



COUNCIL STAFF REPORT

CITY COUNCIL of SALT LAKE CITY
tinyurl.com/SLCFY23

TO: City Council Members

FROM: Ben Luedtke
Budget & Policy Analyst

DATE: July 12, 2022

RE: Up to \$65 Million of Bonds for Capital Improvements (Series 2022B and 2022C)

Project Timeline:

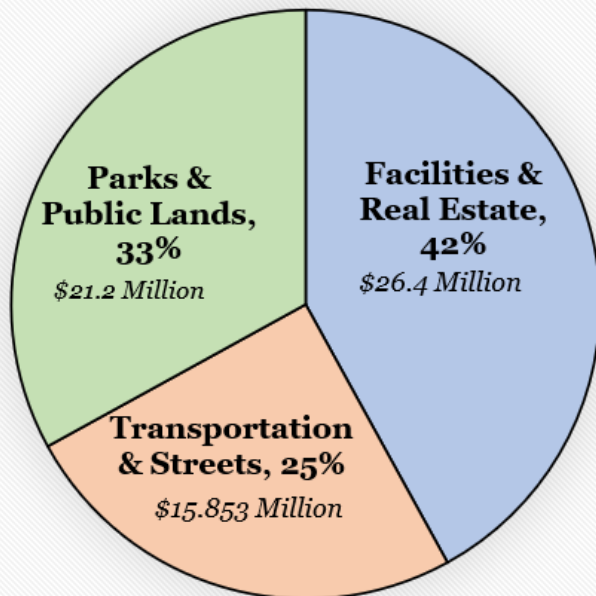
Budget Hearings: May 17 & June 7, 2022
Briefing: July 12, 2022
Follow-up Briefings: TBD
Bond Public Hearing: TBD
Potential Action: TBD

Note: there is no legal deadline for the Council to authorize, adjust or decline the proposed bond

ISSUE-AT-A-GLANCE

The Administration transmitted a proposal for a \$65 million Sales Tax Revenue Bond to fund several capital improvements. A summary table listing the projects, funding amount, percent of total and notes is shown on the next two pages. See Attachment 1 for a list of all proposed FY2023 capital investments in the sales tax bond, public lands General Obligation GO Bond and FY2023 CIP. See Attachment 2 for a table comparing sales tax and GO bonds.

% of \$65 Million Bond by Category



Highlights include:

- Total project costs are estimated at \$63.453 million (\$1.5 million covers issuance costs) Note there are two bonds: \$40.5 million tax-exempt and \$22.9 million taxable.
- There are two public lands project proposing \$10 million for Pioneer Park and \$11.2 million for roads in the City Cemetery. The separate \$80 million General Obligation Bond proposal has several public lands projects.
- The split of projects between the three categories is summarized in the adjacent pie chart.
- The FY2023 annual budget includes \$4.39 million in CIP for the first payments on the two bonds (taxable and tax exempt). The payments would be due June 30, 2023 which is the last day of FY2023. Another option is to pay capitalized interest during construction and delay the first full payments to FY2024, however, that approach would result in a greater total amount of debt over the life of the two bonds.



