MEMORANDUM

DATE: February 29, 2008

TO: City Council Members

FROM: Russell Weeks

RE: Budget Amendment Ordinance: Budget Opening for Department of Airports

CC: Cindy Gust-Jenson, David Everitt, Lyn Creswell, Esther Hunter, Maureen Riley, Dan Mulé, Steve Fawcett, Jay Bingham, Gordon Hoskins, Jennifer Bruno

This memorandum pertains to a request by the Department of Airports for an emergency budget opening to allow the department to retire $49,775,000 in outstanding debt on bonds if it becomes necessary. The source to repay the funds would be the department's cash reserves. The Department of Airports is an enterprise fund and is not supported by revenue from the City's general fund. According to the Administration, the outstanding debt currently is in variable rate bonds known as auction-rate securities. Interest rates on the securities are reset periodically. The market for those kinds of securities has encountered instability in the last month that could lead to the City (through the Department of Airports) paying significantly higher interest on the debt than it currently pays.

As with any budget opening, the City Council will hold a public hearing on the issue. The City Council will confirm a March 13 date for the public hearing on the budget opening when the Council adopts the Consent Agenda at its March 4 meeting.

OPTIONS

- Adopt the proposed ordinance.
- Do not adopt the proposed ordinance.

POTENTIAL MOTIONS

- I move that the City Council adopt an ordinance amending Salt Lake City Ordinance No. 24 of 2007 which adopted the City's final budget for the fiscal year beginning July 1, 2007, and ending June 30, 2008.

- I move that the City Council consider the next item on the agenda.

KEY POINTS/BACKGROUND

In 2004, the Department of Airports refinanced bonds from 1989 and 1990 into auction-rate securities to obtain favorable interest rates and save money. According to the Administration, auction-rate securities are long-term bonds that are treated like short-term debt in that the interest rate is reset every 7, 28, or 35 days. Municipalities nationwide use auction-rate securities. According to one Dow Jones article, "The auction-rate securities market is an important source of financing for municipalities, while providing an attractive option for corporate treasurers and cash managers at investment funds to park cash for short periods of time."[1]

Until recently, municipalities and municipal agencies, including the Department of Airports, saved considerable sums through receiving low interest rates in the auction-rate securities market. According to Airport administrators, interest rates usually were about 4 percent. However, the securities would carry a 15 percent interest rate if the bonds weren't sold at the securities auction.

Due to a number of factors, including the potential for companies that insure bonds to have their own financial investment ratings downgraded, investors have stopped buying auction-rate securities, forcing the holders of these bonds to repay them at higher interest rates[2]

The Department of Airports would like to amend its budget for the current fiscal year to allow it to pay off the $49,775,000 in outstanding debt if it becomes financially necessary to exit the auction-rate securities market. It should be noted that the City successfully sold one series of the bonds on February 28. However, the auction rate for the bonds was 9.96 percent. That compares to an auction rate of 3.9 percent when the series was sold on January 31, according to the City Treasurer's Office. The next series is scheduled to be sold on March 13. The City Council's public hearing on the proposed budget amendment would be March 14, so the Council probably will have a fairly good idea of the market trends by the public hearing. It should be noted that Airport officials have indicated that funds to pay off the debt would not be needed before March 14 due to notification requirements for bond holders.

An update in November 2007 of the Department of Airports master plan for future growth indicated that the department had more than $170 million in cash reserves.[3] There is some indication that cash reserves are less than that now but more than enough to pay off the $49,775,000 in outstanding debt if it becomes necessary.

ISSUES/QUESTIONS FOR CONSIDERATION

- How much in the Department of Airports cash reserves would remain if the $49,775,000 is used to pay off the outstanding debt?
- How much outstanding debt would remain?
- The Department's cash reserves are reserved for current and future capital needs. What effect would paying off the outstanding debt have on future capital projects?
- Would it be fiscally prudent to stay in the auction-rate market if it stabilizes?

[1] Dow Jones, *197 Auction-Rate Securities Sales Fail; 74 Succeed – Source*, February 27, 2008.
[2] Please see attached news article.
[3] Salt lake City International Airport City Council Update, November 2007, Page 13.

