
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: April 8, 2005

SUBJECT: **Refinance All Remaining Municipal Building Authority Bonds and Free Up Approximately \$6.4 Million of Debt Reserve Funds**

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Gary Mumford

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

NOTICE REQUIREMENTS: 14-day newspaper notice of public hearing published twice for two consecutive weeks – Notice was published on March 28 and April 4

CC: Rocky Fluhart, Steve Fawcett, Dan Mulé

On March 17, 2005, the Council received a briefing on refinancing the remaining Municipal Building Authority (MBA) debt. On April 5, 2005, the Council adopted a resolution authorizing the issuance of sales tax revenue refunding bonds. The next step is to hold a public hearing as required by state law. No Council action is required following the public hearing on Tuesday. The Council will consider the final resolution for the sale of refunding bonds in May. In addition, the Council, acting as the board of trustees of the Municipal Building Authority, will also need to adopt a resolution in May authorizing the refunding of the MBA bonds.

POTENTIAL MOTIONS:

Following the public hearing, **no motion is required**. Just close the public hearing and move to the next item on the agenda.

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

The Administration proposes to refinance three remaining Municipal Building Authority bond issues: (1) Series 1999A bonds that funded golf course improvements and the purchase of Plaza 349 – office space for Information Management Services, the Engineering Division, the Transportation Division, Prosecutor’s Office, etc.; (2) Series 1999B bonds that funded construction of the Ice Arena and acquisition, improvement of land and improvements for the Gateway Parks Block Project, and improvements to the fire training facility; (3) Series 2001 bonds that funded the construction of the Justice Court Building and improvements to the police precinct.

By refinancing the bonds, the City's financial advisor is projecting that the City will save over \$100,000 per year over the next 16 years. In addition to annual savings, reserve funds of about \$6,400,000 will be freed up for other projects. The Council can determine the use of the freed-up funds in a budget amendment or during the annual budget adoption. There is no time limit for spending the funds, but the City is required to yield-restrict interest earnings on investment of the funds so that the interest rate on earnings doesn't exceed the bond yield for arbitrage purposes.

In order to refund bonds before a call date, proceeds of the new refunding bonds are placed in an escrow account and invested in government securities. The government securities must earn interest at a rate great enough to pay the original bond holders until a call date. In analyzing whether there is a window of opportunity for refinancing bonds, the City's financial advisor must consider the current interest rates of government securities, the current bond market for selling the refunding bonds, and the interest rates of the original bonds. Because interest rates on government securities are rising greater than the current bond market, there is a short window of opportunity for certain Salt Lake City bonds including the remaining Municipal Building Authority bonds.

A few 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 they generally are sold at more favorable interest rates for the City.

The original 1999A series and 1999B series bonds matured in 2019 (last debt payment). The 2001 series bonds mature in 2020. The proposed refunding bonds will also mature in 2020.