
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: November 14, 2003

SUBJECT: **Ordinance Amending Railyard Special Improvement District**

AFFECTED COUNCIL DISTRICTS: Council District 4

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT: Department of Management Services

AND CONTACT PERSON: Dan Mulé, City Treasurer

KEY ELEMENTS:

The Administration is requesting that the assessment ordinance for the Railyard Special Improvement District (Gateway) be amended for the following reasons: (1) the parking structures were inadvertently omitted from the assessment list; (2) the Boyer Company's source for permanent financing has requested that the retail portion of the project be transferred to a "single purpose entity;" (3) the original ordinance omitted a statement of the purpose for an *interest rate swap* with respect to financing; and (4) the payment date for the first assessment and the interest calculation date need to be revised since issuance of the bonds has been delayed.

MATTERS AT ISSUE:

As part of the Gateway project, the City agreed to assist in arranging for financing of public street improvements relating to the extension of Rio Grande Street (street between the Gateway shops). Prior to the Gateway project, Rio Grande Street was a two block street from 200 South to 400 South. The Gateway project extended the street from 200 South to 50 North. In 1999, the Council established a special improvement district for extending the street. These improvements included paving, sidewalks, curb and gutter, crosswalks, and storm drainage. The property owner will repay the bond over a 20-year period.

On Tuesday, August 12, 2003, the City Council adopted the assessment ordinance for the Railyard Special Improvement District. The proposed amendment provides for the following additions or changes to the assessment ordinance:

1. The list of properties in the original Assessment Ordinance should have included the parking structures but did not.
2. The original assessment ordinance required that the assessments be prepaid if parcels are transferred or sold. The Boyer Company's source for permanent financing has requested that the retail portion of the project be transferred to a "single purpose entity." The current owner, Gateway Associates, will transfer the property to a wholly owned subsidiary, Gateway Retail Holdings, L.C. The proposed amendment removes the prepayment requirement. Under the revised "letter-of-credit and reimbursement agreement," the portion of the assessment applicable to a parcel (less principal payments previously paid) is due if Gateway Retail Holdings transfers or sells a parcel.

3. The original assessment ordinance failed to include a complete statement of the purpose for the interest rate swap. The property owner desires a fixed rate for the first 10 years of the financing, but variable rate bonds with an interest rate swap result in a lower effective fixed interest rate. The property owner will pay a fixed rate of interest to the trustee, and the trustee will pay a variable rate of interest to the bondholders. The difference between the fixed rate paid by the property owner and the floating rate paid to the bondholder will be transfer to or be made up by the letter-of-credit bank. The combination of an interest rate swap and variable rate bonds provides the property owner with a lower fixed-rate cost of financing. Risk of escalating interest rates is assumed by the letter-of-credit bank.
4. The original assessment ordinance anticipated issuing the bonds under a trust indenture dated August 1, 2003. Since the bonds have not yet been issued, this date is being revised to November 1, 2003. The first interest payment is to be calculated on the 15th day of the month following the month in which the bonds are delivered rather than the previously stated date of August 15, 2003.
5. The ordinance is preceded by the addition of a preamble of “whereas” statements and a “now therefore” statement to provide a chronology and purpose for the amended ordinance.

RECOMMENDED MOTION:

The Council may wish to adopt the amendment to the assessment ordinance.

["I move that the Council"] **Adopt the ordinance amending and restating the assessment ordinance for the Railyard Special Improvement District.**

BACKGROUND:

In 1999, the Boyer Company requested that the City create a special improvement district for public improvements in the Gateway project area relating to extension of Rio Grande Street. The property owner constructed and installed the improvements with the understanding that the City would issue bonds to finance the improvements.

The Redevelopment Agency was involved with the Gateway project by financing a portion of the plaza, parking, housing, and renovation of the Union Pacific Depot. The City's Municipal Building Authority bonded for the park blocks on 500 West. Property owners along 500 West Street paid for sidewalk, curb & gutter, landscaping, lighting and other improvements to 500 West Street through a special improvement district.

The Railyard Special Improvement District differs substantially from the City's traditional special improvement districts because of the large dollar amount, the longer repayment period, and because there is only one property owner. The district and the related bonding were structured to shift legal and economic risks from the City to the property owner. The bonds are special limited obligations of the City, payable solely from assessments levied against the property owner. A direct-pay letter of credit provided by Citibank, N.A. secures the payment of principal and interest.

CHRONOLOGY:

- November 16, 1999 – The Council adopted a resolution declaring the intention of the City to create the Railyard Special Improvement District.
- December 16, 1999 –The Council adopted a resolution creating the Railyard Special Improvement District.
- August 12, 2003 – The Council adopted the assessment ordinance and a resolution authorizing the issuance of bonds.

cc: Rocky Fluhart, Dan Mulé, JD Baxter