
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: March 9, 2007

SUBJECT: **Defeasance of the City's Hospital Revenue Bonds that were issued in 1992 for IHC Hospitals, Inc.**

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT. AND CONTACT PERSON: Management Service
Dan Mulé, City Treasurer

CC: Lyn Creswell, Dan Mulé

KEY ELEMENTS:

In 1992, Salt Lake City issued private activity bonds for IHC Hospitals, Inc. (now IHC Health Services, Inc.) under the authority of the Utah Industrial Facilities and Development Act. The bonds are not an obligation of Salt Lake City, and security for the bonds and the pledge to pay debt service rests solely with IHC.

IHC desires to pay off these bonds in advance of due dates since the bonds now bear the highest interest rate that IHC pays on its indebtedness. In order to pay off the bonds early, IHC will place sufficient funds into an escrow account with a trustee to be used for future debt payments. This is called "defeasance" of the debt. In a legal context, defeasance renders the outstanding bonds paid thereby removing all obligations of the issuer for payment of the bonds.

IHC is asking the City Council to adopt a resolution authorizing the execution of an escrow agreement for defeasance of these bonds. The City needs to be a party to the escrow agreement because it acted as issuer of the bonds. By defeasing these bonds, IHC will be able to borrow for future capital projects at lower interest rates while maintaining a level of indebtedness that IHC deems prudent.

MATTERS AT ISSUE:

Private activity bonds are tax-exempt bonds issued by municipalities but backed solely by a private entity on whose behalf the bonds are issued. No real or implied guarantee or obligation for payment of the bonds is assumed by the municipality. Entities that qualify for such tax-exempt financing include nonprofit organizations that provide health care or educational services. Certain small manufacturing firms also qualify. Private activity bonds for manufacturing entities are also referred to as "industrial development revenue bonds."

Local Governments generally issue private activity bonds to encourage the location of new or expanded facilities within their boundaries. These facilities improve employment opportunities or expand health care and educational opportunities for residents.

POTENTIAL MOTION:

Council staff is not aware of any reason why the Council should not be agreeable to approve the request to allow IHC to retire this debt. The Council may wish to make the following motion:

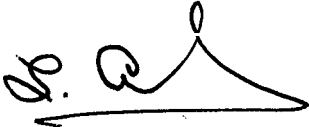

["I move that the Council"] Adopt a resolution authorizing the execution and delivery of an escrow agreement among Salt Lake City, Zions First Nation Bank, as escrow agent and trustee, and IHC Health Services, Inc. providing for the establishment of a trust fund for the payment of principal and interest on the City's Hospital Revenue Bonds, Series 1992.

DANIEL A. MULE
CITY TREASURER

SALT LAKE CITY CORPORATION
DEPARTMENT OF MANAGEMENT SERVICES
TREASURER

ROSS C. "ROCKY" ANDERSON
MAYOR

COUNCIL TRANSMITTAL

TO: Lyn Creswell, Chief Administrative Officer 
FROM: Daniel A. Mule, City Treasurer 
DATE: March 6, 2007
SUBJECT: Resolution Authorizing the Execution of an Escrow Agreement for the Defeasance of the City's Hospital Revenue Bonds, Series 1992 (IHC Hospitals, Inc.)

STAFF CONTACT: Daniel A. Mule, City Treasurer

TELEPHONE NUMBER: 535-6411

RECOMMENDATION: That the City Council adopt the above-referenced resolution.

DOCUMENT TYPE: Resolution

BUDGET IMPACT: None

DISCUSSION: Defeasance allows an issuer to collateralize outstanding debt with a portfolio of "risk-free government securities," thereby instantly removing the debt from the issuer's balance sheet. This occurs because the government securities generate the cash flow needed to pay all interest and principal on the outstanding bonds when due. Under generally accepted accounting principles, if the portfolio of securities includes only high quality securities such as direct obligations of the United States Government, the bonds are treated as "defeased" or legally retired.

In a legal context, defeasance renders the outstanding bonds paid thereby removing all obligations of the issuer for payment of the bonds. In order for a bond issue to be legally defeased the securities selected and the terms of how and where the securities are held must meet the requirements set forth in the documents that authorized the outstanding bonds.

If the defeasance is consistent with generally accepted accounting principles and complies with the outstanding bond document requirements, the bonds will no longer be

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Lyn Creswell
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treated as debt for accounting purposes nor for purposes of computing any statutory or constitutional debt limitation.

IHC Health Services, Inc. ("Intermountain"), formerly known as IHC Hospitals, Inc., wishes to deposit its own funds in escrow to provide for the payment of the Series 1992 Bonds previously issued by the City to finance or refinance capital projects for Intermountain. The Series 1992 Bonds bear the highest interest rate that Intermountain pays on its indebtedness and by defeasing the Series 1992 Bonds Intermountain will be able to borrow for future capital projects at lower interest rates while maintaining its overall amount of indebtedness at a level that management of Intermountain deems prudent. The City would be a party to the escrow agreement because it acted as issuer of the Series 1992 Bonds. The attached resolution authorizes the execution of an escrow agreement for defeasance of these bonds.

