

MINUTES
EAGLE MOUNTAIN SPECIAL CITY COUNCIL MEETING

September 14, 2005

Eagle Mountain City Council Chambers, 1650 East Stagecoach Run, Eagle Mtn, Utah 84043

4:00 P.M. SPECIAL SESSION – CITY COUNCIL CHAMBERS

Mayor David Lifferth called the meeting to order at 4:07 p.m.

Mark Sovine led the pledge of allegiance.

CONDUCTING: Mayor David Lifferth.

ELECTED OFFICIALS PRESENT: Councilmembers David Blackburn (participated telephonically), Vincent Liddiard (participated telephonically), Janiece Sloan, Brian B. Olsen and Linn Strouse.

CITY STAFF PRESENT: Chris Hillman, City Administrator; Gerald Kinghorn, City Attorney; Mark Sovine, Public Works Director; and Gina Peterson, City Recorder.

OTHERS PRESENT: Laura Lewis, Financial Advisor - Lewis, Young, Robertson & Burningham.

RESOLUTION – Consideration for Adoption of a Resolution of the City Council of Eagle Mountain City, Utah (The "Issuer"), Finalizing the Terms and Conditions of the Issuance and Sale by the Issuer of Its Gas and Electric Revenue and Refunding Bonds, Series 2005 in the Aggregate Principal Amount of Not More Than \$22,000,000 (The "Series 2005 Bonds"); Awarding and Confirming the Sale of Said Series 2005 Bonds; Authorizing the Execution by the Issuer of a General Indenture of Trust, a First Supplemental Indenture of Trust, and Other Documents Required In Connection Therewith; Authorizing and Approving a Preliminary Official Statement and Final Official Statement; Authorizing and Approving a Bond Purchase Contract; and Authorizing the Taking of all Other Actions Necessary to the Consummation of The Transaction Contemplated By This Resolution; Providing a Severability Clause; Repealing Resolutions and Orders In Conflict; Providing an Effective Date; and Related Matters.

City Administrator Chris Hillman indicated the City Council has reviewed bond refunding for the last six months. The City has a 2001 bond issue of \$21,000,000 for the gas and electric bond. When the bonds were originally put out to market they were highly speculative, meaning that in order for them to be marketed and the city to be able to pay the debt service, the bonds were put on a variable interest rate. At the time it allowed the city to accommodate a higher letter of credit rate because the city's finances were not in order. The yield curve is now flattening and it is time when the City would benefit from a fixed rate on the bonds. Recently the variable interest rate has been above 3%. Currently it is at 2.55%. It was noted the variable interest could reach as high as 12%.

Mr. Hillman stated when the bonds were issued, there was a lot more growth anticipated and it was thought there would be a lot more users on the system to help pay for the bonds than what currently exists. The City has had good growth, however it has been nowhere near the degree specified in the

Black & Veach report which outlined 600 to 800 homes being built per year. These bonds were issued with that expectation. Mr. Hillman explained that approximately \$3,000,000 was placed in a capitalized interest account. This is money that was set aside for the City to help make the bond payments for the first couple of years. There is no more money in this fund, therefore the City has to have enough money in revenues to pay for the principal and interest, letter of credit cost, and a 25% coverage factor. Mr. Hillman noted that he was not here during the original bond issue, but he speculates that the intention was that after a few years the City would restructure the bonds. The City hoped it would be at investment grade at this point but that is not the case. Mr. Hillman noted the City did get a AA rating on these bonds through Radian. That is the same rating as the water and sewer bonds.

Mr. Hillman outlined what would happen if the bond was not restructured stating the rate will continue to increase. Currently, with the letter of credit, principal and interest, and marketing fees the City pays more than 4½ %. The City has been able to secure a long-term rate that is not much higher as well as securing a 15% coverage factor instead of 25%. Mr. Hillman credited the City's financial advisor, Laura Lewis for this change. Over the 20 years of the bond, the reduction in the coverage factor will save the City between \$2.5 and \$3 million dollars.

Mr. Hillman stated there are a lot of positives to restructuring the bonds, however there is one drawback. In order to restructure there will be reissuance costs. He compared it to closing costs when a person refinances their home and noted these "closing costs" are high. Much of the cost is a \$700,000 insurance payment for the bonds which has to be paid to Radian. That is only a one-time fee. Currently the City pays \$400,000 annually in insurance costs.

The City has also been able to structure a debt service payment for the next few years that the City can afford. This means the City will not have to raise rates because of the bonds. Any rate increases would be due to the wholesale cost of gas rising.

As an example, Mr. Hillman stated the City has budgeted \$1.1 million in the Gas & Electric debt service for this fiscal year. The debt service coverage under the new amortization schedule is \$770,000 including the 15% coverage factor. From the first year the City will have \$350,000 to \$400,000 sitting in the debt service account. It can be used for future debt service payments in needed as a buffer.

