

CHAPTER 5 DEBT

Last Updated: June 14, 2010

PREFACE

This P&P Chapter is intended to be consistent with the Utah Local Government Bonding Act, Utah Code Ann. Title 11, Chap 14 (“Bond Act”).

5-1 INTENT

This P&P Chapter is intended to guide and enhance the quality of the District’s debt management process, and identify the long-term financial planning objectives of the District. This P&P Chapter covers the issuance of both long-term and short-term debt, as well as limited tax general obligation and revenue bonds, for the financing of the capital needs of the District.

5-2 AUTHORIZATION TO ISSUE BONDS

Pursuant to Utah Code Ann. §§ 17B-1-103(2)(e),(f), 17B-2a-603(7), Utah Code Ann. Title 17B, Chapter 1, Part 11, the District is authorized to issue both long-term and short-term debt as well as limited tax general obligation and revenue bonds for any lawful District purpose under the provisions of the Bond Act.

5-3 CREDIT RATING OBJECTIVES

As the District issues debt, its objective will be to maintain or improve its ratings. The District may employ any of the credit enhancements described in P&P Section 5-4 to maintain or improve the District’s credit ratings.

5-4 CREDIT OBJECTIVES AND ENHANCEMENTS

Bond insurance may be used when it provides sufficient economic benefit. In the case of direct pay letters of credit (“LOCs”), the Bond Trustee can draw upon the LOC to make debt service payments. If a LOC is to be used, the Treasurer shall prepare and distribute to qualified banks a request for qualification, which includes the terms and conditions that are acceptable to the District.

5-5 LIMITATIONS OF INDEBTEDNESS

The District goal is to maintain revenues and expenditures such that total revenues for each fiscal year minus total expenditures for each fiscal year equals 125% of debt service for each fiscal year. The District objective is to issue all debt instruments in the most cost effective manner reasonably possible. Any legal and reasonable method may be used to

obtain the best reasonably possible interest rates and repayment terms commensurate with these objectives. The Finance Committee will evaluate the appropriate method of financing each project and recommend action to the Board as described in P&P Section 1-14(4)(c).

5-6 OVERVIEW OF BOND ISSUES

Revenue from District facilities should exceed debt service payments. To the extent that specific revenues are generated from particular project facilities, such revenues should exceed the debt service payments on those particular facilities. The District's total outstanding debt should not exceed 100% of the fair market value of District facilities. The District will incur debt in excess of these objectives only as approved by resolution of the Board in an emergency. Debt service payments will be managed to ensure they remain equal throughout the life of the bonds in order to simplify budgeting and avoid fluctuations in revenues or fund balances. The projects financed through long-term debt must have an estimated useful life equal to or in excess of the final maturity of the bonds used to finance those projects. Long-term debt may only be issued to pay for capital projects. All applicable and available sources of revenue that can be used and/or pledged to pay debt service on any debt instrument shall be periodically reviewed to ensure predictable and affordable changes to such revenues in order to maintain adequate coverage of the total debt service payments. The Board may make exceptions to this strategy for projects that are mandated by judicial or regulatory bodies or in an emergency. All indebtedness of one year or less must be approved through a plan of financing that specifies the terms and conditions under which the debt will be issued.

5-7 VARIABLE RATE DEBT AND DERIVATIVE PRODUCTS

It may become appropriate to issue variable rate debt to provide interest cost savings. It may also diversify the debt portfolio, provide interim funding for capital projects and improve the match of assets to liabilities. The District may employ variable rate debt from time to time, but its use will generally be restricted to provide interim financing for capital projects programmed for long-term debt funding. The amount of variable rate debt, as of the date of issuance, will not exceed 25% of all outstanding debt. Under no circumstances will the District issue variable rate debt for the purpose of arbitrage. If variable rate debt is used, the District will periodically, but at least annually, determine whether it is appropriate to convert the debt to fixed interest rates. To lower interest rate risk for variable rate debt, hedging mediums such as interest rate caps and floors will be purchased. Derivative products will only be utilized in the issuance or management of debt with prior Board approval, and only in instances where it has been demonstrated that the derivative product will either provide a hedge which reduces risk of fluctuation in expense or revenue, or alternatively, where it will reduce cost. An analysis of early termination costs will also be performed given certain circumstances and assumptions. Such analysis will document the risks and benefits associated with the use of the particular derivative product. Each supplemental bond resolution must specify the

interest rates that will be paid or specify the method of calculating interest rates that will be used through maturity of the bonds.