Attachment

cc: Steve Fawcett
Randy Hillier
Gordon Hoskins
Marina Scott

Salt Lake City, Utah

March 13, 2007

The City Council of Salt Lake City, Utah (the "City Council"), pursuant to due notice, met in regular public session on the 13th day of March, 2007, at the hour of 7:00 P.M., at the regular meeting place of the City Council, in Council Chambers, 451 South State Street, Salt Lake City, Utah 84111.

The meeting was duly called to order by the Chair of the City Council (the "Chair") with the following members of the City Council being present, constituting a quorum of the City Council:

_____	Chair
_____	Vice Chair
_____	Councilmember
_____	Councilmember
_____	Councilmember
_____	Councilmember
_____	Councilmember
_____	Councilmember

Absent: _____

There were also present:

_____	Mayor
_____	Deputy City Recorder
_____	City Attorney

During the course of the meeting, there was presented for the minutes and records of the City Council a Verification of Giving Notice evidencing the giving of not less than 24 hours public notice of the agenda, date, time, and place of the March 13, 2007 regular meeting of the City Council in compliance with the requirements of Section 52-4-202, Utah Code Annotated 1953, as amended, together with the form of Notice of Regular Meeting referred to therein. The Verification of Giving Notice is as follows:

VERIFICATION OF GIVING NOTICE

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

I, the undersigned, the duly qualified and acting Deputy City Recorder of Salt Lake City, Utah (the "City"), do hereby certify according to the records of the City in my official possession, and upon my own knowledge and belief, that in accordance with the requirements of Section 52-4-202, Utah Code Annotated 1953, as amended, I gave not less than 24 hours public notice of the agenda, date, time and place of the March 13, 2007 regular public meeting held by the City Council of the City by:

(a) causing a Notice of Public Meeting to be posted in the office of the City Council of the City, in Council Chambers, 451 South State Street, Salt Lake City, Utah 84111 on March ____, 2007, which was at least 24 hours before the convening of the meeting, in the form attached hereto as Exhibit A; said Notice of Public Meeting has continuously remained so posted and available for public inspection during regular office hours until the convening of the meeting; and

(b) causing a copy of the Notice of Public Meeting in the form attached hereto as Exhibit A to be provided on March ____, 2007, which was at least 24 hours before the convening of the meeting, to The Salt Lake Tribune and the Deseret News, each a newspaper of general circulation within the geographic jurisdiction of the City, and to each local media correspondent,

newspaper, radio station or television station which has requested notification of meetings of the
City Council.

IN WITNESS WHEREOF, I have hereunto subscribed my official signature and impressed
hereon the official seal of the City this 13th day of March, 2007.

Deputy City Recorder

[SEAL]

EXHIBIT A

Notice of Meeting

Thereupon, the following resolution was introduced in written form by the Chair for consideration by the City Council. After due discussion of matters contained in the resolution, a call for a vote of adoption and approval thereof was made by the Chair, whereupon the resolution was adopted by the following vote:

AYE: _____

NAY: _____

ABSENT: _____

The resolution was thereupon presented to and approved and signed by the Chair, was approved as to form by a Senior City Attorney and was attested and recorded by the Deputy City Recorder in the official records of Salt Lake City, Utah. The resolution is as follows:

RESOLUTION NO. _____

A RESOLUTION authorizing the execution and delivery of an Escrow Agreement among Salt Lake City, Utah (the "City"), Zions First National Bank, as escrow agent and trustee, and IHC Health Services, Inc., a Utah nonprofit corporation, providing for the establishment of a Trust Fund for the payment of the City's Hospital Revenue Bonds, Series 1992 (IHC Hospitals, Inc.); repealing all ordinances, resolutions or portions thereof in conflict with the provisions hereof; and related matters.

*** *** ***

WHEREAS, pursuant to the Utah Industrial Facilities and Development Act, Title 11, Chapter 17, Utah Code Annotated 1953, as amended (the "Facilities Development Act"), Salt Lake City, Utah (the "City") is authorized to issue bonds to provide funds for loans to finance, refinance, or provide reimbursement for, the acquisition or construction of facilities ("Facilities") suitable for use in providing health care services and thereby improving local health and the general welfare by inducing the location, relocation, modernization or expansion of Facilities in the State of Utah (the "State"); and

WHEREAS, pursuant to the Facilities Development Act and the Utah Refunding Bond Act, Chapter 27 of Title 11, Utah Code Annotated 1953, as amended (the "Refunding Act"), the City is authorized and empowered to issue bonds for the purpose of refunding outstanding bonds previously issued under the Facilities Development Act; and