Bloomberg.com

Auction-Rate Bonds Force `Predatory' Yields on Cities (Update5)

By Jeremy R. Cooke and Martin Z. Braun

Feb. 25 (Bloomberg) -- U.S. municipal borrowers from Camden, New Jersey, to Sacramento, California, might face a third week of higher interest costs as failures in the auction- rate bond market persist.

Auctions run by banks to determine the rate on more than $45 billion of bonds didn't attract enough buyers last week, according to JPMorgan Chase & Co. At successful auctions, investors who submitted bids demanded higher yields, sending a seven-day index of the securities to a record 6.89 percent.

``The market right now is very predatory,'' said Marcia Maurer, chief financial officer of the Sacramento Regional County Sanitation District. The agency's weekly expense on $250 million of debt more than doubled to $343,000 from last month.

Investors enticed by rates that jumped as high as 20 percent are seeking opportunities in the $330 billion market no longer supported by dealers from Goldman Sachs Group Inc. to Citigroup Inc. and UBS AG that for years committed their capital to prevent failures. Thousands of unsuccessful auctions have driven up debt costs for taxpayers and other borrowers, and left investors in the securities unable to get their money.

``Aggressive institutional investors have moved in to pick up auction-rate issues at short-term rates ranging from 5 percent to as much as 15 percent or more,'' George Friedlander, a municipal strategist at Citigroup in New York, said in a report at the end of last week.

Failure Rate

Four of the biggest agents that collect orders from bond dealers and determine winning rates reported failures on 378 of 553 auctions today, or 68 percent. That's in line with the average since Feb. 15, according to data compiled by Bank of America Corp. and Bloomberg.

Auction bonds, created in 1984, had until recent months allowed municipalities, hospitals, student lenders and funds to borrow long-term at money-market costs by adjusting interest rates through bidding every seven, 28 or 35 days.

When an auction fails, the rate reverts to a set level specified in bond documents, or one based on a formula pegged to money-market benchmarks. Holders of the bonds are stuck with the securities until a later auction attracts enough demand.

Hedge funds and other non-traditional investors showed ``strong interest'' last week in tax-exempt deals with high rates, Alex Roever, a JPMorgan fixed-income analyst, said in an e-mail. The average rate for seven-day auction bonds rose to 6.89 percent Feb. 20, the highest since the Securities Industry and Financial Markets Association started the index two years ago. The gauge averaged 3.81 percent the past 12 months.

Closed-End Funds

Many of today's failures occurred at auctions of debt issued by closed-end mutual funds with penalty rates of about 4 percent to 5 percent, data compiled by Deutsche Bank AG, Bank of New York Mellon Corp., Wells Fargo & Co. and Wilmington Trust Corp. show. Closed-end funds have about $60 billion in auction securities outstanding. Municipalities and other nonprofits have about $166 billion.

The auction-rate market began unraveling late last year as investor confidence in the health of bond insurers backing many of the securities waned. A bank bailout of New York-based Ambac Financial Group Inc. might come as soon as this week, according to a person familiar with rescue talks.

The collapse accelerated as banks, including Citigroup and UBS that have taken losses of about $162 billion from securities related to the collapse of subprime mortgages, grew unwilling to commit capital to support the auctions.

Scant Disclosure

While dealers aren't obligated to prop up the auctions they get paid to run, they routinely stepped in when bidders didn't show up. Investors and borrowers never knew the extent of banks' bidding because of scant public disclosure of details known only to dealers, such as the number and range of bids. The Municipal Securities Rulemaking Board in Alexandria, Virginia, is seeking increased disclosure.

State regulators are scrutinizing sales of auction-rate securities by closed-end funds after investors complained they couldn't sell their holdings. Ohio Attorney General Marc Dann may file lawsuits after state funds bought the securities, spokeswoman Jennifer Brindisi said last week.

The Securities and Exchange Commission fined New York-based Lehman Brothers Holdings Inc. $850,000 in 1995 for manipulating auctions conducted for American Express. Almost two years ago, 15 securities firms paid the SEC $13 million to settle claims of bid-rigging in auction-rate bonds. The banks neither admitted nor denied wrongdoing.

