SALT LAKE CITY COUNCIL STAFF REPORT

DATE:	March 15, 2005
SUBJECT:	**Refinance All Remaining Municipal Building Authority Bonds and Free Up $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
CC:	Rocky Fluhart, Steve Fawcett, Dan Mulé

KEY ELEMENTS:

The City Treasurer proposes to refinance approximately $47 million of outstanding Municipal Building Authority 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/QUESTIONS FOR THE ADMINISTRATION:

In September 2004, the City refinanced the Municipal Building Authority bonds issued in 1993 to finance several projects, the largest of which was the baseball stadium. This resulted in substantial one-time savings. There are three remaining Municipal Building Authority bond issues outstanding that are proposed to be refinanced at this time: (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 approximately $112,000 per year over the next 16 years in reduced debt costs for a total of about $1,800,000. Actual saving will vary because the savings won't be locked in until the date of sale of the refunding bonds. The Council may wish to note that the debt service appropriations for this and other bonds comes from the City's Capital Improvement Program (CIP). As such, it would be customary to reserve the annual bond savings for CIP projects. There is no legal requirement to do so, however. Council staff understands that there may be an option to recognize the savings upfront, but to do this on every bond refinancing may give the rating agencies the impression that the City is thinking of only the present and not the future. *The Council may wish to ask the City's financial advisor about the pros and cons of realizing the savings upfront.*

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. With the elimination of all remaining Municipal Building Authority debt, debt reserve funds of $6.4 million will be freed up for other projects.

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.

OPTIONS:

Some of the options that the Council may consider include:

1. The Council may wish to place this item on the April 5th Council meeting agenda for consideration of adopting a parameters resolution.
2. The Council may wish to investigate whether the savings can be realized upfront similar to the 2004 refinancing of the baseball stadium bonds rather than annual savings for the next 16 years.

DANIEL A. MULE'
CITY TREASURER

SALT LAKE CITY CORPORATION

DEPARTMENT OF MANAGEMENT SERVICES
TREASURER

ROSS C. "ROCKY" ANDERSON
MAYOR

TO: Rocky J. Fluhart, Chief Administrative Officer

FROM: Daniel A. Mulé, City Treasurer DAM

DATE: March 10, 2005

SUBJECT: Refund All Outstanding Municipal Building Authority (MBA) Debt as Sales Tax Revenue Bonds

STAFF CONTACT: Daniel A. Mulé, City Treasurer

TELEPHONE NUMBER: 535-6411

RECOMMENDATION: That the City Council hold a discussion and schedule appropriate actions in connection with the refunding transaction referenced above.

DOCUMENT TYPE: Briefing/Discussion

BUDGET IMPACT: Current estimates provided by the City's Financial Advisor indicate that the City could expect to receive approximately $1.8 million in savings over the next 16 years ($112,000 per year) in reduced debt costs resulting from the refunding of all outstanding Municipal Building Authority debt as sales tax revenue bond debt. It is important to note that these estimates are based on the current interest rate environment and are subject to change based on market conditions at the time of sale. In addition to the refunding savings, there is the opportunity for the City to receive approximately $6.4 million in one time money. With the elimination of all outstanding MBA debt, the cash funded reserve account would become available to the City with certain limitations. Since the reserve was funded from bond proceeds, the reserve moneys would need to be used to pay the costs of any capital project that would qualify for tax-exempt financing, i.e. the contemplated Fleet Facility improvements, or other CIP pay-as-you-go projects. Because of potential private activity issues, if the City wanted to use the reserve funds towards the purchase of land for the soccer stadium, bond counsel would first need to do an analysis to determine if it would qualify for tax-exempt financing.

DISCUSSION: There are three remaining MBA issues outstanding. The Series 1999A bonds funded certain golf course improvements as well as the purchase of Plaza 349; the Series 1999B bonds funded the construction of the Ice Arena as well as the acquisition and improvement of land and facilities for the Gateway Parks Block Project

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and the costs of additions and improvements to an existing fire training facility; and the Series 2001 Bonds funded the construction of the Justice Court and improvements to a police precinct. The purpose of the proposed financing would be to refund these bonds with sales tax revenue bonds. The strength of our sales tax collections should result in the City receiving very favorable ratings from the rating agencies which would translate into lower interest rates than if these bonds were refunded as MBA lease revenue bonds. Both Moody's and Fitch rated our previous sales tax bond issue at levels just below the City's triple-A general obligation ratings.

As an alternative, instead of using the $6.4 million in available reserve funds to fund certain qualifying capital projects, this money could also be used to redeem the bonds to be refunded thus reducing the size of the refunding sales tax bonds to be issued.

Finally, I would like to request that the Parameters Resolution for the Sales Tax Revenue Refunding Bonds, Series 2005A, be placed on the April 5, 2005 agenda for adoption. This Resolution sets forth 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. These bonds would probably be sold within 60 days from the adoption of the Parameters Resolution. The evening of the sale, the City Council will adopt the Bond Resolution and Bond Purchase Agreement.

Attachments

cc: Steve Fawcett
Randy Hillier
Kelly Murdock
Richard Scott