SALT LAKE COUNTY
Debt Review Committee

Debt Review Committee Meeting – Minutes (Approved)
Audio available: http://slco.org/debt-review/audio/
Wednesday, March 28, 2018, 1:00 p.m. – Auditor's Office Conference Room N3-300
Salt Lake County Government Center
2001 South State Street, Salt Lake City, Utah 84190

ATTENDEES

Committee Members Present:

Ralph Chamness, Chair (District Attorney's Office)
Darrin Casper, Member (Mayor's Office)
Wayne Cushing, Member (Treasurer's Office)
Javaid Majid, Member (Mayor's Office)
Jason Rose, Member (County Council)
Scott Tingley, Member (Auditor's Office)
Jon Bronson, Ex-officio Member (Zions Bank)

Other Attendees:

Craig Wangsgard (District Attorney's Office)
Heather Whatcott (Mayor's Office)
Shanell Beecher (MFA)
Rod Kitchens (MFA)
Steve VanMaren, (Citizen)
Joyce Peterson (District Attorney's Office)

Committee Members Absent:

Cherylann Johnson, Member (Auditor's Office)
David Delquadro, Member (Council Rep)

AGENDA

Chair, Ralph Chamness, called the meeting to order at 1:05 p.m.

1. **Approval of Minutes**

   A motion was made to approve the February 1, 2018, minutes as written. The motion was seconded, and all voted in favor of approval.

2. **Timing for the TRANS for 2018**

   The year 2018 TRANS will be similar to last year's issuance. Jon Bronson summarized last year's TRANS and indicated that the D.A. selected note counsel in the first week of May of last year. Shanell provided the cash flow projections on May 24. The Council adopted the plan of finance in their meeting the first week of June. A due diligence meeting was had the same week, June 8, and rating calls the week of June 19. We sold the issue of competitive sale on July 12 and closed it on July 27, 2017. Mr. Bronson stated he would put a calendar together and will send it out to the Committee. Mr. Wangsgard stated that he would like to get an estimate as to how much TRANS will be because at least one note counsel bumped the fees when the issue amount of the TRANS went up. Mr. Bronson stated the critical date is when Shanell can get the cash flows, possibly the third week in May; he can build a calendar around that timeline. Mr. Wangsgard stated he could tell bond counsel $45 to $69 and we will have preliminary numbers in late April.

Mr. Bronson indicated that at last year's competitive sale we had ten bids and sold at a yield of .84% which was a little lower than last year's Note Index. Rates are up. The Note Index this year is 125. There is some positive spread because the latest PTIF rate was about 184; it's going up about 10 basis points every month. There should still be positive arbitrage available.

3. Library Bond

Mr. Casper stated he did not have a chance to review Mr. Bronson's responses to the Library's questions. Mr. Casper indicated that the Library system is working on six projects; five libraries and an operations center. A rough estimate for the projects is $65M which is approved in the budget. Tariffs on steel were not anticipated in the budget. The debt issue is probably going to have to be a lease revenue bond because the library does not have sales taxes, nor is it county-wide, so there is not a general obligation offer. There is a timing issue in regards to payments. We would capitalize interest through the certificate of occupancy, probably on a building by building basis, and the library fund is likely to be out of cash toward the end of this year. Mr. Casper indicated it was not critical if they dip below zero in November if proceeds were to be received in December; it can't go across the year, the financial statements need to be equal if we are in that position. They are in the process of buying land and hiring architects. Mr. Casper stated that Leslie Workman had some technical questions with regard to what the money could be spent on.

Mr. Bronson reviewed questions posed to him prior to the meeting, and indicated that if the Valley Fair Mall space was leased, tenant improvements could be done with the bond proceeds if the improvements are collateral on the bonds. Additionally, with lease revenue bonds, you are offering the market as collateral what you are financing; the improvements you are financing that is what you are offering as collateral. If you are improving a portion of a building, one has to keep in mind that whatever you are offering as collateral to the market has to make sense on a stand-alone basis. In the event the County defaulted and the bond holders through the Trustee foreclosed on the building, the collateral could be operated on a standalone basis by somebody else. Mr. Bronson specified the requirement of no shared HUAC, no shared entrance and exit or shared restrooms; it has to be functional as a standalone facility. Mr. Bronson further stated one could condominimize the building as collateral; you carve out what you are offering as collateral and it has to be functional on its own. Mr. Wangsgard asked if the library building in West Valley is a standalone building. It was discussed that the library building in West Valley was in a mall. Mr. Bronson asked if one can offer that portion of the mall as collateral. Discussion was had regarding a leasehold interest as collateral. The space has a 30 year lease. Mr. Bronson brought up the issue of the ground lease. If the ground is owned by a private party, you would have to have a ground lease of up to 99 years in the event of default to make it work. Mr. Chamness and Mr. Casper stated that the County probably cannot get the 99 year lease.