Twice as High

The Delaware River Port Authority of Pennsylvania and New Jersey faced $460,000 in additional costs two weeks ago when rates on $358 million of its debt soared as high as 12 percent, said John Hanson, chief financial officer of the Camden-based agency that owns four Philadelphia bridges.

Investors attracted by those levels brought rates down to about 8.9 percent last week, still about twice what the authority had paid, Hanson said.

``I am just hopeful that our auctions continue to clear,'' he said. ``I don't think this market is ever going to come back to where it was.''

New Jersey is considering alternatives for some of its more than $3 billion in auction-rate bonds after costs climbed by more than $2 million, said Nancy Feldman, the state's director of debt management. Houston, the fourth most-populous U.S. city, plans to shift out of all $1.9 billion of its auction debt.

``We've made a decision to get out of auction-rate securities,'' said Jim Moncur, deputy city controller.

Supply Concern

Fixed-rate municipal bonds fell today, as yields on top- rated 30-year debt rose to 4.65 percent, a five-month high, according to Municipal Market Advisors. States and municipalities plan to sell about $4 billion of fixed-rate bonds this week, up from about $2.5 billion last week, data compiled by Bloomberg shows.

``People are concerned about the potential for added supply to our market,'' as some auction-rate securities get converted to conventional bonds, said Eric Boeckmann, a portfolio manager at Northern Trust Corp. in Chicago.

To contact the reporters on this story: Jeremy R. Cooke in New York at jcooke8@bloomberg.net ; Martin Z. Braun in New York at mbraun6@bloomberg.net .

Last Updated: February 25, 2008 16:57 EST

FEB 26 2008

COUNCIL TRANSMITTAL

TO: David Everitt, Chief of Staff **DATE:** February 26, 2008

FROM: Steve Fawcett, Department of Management Services

SUBJECT: Emergency Budget Opening for the Airport

STAFF CONTACT: Gordon Hoskins, 535-6394
Jay Bingham, 575-2916

DOCUMENT TYPE: Budget Amendment Ordinance

BUDGET IMPACT: $49,775,000

BACKGROUND/DISCUSSION:

The Airport currently has $49,775,000 of outstanding debt all of which is in Auction Rate Security (ARS). ARS are long term bonds that is treated like short term debt in that the interest rates are reset every 7, 28, or 35 days. Our rates will be set again on February 28th and March 13th. The interest is determined by an auction that sets the interest rate until the next auction. In the event that there are not enough buyers the auction fails and the bondholders who wanted to sell their bonds are left holding the securities. Rates at a failed auction will be set in accordance with provisions spelled out in the Official Statement. In our case the default interest rate is 15%.

The demand for ARS has diminished because these securities are backed by AAA rated insurance companies that have had or threatened to have their AAA rating reduced.

These bonds were issued in 2004 and for the past four years have provided a very low interest rate well below the fixed rates available, and below the rates we were earning on city invested funds, however that is no longer the case.

In the event our next auction fails or the interest rates are too high this amendment will allow us to pay off the bonds and retire the debt with existing cash reserves.

RECOMMENDATION: That the City Council appropriate Airport available cash and allow the Airport to pay off the bonds.

Fiscal Year 2008 Budget Amendment #2-A – March

#	Initiative Name	Fiscal Year Impact Amount	Annual Impact Amount (If Different)	FTE	General Fund Impact	General Fund Fund Balance Impact Positive	Impact Fund Balance Impact Negative
	Section A	New Items					
1.	Airport Bond Refund	$49,775,000.00					
	Section B	Grants For Existing Staff Resources					
	Section C	Grants For New Staff Resources					
	Section D	Housekeeping					
	Section E	Grants Requiring No New Staff Resources					
	Section F	Donations					
	Section I	Council Added Items					

Initiative Name:

Airport Bond Refund

Initiative Number:

BA#2-A FY 2008 Initiative #A-1

Initiative Type: Budget Amendment

New Item

Initiative Discussion:

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Airport Bond Refund
Initiative Name

