
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: June 1, 2004

SUBJECT: **DEBT REFINANCING – Sales Tax Revenue Refunding Bonds**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT. AND CONTACT PERSON: Department of Management Services
Dan Mulé, City Treasurer

NOTICE REQUIREMENTS: Public hearing required; 14 days newspaper notice

KEY ELEMENTS:

The City Treasurer proposes refinancing approximately \$16.4 million outstanding bonds to take advantage of favorable interest rates. The City's bond counsel, Richard Scott, and the City's financial advisor, Kelly Murdock, will be available at the briefing to respond to questions regarding the proposed refinancing.

MATTERS AT ISSUE AND QUESTIONS FOR CONSIDERATION:

In 1993, the City issued \$29,610,000 of bonds through the Municipal Building Authority to finance several projects, the largest of which was the baseball stadium. The original bonds also included refinancing some older bonds. The bonds issued in 1993 mature on October 15, 2014. The final maturity date of the proposed refunding bonds will also be October 15, 2014.

The attached transmittal mentions two options for realizing the savings: (1) upfront one-time savings of \$1.5 million to \$1.7 million; or (2) level savings over the next 10 years of \$175,000 to \$190,000. *The Council may wish to discuss the advantages of each of these options and determine whether the Administration has a preference.*

Since the 1993 bonds included financing the baseball stadium, certain IRS rules apply. These rules include a limitation that private payments to the City cannot exceed 5% of the debt service. When the stadium was first built, the City received \$1,400,000 for the naming rights for a 15 year period. The attached memorandum from bond counsel points out that the City could receive up to \$1,403,000 in 2008 for the naming rights without violation of the IRS's *private payment test*. If the City were to receive more than this amount, the bonds would need to be retired, which means that the City would need to come up with about \$9 million. In order to give the flexibility to the City of retiring the bonds early, the City's financial advisor is suggesting that the City sell variable rate bonds because fixed rate bonds with a short call feature of 5 years would result in higher interest rates. Variable rate bonds start out with much lower interest rates than fixed rates bonds and can be

called at any time. *The Council may wish to discuss the naming rights issue with bond counsel and the Administration. The Council may wish to discuss advantages and disadvantages of variable and fixed rate bonds with the City Treasurer and the City's financial advisor.*

Three years ago, the state legislature authorized local governments to issue bonds backed by sales tax revenue. The City's financial advisor is recommending that the City refinance the bonds by issuing sales tax revenue bonds because the City is likely to receive a more favorable interest rate than lease revenue bonds issued through the City's Municipal Building Authority. In addition, the cost of issuance is greater with the Municipal Building Authority because of the master lease agreement and other documents that are necessary with lease revenue bonds. *Since this is the first time the City will be issuing sales tax revenue bonds, the Council may wish to inquire whether there are any disadvantages of sales tax revenue bonds and whether lease revenue bonds of the Municipal Building Authority will ever be more advantageous. The Council may also wish to request information on the maximum capacity for sales tax revenue bonds, and the other ways in which they could be used. The UTOPIA proposal called for the use of sales tax revenue bonds.*

OPTIONS:

Some of the options that the Council may consider include:

1. On June 17th the Council may wish to schedule a public hearing for July 6th. A public hearing is required for sales tax revenue bonds following 14 days notice. On July 6th, the Council could also consider adopting the parameters resolution. The parameters resolution sets the principal amount of bonds to be issued, the interest rate that the bonds may not exceed, and the maximum term that the bonds may be outstanding. In August, the Council could consider adoption of the bond resolution. (Note: The transmittal from the City Treasurer suggested June 10th for the parameters resolution. Subsequent to the transmittal, the City Treasurer has determined that because this is Salt Lake City's first sales tax revenue bonds, the document preparation and review process will be more labor intensive than previously thought. Therefore, the City Treasurer is now requesting July 6th for Council consideration of the parameters resolution.)
2. The Council may wish to indicate whether the savings should be upfront or whether the savings should be level over the next ten years.
3. The Council has the option to refinance the 1993 bonds at any time. Although the Council could wait to refinance the bonds, there may be no advantage to waiting since according to the City's financial advisor interest rates will probably rise during the year.

The Council may wish to note that the payment for this and other bonds comes from the City's Capital Improvement Program (CIP). As such, it would be customary to reserve the bond savings for CIP projects. There is no legal requirement to do so, however.