Mr. Bronson continued to answer prior questions posed to him:

Question: "We are looking at purchasing a building for the operations center. Can we do remodeling of that building with the proceeds?" Mr. Bronson responded yes, remodeling can be done with the proceeds.

Question: "Can we pay for the appraisals on buildings and land we did not actually purchase?" Mr. Bronson responded usually not. If you did not purchase the building and you are not offering it as collateral then probably not. If you are offering it as collateral you probably can capitalize the appraisal.

Question: "If we use new market tax credits, how does that work with the bond?" Mr. Bronson stated you can use both new market tax credits and municipal bonds to help finance a project, however, they cannot finance the same improvements. You have to identify separate improvements.

Mr. Casper indicated that they would need to get bond counsel involved and stated questions regarding ownership requirements, how to deal with the requirements, and asked if it can be segregated. Mr. Chamness clarified the question by stating if someone owned the parking lot and someone owned the building. Mr. Casper stated he thought there was a distinction of lease revenue bonds and sales tax bonds that needed to be looked at on new market tax credits.

Discussion was had regarding new market tax credits and lease revenue collateral. Mr. Wangsgard stated the ownership interest is different because you have a private entity that needs to own the property to take the tax credit. Additionally, when you are talking about lease revenue, the MBA needs to own the property so they can collateralize it. Mr. Bronson indicated that these are legal considerations and also considerations for who is looking at the collateral, the rating agencies and the purchasers. If the rating agencies and purchasers are comfortable that the asset can be used by them in foreclosure, then they are satisfied. Mr. Casper suggested that bond counsel be hired early. Mr. Wangsgard agreed.

Mr. VanMaren asked if one could put new tax credits on the furnishings and not the building. Mr. Wangsgard replied that he did not think they could do that on personal property, it has to be real property. Mr. Bronson indicated a lease revenue bond could be utilized for equipment.

Mr. Majid discussed that we are looking into two different tranches if possible and a split off, 32/32 as an option; a three year spend-down issue. Mr. Wangsgard stated we have a reimbursement in place right now; there is an 18 month window. They do not allow a reimbursement resolution forever. Mr. Bronson indicated soft costs are allowed forever. Mr. Wangsgard replied that soft costs are incurred first. Mr. Majid indicated they are looking at options right now to see if they can meet the spend-down issues.

4. **Financial Advisor Update**

Mr. Bronson stated the market has been interesting and has been reacting to some news. The Fed met last week, Jerome Powell's first meeting as Chairman. The Fed interest rate was increased by a quarter of a percent. The resulting dot matrix that they used would suggest another two or three increases for the rest of the year. A rate increase is expected quarterly throughout 2019, an expected quarter percent each increase. Interest rate increases were expected so the market did not react in terms of that news, however, they have been reacting to low supply in bonds in the market. It has been a seller's market due to the low bond supply. The largest deal that was sold on the market last week was a $250M school bill out of Pennsylvania. There is a little more volume coming this week but not much. The volume has been low probably due to tax reform and the elimination of advance refundings at a lower corporate tax rate to 21%. Tax exempt bonds are not as attractive as they used to be at the lower corporate tax rate.

The news about the tariffs did not help in the stock market. The stock market lost 6-7%. That has meant a flight to quality the bond market, so what we saw was the bond market yields increasing on the short end and decreasing on the long end. A more flattening of the yield curve which was already relatively flat.

The Fed meeting discussed that they do not think the economy is overheating. There is no indication in the data that the U.S. is about to experience significant higher inflation. The troubling spot is the threat of the issue of tariffs, especially the Chinese tariffs.

Legislation:

S.B. 122 – Bond Election Amendments: This bill deals with bond premiums, which did pass. Issuers will not be allowed to take excessive premiums and keep them, meaning their debt service payments would be higher and they would be able to accomplish more projects than they had previously anticipated. The bill is effective January 1, 2019.

H.B. 225 – Initiatives, Referenda and Other Political Activity: This bill did not pass. It would have required changes in voter brochures. Currently, entities such as the county could put out a voter information piece that was deemed to be neutral and informational. Certain legislators thought some entities were abusing this process and putting out information that was biased. This bill would have mandated that any voter pamphlet would have a pro and a con piece regardless if you thought it was just informational.

H.B. 473 – Transportation Infrastructure Funding: This bill would modify sales taxes that would support a transportation bond. Mr. Bronson spoke to Darrin Casper about the bill but not Debt Committee due to the lateness of the bill. Mr. Bronson also spoke to Blake Wade and Treasurer Damschen about this bill. Mr. Bronson, Mr. Wade, Mr. Damschen and Greg Curtis met regarding this bill and discussed that the bill would potentially impair the collection of the sales tax. This bill was pulled, however, may come back at another time.

S.B. 136 – Transportation Governance Amendments: This UTA bill did pass.

H.B. 142 – Impact Fee Amendments: This bill passed. This bill allows entities to charge an impact fee for natural gas.