5-8 DENOMINATION OF BONDS

All bonds issued by the District must be issued in denominations that represent a size appropriate to the type of issue and what is standard and acceptable within the bond market.

5-9 PLEDGING OTHER REVENUE SOURCES

The District may pledge any revenue sources that result from charges attributable to the operation or availability of the facility. If bonds are issued and pledged solely by revenues, fees or charges, the District must include in the authorizing resolution the value of the facility both for the original existing facility and for the facility following the improvements. Any additional revenues that are derived from the facility following the completion of the improvements may be set aside and pledged to the payment of the principal and interest on the bonds or for the establishment of a reserve fund.

5-10 REFUNDING OF DEBT – REFUNDING BOND ACT

All refunding of bonds are subject to the Utah Refunding Bond Act, Utah Code Ann. Title 11, Chap. 27 (“Refunding Bond Act”). The District may choose to refund a portion of its outstanding debt from time to time, depending upon market conditions and other structuring requirements. In so doing, the District will make the decision to refund debt to either effect a savings or to restructure the District’s various payment obligations more in line with the District’s long term financial plan.

(1) Refunding for Savings. The District shall have a goal of present value savings before effecting any refunding transaction. The District’s goal will be to achieve a minimum present value savings of 3% with a target of 4%. To determine adherence to savings goals, any calculation of savings shall be net of all expenses related to the transaction including all costs of issuance and underwriter’s discount.

(2) Refunding to Restructure Debt Obligations. Refunding one or more series of outstanding bonds to restructure a portion of the District’s obligations may be in the District’s best interest for any number of reasons, including, but not limited to: a) better match available revenues with debt payment requirements; b) restructure payment obligations to provide for alternative use of cash flow; c) ensure the District remains in compliance with existing or future bond covenants; or, d) meet unforeseen capital needs.

The District’s Financial Advisor shall review any refunding transaction presented to the District. Upon review and determination that the proposed transaction conforms to the P&P Chapter regarding Debt, the Financial Advisor will present the proposed transaction to the Finance Committee for consideration and recommendation to the Board. Market

conditions may dictate that the District act quickly to take advantage of a refunding opportunities, however, at no time will the District attempt to fast track a proposed transaction so as not to conform to all requirements of applicable state laws and/or the P&P Chapter regarding Debt.

5-11 GENERAL OBLIGATION DEBT

Utah Code Ann. §§ 17B-1-103(2)(g), 17B-1-1002(1)(f) authorizes the District to levy and collect taxes up to the rate of 0.0005 per dollar of taxable value of taxable property within the District. Pursuant to Utah Code Ann. §§ 17B-1-103, 17B-2a-603, and Utah Code Ann. Title 17B, Chapter 1, Part 11, the District may choose to seek the approval of the electorate to authorize the issuance of general obligation bonds whether actually paid by taxes or from other available revenues.

5-12 BOND ANTICIPATION NOTES

Interim borrowing may be used for temporary funding of operational cash flow deficits pending receipt of anticipated revenues or interim construction financing needs. Interim borrowing may take the forms of Line of Credit or Tax, Revenue or Bond Anticipation Notes. Repayment terms may not exceed the useful life of the project financed. The Finance Committee will recommend to the Board the least costly and most effective method of interim financing. The Board may make exceptions to this strategy for projects that are mandated by judicial or regulatory bodies or in emergencies.

5-13 PUBLICATION OF NOTICE

The District may publish notice in the *Salt Lake Tribune* and *Deseret News* and on the Utah Public Notice Website of any resolution or other proceeding providing for the issuance of bonds. In lieu of publishing the entire resolution or other proceeding, the District shall publish a notice consistent with Utah Code Ann. § 11-14-316. Once notice is published, a copy of the full resolution shall be available to the public for 30 days to allow an opportunity for the public to inspect or contest the bond.