularly.

ROBERT BERRY: I think that will bring us to the end of the Q&A session, there are a couple more slides here we want to leave you with.

Slide 35 – Available TRAN POOLS 1:29:00

ROBERT BERRY: Available TRAN pools, we talked about the pools out there currently. CDIAC has put together a list, we have done some research in advance of this program, if you are considering a TRAN pool, this list here is not exhaustive or recommendation per se, these are just the pools we were able to identify in a short time. We have more detail on these pools on a list on our website we just posted a few minutes ago, just before the webcast. So, we sorted the pools in 3 buckets here. Ones that are open to all, as you can see the California Special Districts Association has a pool that they are preparing to open and also California Statewide Communities Development Authority, which was the pool provider back in the Great Recession, for a lot of cities. We also have a list here of education pools that are offered statewide. We talked to all these folks, they're open and ready to talk to you. Then there are country-specific pools. We're not able to research all of the potential country pools, so really the best strategy of learning about pool opportunities in your county is to contact the county office of education or the county directly. There is some additional information on the website at link on the top of the page, that gives you some details on when they're planning to issue, when the pool issues are tentatively scheduled.

Slide 36 – Connect with CDIAC 1:30:41

ROBERT BERRY: Before we go, just a reminder to please stay in contact with CDIAC, we would like to produce additional COVID-related webinars for you. There are many ways to reach us, your ideas are always welcome, so please let us know how we can help you.

Slide 37 – Thank You 1:31:04

ROBERT BERRY: In closing, on behalf of CDIAC, I would like to thank our terrific presenters: Craig Hill with NHA Advisors, Don Field and Chas Cardall with Orrick, Herrington & Sutcliffe, for their very generous dedication of their time and expertise to this program, and in lightning speed too, to put this together very quickly, great job. I would like to recognize numerous professionals on the screen, although you didn't hear the voices they made very significant contributions to the program to help with the presentation and background research on a variety of topics that we looked into in curating this program. Big thank you to the CDIAC education team, Karen McMillen and Angela Ayala, great job ladies a lot of hard work went into this program. And of course, thank you to all of you for joining us this morning and we look forward to you joining us for future programming. That ends our broadcast, so long, stay well, and have a great day everyone.