5. Paying Agent RFP

Mr. Wangsgard discussed the Paying Agent RFP and what is to be done this year and prior issuances. Mr. Wangsgard spoke to one bond counsel who indicated that a resolution would have to be done by amending some of the documents. Mr. Wangsgard indicated he again spoke to bond counsel and that is not the case and stated that it would make sense to have one paying agent, particularly if we could change to somebody that was more responsive even though it would be more expensive. Mr. Bronson indicated this happens all the time and that bond documents anticipate it and allow for the naming of a successor paying agent who tries to make it very simple. Mr. Wangsgard stated he was warned to make sure that he reads the indentures and the paying agents sufficiently to meet the requirements of the indentures. Mr. Bronson stated they were right by providing that advice because each of the paying agent agreements say something different. Mr. Majid stated two paying agents are currently being utilized by the County.

Mr. Wangsgard indicated what he will have to do for the paying agent RFP. He stated the need to speak to Eric about getting retrospective outstanding debt and paying schedules. Mr. Wangsgard and Mr. Bronson indicated that Eric sent out a debt book that has all the details. Mr. Wangsgard stated he would need to speak to Contracts and Procurement to see if they want something this large as an attachment. Mr. Majid stated that when we look at the paying agent RFP we also have to look at the calculating agent, the trustee, and also the escrow agent; all blended into one. Thus, when we are saying a paying agent, we are meaning more than a paying agent. Mr. Wangsgard agreed. Mr. Chamness asked if everyone agreed that the County wants one paying agent. Mr. Wangsgard responded he was not certain how much it would cost to have bond counsel do the work, however he thinks they want bond counsel to prepare the resolutions. Mr. Casper stated that based on the last RFP that he reviewed, it is possible that the legal costs would be almost immaterial compared to the annual cost. Mr. Wangsgard indicated we believe that to be the case currently; he would be surprised if the legal costs would exceed $15k to $20k. Mr. Wangsgard stated that he calculated the cost savings in legal costs in the past 11 years, the amount is well over $500k. Mr. Bronson indicated that any new paying agent agreement would normally include a successor clause so that you can terminate the agreement at any time going forward. Mr. Wangsgard indicated that the County has a termination for convenience clause in the paying agent agreements.

6. **Other Business**

The Committee discussed the next scheduled meeting date. It was agreed that the next meeting will be held Wednesday, May 2, 2018, at the new District Attorney's Office building.

(Mr. Bronson left the meeting).

7. **Municipal Advisor Contract**

Mr. Casper introduced Heather Whatcott, Mayor's Office Internal Services Manager, who has taken the lead on this RFP with the District Attorney's Office and has worked with Contracts and Procurement. Ms. Whatcott stated she was asked to reach out to the City and County of Denver, Idaho, and the State of Utah regarding the RFP. Ms. Whatcott was provided some good contacts by the City of Denver for the municipal advisor they are currently utilizing and added them to the list. Ms. Whatcott indicated she has been talking to a number of people just to make sure that we are reaching out to the right people. Mr. Casper stated that Ms. Whatcott conducted an internet search on municipal advisors and located approximately one hundred firms. Ms. Whatcott took the next step and put some qualifying language to narrow the search and pinpoint the appropriate expertise. Minimum qualifications were put into the new RFP that were not in the last, in particular, specifying those who were working with an entity with at least $50M in revenue and/or 50 thousand in population to limit the responses to the RFP to credible and qualified municipal advisors. The RFP ends July 21, so it will be published quickly. There is a nuance in the RFP; the term will be four and a half years and extended the term to be eight and one-half years so that we are not dealing with the TRANS and preparing an RFP during the TRANS work. Mr. Wangsgard indicated it is approximately 4 years, five months. Mr. Chamness directed that comments on the draft RFP must be done quickly, this week. Mr. Casper stated that we are in very good shape as far as timing, however, are slated to have this go out by April 4. Mr. Wangsgard wanted confirmation that a flat fee was not being paid. Mr. Casper confirmed no flat fee, and does not anticipate that a flat fee would be paid. Discussion was had regarding hypotheticals of fees. Mr. Wangsgard indicated he would like to be included in the comments to check them for legality. Mr. Casper stated that Jason wanted Teresa Young, Heather and Mr. Casper to review the pricing together so that Teresa understands the ramifications.

It was discussed who was on the committee for the RFP. Mr. Wangsgard clarified that he is on the committee but is non-scoring since he is providing legal advice to the committee and will be writing the contract. Mr. Casper verified that it was a criteria for the contractor to attend Debt Review Committee meetings. Mr. Wangsgard stated his opinion regarding awarding the contract to someone who is from Denver. The contract with Zions expires July 31. Mr. Chamness recommended the State's contract be reviewed. Mr. VanMaren asked if the RFP states the county does not have to issue the contract. Mr. Chamness and Mr. Wangsgard indicated that the county always has the right not to issue and further described the process.

8. Adjourn

A motion was made to adjourn, all voted for adjournment. The meeting adjourned at 2:10 p.m.