



TRANs as Both Investment Option & Intergovernmental Cooperation

—Sara Schnoor, Senior Portfolio Advisor, PMA Financial Network, Inc.

Since the financial crisis began in Fall of 2008, counties across Wisconsin have struggled to earn investment yields comparable to previous years. The substantial declines in revenue have led counties to explore options outside the collateralized bank deposits, money market funds and U.S. Government Agency securities that typically comprise public investment portfolios.

Likewise, during the 2009-2010 school year, short-term borrowing practices for Wisconsin school districts also changed. Given the annual discrepancy between when school district revenues are received and expenditures are incurred, roughly one-quarter of Wisconsin districts issue Tax and Revenue Anticipation Notes (“TRANs”) to cover short-term cash flow needs throughout the year. For years, districts borrowed the maximum amount allowed by the IRS and extended the maturity date as far as possible to reap the revenue benefits of investing the proceeds. However, given the low interest rate environment during the past five years, districts are unlikely to produce earnings above the cost of borrowing. Additionally, the financial crisis brought more inconsistency and volatility in bid results on TRAN sales resulting in an inefficient marketplace.

For over ten years, PMA has offered cash flow analysis services to public entities participating in the Wisconsin Investment Series Cooperative (WISC). PMA has worked with many school districts to identify cash low points

throughout the year and has encouraged a new way of thinking related to TRAN issuance. With insight gained from detailed cash flows, several districts reduced their borrowing costs by shortening maturities to repay the note early in the calendar year. Many districts are able to repay all or a portion of their TRAN after January and February property tax settlements are received. This short maturity in particular has been an attractive state statute allowable short term investment for Wisconsin counties. Similarly, the longer maturity typically compares favorably to certificates of deposit of the same duration.

Over the years, PMA has introduced this concept of utilizing TRANs to County Treasurers and Finance Directors as both an investment option and an opportunity for intergovernmental cooperation. A current PMA staff member, who is a former Municipal Ratings Analyst, reviews the credit quality of each TRAN offering prior to distribution to ensure the security meets investment policy requirements and credit guidelines. Because most TRAN offerings do not have their own credit rating, this encompasses a thorough review of the offering documents, annual financial statements, credit ratings and continuing disclosure filings. Once a TRAN is deemed an allowable investment offering, it is sent to PMA’s clients for a potential bid.

A recent example is Rusk County’s purchase of a portion of the School District of Ladysmith’s \$2,050,000 Taxable TRAN offering. The City of Ladysmith is the

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Rusk County seat, and the district encompasses the city and surrounding area. In recent years, the district experienced financial challenges that did not affect cash flows but impacted the balance sheet; specifically the detachment of a number of parcels in the Town of Hawkins and the devaluation of an elementary school. County staff was made aware of the credit review findings and understood the situation. The county was interested in bidding on the non-rated security. After reviewing the results of similar offerings, the county placed a bid based on a combination of current investment yields within the county's portfolio and recent sale results. The county was

the winning bidder of the three bids placed on the security and purchased \$1,000,000 of the TRAN which will mature in October of 2014.

Additional WISC participants who purchased or bid on TRANs include Columbia, Marathon, Outagamie and Sauk Counties. As of November 2013, nearly \$500 million of TRANs have been issued for use during the 2013-14 fiscal year. To learn more about investing in TRANs or other WISC investments and services, contact Sara Schnoor at 414.225.0099, ext. 1502, or sschnoor@pmanetwork.com.

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