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# **SALT LAKE CITY COUNCIL STAFF REPORT**

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**DATE:** June 2, 2006  
**SUBJECT:** **TAX AND REVENUE ANTICIPATION NOTES**  
**STAFF REPORT BY:** Gary Mumford

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## **REQUESTED ACTION:**

Salt Lake City issues Tax and Revenue Anticipation Notes each year 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. Based on the formula, the City Treasurer is proposing to issue \$20 million for fiscal year 2006-07. The sale of the notes is scheduled for June 15. The closing and receipt of funds is scheduled to take place in July 2006. The notes mature and will be repaid on June 29, 2007.

## **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 notes will be sold using the competitive method of sale, whereby the notes are awarded to the firm offering the lowest interest rate bid. Bids are scheduled to be opened on June 15, 2006. 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 Mayor's proposed budget includes \$1,062,500 of interest expense for the Tax Notes, which assumed that the City would borrow several million more than \$20,000,000. Since the City Treasurer is recommending borrowing \$20,000,000, interest expense will be approximately \$850,000. With the lower amount of tax notes to invest, forecasted interest income should also be reduced, probably by a similar amount as the reduction of interest expense. The exact amount to be budgeted for interest expense will not be known until the notes are sold on June 15, 2006. Council staff can include these adjustments on your budget motion sheets for your formal consideration when adopting the annual budget.

DANIEL A. MULE'  
CITY TREASURER

**SALT LAKE CITY CORPORATION**  
DEPARTMENT OF MANAGEMENT SERVICES  
TREASURER

ROSS C. "ROCKY" ANDERSON  
MAYOR

**TO:** Rocky J. Fluhart, Chief Administrative Officer

**DATE:** May 30, 2006

**FROM:** Daniel A. Mulé, City Treasurer *DRAM*

**SUBJECT:** Tax and Revenue Anticipation Notes, Series 2006 (the Tax Notes)

**STAFF CONTACT:** Daniel A. Mulé, City Treasurer

**TELEPHONE NUMBER:** 535-6411

**RECOMMENDATION:** That the City Council hold a discussion on June 6, 2006 and schedule the adoption of a resolution on June 15, 2006 authorizing the issuance and confirming the sale of \$20 million in Tax and Revenue Anticipation Notes for fiscal year 2007.

**DOCUMENT TYPE:** Briefing/Discussion

**BUDGET IMPACT:** Current estimates provided by the City's financial advisor indicate that the City should expect a coupon of about 4.25%. Issuing \$20 million in Tax Notes would translate into interest expense for the General Fund of \$850,000. The Mayor's Recommended Budget includes a budget of \$1,062,500 for interest expense. Once the actual coupon is known, the budgets for interest expense and interest income will be adjusted accordingly.

**DISCUSSION:** Tax Notes are short-term borrowing instruments (debt) issued for one year or less in anticipation of future tax collections. The purpose of the borrowing is to provide financial assistance to the City's General Fund during its "cash-poor" period until the major portion of property taxes are received, usually in December. The exact amount to be budgeted for interest expense will not be known until the Notes are sold on June 15, 2006 at which time the actual coupon will be determined. To assure compliance with applicable federal and state regulations, sizing restrictions are adhered to when determining an allowable principal amount, and actual cash flows relative to spend down requirements are regularly monitored to avoid rebate. Sizing restrictions allow for a maximum amount of \$21.5 million of Tax Notes to be issued. However, after a prudent analysis of the timing of expected receipts and disbursements included in the Mayor's Recommended Budget, I am recommending that only \$20 million of Tax Notes be issued.

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