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Let's Talk Municipal Finance - Tax Anticipation Notes and Bond Anticipation Notes.

In this installment of the Let's Talk Municipal Finance series, I will discuss two short-term alternatives to the issuance of long-term bonds for municipalities to access needed funds. These alternatives have a shorter maturity period and are either anticipated to be repaid by long-term bonds or other municipal revenue.

Tax Anticipation Notes
Tax anticipation notes, commonly referred to as TANs, are a form of municipal borrowing with a maturity date often less than one year from the date of issuance, payable from anticipated tax revenues of the municipality. In Maine, the issuance of a TAN is authorized by 30-A M.R.S.A. § 5771. In addition to authorizing the issuance of a TAN, Section 5771 puts certain restrictions on both the amount and the maturity date – the amount of the TAN is limited in relation to the total tax levy of the municipality in previous years and the maturity date is generally limited to one month after the end of the municipal year in which the note was issued.

The interest on payments on TANs is excludable from gross income under section 103 of the Internal Revenue Code. Unlike bonds, most TANs are typically issued directly through a bank to which the payments of principal and interest will eventually be made. As the name suggests, the funds used to make those payments are limited by statute to those raised out of taxes paid to the municipality; however, unlike some bonds, the funds can be used for general municipal purposes and need not be tied to a specific purpose. Therefore, the process required for a municipality to issue a TAN is much simpler than that required of a long-term bond, although certain documents, including a legal opinion on matters such as the tax exempt nature of the interest paid on the TAN, are usually required by the bank.

Bond Anticipation Notes
Bond anticipation notes, commonly referred to as BANs, are also a form of municipal borrowing, but share more characteristics with long-term bonds than a TAN. The key difference between a BAN and a TAN is that the municipality usually cites a specific purpose for issuing the BAN, which must be the same purpose as the anticipated long-term bond that the municipality intends to eventually issue to repay the BAN. BANs are subject to statutory requirements under 30-A M.R.S.A. § 5772, including a maximum face amount of the BAN not exceeding the authorized amount of the anticipated bond and a maximum period of borrowing of three years. Some municipal charters may also contain additional requirements or limitations for the issuance of BANs.

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