
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: May 6, 2005
SUBJECT: Water and Sewer Improvement and Refunding Bonds
AFFECTED COUNCIL DISTRICTS: Citywide
STAFF REPORT BY: Gary Mumford
ADMINISTRATIVE DEPT. AND CONTACT PERSON: Department of Public Utilities
Jim Lewis
CC: Rocky Fluhart, LeRoy Hooton, Jim Lewis, Steve Fawcett, Dan Mulé

NEW INFORMATION:

The Department of Public Utilities originally planned to replace \$2.1 million of bond reserve funds with a surety bond and use the freed-up money to help finance the water lines in the Millcreek area. However, bond counsel has now determined that the trust indenture requires all reserve funds to remain until the 1997 bond issue is paid off. Therefore, the Department of Public Utilities is proposing that the bond issue include a \$2.1 million of new debt in order to maintain funds for water line replacement.

Bond council has also determined that the proceeds cannot be used in the Millcreek area because of lack of City ownership of the water lines while the County's SID bonds are outstanding. Once the SID bonds are retired, ownership will be transferred to Salt Lake City. The Department of Public Utilities is now proposing that the \$2.1 million in new bond proceeds be used for the on-going water line replacement program, which will free up on-going funds for the Millcreek project. A representative of the department and the City's financial advisor will be present at the Council Meeting to address any questions. The annual savings on the refinancing will be used for water and sewer capital improvement projects.

When the Council was last briefed on this transaction, the City's Financial Advisor projected savings would amount to approximately \$90,000 per year with net-present-value of \$325,500. These annual savings assumed that a portion of the cash in the reserve fund would be credited to the refunding issue. With Bond Counsel now clarifying that the reserve fund cash cannot be used, the sizing of the bond has increased and the savings now are reduced to approximately \$35,000 per year. However, in terms of net-present-value savings, interest rates have improved since the Council's past briefing, and net-present-value savings have improved from \$325,500 to \$376,200.

POTENTIAL MOTION:

If the Council desires to proceed with issuing the revenue and refunding bonds, the following motion would be appropriate.

["I move that the City Council"] **Adopt a resolution authorizing the issuance and confirming the sale of Water and Sewer Improvement and Refunding Revenue Bonds, Series 2005.**

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

The Department of Public Utilities proposes refinancing \$9.1 million outstanding bonds to take advantage of favorable interest rates. By refinancing these bonds, the City's financial advisor is projecting that the Department of Public Utilities will save approximately \$90,000 per year over the next 12 years in reduced debt costs with net-present-value savings of \$325,500. Actual savings will vary because the interest rates won't be locked in until the date of sale of the refunding bonds.

In 1993, bonds were issued to finance water line replacement projects and the seismic upgrade to the Big Cottonwood Treatment Plant. There are approximately \$1.3 million outstanding from the Series 1993 bonds. In 1997, bonds were issued to finance the upgrade to the Park Reservoir and other system improvements. Approximately \$7.8 million of the Series 1997 bonds are proposed to be refunded.

The Department of Public Utilities has several bonds outstanding, but only some of the bonds can be refinanced for a savings at this time. 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 bonds are eligible for refinancing, 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.

The original 1993 series bonds mature in 2013 (last debt payment). The 1997 series bonds mature in 2017. The proposed refunding bonds will also mature in a similar fashion.

RESOLUTION NO. ____ OF 2005

A RESOLUTION AUTHORIZING THE ISSUANCE AND CONFIRMING THE SALE OF \$_____ SALT LAKE CITY, UTAH, WATER AND SEWER IMPROVEMENT AND REFUNDING REVENUE BONDS, SERIES 2005, FOR THE PURPOSE OF REFUNDING A PORTION OF THE CITY'S CURRENTLY OUTSTANDING WATER AND SEWER REVENUE BONDS AND FINANCING CERTAIN IMPROVEMENTS TO THE CITY'S WATER, SEWER AND STORMWATER SYSTEM; AUTHORIZING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENTAL TRUST INDENTURE TO SECURE SAID BONDS; AUTHORIZING A BOND PURCHASE CONTRACT WITH GEORGE K. BAUM & COMPANY; AUTHORIZING THE TAKING OF ALL OTHER ACTIONS NECESSARY FOR THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS RESOLUTION; AND RELATED MATTERS.

