GREATER SALT LAKE
Municipal Services District

STAFF REPORT

Date: February 6, 2024

From: Brian Hartsell

RE: Update on 2022 MSD Bond

1. ***Bond Summary.*** The MSD closed on the $20,000,000 Series 2022 Bond via private placement on Feb 15, 2022. The debt service concludes on Dec 1, 2031. The 2022 and 2023 debt service payments have been made on time. The next payment (interest) is due Jun 1, 2024. Attachment 1 shows the debt service schedule. Table 1 shows the projects funded by the bond, the amount of bond proceeds allocated to each project, the amount spent and reimbursed from bond proceeds, and proceeds remaining per project.

Table 1

2022 Bond Summary

Area	Description	Total Issuance	Spent through Sep 30, 2023	Reimbursed to MSD from Bond Proceeds	Proceeds Remaining
White City	Sego Lily Drive Road Improvement	$ 2,332,000	$ 364,973.79	$ 364,973.79	$ 1,967,026.21
Magna	Cyprus Master Storm Drain Phase 2	$ 1,935,000	$ 794,636.06	$ 794,636.06	$ 1,140,363.94
Magna	9040 West Storm Drain (combined with Cyprus Project)	$ 288,000			$ 288,000.00
Kearns	4700 S Improvement Project	$ 9,168,435	$ 6,490,238.61	$ 6,490,238.61	$ 2,678,196.39
Emigration Canyon	Canyon Stabilization Project	$ 2,201,000	$ 172,506.55	$ 172,506.55	$ 2,028,493.45
Unincorporated	Lower Millcreek Canyon Road Overlay	$ 1,762,446	$ 1,762,446.00	$ 1,762,446.00	$ -
Unincorporated	Upper Millcreek Canyon	$ 949,554	$ -	$ -	$ 949,554.00
Copperton	Stormwater, Road & Maintenance Projects	$ 700,000	$ 20,495.07	$ 20,495.07	$ 679,504.93
Brighton	Infrastructure & Maintenance Projects	$ 200,000			$ 200,000.00
Unincorporated	Projects at Board Discretion (Upper Millcreek Canyon Road Overlay)	$ 416,065			$ 416,065.00
	Issuance Costs	$ 47,500			$ 47,500.00
	Totals	**$ 20,000,000**	**$ 9,605,296.08**	**$ 9,605,296.08**	**$ 10,394,703.92**

2. ***Arbitrage.*** The original plan was to complete the identified projects, the "bond projects," within 36 months. We recently met with Brandon Johnson, our bond counsel, and representatives of Stifel, our bond municipal financial advisor, to discuss the potential of an arbitrage rebate payment.

   Attachment 2 provides an estimated arbitrage calculation based on earnings through Nov 30, 2023. Allowable earnings are those earnings that can be kept and are those earnings realized below the bond yield of 1.8702%. Allowable earnings through Nov 30 are $484,344. Due to unusually high interest rates, which have exceeded 5% at the Public Treasurer's Investment Fund (PTIF) where the proceeds are currently maintained, actual earnings are at $790,290. The net difference of $305,946 is considered arbitrage earnings and should be set aside for an IRS rebate payment that will be due in 2027 along with any additional arbitrage earnings between now and then.

   To manage the arbitrage, the District has two options:

   Option 1. Keep the funds in the PTIF account and continue obtaining the allowable earnings. In Feb 2025 when we are at the 36 month point, we request that earnings are restricted going forward. We can use the allowable earnings for the same purpose as the bond proceeds. The final arbitrage earnings will be paid to the IRS via a rebate payment in 2027.

   Option 2. Request that the trustee (US Bank) open a State and Local Government security. Earnings in the SLG would be exempt from arbitrage. Over the next year we will be spending down most if not all of the remaining proceeds, but if current interest rates hold (currently just above 4% for SLG) then the District could realize some additional earnings above what would be earned in Option 1 alone.

   Although there will be arbitrage earnings payable to the IRS in 2027, the high interest rates have allowed the District to maximize the allowable earnings (interest earned up to the 1.8702% bond yield rate). As a result, this is considered positive arbitrage and the allowable earnings can offset the interest costs incurred over the life of the bond. Had interest rates been lower than 1.8702%, the offset potential would have been reduced and been considered negative arbitrage.

   In conclusion, the arbitrage earnings are funds to be paid to the IRS are funds the District never had to begin with. The District had a three-year plan to construct the bond projects and could not have predicted future interest rates at the time the bond was issued in Feb 2022. We will continue to work with Stifel and bond counsel to update the estimated arbitrage calculations as we approach 2027.