

To TAN or not to TAN

(Not a Suntan!)

NOVEMBER 14, 2019

Presentation Team

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The School District of Sunshine County, Florida

TAX ANTICIPATION NOTE

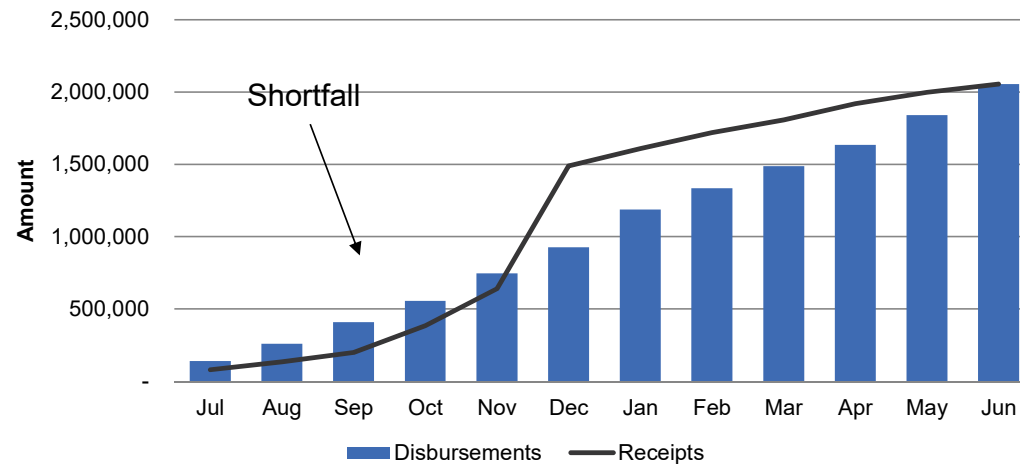
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TAN Cashflow

Tax Anticipation Notes (“TANs”) are short-term financings that allow the District to pay operating expenses prior to receiving tax revenue. Since most of the money received is from property taxes and state funds, there is not a constant source of funding that exists throughout the year. TANs are usually issued in the late summer to early fall before receipt of property tax revenues

General Fund Cash Flow



TAN Cashflow Analysis Overview

Review of actual (prior Fiscal Year) and projected (budget year) cash flows

General Fund only

- Includes all cash and investments (short AND long term)
- Can exclude interfund transfers if required to pay back to other fund
- **Historical Working Capital Reserve**
 - 5% of prior year expenditures (not including repayment of prior year's TAN, if any)
 - Less than average beginning fund balance for prior Fiscal Year
- **Break up November in projected cash flows to find max deficit**
 - Max deficit generally occurs in 2nd or 3rd week in November
 - Daily cash flows are helpful, but not required
- **Max Borrowing Amount**
 - Cash flow deficit
 - Plus working capital reserve
 - Needs to be less than that amount to be tax-exempt
 - Plus premium
 - Plus investment earnings
- **Positive Arbitrage Avoiding Rebate**
 - Must have hit deficit
 - Consider working capital reserve “unavailable” for such purpose
 - Safe harbor – working capital reserve treated as “available”

TAN Cashflow Analysis

Review of actual (prior Fiscal Year) and projected (budget year) cash flows

The School District of Sunshine County, Florida
Actual Cashflow
Fiscal Year 2018-2019
(in 000's)

	Receipts	Disbursements	Balance
Beginning Balance 06/30/18	\$ -	\$ -	\$ 12,418
07/31/18	6,950	5,139	14,229
08/31/18	3,113	6,836	10,506
09/30/18	3,116	10,063	3,559
10/31/18	4,643	13,336	(5,134)
11/30/18	20,586	9,626	5,826
12/21/18	46,083	12,259	39,650
01/31/19	18,562	11,405	46,807
02/28/19	6,020	9,949	42,878
03/30/19	6,779	10,655	39,002
04/30/19	8,266	9,742	37,526
05/31/19	4,800	22,799	19,527
06/30/19	3,958	7,951	15,534
Totals	\$ 132,876	\$ 129,760	\$ 15,534

The School District of Sunshine County, Florida
Cashflow Projections
Fiscal Year 2019-2020
(in 000's)

