SALT LAKE COUNTY

2001 S State Street, N2-800
Salt Lake City, UT 84114

Meeting Minutes

Wednesday, October 23, 2024

2:00 PM

Room N2-800

Debt Review Committee

1. Call to Order

Present: Committee Member Darrin Casper
Committee Member Wayne Cushing
Ex-Officio Member Johnathan Ward
Chair Ralph Chamness

Call In: Committee Member David Delquadro
Committee Member Greg Folta
Committee Member Chris Harding
Committee Member Mitchell Park

2. Public Comment

3. Debt Review Committee Public Comment Policy

Debt Review Committee Public Comment Policy 24-2255

Attachments: DRC Policy Regarding Public Verbal and Written Comments (DRAFT)(9-18-24)

Mr. Craig Wangsgard, Deputy District Attorney, stated the Council passed an ordinance (Ordinance 2.08.120) requiring each committee to draft a policy by January 1, 2024, regarding public comment. He drafted a generic policy for as many committees as will fit. He asked the Debt Review Committee to look it over and see if it would fit its needs.

Committee Member Chamness stated he changed "committee" to "Debt Review Committee" to make it clear this was the Debt Review Committee's policy, using the policy Mr. Wangsgard had circulated throughout the County.

A motion was made by Committee Member Cushing, seconded by Committee Member Casper, that the policy be approved. The motion carried by a unanimous vote.

4. Financial Advisor Update

Mr. Johnathan Ward, Senior Vice President, Zions Public Finance, delivered a presentation on the Municipal Market Outlook for October 17, 2024, reviewing interest rate movements in the Municipal Market Data (MMD) Triple A General Obligation (GO) bonds and the United States (US) Treasury, the ratios, other rates, and Bond Buyer Indexes; and graphs of the 20-year Triple A MMD interest rates and U.S. Treasury rates.

Mr. Ward also reviewed a sensitivity analysis of Salt Lake County's Municipal Building Authority Refunding Series 200B Build America Bonds (BABs), including rates from last week showing the County would have a negative net present value of about $12,000 after paying costs, refunding the old transactions, and paying the extraordinary redemption premium of $758,000. That was not positive; however, the purpose for refunding the bonds was to mitigate the County's risk of the Federal Government further sequestering or eliminating the subsidy it was paying to the County for its Build America Bonds. The Federal Government was supposed to cover 35 percent of the County's interest payment, but it reduced that to 33 percent. For the County to be protected from more unilateral cuts, Congress would have to approve an additional exception to the Statutory Pay-As-You-Go (PAYGO) Act of 2010. In 2023, Congress approved a budget consolidation act, which provided an exemption to Build America Bond payments. That exemption effectively goes away the end of September 2025. If Congress does not approve an additional exception, the subsidy will go away then.

Earlier this year, the US Treasury rates were high, and the Municipal Bond rates were low, which made refunding these bonds more profitable. Now that the gap has narrowed between those rates, the math does not work as well for the County. The call feature on these Build America Bonds is a "make whole" call feature, which means the investors get all the interest they are owed through the maturity of the bonds, unless the net present value math and the extraordinary redemption feature are just right.

Committee Member Casper asked if there was an upside to waiting to execute until next September, or if the loss of the BABs subsidy would change the refinancing.

Mr. Ward stated if in September, the Federal Government does not provide an exemption, that would change the way the County would present the refunding analysis. Now, the County had outstanding purely taxable lease revenue bonds at a higher than 6 percent interest rate. In September, the net present value would be positive because the County would be going from taxable to tax-exempt assumptions. The other variable was the ratio between US Treasuries and Municipal Market interest rates. The wider the gap, the more positive the savings. The County would not see a positive net present value with the narrower gap because of the extraordinary redemption premium it owed to investors.

