Item A-7

SALT LAKE CITY COUNCIL STAFF REPORT

DATE:	June 6, 2003
SUBJECT:	**REFINANCE HOUSING AUTHORITY BONDS**
AFFECTED COUNCIL DISTRICTS:	Citywide (guarantee of bonds from Citywide revenue)
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, Dan Mulé, DJ Baxter

KEY ELEMENTS:

The Salt Lake City Housing Authority is requesting approval from the City Council to refinance Housing Authority bonds to take advantage of low interest rates. Salt Lake City assisted in credit enhancing bonds issued by the Housing Authority in 1987.

MATTERS AT ISSUE/QUESTIONS FOR THE ADMINISTRATION:

The Housing Authority issued the bonds to finance housing projects primarily for the elderly. The Housing Authority loaned the proceeds to a non-profit subsidiary of the Housing Authority, the Housing Development Corporation (HDC). The City assisted in credit enhancing the bonds, which allowed the Housing Authority to use the City's bond rating to obtain favorable financing. A few years after the bonds where issued, the Housing Development Corporation had financial difficulties and did not have adequate funds to make the bond payments. In 1991, the City made loans to the Housing Development Corporation. As part of the solution to reduce the deficit, the bonds were refinanced in 1995.

Because of the slow economy and higher than usual vacancy rates, the Housing Development Corporation is again experiencing some cash flow problems and has had to defer maintenance. Refinancing the 1995 bonds will decrease the debt service requirements and free up some bond reserves to be used for roof repairs, replacing stairways, refinishing hallway decks, and replacing interior doors.

The refinancing is proposed to be a private placement with Zions First National Bank. The refunding of the bonds will not change the City's obligation on the bonds. The bonds will be outstanding for 20 years, but the interest rate is guaranteed for the first 10 years. After 10 years the rate will be adjusted to an independent index. If interest rates increase tremendously in 2013, the Housing Authority could consider selling projects to pay off the bonds.

There are several schedules attached to the Administration's transmittal. Perhaps the most informative is the "Savings Analysis" schedule prepared by Municipal Bond Consulting noted as page 3 at the bottom. This schedule shows the current debt service requirements, the proposed debt service and the total savings. Another schedule, titled "Additional HDC Debt & Revenues," (noted as page 10) shows that the Housing Development Corporation anticipates a negative cash balance beginning in fiscal year 2006 when the City's loans begin to be due.

The Council may wish to discuss with City administration and with representatives of the Housing Authority risks to the City and any other options explored for resolving the cash-flow difficulties. Attached is a letter from the City's financial advisor confirming the savings estimates made by the Housing Authority's financial advisor.

BACKGROUND:

In 1987, the Salt Lake City Housing Authority issued $14,900,000 of bonds and loaned the proceeds to the Housing Development Corporation, a non-profit subsidiary of the Housing Authority to purchase land and improve properties. Salt Lake City guaranteed the bonds. Bond proceeds were used to purchase the Riverside Apartments, Ben Albert Apartments, and to purchase land. The City loaned $800,000 ($500,000 federal grant and $300,000 of CDBG funds) to help purchase the Ben Albert Apartments. Loan repayments begin in 2006.

A few years after the bonds were issued, the Housing Development Corporation had financial difficulties and did not have sufficient funds to make the bond payments. The City established a team to explore solutions. The team recommended that the Housing Development Corporation build a housing project on land previously purchased. The Housing Development Corporation built Hawthorne Court on the land with the remaining bond proceeds. The City loaned $495,000 of CDBG funds to purchase a new boiler for the Ben Albert Apartments. The City purchased the Canterbury project for the Housing Development Corporation using CDBG funds. In 1995, the bonds where refinanced to take advantage of declining interest rates and to lower annual debt service requirements.

Recently, the Housing Development Corporation has had to defer some maintenance because cash flow difficulties. The proposed bond refinancing will reduce annual debt service by $70,000 to $130,000 per year and free up $500,000 of debt service reserve funds for urgent capital improvements. Refinancing the bonds may help the Housing Development Corporation in the long-term to meet its bond repayments as well as repay the City.