

## SALT LAKE CITY COUNCIL STAFF REPORT

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DATE: February 14, 2003

SUBJECT: **INDUSTRIAL DEVELOPMENT REVENUE BOND  
APPLICATION FROM SPRING AIR MOUNTAIN-WEST**

AFFECTED COUNCIL DISTRICTS: District 3

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT.  
AND CONTACT PERSON: Community and Economic Development  
Luann Clark

CC: Rocky Fluhart, David Nimkin, Alison Weyher, David Dobbins, LuAnn Clark,  
Bob Gore, Dan Mulé, DJ Baxter

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### WORK SESSION SUMMARY/NEW INFORMATION:

Council Members were generally supportive of issuing industrial development revenue bonds for Spring Air Mountain-West for financing renovation and expansion of its manufacturing facility. Repayment of the bonds will be the responsibility of Spring Air Mountain-West. The bonds will not be considered an obligation of the City. Spring Air Mountain-West has not yet finalized its direct-pay letter-of-credit with a financial institution. Under a direct-pay letter of credit, the financial institution will make the payments to the bondholders regardless of whether or not Spring Air Mountain-West makes payments to the financial institution.

At the work session, the Council discussed two concerns:

- Traffic on 400 West because of trucks backing up to the loading docks  
LuAnn Clark reported that this issue was being addressed by the redesign of the facility. *New information – The loading dock will be redesigned to alleviate traffic concerns with phase 2 of the project. Phase 1 is the construction of the addition. Operations will then be moved to the new addition. Phase 2 is the renovation of the existing facility including the loading dock.*
- Pay rate of some of the additional jobs may not provide a living wage  
*New information – In addition to the base pay quoted in the bond application, employees make 25% to 40% above base for piece incentive and overtime. They also have a profit sharing plan (7.5% in 2002), a 401k plan that matches up to 2%, a vacation plan, and a medical plan.*

### OPTIONS:

1. The Council may wish to consider adopting a resolution giving preliminary approval for the issuance of industrial development revenue bonds subject to Spring Air Mountain-West obtaining a direct-pay letter of credit. The Council will not be

asked to adopt the final resolution authorizing issuance of the bonds unless the required letter of credit has been finalized.

2. The Council may also wish to consider setting the date for a public hearing as required by the Tax Equality and Fiscal Responsibility Act (TEFRA).
3. Another option is to wait until the letter of credit is obtained before taking further action. The reason that the Administration is requesting that the Council adopt the inducement resolution and set the date for the TEFRA hearing is because the allocation of the volume cap authorized by the Utah Private Activity Bond Authority will expire in 90 days from January 8, 2003.

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The following information was provided previously.  
It is provided again for your reference.

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## **KEY ELEMENTS:**

Spring Air Mountain-West, Inc., located in Salt Lake City at 402 West 300 North, is requesting that the City issue industrial development revenue bonds in the amount of \$4,455,000 to help the company finance expansion and modernization of its manufacturing facility. Some of the key elements of the proposal are:

- Spring Air Mountain-West, a Utah corporation, has operated in Salt Lake City for about 75 years, formally as Stover Bedding. Spring Air Mountain-West manufactures mattresses and sleep sets under a franchise from the Spring Air Company. Thomas C. LeDuc is President of Spring Air Mountain-West. Mr. LeDuc took over the business in the early 1970's from his father-in-law, Walter Stover. The company services over 200 dealers in the western United States.
- Industrial development revenue bonds are bonds issued by government and backed solely by the private entity for which the bonds are issued. No real or implied guarantee or obligation is assumed by the City for payment of the bonds.
- The repayment of industrial development revenue bonds relies upon revenue generated by the private entity and is not considered an obligation of the issuing local governmental entity.
- In 2001, the City Council adopted a resolution establishing review criteria for private activity bonds. The one absolute criterion is the guarantee of the bond repayment by a direct-pay letter-of-credit issued by a financial institution with at least an AA rating.
- Spring Air Mountain-West plans to increase production volume from 83,500 to 232,061 pieces per year to meet sales growth projections of its current customer base, which includes major expansion plans of RC Willey. Approximately 15% of Spring Air Mountain-West's business relates to the RC Willey account.

