



CITY OF SACRAMENTO

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ASST. TREASURER

February 18, 1982

TO: Budget and Finance Committee
Honorable Members in Session

FROM: THOMAS P. FRIERY, City Treasurer

SUBJECT: Status Report City of Sacramento 1981 TRAN Sale, January 2, 1982
Through January 29, 1982 and Cumulative from October 15, 1981 Through
January 29, 1982

SUMMARY

For the period January 1, 1982 through January 29, 1982 the General Fund was in a positive daily cash position. On January 29, 1982 \$2.4 million of Federal Home Loan Discount Notes which were originally purchased on October 15 were sold. A gain on this sale was recorded of approximately \$13 thousand. The proceeds from this sale were re-invested and \$2.4 million of Bankers Acceptances were purchased which will increase the interest income originally estimated to be earned as a result of the TRAN transaction by approximately \$7,000. The net effect of this transaction is that at the present time we have increased our estimate of TRAN earnings from \$320 thousand as reported in December to \$327 thousand in January. Should there be no further decreases in General Fund balances, this amount of money should be earned.

However, it must be emphasized that the intent of the TRAN Sale was to meet cash flow deficits in the General Fund and not to earn interest income. To this point in time, the TRAN Sale has provided sufficient monies to meet the greater than estimated General Fund cash flow deficits.

BACKGROUND

On October 6, 1981 the City Council approved the award of bid for the TRAN Sale to Bank of America at a net interest cost of 9.94%. At that time the City Treasury estimated that additional financing expenses of approximately \$70 thousand would be incurred on the issue which would raise the true interest cost of the TRAN issue to 11.05%.

Further, the City Treasury projected that the TRAN Sale proceeds could be reinvested at a 16.39% rate of return for the period October 15, 1981 through June 29, 1982, and based on estimates of General Fund cash deficits as computed by the City Department of Finance, a net benefit of \$346 would inure to the City after having met the then projected General Fund cash flow deficits and the repayment of all interest and costs associated with the TRAN Sale.

The financing expenses of the TRAN issue were approximately \$49 thousand as opposed to the \$70 thousand originally estimated which reduces the true interest cost of the TRAN Sale from 11.05% to 10.71% and increased the potential for a net benefit from \$346 thousand to \$365 thousand.

However, in spite of these positive developments, the actual general fund cash deficit has averaged approximately \$1.4 million per day greater than was estimated for the period October 15, 1981 through January 1, 1982. The impact of this action is that an opportunity for approximately \$45 thousand in investment income has been lost. During the month of January the Investment Officer for the City of Sacramento had an investment opportunity to increase the net income benefit for the issue by \$7 thousand. For the month of January, 1982, the General Fund had a positive daily balance. It appears at this time that the net benefit including the \$7 thousand gain from the investment trade executed in January, 1982 will be \$327 thousand.

It is reemphasized that if there are future cash flow deficits (which were not projected in October, 1981 for the months of February through June) it may not be possible to earn the net benefit presently estimated.

Following up the October 6, 1981 Council action awarding the bond sale, a report on the Cash Flow and Investment Results is provided as Attachment A.

My staff and I are here to answer any questions of the Budget and Finance Committee regarding this issue.

RECOMMENDATION

It is recommended that the Committee accept this report and forward the same to the full Council for its information.

Respectfully,

for Donald E. Speckling
THOMAS P. FRIERY
City Treasurer

TPF/1v

FOR TRANSMITTAL:

Robert C. Leland
FINANCE ADMINISTRATION AND BUDGET

Attachment

ATTACHMENT A

CASH FLOW AND INVESTMENT RESULTS
1981 CITY OF SACRAMENTO
\$9.5 MILLION TRAN ISSUE

CASH FLOW	(\$000's Omitted) Estimated Average Negative Daily Cash Balance As of August, 1981	(\$000's Omitted) Actual Average Negative Daily Cash Position	(\$000's Omitted) Variance	
<u>GENERAL FUND AVERAGE DAILY CASH POSITION</u>				
10/15/81 - 1/1/82	\$ (922)	\$ (2,283)	\$ (1,361)	
1/2/82 - 1/29/82	-0-	-0-	-0-	
Average for Period 10/15/81 through 1/29/82	\$ <u>(922)</u>	\$ <u>(2,283)</u>	\$ <u>(1,361)</u>	

INVESTMENT INCOME	Separately Earned Interest Income	Pool A Particip. of Interest Income	Total Interest Income	TRAN Results 10/15/81 Thru 1/1/82
<u>INTEREST INCOME EARNINGS FROM TRAN SALE</u>				
10/15/81 - 1/1/82 (16.75% Rate of Return on TRAN Issue)	\$ 326,677	\$ 15,622	\$ 342,299	
1/2/82 - 1/29/82 (18.29% Rate of Return on TRAN Issue)	\$ <u>135,035</u> <u>461,712</u>	\$ <u>387</u> <u>16,009</u>	\$ <u>135,422</u> <u>477,721</u>	\$ 477,721
<u>DEDUCT: Financing Costs & Expenses</u>				
	1/ TRAN Issue Expense	2/ Financing Costs	Total Expenses	
10/15/81 - 1/1/82	\$ (207,236)	\$ (15,338)	\$ (222,574)	
1/2/82 - 1/29/82	(73,451)	(5,436)	(78,887)	
Total Expenses for Period 10/15/81 through 1/29/82	\$ <u>(280,687)</u>	\$* <u>(20,774)</u>	\$ <u>(301,461)</u>	\$ (301,461)
GROSS INCOME PRIOR TO CONSIDERATION OF LOSS OF INTEREST DUE TO THE GENERAL FUND DAILY CASH DEFICIT				\$ 176,260
<u>DEDUCT:</u>				
	Loss of Interest Income Due to Estimate of Deficit in August, 1981	Loss of Interest Income Due to Variance In General Fund Deficit		
City Pool A Earning Rate 10/15/81 - 1/1/82 (14.89%)	\$ (29,306)	\$ (45,356)	\$ (74,662)	
City Pool A Earning Rate 1/2/82 - 1/29/82 (14.03%)	-0-	-0-	-0-	
Total for Period 10/15/81 through 1/29/82	\$ <u>(29,306)</u>	\$ <u>(45,356)</u>	\$ <u>(74,662)</u>	\$ <u>(74,662)</u>
Net Income from TRAN Sale for Period 10/15/81 - 1/29/82				\$ <u>101,598</u>

1/ Includes Interest Expense less Amortization of Premium on 1981 TRAN Note Issue
2/ Comprised of \$49,900.00 of Financing Expenses for Bond Counsel, Special Consultant, Financing Consultant, Printing, Mailing, etc. These costs are amortized daily over the period.