



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper
Jennifer A. Maguire

SUBJECT: TRANS INTEREST AND ISSUANCE **DATE:** May 22, 2014
COSTS AND BANKING SERVICES
BUDGET ADJUSTMENTS

Approved

Date

5/23/14

RECOMMENDATION

Approve the following amendments to the 2014-2015 Proposed Budget as follows:

- a. Decrease the City-Wide Expenses TRANS Debt Service appropriation in the amount of \$400,000;
- b. Increase the City-Wide Expenses Banking Services appropriation in the amount of \$250,000; and
- c. Increase the Essential Services Earmarked Reserve in the amount of \$150,000.

BACKGROUND

Since the release of the 2014-2015 Proposed Operating Budget on May 1, 2014, additional information has become available regarding projected Tax Revenue Anticipation Notes (TRANS) interest and issuance costs, and Banking Services costs. To reflect the latest information, budget adjustments are recommended to decrease the TRANS Debt Service appropriation, increase the Banking Services appropriation, and increase the Essential Services Earmarked Reserve.

ANALYSIS

TRANS Debt Service Appropriation Adjustment

The Finance Department has recently received a substantially final version of the Note Purchase Agreement with Bank of America for the 2014-2015 Tax Revenue Anticipation Notes (TRANS) issuance. The TRANS are issued to facilitate the annual prefunding of employer retirement contributions for pension and retiree health benefits. The 2014-2015 Proposed Budget assumed the interest and issuance costs for the TRANS would total \$800,000 next year based on the best available information at the time regarding cash flow analysis and projected interest rate costs.

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These costs are now projected to total \$400,000 in 2014-2015, reflecting a decrease of \$400,000. This decrease is primarily due to the following three reasons: 1) renewal with the same bank continuing with substantially the same terms and conditions as the 2013 Note; 2) the bank interest rate obtained was lower than anticipated (1.00% projected versus 0.65% actual); and, 3) continuing the negotiated repayment structure allowing the City to pay down principal throughout the fiscal year, further reducing borrowing costs.

Banking Services Appropriation Adjustment

The 2014-2015 Proposed Budget includes an allocation of \$1,185,000 for Banking Services, which includes custodial fees, monthly bank fees, and coverage for Merchant Card Fees associated with the acceptance of credit cards as a payment method. Recently, the costs associated with these Merchant Card Fees have increased as the volume of credit card payments to the City has increased and as a result of rate adjustments. The volume increase is a direct result of the City providing a wider variety of payment options, including over the internet, by telephone, and in person, as well as the ability to accept payments 24 hours a day through some of those options. Additionally, in April 2014, there was an increase in various interchange rates charged by the credit card companies, further increasing Merchant Card Fees. Merchant Card Fees are projected to be \$950,000 in 2013-2014, 50% higher than 2012-2013 expenses of \$635,000. The current activity levels are anticipated to continue on an ongoing basis. When the 2014-2015 Proposed Budget was developed, Merchant Card Fees were anticipated to total approximately \$735,000. Given recent experience, an upward adjustment of \$250,000 to this allocation is necessary. As result, total Banking Services costs are now expected to increase by \$250,000, from \$1,185,000 to \$1,435,000, in 2014-2015.

Essential Services Earmarked Reserve Adjustment

As a result of the actions contained in this memorandum, an increase of \$150,000 to the Essential Services Earmarked Reserve is recommended. This additional funding would be available for allocation by the City Council during the 2014-2015 budget process.

/s/

JULIA H. COOPER
Director, Finance Department



JENNIFER A. MAGUIRE
Deputy City Manager/Budget Director