*** *** ***

WHEREAS, Salt Lake City, Salt Lake County, Utah (the "*City*") is a duly organized and existing city of the first class, operating under the general laws of the State of Utah; and

WHEREAS, the City considers it necessary and desirable and for the benefit of the City and the users of the City's water, sewer and storm water system (the "*System*") to issue its water and sewer revenue bonds as hereinafter provided for the purpose of (i) refinancing a portion of the City's currently outstanding (a) Water and Sewer Revenue Bonds, Series 1993, originally issued in the aggregate principal amount of \$13,500,000 and (b) Water and Sewer Improvement and Refunding Revenue Bonds, Series 1997, originally issued in the aggregate principal amount of \$24,515,000 (collectively, the "*Refunded Bonds*"); (ii) financing the costs associated with the acquisition, improvement or extension of improvements, facilities and property that will be a part of the System and will consist of acquiring the constructing certain water treatment plant improvements and a new pump station, replacing certain waterlines pursuant to a waterline

replacement program and making other improvements to the System (collectively, the "*Project*"); (iii) funding any necessary reserves in connection with the Series 2005 Bonds (as defined below); and (iv) paying all related costs authorized by law pursuant to authority contained in the Local Government Bonding Act, Chapter 14 of Title 11, and the Utah Refunding Bond Act, Chapter 27 of Title 11 (collectively the "*Act*"), each of the Utah Code Annotated 1953, as amended (the "*Utah Code*") and other applicable provisions of law; and

WHEREAS, for the purposes set forth above, the City has determined (1) to issue its Water and Sewer Improvement and Refunding Bonds, Series 2005, in the aggregate principal amount of \$_____ (the "*Series 2005 Bonds*") pursuant to a Master Trust Indenture, dated as of January 1, 2004, as amended and supplemented to the date hereof (the "*Master Indenture*"), and a Second Supplemental Trust Indenture, dated as of June 1, 2005 (the "*Second Supplemental Indenture*"), each between the City and U.S. Bank National Association, as trustee (the "*Trustee*") (the Master Indenture and Second Supplemental Indenture are sometimes collectively referred to hereinafter as the "*Indenture*") and (2) to cause the proceeds of the sale of the Series 2005 Bonds to be applied in accordance with the Indenture; and

WHEREAS, the City is authorized by the Utah Code to refund the Refunded Bonds; to acquire, construct, expand and improve the Project; to enter into the Second Supplemental Indenture; and to issue the Series 2005 Bonds to finance all or a portion of the costs of refunding the Refunded Bonds, to finance all or a portion of the Costs of the Project; to fund any necessary reserves and to pay all related costs authorized by law; and

WHEREAS, the City has made arrangements for the purchase of the Series 2005 Bonds, the refunding of the Refunded Bonds and the financing of the Project at favorable interest rates; and

WHEREAS, the City Council of the City adopted a resolution on April 5, 2005 (the "*Parameters Resolution*"), approving the issuance of the Series 2005 Bonds, calling for the publication of a "*Notice of Bonds to be Issued*" and setting certain parameters for the Series 2005 Bonds; and

WHEREAS, the *Notice of Bonds to be Issued* was published pursuant to the Parameters Resolution on April 11, 2005, in *The Salt Lake Tribune* and the *Deseret Morning News*, newspapers published in the City and having general circulation in the City; and

WHEREAS, no action contesting the legality of the Series 2005 Bonds has been filed as permitted by Section 11-27-4 of the Utah Code; and

WHEREAS, in connection with the issuance of the Series 2005 Bonds, Ambac Assurance Corporation (the "*Bond Insurer*") has issued its Commitment dated May __, 2005 (the "*Commitment*") to issue a Municipal Bond Insurance Policy (the "*Insurance Policy*") with respect to the Series 2005 Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF SALT LAKE CITY, SALT LAKE COUNTY, UTAH, AS FOLLOWS:

Section 1. Issuance of Bonds. (a) For the purposes set forth above, there is hereby authorized and directed the execution, issuance, sale and delivery of the Series 2005 Bonds in the aggregate principal amount of \$_____. The Series 2005 Bonds shall be dated as

of the date of delivery thereof, and shall mature on the dates and in the principal amounts and shall bear interest from the date of delivery thereof, payable on February 1 and August 1 in each year, commencing February 1, 2006, at the interest rates per annum, as shown below:

FEBRUARY 1 OF THE YEAR	AMOUNT MATURING	INTEREST RATE
	\$	%

The Series 2005 Bonds shall be in authorized denominations, executed and payable all as provided in the Indenture. The Series 2005 Bonds shall be subject to redemption prior to maturity as provided in the Indenture.

(b) The form of the Series 2005 Bonds set forth in the Second Supplemental Indenture, subject to appropriate insertion and revision in order to comply with the provisions of the Indenture, is hereby approved.

(c) The Series 2005 Bonds shall be special obligations of the City, payable from and secured by a pledge and assignment of the Revenues (as defined in the Indenture) received by the City and of certain other moneys held under the Indenture. The Series 2005 Bonds shall not be obligations of the State of Utah or any other political subdivision thereof, other than the City, and neither the faith and credit nor the taxing or appropriation power of the State of Utah or any political subdivision thereof, including the City, is pledged to the payment of the Series 2005 Bonds. The Series 2005 Bonds shall not constitute general obligations of the City or any other entity or body, municipal, state or otherwise.