Funding	Project Name	% Of Bond	Notes
\$ 11,200,000	City Cemetery Road Repairs / Reconstruction	18%	<ul style="list-style-type: none"> • Total road repairs and reconstruction estimated at \$12.5 million (2020 Cemetery Master Plan) • There are an estimated \$13+ million of other capital improvement needs at the Cemetery
\$ 10,000,000	Pioneer Park Improvements	16%	<ul style="list-style-type: none"> • In FY2020 CIP, the Council approved \$3.445 million of parks impact fees for Pioneer Park improvements. Public engagement is currently ongoing for selecting amenities and locations • Clarifying information on this and other Public Lands projects have been provided
\$ 9,753,000	600 North Corridor Transformation	15%	<ul style="list-style-type: none"> • In FY2022 CIP, the Council approved over \$1.8 million for this project
\$ 7,500,000	Radio Towers	12%	<ul style="list-style-type: none"> • Part of a larger radio infrastructure upgrade project with a total estimated cost of \$20 million • The FY2023 annual budget included \$3.7 million for new radios
\$ 6,100,000	Central Plant Electrical Transformer Upgrade & Emergency Backup Generators	10%	<ul style="list-style-type: none"> • Required by Rocky Mountain Power by end of 2024 • Without backup generators some systems and public services would be unavailable during a power outage • 70% construction designs informed cost estimate
\$ 6,100,000	Westside Railroad Quiet Zones	10%	<ul style="list-style-type: none"> • Three at grade crossings would be improved to create a single quiet zone in residential neighborhood • Engineering reviewed cost estimate in September 2021
\$ 6,000,000	Warm Springs Historic Plunge Structure Stabilization	9%	<ul style="list-style-type: none"> • This funding is for structure stabilization including security and fire suppression systems • Building would <u>not</u> be ready for public or private uses • Could be combined with Fisher Mansion for \$7.8 million available to both historic buildings • Council Members have recently expressed an interest in understanding how plans respect the Native American heritage of the site, which information is forthcoming
\$ 3,000,000	Smith's Ballpark Improvements	5%	<ul style="list-style-type: none"> • Total deferred maintenance and improvements identified by the Facilities condition index (industry best practice) is estimated at over \$12.7 million
\$ 2,000,000	Urban Wood Reutilization Equipment and Storage Additions	3%	<ul style="list-style-type: none"> • New program would also require one or two new full-time City employees • Program is focused on recycling wood and using as mulch for playgrounds and wood for minor projects like tables, fences, and signs rather than sending to the landfill and could generate modest savings

Funding	Project Name	% Of Bond	Notes
\$ 1,800,000	Fisher Mansion Stabilization	3%	<ul style="list-style-type: none"> • This funding is for structure stabilization • Building would <u>not</u> be ready for public or private uses • In FY2020 CIP, the Council funded almost \$1.4 million for restoration of the Carriage House, and in FY2021 another \$504,732 for construction overages • Could be combined with Warm Springs Historic Plunge for \$7.8 million available to both historic buildings • Estimated cost for a full renovation depends on the proposed end uses. Estimates range from \$4 million to \$6 million
\$ 63,453,000	<p>Green = Parks & Public Lands</p> <p>Blue = Facilities</p> <p>Orange = Transportation</p>	100%	<ul style="list-style-type: none"> • Additional funding up to \$65 million includes costs of issuing the bonds and potential premium from investors • Depending on timing of Council approval and bond sales, an interest only payment may be needed in FY2023 and the first full payment would be in FY2024

Two Bonds: One Taxable, Another Tax-exempt – The proposed funding is split between \$40.5 million tax-exempt and \$22.9 million taxable. A project requires partial or full taxable bond funding if the resulting use is for private and/or for-profit. A taxable bond is more expensive financing than tax-exempt because of the additional tax cost and potential for a higher interest rate. The bonds can be structured to only pay interest for the first six months, 12 months, or 18 months. This approach could delay the first full debt payment of interest and principal until next fiscal year but at a greater total cost because a larger amount of interest would be paid over the life of the bond.

Project Cost Estimates – The Council could discuss with the Administration about doing additional public engagement and/or design for some projects to better define designs (amenities, locations, programming, etc.) and costs before approving a bond. Some of the proposed projects do not have detailed budget breakdowns or engineering reviewed designs. Note that a few projects have gone through public engagement efforts such as the 600 North corridor transformation. Some City construction projects have experienced double-digit price increases this year due to pandemic-related economic impacts. It's unclear how long these price fluctuations will continue. The Council could request a review of cost estimates, increase project-specific contingency funding, and/or add a general contingency reserve available to any project.

Process to Adopt – It's important to note that the proposed sales tax revenue bond only requires Council approval unlike a General Obligation bond which requires voter approval at the ballot box. The Council would need to adopt a public hearing resolution, set the date, and hold at least one public hearing about the bond. There is no legal deadline for the Council to authorize, adjust or decline the proposed bond.