Mr. Ward reviewed the calendar on the Lease Revenue Refunding Bonds Series 2024 transaction, with the bonds being sold by mid-December. December was not the best time to sell bonds because there was usually less attention at that time, so the County might prefer to modify this calendar and prepare to sell the bonds in January when there is less supply. The next steps were to review the Preliminary Official Statement with all the parties, then do the rating presentations. The County normally got two ratings, which would cost the County $40,000 to $50,000 for a transaction of this size. The County could scale that back to one rating and save half that fee. Ratings were only good for three months, so the County would want to commit to executing the bond. If the County did not execute the bond, it would still have to pay 75 percent of that fee.

Committee Member Delquadro stated the Debt Review Committee has authorized Committee Member Casper to make his best judgment whether to pull the trigger.

Committee Member Casper stated he thought the County should proceed with reviewing the Preliminary Official Statement and suggested that meeting be held in December.

5. Discussion on Private Business Use as it relates to tax exempt financing

Mr. Johnathan Ward, Senior Vice President, Zions Public Finance, reviewed the private business use and private business regulations, stating the Federal Government allows money to be borrowed at tax-exempt rates for government purposes, but not for private or private business purposes. There are tests under the Internal Revenue Service's (IRS) rule book, which include a private use and a private payment component, and if an entity fails both tests, then the bonds become taxable.

The private use component could be a project that included private use of more than 10 percent, meaning it benefitted a private trade or business, or private activity that used more than 10 percent of floor space. Some common examples included leasing a component of a project for private use or activity, i.e., having concessions; having research done in a facility, such as medical research with private doctors and research teams; management contracts, which shared profits in a project with a private entity; or parking if more than 10 percent of parking stalls were used by private enterprise. Other things considered private were having a post office or any federal government entity using a building. Also, if a jail housed federal inmates, the federal inmate population had to be under 10 percent. The rules get even more restrictive when loaning tax-exempt proceeds to a private entity. Only up to 5 percent of the total bond issue can be used for that private loan.

The private payment component was similar. If an entity secured financing with private payments, either directly or indirectly, or from private land, or private resources, it would trigger the test. For instance, if an entity received private payments from a post office using the facility, then it would fail the test. The IRS measured the private payments by comparing the present value of those payments over whatever the contract period was with the present value of the debt service payments over the life of the bonds.

When going into a transaction, an entity should have a reasonable expectation that it would not fail both tests in order for the bond attorneys to give it a tax-exempt opinion. The simplest mitigant is not to allow private use or private payment. However, an entity could do taxable financing to cover private use or private payment, have a portion of the bond issue be taxable to cover that, or allocate cash towards bad costs to make sure it was compliant with federal regulations.

Committee Member Casper stated if the County proceeded with the purchase of the Peace Coliseum building in Midvale, these rules would come into play. There is a private daycare leasing space there, or perhaps the space was given to it, and it wants to stay. Additionally, the data center there would be leased back to Overstock.com for five years at about $200,000 a year. Then, there is a cafeteria on site, and the County would probably do a request-for-proposal (RFP) to run that.

Mr. Craig Wangsgard, Deputy District Attorney, stated there would also be a clinic there, although Intermountain Health (IHC) is a non-profit organization.

Mr. Ward stated that would constitute a good use. A tax-exempt entity using a tax-exempt funded facility would be considered a good use. Having a cafeteria and concessions is not a problem, but bond attorneys would want to look at the management contract to ensure that whoever ran that was not taking a profit or a percentage of profits. Bond attorneys would dig into the details and make sure the County was okay.

Committee Member Casper stated if the County bought the property in November, it would use cash, with a reimbursement resolution, not debt.

6. Other Business

Committee Member Chamness stated the next meeting is scheduled for Wednesday, November 27th. He asked if the committee wanted to reschedule that, since that date is right before Thanksgiving. He suggested holding the next meeting on December 11th, which was the day after the public hearing for the adoption of the County budget, but before Christmas.

Committee Member Casper stated that would be fine, and it would give the Debt Review Committee time to get the Preliminary Official Statement and review it.

7. Adjourn

The meeting was adjourned at 2:45 PM.

LANNIE CHAPMAN, COUNTY CLERK

By ______________________________
DEPUTY CLERK

By ______________________________
CHAIR, DEBT REVIEW COMMITTEE