Mr. Hillman feels this process will help set and secure the long-term financial stability of the Gas and Electric Departments.

Mr. Kinghorn stated this is the first substantial bonding transaction this City Council has been through. In these transactions there is a high degree of confidence and trust placed in the professionals working for the City. This includes him, Laura Lewis and bond counsel Blaine Carlton. Mr. Carlton's office has prepared most of the substantive documents to be used at closing. Tonight the City Council will authorize the Mayor to sign a General Indenture, a First Supplemental Indenture and other necessary documents for closing as well as a Bond Purchase Agreement with A.G. Edwards. The City Council needs to agree tonight to sell bonds to A.G. Edwards so they can meet their commitments to resale the bonds under the pricing received when they went to market on the bonds today.

Mr. Kinghorn stated that even though it is highly unusual that all the documents have not been seen by the City Council, as a practical matter it is the only way it can be done because some of the documents won't be completed until immediately before closing. He noted each of the City Council will receive the documents once the closing is complete.

Mr. Kinghorn then reviewed the same type of historical information as Mr. Hillman. He stressed that this is not new money being borrowed. He noted the previous bond funds were used to build the switchyard at Camp Williams that ties the City's electrical system into the UP&L system. They were used to acquire all the land and build 138 kV transmission line and the substation and some other utility buildings, including the current building the City Council uses today.

Councilmember Strouse asked who attends the closing and Mr. Kinghorn responded the Mayor and City Recorder. The City Attorney and Bond Counsel have to issue an opinion that everything has been done right. He noted any of the City Council is welcome to attend the closing.

Laura Lewis, from Lewis, Young, Robertson & Burningham gave a brief background of her qualifications. She reviewed what work had taken place over the last few months to get the City to this point. Ms. Lewis stated she had hopes the City would get in an investment grade rating category. The bonds were rated at a high speculative grade which is a high quality credit in the non investment grade rated transactions. The largest concerns from the rating company were the lack of a large sum of cash balances in the Gas and Electric Reserve Funds, and the lack of long-term gas and electric supply contracts. She fully expects that within two to three years the City will be investment grade quality. She then went to a AA insurer and after much education and negotiation, including work from City staff, they were able to obtain a 2.30 % bond insurance premium.

Councilmember Liddiard connected to the meeting telephonically at 4:40 p.m.

Ms. Lewis then reviewed in detail what took place at bond market today as well as the bonding documents provided to the City Council.

Councilmember Olsen asked what the City's investment grade rating could be in three years. Ms. Lewis stated she believes that the City will be investment grade rated, meaning the City itself would carry a rating of BBB or higher without any bond insurance required. This would be a "stand alone" rating and once in that range it enables the City to get AAA insurance. Councilmember Olsen asked what the City needs to do to work toward that rating goal. Ms. Lewis answered that on the gas and electric side the City needs to keep building up cash reserves. She stated she is hopeful that the water and sewer bonds would obtain an investment grade rating right now. She also noted that continued growth and more rooftops would help the rating, as well as long term contracts for gas supply.

Mr. Sovine asked if the City's water and sewer bonds being AAA rated would have affected this bond rating. Ms. Lewis answered no, that each debt issue is rated on its own. She noted that when someone asks the "rating" of a city, they typically want to know the General Obligation (GO) bond rating.

It was requested that this section of the minutes be transcribed verbatim

Mayor Lifferth: Laura I have an additional question. I know in a conference call we had a week or so ago one of the questions asked by a potential bond purchaser was had to do with the stability of our local government, the stability of the Mayor position.

Laura Lewis: Right.

Mayor Lifferth: Can you describe how that would possibly impact our credit rating and our cost of borrowing money?

Laura Lewis: The more stable that both your staff has been-- and one of the things that we actually disclose in the official statement is the years of service of each of the elected officials as well as the years of service of your appointed staff. What they want to know they feel that with the greater level of consistency the more they can plan on you sort of acting the same as you have in the past. The fear always is if you've got a point where it always occurs with an elected body or at one election if all the incumbents are voted out and new people are voted in who knows whether that same group will continue to act rationally. So that's why that, that matters to them. When they see a lot of turn over it gives them concern that maybe there are some signs of you know maybe there's problems there that no one wants to deal with or, you know, that kind of thing. So the, the greater the consistency --and candidly I've always found that having professional appointed staff like professional City Managers, Finance Directors, that kind of thing really bodes well because we like to point to that being consistent irrespective of you know the, the changing nature of a Council or the Mayor position.

Mayor Lifferth: Okay let me drill into that a little bit further. Currently one of our hot button political issues is that of a full time Mayor. A full time paid Mayor and how we think that would play in would they prefer to have a part time Mayor or a full time compensated Mayor based on the background that you just presented.

