SALT LAKE CITY COUNCIL STAFF REPORT

DATE: June 8, 2004

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 year in June or 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 notes are issued and funds borrowed for slightly less than a one-year period. For fiscal year 2003-04, the City borrowed $21 million. The Administration is proposing to issue $25 million for fiscal year 2004-05. The closing and receipt of funds is scheduled to take place in July 2004. The notes mature and will be repaid on June 30, 2005.

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.

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 17, 2004. 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 amount of the interest expense will be known at that time. In some years, the actual interest expense differs from the proposed budget. *The Council may wish to ask whether the proposed interest budget of $625,000 continues to be a good estimate. The Council may wish to ask whether the City Treasurer estimates that any additional interest revenue may be realized in addition to the $1,900,000 that was anticipated when the Administration developed the budget in April.*

During the 2003-2004 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.

An analysis of the cash flows forecasted by month for next fiscal year (July 2004 through June 2005) shows that the General Fund anticipates incurring a maximum deficit of $31 million without considering the planned $25 million borrowing. After analysis of the timing of expected receipts and disbursements, the City Treasurer is recommending that $25 million of notes be issued to ensure compliance with federal spend-down requirements.

cc: Rocky Fluhart, Sam Guevara, Dan Mulé, DJ Baxter