WHEREAS, on August 6, 1992, the City issued its (i) Hospital Revenue Bonds, Series 1992 (IHC Hospitals, Inc.) (the "Fixed Rate Bonds") in the original aggregate principal amount of \$98,385,000, \$30,430,000 of which is currently outstanding, (ii) Hospital Revenue Bonds, Series 1992 (IHC Hospitals, Inc.) Indexed Inverse Floating Rate Bonds (Indexed INFLOS) (the "Indexed INFLOS") in the original aggregate principal amount of \$17,500,000, all of which are currently outstanding, and (iii) Hospital Revenue Bonds, Series 1992 (IHC Hospitals, Inc.) Indexed Caps Bonds (the "Indexed Caps Bonds," and together with the "Indexed INFLOS and the Fixed Rate Bonds, the "Series 1992 Bonds") in the original aggregate principal amount of \$11,800,000, none of which are currently outstanding, all in accordance with the provisions of that certain Indenture of Trust and Pledge dated as of July 1, 1992, as supplemented and amended (the "Series 1992 Indenture"), between the City and Zions First National Bank, as trustee (the "Series 1992 Trustee"), to provide IHC Health Services, Inc., a Utah nonprofit corporation ("Intermountain"), with funds to finance, refinance or reimburse itself for all or a portion of the costs of the acquisition, construction, renovation, improvement and equipping of certain of its health care facilities located throughout the State and to provide for the refunding of certain hospital revenue bonds previously issued by the City for the benefit of Intermountain; and

WHEREAS, Intermountain desires to provide for the payment of all outstanding Series 1992 Bonds by depositing with the Series 1992 Trustee, certain direct obligations of, or obligations on which the timely payment of principal and interest is fully guaranteed by, the United States of America, which will provide sufficient moneys to pay the principal of and interest on the outstanding Series 1992 Bonds when due in accordance with the provisions of the Series 1992 Indenture; and

WHEREAS, in order to accomplish the foregoing, Intermountain has requested the City to enter into an Escrow Agreement (the "Escrow Agreement") with Intermountain and the Series 1992 Trustee, as escrow agent; and

WHEREAS, this City Council of the City (the "City Council") deems it necessary and advisable to approve the payment of the Series 1992 Bonds and to authorize the execution and delivery of the Escrow Agreement; and

WHEREAS, there has been prepared and presented to, and is now before, this City council the most recent draft of the proposed Escrow Agreement (presented to this meeting in the form attached hereto as Exhibit A);

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

Section I. The City hereby approves the establishment of a Trust Fund for the payment of the Series 1992 Bonds. The City is authorized and directed to execute and deliver the Escrow Agreement in substantially the same form as the draft thereof (Exhibit A hereto) which has been presented to this City Council at the meeting at which this Resolution was adopted. Such instrument shall be executed by the Mayor of the City in substantially the form of the draft of the Escrow Agreement now before the City Council with such changes therein as the Mayor shall approve, such approval to be conclusively evidenced by the Mayor's execution of such instrument. The City Recorder (or any deputy) is hereby authorized and directed to affix the official seal of the City to the Escrow Agreement and to attest said seal and the execution of the Escrow Agreement.

Section 2. The City Council hereby authorizes and directs the Mayor to do all such acts and things and to execute, acknowledge and deliver all such documents on behalf of the City as may be necessary to carry out and comply with the provisions of this Resolution, the establishment of a Trust Fund for the payment of the Series 1992 Bonds and the execution and delivery of the Escrow Agreement. The City Recorder (or any deputy) is hereby authorized and directed to affix the official seal of the City to any or all of such documents and to attest said seal and the execution of such documents. All of the acts and doings of the Mayor which are in

conformity with the intent and purposes of this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby ratified, confirmed and approved.

Section 3. It is hereby declared that all parts of this Resolution are severable, and 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 any such section, paragraph, clause or provision shall not affect the remaining provisions of this Resolution.

Section 4. All resolutions, orders and regulations or parts thereof heretofore adopted or passed which are in conflict with any of the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

Section 5. This Resolution shall become effective immediately upon its approval and passage.

PASSED AND APPROVED by the City Council of Salt Lake City, Utah, this 13th day of March, 2007.

SALT LAKE CITY CORPORATION, a municipal corporation, Salt Lake County, State of Utah

[SEAL]

By _____
Chair

ATTEST AND COUNTERSIGN:

Deputy City Recorder

APPROVED:

By _____
Mayor

APPROVED AS TO FORM:

By _____
Senior City Attorney

(Other business not pertinent to the above appears in the minutes of the meeting.)

Upon the conclusion of all business and upon motion duly made and carried, the meeting of the City Council was adjourned.

By _____
Chair

[SEAL]

ATTEST:

Deputy City Recorder

EXHIBIT A
FORM OF ESCROW AGREEMENT