	Receipts	Disbursements	Balance
Beginning Balance 06/30/19	\$ -	\$ -	\$ 15,533
07/31/19	8,326	5,807	18,052
08/31/19	4,054	8,031	14,075
09/30/19	3,760	11,822	6,013
10/31/19	3,812	15,667	(5,842)
11/02/19	70	378	(6,150)
11/09/19	70	5,087	(11,167)
11/16/19	1,704	378	(9,842)
11/23/19	12,155	5,087	(2,774)
11/30/19	10,934	378	7,782
12/21/19	56,696	14,402	50,077
01/31/20	20,900	13,399	57,578
02/29/20	7,368	11,688	53,258
03/30/20	8,429	12,518	49,170
04/30/20	9,787	11,445	47,512
05/31/20	5,540	26,783	26,268
06/30/20	4,615	9,560	21,323
Totals	\$ 158,221	\$ 152,432	\$ 21,323

TAN Cashflow Analysis

General Fund Only

- Includes all cash and investments (short AND long term)
- Can exclude interfund transfers if required to pay back to other fund

Receipts:

Federal Revenues

Medicaid
ROTC

State Revenues:

FL Ed. Finance Program
Instructional Material
Lottery
Transportation
School Recognition Funds
Class Size Reduction
Other State Revenues

Local Revenues:

Ad Valorem Tax
Interest
Other Local Revenues
Loss Recoveries
Transfers In
Sale of Capital Assets
2019 Note Proceeds

Disbursements:

Salaries
Benefits
Vendors
Transfers Out
Transfer to TAN Sinking Fund

TAN Cashflow Analysis

Historical Working Capital Reserve

- 5% of prior year expenditures (not including repayment of prior year's TAN, if any)
- Less than average beginning monthly fund balance for prior Fiscal Year

- 5% of \$129,760,196 = \$6,487,510 (Working Capital Reserve)
- Check: \$6,487,510 < \$22,493,000

The School District of Sunshine County, Florida
Actual Cashflow
Fiscal Year 2018-2019
(in 000's)

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TAN Cashflow Analysis

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TAN Cashflow Analysis

Max Borrowing Amount

- Cash flow deficit
 - Plus working capital reserve
 - 5% of prior year expenditures
- Issuance amount needs to be less than that amount to be tax-exempt
 - Plus premium
 - If publicly offered, calculate 5%
 - Plus investment earnings
 - Estimated interest earning on invested proceeds

	Receipts	Disbursements	Balance
10/31/19	3,812	15,667	(5,842)
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Cashflow Deficit	\$ 11,167,000
Working Capital Reserve	6,487,510
Premium	(800,000)
Investment Earnings	(480,000)
Maximum Borrowing Amount	\$ 16,374,510

TAN Cashflow Analysis

Positive Arbitrage Avoiding Rebate

- Statutory 6-month spending exception to rebate
 - Safe harbor - Cumulative cash flow deficit exceeds 90% of gross proceeds
 - Proceeds-spent-last rule (i.e., exhaust other “available amounts” first)
 - “Available amount” – cash, investments, and other amounts held in accounts or otherwise by an issuer if those amounts may be used by the issuer for working capital expenditures of the type financed without legislative or judicial action, and without a legislative, judicial or contractual requirement that those amounts be reimbursed; does not include TAN proceeds
 - Working capital reserve treated as “available” under Safe Harbor
- Regulatory 6-month exception
 - Cumulative cash flow deficit exceeds 100% of gross proceeds
 - Consider working capital reserve “unavailable” for such purpose

TAN Resolution

Operative Document – unlike COPS, no other financing documents

- Constitutes a contract between District and Noteholders

Authorized by Section 1011.13, F.S.

Legislative Findings

- Tracks requirement of statute

Pledge and lien upon operating millage (excluding voter approved debt service millage or 1.5 capital outlay millage)

- Also payable but not secured by Non-Ad Valorem revenues

Delegates to Chair or Superintendent

- Publication of Summary Notice of Sale – 10-day notice requirement per 218.385, F.S.
- Tax and Other Covenants

TAN Resolution – Financing Points

Approves NTE Amount of TAN based on cash flow analysis and discussion

Method of Sale

Establishes Note Payment Fund – often funded 21 days prior to maturity

Approves form of Preliminary Official Statement

Approves form Official Notice of Sale

- Bidding specifications
- Date/time of sale
- Lowest net interest cost
 - Tie-breaker provisions
- Good Faith deposit