Laura Lewis: I don't know that that would matter as much as long as you still had your full time executive staff in place. That's what I think would play the best with them. Whether the Mayor is part time or full time I don't know that that would matter to them greatly.

Linn Strouse: Well, I'm convinced I need to run again.

Mayor Lifferth: Thank you Linn we appreciate you throwing your hat into the ring.

Linn Strouse: I want consistency here.

Mayor Lifferth: One of the things that has been stated in the past is why we've had turn over of Mayors and we've had I am I guess the sixth Mayor of Eagle Mountain- is that this is a very stressful job, a very time consuming job, and if we have a part time Mayor trying to earn a full time living outside of being a full time Mayor he really can't focus and they get burned out, there are health problems, there are family problems, and I would just see a logical conclusion then by having a paid Mayor who is able to do the job, focused on the job then so many other distractions that could keep him from continuing a term would provide the continuity.

Laura Lewis: I would agree it would be very helpful to build the structure of this position because of the challenges that you have are very different than the challenges that a Mayor of Orem might have which, is not a full time position I mean I can list others that, you know, aren't. But because of the high growth the demand from developers and new constituents and, you know, that kind of thing I'm sure there's a lot more time

consumption as opposed to, you know, a Mayor in a city that's already established.
So if that's what it takes--

Vincent Liddiard: We're not turning our utility bond thing into a discussion about the Mayor are we?

Mayor Lifferth: Uh, no... Vincent--

Vincent Liddiard: I'm comfortable to talk about whether we're going to have to reissue the bond but not what are all the implications of a full time Mayor. I thought we were going to focus on the issue of the bond.

Mayor Lifferth: Right. Well. Vince, the reason I brought this up was like I said in a conference call a week ago that was one of the topics that was brought up by a potential purchaser of the bonds--

Laura Lewis: Right.

Mayor Lifferth: --I wanted to drill it in to see exactly what the foundation for that question was.

Laura Lewis: And again what they're looking for is consistency what they start to fear when they see high turn over is that there's a problem. I mean they have you know they're not on the ground to see whether it's a real problem or what you know is the city about to implode and that's why people won't stick around because they don't want to you know get caught when it's imploding or is it a matter of what you've described- if it's a really stressful job when you're trying to do that and maintain a career and a family and whatever other demands you have. So in my opinion anything that aids in the consistency because you've also had, you know, a very high turn over historically and if you look at the number of years the City has been in existence, the number of Finance Directors you've had, the number of City Managers you've had, I mean it's like --it's hard for them to sort of point to "that person's been there a long time". And again, I think that's part of just the nature of the City because it's new and growing like crazy but I think the more that they can see that consistency going forward the more it will help you. Another thing that would be helpful is to adopt a set of like management policies in regard to debt. They like to see that kind of stuff-- I can give you some guidelines of some things they like to see and you know you can write up and say this is you know we've adopted to this and we've adhered to this and if we ever go outside of these directives it was because we had this state of reason- that kind of thing also helps.

Mayor Lifferth: Okay.

Brian Olsen: And I just want to thank Laura for taking that time to go over those points because for me as a Councilmember it's important that we continue and find way to, you know, improve our investment grade--

Laura Lewis: Right.

Brian Olsen: --and that was the purpose for the question so I appreciate it.

Laura Lewis: And with the amount of debt you have outstanding, you know, the higher rating you can get so that we can get the lower interest rates the better off the City will be in the long run without question.

Vincent Liddiard: That was a good question. A good question.

Linn Strouse: I appreciate that too.

End Verbatim Transcription

Councilmember Liddiard stated this bond was funded originally as a revenue anticipation bond in 1997 and then redone in 2000 as a revenue bond and now is the Gas & Electric refunding bond. He asked if it was possible to separate the two out and have one Gas Bond and one Electric Bond.

Ms. Lewis stated there has been some discussion about selling the gas system. She stated at the time of bond closing the question will be asked, "is it your reasonable expectation that the City will continue to own the system or are you looking for buyers?" If the system was going to be sold the bonds would have been deemed tax exempt. It was felt that it was not practical to sell the gas system. If one year from now Questar offers to purchase the system for a reasonable price, the bonds are still not callable for 10 years. The City would then have to 1) go back to the bond insurer and convince them that breaking up enterprise fund would still leave them in the same risk position they had with both utilities; and 2) put the money paid by the purchaser in an escrow account to be used to pay down bonds until the call date. Under current bond set up it would be the same if the gas utility were sold.

Ms. Lewis indicated the resolution the City Council needs to adopt authorizes the Mayor to sign the Bond Purchase Agreement as well as other documents.

