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## SALT LAKE CITY COUNCIL STAFF REPORT

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**DATE:** August 20, 2004

**SUBJECT:** **REFINANCING OF SERIES 1993 BONDS  
THAT INCLUDED THE BASEBALL STADIUM**

**AFFECTED COUNCIL DISTRICTS:** Citywide

**STAFF REPORT BY:** Gary Mumford

**ADMINISTRATIVE DEPT.  
AND CONTACT PERSON:** Department of Management Services  
Dan Mulé, City Treasurer

**NOTICE REQUIREMENTS:** Public hearing was held on July 6<sup>th</sup> following 14 days newspaper notice

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The City Treasurer proposes refinancing approximately \$16.4 million outstanding Municipal Building Authority lease revenue bonds (Series 1993) to take advantage of favorable interest rates. On June 8, 2004, the City Council received a briefing on the proposed refinancing. At the briefing, Council Members expressed a preference to take the savings upfront to augment the capital improvement budget. About two thirds of the savings (\$1,000,000 to \$1,200,000) will be available anytime during the current fiscal year following a budget amendment to reduce the debt service budget in the Municipal Building Authority. Approximately \$500,000 will be available in October 2005 when existing bond documents allow the debt service reserve fund to be re-calculated.

The proposed refunding bonds will be backed by a pledge of sales tax revenue. Sales tax bonds are generally sold at a lower interest rate than lease revenue bonds. Backing the bonds with sales tax revenue should result in greater savings to the City. In addition, sales tax bonds do not require the same level of legal documentation as a lease revenue bond, which results in savings in issuance costs. The City's financial advisor assured the Council that the City's bonding capacity will remain strong and not be adversely affected by issuing these sales tax bonds.

### **POTENTIAL MOTIONS:**

If the Council desires to proceed with refinancing the bonds, the following two motions would be appropriate:

["I move that the Municipal Building Authority Board"] **Adopt a resolution to provide for the redemption of certain outstanding lease revenue bonds.**

["I move that the Council"] **Adopt a resolution authorizing the issuance and confirming the sales of Salt Lake City's Sales Tax Revenue Refunding Bonds, Series 2004.**

## CHRONOLOGY:

- June 8, 1993 – The City issued \$29,610,000 of bonds through the Municipal Building Authority to finance several projects, the largest of which was the baseball stadium.
- June 3, 2004 – The City Council received a briefing on a proposal to refinance \$16.4 million of outstanding bonds issued in 1993.
- June 17, 2004 – The Council set the date for a public hearing on the proposal to refinance the bonds.
- July 6, 2004 – A public hearing was held, but no one chose to speak. The Council adopted a resolution setting the maximum amount of the bonds and other parameters relating to the pending sale of refunding bonds.

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

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In 1993, the City issued \$29,610,000 of bonds through the Municipal Building Authority to finance several projects, the largest of which was the baseball stadium. The original bonds also included refinancing some older bonds. The bonds issued in 1993 mature on October 15, 2014. The final maturity date of the proposed refunding bonds will also be October 15, 2014.

Since the 1993 bonds included financing the baseball stadium, certain IRS rules apply. These rules include a limitation that private payments to the City cannot exceed 5% of the debt service. When the stadium was first built, the City received \$1,400,000 for the naming rights for a 15 year period. Bond counsel pointed out that the City could receive up to \$1,403,000 in 2008 for the naming rights without violation of the IRS's *private payment test*. If the City were to receive more than this amount, the bonds would need to be retired, which means that the City would need to come up with about \$9 million. In order to give the flexibility to the City of retiring the bonds early, the City's financial advisor suggested that the City sell variable rate bonds because fixed rate bonds with a short call feature of 5 years would result in higher interest rates. Variable rate bonds start out with much lower interest rates than fixed rates bonds and can be called at any time.

The Council may wish to note that the payment for this and other bonds comes from the City's Capital Improvement Program. As such, it would be customary to reserve the bond savings for capital improvement projects. There is no legal requirement to do so, however.

cc: Rocky Fluhart, Dan Mulé, Kelly Murdock, Richard Scott, DJ Baxter

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