Appoints paying agent

- Internal or External

TAN Resolution – Financing Points

- ✓ Approves NTE Amount of TAN based on cash flow analysis and discussion

TAN Resolution – Financing Points

✓ Method of Sale

	Bank Loan	Competitive Bond Issuance
Pros	<ul style="list-style-type: none"> <input type="checkbox"/> No ratings required <input type="checkbox"/> No offering documents & minimal disclosure requirements <input type="checkbox"/> Minimal issuance costs <input type="checkbox"/> Usually shorter timeframe to close financing 	<ul style="list-style-type: none"> <input type="checkbox"/> Future tax law change risk is with holders of bonds <input type="checkbox"/> Able to reach a broad market of investors <input type="checkbox"/> Flexible schedule
Cons	<ul style="list-style-type: none"> <input type="checkbox"/> Some banks require gross-up language if tax laws change <input type="checkbox"/> Call Provisions are sometimes not available or are costly, can vary greatly between banks 	<ul style="list-style-type: none"> <input type="checkbox"/> Ratings would be recommended <input type="checkbox"/> Issuance costs much greater than Bank Loan <input type="checkbox"/> Additional time to complete financing due to additional documents and ratings process <input type="checkbox"/> Continuing disclosure required after bonds are sold

TAN Resolution – Financing Points

- ✓ Establishes Note Payment Fund – often funded 21 days prior to maturity
 - ✓ Rating considerations
 - ✓ Investor Preference

Short-Term Credit Ratings

The Municipal Investment Grade (MIG) scale is used by Moody's to rate US short-term obligations. MIG ratings expire at maturity of the obligation. The Issuer's long-term rating is only one consideration when assigning a MIG Rating

MIG Scale	
MIG 1	This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.
MIG 2	This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.
MIG 3	This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.
SG	This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

TAN Resolution – Financing Points

- ✓ Approves form of Preliminary Official Statement
 - ✓ If publicly offered, preparation of a Preliminary Official Statement is required
- ✓ Approves form Official Notice of Sale
 - ✓ Bidding specifications
 - ✓ Date/time of sale
 - ✓ Lowest net interest cost
 - ✓ Tie-breaker provisions
 - ✓ Good Faith deposit

TAN Resolution – Financing Points

- ✓ Appoints paying agent
 - ✓ Internal or External

Pre-sale Rush and Submitting the Bid

Initially the underwriter puts out a preliminary pricing wire to their sales force and traders

Initial coupons and yields are adjusted to reflect feedback from the sales force and traders

Pre-sale orders are entered from investors

As the bid clock runs down, the underwriter finalizes the bid and submits it via the online system

At sale time the bidders are ranked in order of lowest to highest interest cost to the bidder

- The sales results of a previous TAN sale are shown to the right
- Morgan Stanley was the winning bidder

The underwriter who buys the loan is called the “highest” bidder(i.e. best bid to the issuer)

Sales Results Report

\$115,000,000

Due: 8/30/2018

Sunshine Co SD, FL

Tax Anticipation Notes, Series 2018

Sale Date: 9/25/2018 11:00 AM EDST

Delivery Date: 10/3/2018

Dated Date: 10/3/2018

First Int. Date: 8/30/2019

Int Accrue Date: 10/3/2018

The results stated below show only bids submitted by BiDCOMP users

<u>Firm</u>	<u>Bid Amount</u>	<u>NIC</u>
Morgan Stanley & Co, LLC	116,045,350	1.999266%
J.P. Morgan Securities LLC	117,084,950	2.004037%
Citigroup Global Markets Inc.	116,020,050	2.023486%
Raymond James & Associates, Inc.	117,058,500	2.029358%
RBC Capital Markets	116,005,100	2.037798%
Wells Fargo Bank, National Association	117,038,950	2.048073%
PNC Capital Markets	117,037,800	2.049174%
Bank of America Merrill Lynch	118,072,800	2.058349%
Barclays Capital Inc.	117,014,800	2.071193%
Jefferies LLC	115,969,450	2.071927%
Stifel Nicolaus & Company, Inc.	116,994,100	2.091009%

Provided for illustrative purposes only



THANK YOU!
