SALT LAKE CITY COUNCIL STAFF REPORT

DATE: October 1, 2004

SUBJECT: **Municipal Building Authority – Budget Amendment #1**
Savings from refinancing Municipal Building Authority 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: 7 days advance newspaper notice required;
notice appeared on September 27, 2004

The City Council previously adopted resolutions relating to refinancing Municipal Building Authority lease revenue bonds (Series 1993A) to take advantage of favorable interest rates. The refunding bonds were backed by a pledge of sales tax revenue. At the Council's request, the interest savings is realized up front so that the Council can appropriate the savings for capital improvement projects. About two-thirds of the savings ($1,003,864) will be available anytime during the current fiscal year. About $500,000 will be available in October 2005 when existing bond documents allow the debt service reserve fund to be recalculated.

The proposed amendment reflects retiring the MBA 1993A Series Bonds by placing the refunding bond proceeds in an escrow account. The amendment reduces the appropriations for principal of $1,570,000 and for interest expense of $911,658 in the Municipal Building Authority Debt Service Fund relating to the refunding of the MBA Series 1993A bonds. On September 21, 2004, the City Council adopted an ordinance amending the City's budget including setting up a new debt service fund with principal of $1,250,000, interest of $193,381, and trustee and other fees relating to the issuance of variable-rate debt of $34,413; and appropriated the savings of $1,003,864 to the CIP Holding Account.

RECOMMENDED MOTION:

Following closing of the public hearing, the Board of the Municipal Building Authority may wish to consider the resolution.

["I move that the Municipal Building Authority Board"] **Adopt a resolution amending the budget of the Municipal Building Authority of Salt Lake City for the fiscal year beginning July 1, 2004 and ending June 30, 2005.**

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

The City Treasurer proposed refinancing approximately $16.4 million outstanding Municipal Building Authority lease revenue bonds (Series 1993A) to take advantage of favorable interest rates. On June 8, 2004, the City Council received a briefing on the proposed refinancing. At the briefing, Council Members expressed a preference to take the savings upfront to augment the capital improvement budget. About two thirds of the savings ($1,000,000) will be available anytime during the current fiscal year following a budget amendment. Approximately $500,000 will be available in October 2005 when existing bond documents allow the debt service reserve fund to be re-calculated.

The refunding bonds will be backed by a pledge of sales tax revenue. Sales tax bonds are generally sold at a lower interest rate than lease revenue bonds. In addition, sales tax bonds do not require the same level of legal documentation as a lease revenue bond, which results in savings in issuance costs. The City's financial advisor assured the Council that the City's bonding capacity will remain strong and not be adversely affected by issuing these sales tax bonds.

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 refunding bonds will also be October 15, 2014.

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. Bond counsel pointed 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 suggested 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.

cc: Rocky Fluhart, Dan Mulé