BA#A-2 FY2008 Initiative #A-1
Initiative Number

Airport
Department

Jay Bingham
Prepared By

2007-08
Fiscal Year

New Item
Type of Initiative

575-2916 / 575-2918
Telephone Contact

General Fund (Fund Balance) Impact

Revenue Impact By Fund:		1st Year FY 2007-08	2nd Year FY 2008-09
General Fund			
	Total	$0	$0
Internal Service Fund			
	Total	$0	$0
Enterprise Fund			
54 Fund (Fund Balance)		$ 49,775,000.00	
	Total	$ 49,775,000.00	$0
Other Fund			
	Total	0	$0

Staffing Impact:		
New Number of FTE's		0
Existing Number of FTE's		0
Total		0
Description		

Accounting Detail

Grant # and CFDA # If Applicable:

Revenue:

Cost Center Number	Object Code Number	Amount

Expenditure:

Cost Center Number	Object Code Number	Amount
54-78100	2811	28,150,000
54-78200	2811	21,625,000

Additional Accounting Details:

Grant Information:

Grant funds employee positions?	N/A
Is there a potential for grant to continue?	N/A
If grant is funding a position is it expected the position will be eliminated at the end of the grant?	N/A
Will grant program be complete in grant funding time frame?	N/A
Will grant impact the community once the grant funds are eliminated?	N/A
Does grant duplicate services provided by private or Non-profit sector?	N/A

FEB 2 6 2008

SALT LAKE CITY ORDINANCE
No. ______ of 2007
(Amending the Final Budget of Salt Lake City,
including the employment staffing document,
for Fiscal Year 2007-2008)

AN ORDINANCE AMENDING SALT LAKE CITY ORDINANCE NO. 24 OF 2007 WHICH ADOPTED THE FINAL BUDGET OF SALT LAKE CITY, UTAH, THE FISCAL YEAR BEGINNING JULY 1, 2007 AND ENDING JUNE 30, 2008.

PREAMBLE

On June 12, 2007, the Salt Lake City Council adopted the final budget of Salt Lake City, Utah, including the employment staffing document, for the fiscal year beginning July 1, 2007 and ending June 30, 2008, in accordance with the requirements of Section 118, Chapter 6, Title 10 of the Utah Code Annotated, and said budget, including the employment staffing document, was approved by the Mayor of Salt Lake City, Utah.

The City's Policy and Budget Director, acting as the City's Budget Officer, prepared and filed with the City Recorder proposed amendments to said duly adopted budget, including the amendments to the employment staffing document, copies of which are attached hereto, for consideration by the City Council and inspection by the public.

All conditions precedent to amend said budget, including the employment staffing document, have been accomplished.

Be it ordained by the City Council of Salt Lake City, Utah:

SECTION 1. Purpose. The purpose of this Ordinance is to amend the final budget of Salt Lake City, including the employment staffing document, as approved, ratified and finalized by Salt Lake City Ordinance No.24 of 2007.

SECTION 2. Adoption of Amendments. The budget amendments, including amendments to the employment staffing document, attached hereto and made a part of this Ordinance shall be, and the same hereby are adopted and incorporated into the budget of Salt Lake City, Utah, including the employment staffing document, for the fiscal year beginning July 1, 2007 and ending June 30, 2008, in accordance with the requirements of Section 128, Chapter 6, Title 10, of the Utah Code Annotated.

SECTION 3. Certification to Utah State Auditor. The City's Policy and Budget Director, acting as the City's Budget Officer, is authorized and directed to certify and file a copy of said budget amendments, including amendments to the employment staffing document, with the Utah State Auditor.

SECTION 4. Filing of copies of the Budget Amendments. The said Budget Officer is authorized and directed to certify and file a copy of said budget amendments, including amendments to the employment staffing document, in the office of said Budget Officer and in the office of the City Recorder which amendments shall be available for public inspection.

SECTION 5. Effective Date. This Ordinance shall take effect on its first publication.

Passed by the City Council of Salt Lake City, Utah, this _____ day of

______________, 2007.

____
CHAIRPERSON

ATTEST:

____
CHIEF DEPUTY CITY RECORDER

Transmitted to the Mayor on __________________

Mayor's Action: ____ Approved ____ Vetoed

____
MAYOR

ATTEST:

____
CHIEF DEPUTY CITY RECORDER

(SEAL)

Bill No. _________ of 2007.
Published: ________________.
HB_ATTY-#2169-v1-Budget_amendment_1_2007-2008.DOC