Funding Opportunity after Older Bond Paid Off Last Year – The Administration is proposing the bond now because an approximately \$80 million bond was paid off in FY2021 which removed \$5.3 million of annual debt payments. (Note: The savings on that debt has been used to balance the budget so far). In large part the size of the bond proposed is to account for the size of the debt service fitting into the annual budget. As part of the FY23 CIP debt service budget, the Council included \$4.4 million for a first-year payment on the proposed bond. This funding could be used for other purposes if the Council declines to proceed with the bond or approves a smaller bond. If the Council approves a larger bond, then additional funding would need to be identified to make the first-year payment, or the Council could work with the Administration to identify timing of first-year payment. Long term the Council could accommodate larger bond payments but would need to adjust the budget to remain balanced.

\$300+ Million Unfunded Capital Needs Over Next Decade – Below is a short list of the City's unfunded capital needs from large single-site projects to long-term best management of capital assets like buildings, streets, and

vehicles. This list is not comprehensive, and some costs may be higher since originally estimated. The total unfunded needs of the below list exceed \$300 million and may be closer to \$500 million depending on the specifics of new construction projects in the first bullet point. Note that these estimates for new assets do not include maintenance costs. Typically, a Capital Facilities Plan, is the mechanism to identify, track, prioritize and schedule unfunded capital needs over a long-term horizon. While the City does long-term planning in each department, a capital facilities plan typically includes a broader citywide view. The Administration has indicated that there is ongoing work towards this goal. The Council may wish to ask the Administration for an update on this effort.

- \$TBD new construction and major redevelopments: Fleet Block, eastside police precinct or smaller substations, multiple aging fire stations, The Leonardo (old library), expansion of the S-Line Streetcar, downtown TRAX loop, quiet zones and undergrounding rail lines that divide the City's west and east sides, implementing rest of the 9-Line, Folsom and McClelland urban trails, historic structures like Fisher Mansion and Warm Springs, rehabilitation or full rebuild of vehicle bridges including 200 South and 400 South over the Jordan River, etc.
- \$133 million over ten years (in addition to existing funding level) to increase the overall condition index of the City's street network from poor to fair
- \$33.8 million over ten years to bring all City facilities out of deferred maintenance
- \$25 million for capital improvements at the City Cemetery, of which \$12.5 million is for road repairs
- \$20 million for a new bridge at approx. 4900 West from 500 South to 700 South
- \$20 million above existing funding levels to fully fund the City's fleet needs
- \$6 million for planned upgrades to the Regional Athletic Complex
- \$3.1 million for downtown irrigation system replacement
- \$1.3 million for solar panels, parking canopy and security upgrade at Plaza 349

PROJECT SPECIFIC POLICY QUESTIONS

- A. **Adding, Removing and/or Changing Funding Level for Projects** – The Council may wish to discuss with the Administration if there are projects the Council wants to add, remove, modify the scope of work and/or change the proposed funding level. Does the Council want additional information on any proposed projects before scheduling a vote? The Council may also wish to discuss if the bond funding by category (see pie chart and table above) aligns with the Council's policy priorities.
- B. **End User(s) for Restoration of Fisher Mansion and Warm Springs Historic Plunge** – The Council may wish to discuss with the Administration what end users are intended for restoration of these historic facilities, including the extent to which Native American heritage is reflected on the Warm Springs site? Note there are several historic structures in Allen Park which has proposed funding in the \$80 million General Obligation GO bond.
- C. **Splitting \$7.8 Million between Fisher Mansion and Warm Springs Historic Plunge** – The Council may wish to discuss with the Administration whether the funding should be considered combined or separate for these two buildings. The proposal includes a note stating the \$1.8 million to stabilize Fisher Mansion and the \$6 million for Warm Springs Historic Plunge could be combined. However, the two funding amounts are listed separately. It's worth noting that the Fisher Mansion is estimated to be 2,800 square feet of interior space and Warm Springs 40,785 square feet. A 2018 development scenario to make Warm Springs ready for public and/or private uses estimated the total construction cost at \$6.5 million. The cost for a similar development is likely significantly higher in the current economy. No end users have been identified for either property.
- D. **Historic Preservation and Disposal of Underutilized Property** – In earlier discussions some Council Members raised the question to what extent is the City's role in preserving historic buildings? Council Members also expressed an interest in fully funding a development scenario for the Fisher Mansion and/or Warm Springs Historic Plunge to be ready for public and/or private uses. Council Members may wish to discuss the City's role and what amount would be necessary for the bond to make these historic buildings ready for use.
- E. **\$20 million Radio Towers and Equipment Replacement Project** – The Council may wish to ask the Administration how the overall project could be funded, why the replacements are needed and what new capabilities would be available to the City.

