SALT LAKE CITY COUNCIL STAFF REPORT

DATE:	February 4, 2005
SUBJECT:	**Spring Air Project** **Industrial Development Revenue Bonds, Series 2003** **Amendments to Indenture and Loan Agreement**
AFFECTED COUNCIL DISTRICTS:	District 3
STAFF REPORT BY:	Gary Mumford
ADMINISTRATIVE DEPT. AND CONTACT PERSON:	City Attorney's Office Chris Bramhall
NOTICE REQUIREMENTS:	No requirement for a public hearing
CC:	Rocky Fluhart, Ed Rutan, Chris Bramhall, Dan Mulé, DJ Baxter

On February 3, 2005, the Council received a briefing on a proposed amendment to the Spring Air indenture and loan agreement relating to industrial development revenue bonds that were issued in 2003 for expansion of the Spring Air mattress factory in Salt Lake City. It was explained at the briefing that industrial development revenue bonds are bonds issued by government and backed solely by the private entity for which the bonds are issued. The repayment of industrial development revenue bonds relies upon revenue generated by the private entity.

Under IRS code and the Utah Industrial Facilities and Development Act, Salt Lake City can issue revenue bonds to encourage the location of new or expanded small manufacturing facilities for the purpose of facilitating business development, increasing the tax base, improving employment opportunities and achieving other public purposes. The advantage to the private entity is that the financing qualifies for tax-exempt status, which usually provides significant cost benefits for the private entity. Revenue bonds issued under the Act do not constitute or impose upon the City any financial obligation or liability.

In the 2003 application for the bonds, Spring Air said it employed 60 people and planned to add 85 new permanent jobs over the next ten years. According to Spring Air's vice president of operations & finance, the expansion was very successful and improved the immediate neighborhood while maintaining the historical look of the facility. There are currently 72 full-time employees, and Spring Air anticipates job growth will continue to be consistent with the original commitment to the City.

POTENTIAL MOTION:

The Council may wish to consider the following motion if the Council desires to adopt the resolution.

["I move that the Council"] **Adopt a resolution approving the first amendment to the indenture and a first amendment to the loan agreement with respect to the City's industrial development revenue bonds for the Spring Air project.**

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

On July 1, 2003, the City Council authorized the issuance of industrial development revenue bonds for the Spring Air Mountain-West project. The bond proceeds were used to finance expansion and renovation of the existing Spring Air mattress manufacturing facility located at 402 West 300 North. The bonds did not constitute a debt, liability or obligation of the City. The debtors of the bonds are Spring Air Mountain-West and LeDuc Properties. Under a corporate restructuring, Spring Air desires to remove this debt from its liabilities and lease the facility from LeDuc Properties. LeDuc Properties is willing to assume the responsibility for the entire amount of the bond obligations.

In October 2003, Spring Air Mountain-West was acquired by Spring Air West, a Washington company. Spring Air West is licensed by The Spring Air Company. According to a Spring Air Company web site, the Spring Air Company has plants in the U.S., Canada, Mexico, Ireland, Australia, the Middle East, and Argentina. The company is the fourth-largest bedding manufacturer in the world. In an effort to consolidate the Spring Air Company licenses and the Spring Air brand, H.I.G. Capital LLC has offered to acquire 100% of the stock of Spring Air West.

H.I.G. Capital plans to continue manufacturing mattresses in Salt Lake City and will enter into a lease agreement with LeDuc Properties for use of the Salt Lake manufacturing facility. According to the transmittal from City Administration, LeDuc Properties is very confident that operations will continue at the present facilities.

Salt Lake City requires industrial development revenue bonds issued by the City to be secured by a direct pay letter of credit from a financial institution with at least AA rating. In 2003, Spring Air Mountain-West and LeDuc Properties obtained a direct-pay letter-of-credit with U.S. Bank to guarantee repayment of the bonds. U.S. Bank is willing to reissue its letter of credit to reflect LeDuc Properties as the sole obligor.