SALT LAKE CITY COUNCIL STAFF REPORT

DATE: June 6, 2003

SUBJECT: **TAX AND REVENUE ANTICIPATION NOTES**

STAFF REPORT BY: Gary Mumford

REQUESTED ACTION:

Salt Lake City issues Tax and Revenue Anticipation Notes (TRAN's) each July 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 2002-2003, the City borrowed $25 million. The Administration is proposing to issue $21 million for fiscal year 2004.

Bids from potential buyers of the TRAN's are scheduled to be opened on July 1, 2003. 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 15, 2003. The Notes mature and will be repaid on June 30, 2004.

MATTERS AT ISSUE/POTENTIAL QUESTIONS FOR ADMINISTRATION:

By issuing Tax and Revenue Anticipation Notes, the City can typically earn a significant amount of additional interest income. 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 Treasurer is expecting to earn between 25 and 50 basis points (0.25% and 0.50%) on the amount borrowed over the amount of interest that it pays.

An analysis of the cash flows forecasted by month for next fiscal year (July 2003 through June 2004) shows that the General Fund anticipates incurring a maximum deficit of $20,897,260 without considering the planned $21,000,000 borrowing.

During the 2002-2003 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.

Since the maximum allowed amount of the proposed Notes for fiscal year 2003-04 is less than the amount borrowed during fiscal year 2002-03, the City Treasurer is projecting that interest income will be $60,000 less than the amount included in the Mayor's recommended budget. The City Treasurer anticipates a coupon rate of 2% on the tax notes, which will save about $80,000 over the amount of interest expense included in the Mayor's recommended budget. The Council's options relating to the proposed budget include:

1. Decrease budgeted interest revenue by $60,000 and decrease interest expense by $80,000. This will free up $20,000 for other Council priorities. The budget for interest expense can be adjusted by budget amendment if the actual coupon rate is greater than 2%.
2. Decrease both interest revenue and interest expense by $60,000. This will allow some leeway in case the coupon rate is greater than 2%. The budget for interest expense can be adjusted by budget amendment depending on the actual coupon rate.

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