State of Iowa Fiscal Committee Meeting
Tax and Revenue Anticipation Note Overview

General Description

A Tax and Revenue Anticipation Note, or TRAN, is a financial tool used fund near term cash flow needs by borrowing against the anticipated tax and revenue receipts.

Purpose

The State of Iowa is issuing TRANs for the purpose of addressing the differences in timing between expenditure requirements and tax and revenue receipts. Historically, the greatest cash flow deficit occurs in mid-April.

Background

In November 2001, the State completed a successful note issuance in the amount of $500 million, to fund cash flow imbalances resulting from the misaligned timing of expenditures and revenues in fiscal year ending 2002. To address similar timing differences in the current fiscal year, the TRANs project team was assembled. In mid-November, discussions began regarding the timing and structure of the note. Following the release of estimates from the Revenue Estimating Conference on December 8, cash flows and sizing analyses were distributed to the rating agencies for discussion and review. The notes were priced and sold on December 16, with delivery of bond proceeds on December 19, 2003.

Credit Rating

The State of Iowa's long-term issuer credit ratings (in lieu of a general obligation debt ratings) are Aa1/AA+, by Moody's and Standard & Poor's, respectively. The State has received MIG1/SP-1+ ratings related to the short-term note offering.

These short-term ratings are indicative of the highest credit quality for short-term notes.

Issuance

The TRANs are being issued in the approximate amount of $575 million, and are contractual obligations of the State of Iowa payable solely from the taxes and revenues of the State attributable to fiscal year ending June 30, 2004. The principal amount borrowed, as well as the interest thereon is due for repayment on June 29, 2004. The TRANs are not subject to redemption prior to maturity.

Costs/Benefits to the State

In connection with the issuance of the TRANs, the State will incur professional fees. These fees, however, as well as the interest due on the note, are expected to be recovered through the investment of unused note proceeds and reserve fund monies.

The TRANs are being issued at a net interest rate that is lower than the rate that can be earned on unspent proceeds and reserves. This relationship allows the State to capture positive arbitrage in an amount that more than offsets the costs of the borrowing. The State may retain any realized positive arbitrage as long as the State can demonstrate an actual cash flow deficit within six months of note issuance as required by federal tax law. The Treasurer of State anticipates returned positive arbitrage net of expenses of between $1.5 and $2.0 million.