SALT LAKE CITY COUNCIL STAFF REPORT

DATE: June 28, 2002

SUBJECT: **TAX AND REVENUE ANTICIPATION NOTES**

STAFF REPORT BY: Gary Mumford

Document Type	Budget-Related Facts	Policy-Related Facts	Miscellaneous Facts
Resolution	The proposal has a budget impact	The proposal is consistent with Council action of prior years	It appears that adopting the proposal is in the best interests of the City

Every year in July, Salt Lake City issues Tax and Revenue Anticipation Notes to assist with cash flow needs of the General Fund. Property taxes, one of the City's major sources of revenue, are primarily received in December. The City normally borrows funds for General Fund operations in anticipation of receiving property taxes. The federal government restricts the amount of borrowing (at the lower tax-exempt rates) to actual needs as determined by a formula. The City generally borrows close to the maximum allowed because of the advantage of earning greater interest revenue than the interest expense. The notes are issued and funds borrowed for slightly less than a one-year period. For fiscal year 2001-2002, the City borrowed $25 million. The Administration is proposing to issue $25 million again for fiscal year 2002-2003.

Bids from potential buyers of the tax and revenue anticipation notes are scheduled to be opened on July 9, 2002. That evening, the Administration will ask the Council to authorize the award of the sale of the notes to the lowest bidder. The City Treasurer will provide the Council with a summary of the results of the sale including the number of bids received and the net effective interest rate of the low bid. The actual closing and receipt of funds is scheduled to take place on July 16, 2002. The Notes mature and will be repaid on June 30, 2003.

MATTERS AT ISSUE:

By issuing Tax and Revenue Anticipation Notes, the City earns a significant amount of additional interest revenue. The City Treasurer indicates that during most of the year, the City can typically earn an extra 75 to 100 basis points (0.75% to 1%) on the amount borrowed over the amount of interest that it pays. However, the overall interest rate environment during the period that the notes are outstanding is a key factor in determining the effectiveness of the borrowing. The City should earn at least $160,000 in net interest after paying costs of issuing the notes.

OPTIONS:

- The Council may wish to schedule award of the sale to the lowest bidder on the Council's agenda for July 9, 2002.
- The Council may wish to request additional written information.

ANALYSIS:

Based on interest rates from approximately two weeks ago, the City's financial advisor estimates that the net effective interest rate should be about 1.6% to 1.65%.

An analysis of the cash flows forecasted by month for next fiscal year (July 2002 through June 2003) shows that the General Fund anticipates incurring a maximum deficit of $24,449,000 without considering the planned $25,000,000 borrowing.

During the 2001-2002 fiscal year, the City met the following federal spend-down requirements to allow the City to keep excess interest earned over interest expense:

- 90% of the proceeds plus interest on the tax and revenue anticipation notes must be spent within six months;

or

- At some point within the first six months, the actual cash flow ending balance must be less than or equal to 5% of the prior year's actual disbursements.

cc: Rocky Fluhart, David Nimkin, Dan Mulé, DJ Baxter