- Spring Air Mountain-West currently employs 60 people and plans to add 85 new permanent jobs over the next ten years.
- Spring Air Mountain-West plans to expand the existing building on the north side of the current property increasing the square footage from 62,220 to 94,200 square feet. Bond proceeds will also be used to update the manufacturing equipment. Construction is planned to occur in phases so that the manufacturing operations will continue with current employees remaining on the job.
- The project includes new curb, gutter, and landscaping on the north, south and west blocks on 400 West, 200 North and 300 North. The current building will be restored to its early 1900's exterior. The company's paperwork states that the appearance of the completed project may encourage development of surrounding properties, and the project will most likely enhance the appearance of the north entrance to the City on 400 West.
- Industrial development revenue bond financing will save the company about \$132,000 in interest per year over SBA and conventional financing alternatives.

Resolution 91 of 2001 establishes review criteria for private activity bonds. Spring Air Mountain-West addressed the review criteria in its application material. Council staff has summarized the company's responses:

- Will the project have a positive economic impact on the community? *Spring Air Mountain-West will add 85 permanent employees or approximately \$2 million in annual wages by 2012. Over 100 construction jobs totaling approximately \$1 million will occur during construction in 2003. Annual purchases from local suppliers will rise from \$12.6 million to \$17.3 million by 2012.*
- What social and physical benefits will be realized by the City? *The property tax base will increase as a result of the facility expansive and updated equipment. The project includes curb, gutter, and landscaping on the north, south and west blocks on 400 West, 200 North and 300 North. The current building will be restored to its early 1900's exterior.*
- How many new jobs to be created, at what levels, and at what percentage of the applicant's total payroll will they comprise? *Eighty-five additional permanent jobs will be created expanding the annual payroll by about \$2,000,000 in 10 years.*

Additional Permanent Jobs	
Job Type	Number of Jobs
Production	66
Distribution	12
Sales/Administration	7

- Does the project contribute to the development of underutilized property in the City? *The building expansion will be placed on property previously left vacant or*

*utilized as storage for vehicles and buses. The project will enhance the appearance of the north entrance to the City on 400 West.*

- *Does the project serve unmet needs of City residents? Spring Air Mountain-West offers executive, management, clerical skilled and unskilled jobs to the local community. The work force consists of over 40% local minority residents.*
- *Does the project generate synergies for the development of surrounding properties? The appearance of the completed project will encourage development of surrounding properties. The property is bordered on the north and south by underutilized parking lot properties.*
- *What is the current vitality of the proposed applicant and what impact will the proposed expansion have in the applicant? Expanding and modernizing the plant layout and equipment will increase production capacity by 375%.*
- *Does the direct pay letter-of-credit ensure terms and conditions that are acceptable to the City? A direct pay letter-of-credit has not been finalized. The company will need to be meet this requirement before the Council will be asked to consider issuing the bonds.*
- *Has the applicant's financial performance remained relatively stable for the past three years? The audited financial statement of Spring Air Mountain-West report net income in 1999 of \$25,357; net loss in 2000 of \$307,373; and net income of \$363,775 in 2001. Unaudited net income of \$775,000 is shown for 2002. The letter-of-credit financial institution assumes the risk for bond repayment with the land, building and equipment as collateral.*
- *Has the applicant clearly identified the sources and uses of funds? The company proposes that the expansion will be financed entirely from the bond proceeds. The company owns the land where the expansion will occur. The proposed use of funds are: \$1,562,394 renovation costs; \$1,197,008 new construction costs; \$1,148,744 equipment costs; \$129,790 architect and engineer costs; \$50,565 permits; \$10,000 utilities connection costs; \$177,632 bond expenses; \$71,280 letter-of-credit and bond insurance fee; and \$107,587 interest during construction.*
- *Does the applicant's finance plan identify how the bonds will be repaid? The bonds will be paid through the positive cash flow generated by the increased capacity and efficiencies generated by the expansion and plant modernization. Sales are projected to increase from \$12,625,000 to \$23,817,000 in five years. Cash flow projections show sufficient net income to meet bond debt service requirements. Again, the letter-of-credit financial institution assumes the risk for bond payment repayment.*

## **CHRONOLOGY:**

**January 3, 2003** – Spring Air Mountain-West submitted an application requesting Salt Lake City to act as a conduit issuer of industrial revenue bonds.

- January 8, 2003** - The Utah Private Activity Bond Authority authorized up to \$4,455,000 for industrial development revenue bonds subject to approval and issuance by a local government.
- January 24, 2003** - The City's Small Business Revolving Loan Fund Committee reviewed the application and approved it to be forwarded to the Mayor and City Council.
- February 12, 2003** - The Council discussed the application from Spring Air Mountain-West at its work session. Council Members were generally supportive of issuing the bonds.