Section 2. Approval and Execution of the Second Supplemental Indenture. The Second Supplemental Indenture, in substantially the form attached hereto as *Exhibit A* is hereby authorized and approved, and the Mayor is hereby authorized, empowered and directed to execute and deliver the Second Supplemental Indenture on behalf of the City, and the City Recorder is hereby authorized, empowered and directed to affix the seal of the City, to attest such seal and to countersign the Second Supplemental Indenture, with such changes to the Second Supplemental Indenture from the form attached hereto as are approved by the Mayor, his execution thereof to constitute conclusive evidence of such approval. The provisions of the Second Supplemental Indenture, as executed and delivered, are hereby incorporated in and made a part of this resolution. The Master Indenture and the Second Supplemental Indenture shall constitute a "system of registration" for all purposes of the Registered Public Obligations Act of Utah.

Section 3. Sale of the Series 2005 Bonds; Purchase Contract. The Series 2005 Bonds authorized to be issued herein are hereby sold and delivered to George K. Baum & Company, as underwriter (the "*Underwriter*"), upon the terms and conditions set forth in the Purchase Contract. The Mayor is hereby authorized, empowered and directed to execute and deliver the Purchase Contract on behalf of the City in substantially the form attached hereto as *Exhibit B*, with such changes therein from the form hereto as are approved by the Mayor, his execution thereof to constitute conclusive evidence of such approval. The City Recorder is hereby authorized, empowered and directed to affix the seal of the City, to attest such seal and to countersign the Purchase Contract.

Section 4. Approval of Official Statement. The final Official Statement of the City for the sale of the Series 2005 Bonds, in substantially the form attached hereto as *Exhibit C*, with such changes, omissions, insertions and revisions as the Mayor shall approve is hereby authorized, and the Mayor shall sign and deliver such final Official Statement to the Underwriter for distribution to the purchasers of the Series 2005 Bonds and other interested persons, his execution thereof to constitute conclusive evidence of such approval. The use of the Preliminary Official Statement, dated May 3, 2005, by the Underwriter in connection with the offering of the Series 2005 Bonds is hereby acknowledged, approved and ratified.

Section 5. Other Documents Related to the Bonds. The Commitment of the Bond Insurer, in the form attached as *Exhibit D* hereto, to issue the Insurance Policy is hereby accepted and approved and the Mayor is hereby authorized to execute the Commitment on behalf of the City.

Section 6. Other Certificates and Documents Required to Evidence Compliance with Federal Tax Laws. Each of the Mayor, the City Recorder, the City Treasurer and the Director of Public Utilities of the City is hereby authorized and directed to execute such other certificates and documents as are required to evidence compliance with the federal laws relating to the tax-exempt status of interest on the Series 2005 Bonds.

Section 7. Other Actions With Respect to the Series 2005 Bonds. The officers and employees of the City shall take all action necessary or reasonably required to carry out, give effect to, and consummate the transactions contemplated hereby and shall take all action necessary in conformity with the Act to carry out the issuance of the Series 2005 Bonds, the refunding of the Refunded Bonds and the financing of the Project, including, without limitation, the execution and delivery of an escrow agreement and any closing and other documents required to be delivered in connection with the sale and delivery of the Series 2005 Bonds, the refunding of the Refunded Bonds and the financing of the Project. If (a) the Mayor or (b) the City Recorder shall be unavailable to execute or attest and countersign, respectively, the Series 2005 Bonds or the other documents that they are hereby authorized to execute, attest and countersign the same may be executed, or attested and countersigned, respectively, (i) by the Deputy Mayor or (ii) by any Assistant or Deputy City Recorder. Without limiting the generality of the foregoing, the officers and employees of the City are authorized and directed to take such action as shall be necessary and appropriate to issue the Series 2005 Bonds.

Section 8. Prior Acts Ratified, Approved and Confirmed. All acts of the officers and employees of the City in connection with the issuance of the Series 2005 Bonds are hereby ratified, approved and confirmed.

Section 9. Resolution Irrepealable. Following the execution and delivery of the Second Supplemental Indenture, this resolution shall be and remain irrepealable until the Series 2005 Bonds and the interest thereon shall have been fully paid, cancelled, and discharged.

Section 10. Severability. If any section, paragraph, clause, or provision of this resolution shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause, or provision shall not affect any of the remaining provisions of this resolution.

Section 11. Effective Date. This resolution shall be effective immediately upon its approval and adoption.

(Signature page follows.)

ADOPTED AND APPROVED by the City Council of Salt Lake City, Salt Lake County,
Utah, this ____ day of May, 2005.

SALT LAKE CITY, SALT LAKE COUNTY,
STATE OF UTAH

Chair

ATTEST:

Deputy City Recorder

[SEAL]

APPROVED:

By _____
Mayor

APPROVED:

By _____
Senior City Attorney

EXHIBIT A

[ATTACH FORM OF SECOND SUPPLEMENTAL TRUST INDENTURE]

EXHIBIT B

[ATTACH FORM OF PURCHASE CONTRACT]

EXHIBIT C

[ATTACH FORM OF FINAL OFFICIAL STATEMENT]

EXHIBIT D

[ATTACH COPY OF COMMITMENT]