Mayor Lifferth stated he is a very fiscally conservative individual and he wishes the City did not have this debt to deal with in the first place. Because the City does have the debt, he feels it is important to manage the debt wisely and favorably for the benefit of the City. The trend is now that interest rates are going up and he is glad the City can lock in a rate that is lower than averages. He is pleased the City is not extending new debt and is saving approximately \$400,000 per year because of the improved credit rating and reduced coverage factor of 15%. He then turned the time to the City Council for discussion.

Councilmember Strouse stated she is happy rates are not being raised to cover cost of principal and interest. She talked about what the City can do to improve its rating and asked if there is a clause to amend the bond if the City's bond rating does improve. Ms. Lewis answered that the existing transaction is set in stone as the current bond is not callable for ten years. Ms. Lewis noted that interest rates are at a historical low, however if the interest rate improves even though the bonds are not callable for ten years, the IRS allows a one-time advance refunding. In this situation the City would borrow money and use it to pay the old bonds and then be responsible for the new bond debt. As far as credit rating, Ms. Lewis stated that anything the City does to help its credit rating would help in future borrowings.

Councilmember Blackburn feels the City is on the right path. He asked about the reduction in debt service coverage from 25% to 15%. Ms. Lewis stated the lowest she has seen it anyone get on an

enterprise fund is 10% and typically 25% is very standard. She would not expect Eagle Mountain City could get to 10% until they show a little more cash reserves and more history in collection of revenues and growth.

Councilmember Blackburn asked what the plan was for the 10% savings on the debt service coverage. Mr. Hillman answered he recommends the savings sit in the debt service account to help offset future debt service payments. It will help the City not be forced to raise the gas and electric rates simply to cover the debt service payments.

Councilmember Strouse mentioned there is a question on the City Survey about a City recreation center. Mr. Hillman stated that at some point in time the City may want to consider a GO bond issue to pay for some sort of recreational development. The purpose of the City Survey question was to gauge the residents' opinion on the issue. Councilmember Strouse worried that it makes it sound like the City has money to do it now and it will create expectations. She would prefer a private enterprise handle a recreation center. Mr. Hillman stated the City could not use the gas and electric reserves to pay for recreational facilities such as a ball diamond.

Councilmember Liddiard thanked Ms. Lewis for her expertise and assistance. He stated he sees this as a positive opportunity to control the City's future.

Councilmember Olsen asked where the costs of issuance would be paid from and Mr. Hillman responded that it would be wrapped up in the bond, sort of like including closing costs onto a home loan.

Councilmember Olsen mentioned that not all of the documents will be reviewed by the City Council and asked what risk, if any, the City Council faces approving them. Mr. Kinghorn stated that most of the documents are boilerplate with some small changes to fit specific pricing. The City Council has been presented with the information that is not boilerplate. He stated if he thought there was a risk being taken that could be prevented by the City Council actually reading the documentation, he would insist it all be available. It is the nature of the bonding process to not have all documentation complete until closing.

Ms. Lewis indicated that forms of certain documents have been available and provided to the City Council since the Notice of Intent was completed.

Councilmember Olsen stated he is excited to hear about the specific savings the bond refunding will provide.

Councilmember Blackburn indicated he had to disconnect from the meeting and asked if he would vote in favor of the resolution. Mr. Kinghorn suggested a motion be entertained to adopt the resolution and then further comments could be added at the end of the meeting.

Councilmember Blackburn **moved** to adopt Resolution 17-2005 Finalizing the Terms and Conditions of the Issuance and Sale by the Issuer of Its Gas and Electric Revenue and Refunding Bonds, Series 2005 in the Aggregate Principal Amount of Not More Than \$22,000,000 (The "Series 2005 Bonds"); Awarding and Confirming the Sale of Said Series 2005 Bonds; Authorizing the Execution by the Issuer of a General Indenture of Trust, a First Supplemental Indenture of Trust, and Other Documents Required In Connection Therewith; Authorizing and Approving a Preliminary Official Statement and Final Official Statement; Authorizing and Approving a Bond Purchase Contract; and Authorizing the Taking

of all Other Actions Necessary to the Consummation of The Transaction Contemplated By This Resolution; Providing a Severability Clause; Repealing Resolutions and Orders In Conflict; Providing an Effective Date; and Related Matters. Councilmember Liddiard **seconded** the motion. Those voting aye: David Blackburn, Vincent Liddiard, Brian B. Olsen, Janiece Sloan, and Linn Strouse. The motion **passed** with a unanimous vote.

Mayor Lifferth indicated he appreciated the interaction and input from the City Council.

Councilmembers Blackburn and Liddiard disconnected from the meeting at 5:33 p.m.

Councilmember Sloan stated she put a lot of stock into what Mr. Kinghorn has said and expressed appreciation for the questions asked.

ADJOURNMENT

Councilmember Strouse **moved** to adjourn the meeting at 5:34 p.m.

Minutes approved on December 6, 2005.

ML