- F. **Projects Increasing Workload and Need for New Full-time Employees:** The Council may wish to ask the Administration which projects would create the need for new full-time employees, when that new staffing need would begin (pending completion of construction in some cases), and how they would be funded.

GENERAL POLICY QUESTIONS

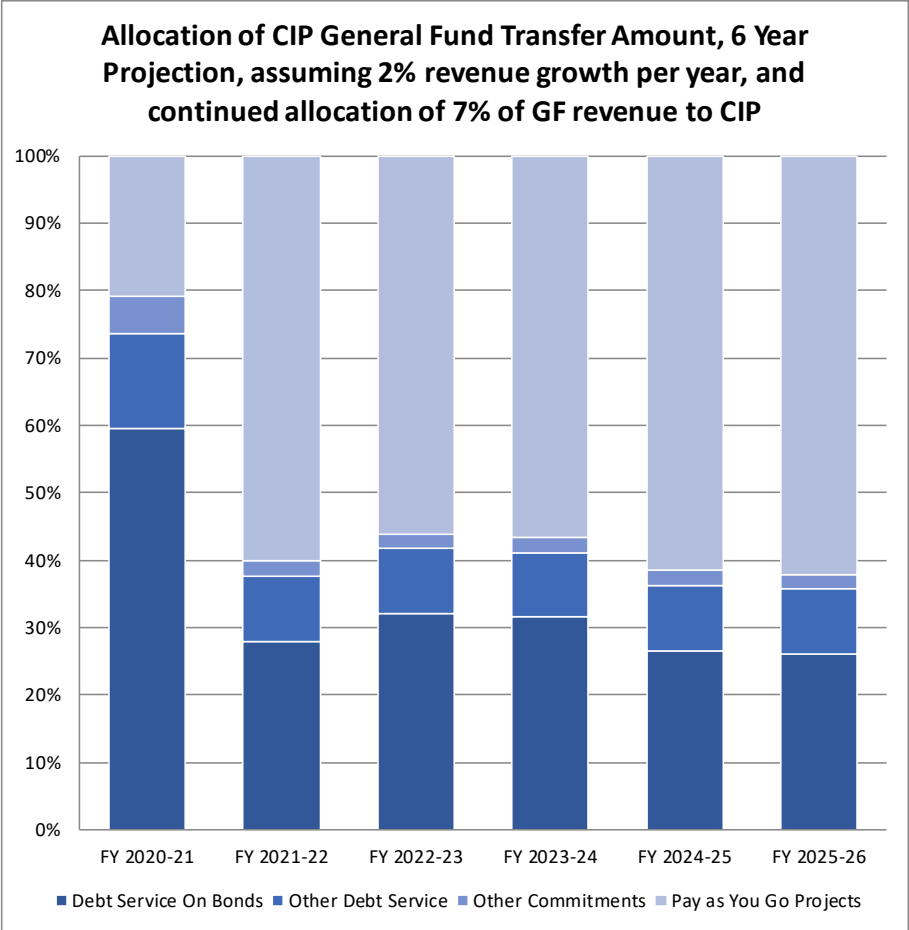
1. **\$80 Million GO Bond for Parks and Public Lands and Sales Tax Revenue Bond** – The Council may wish to discuss with the Administration why certain projects are recommended to be in the sales tax revenue bond vs. the GO bond for parks and public lands.
2. **Conditions on Projects and/or Bond** – The Council may wish to discuss whether to add any conditions on the bond funding or requests to the Administration such as providing status updates to the public as projects progress, notification of any scope reductions or making project funding contingent upon certain conditions.
3. **Need and Ability to Spend Tax-exempt Bond Funds within Three Years** – The Council may wish to ask the Administration how tax-exempt bond funds will be spent within the legally required three years, especially if additional engagement/design work is needed to finalize costs. This could include the Engineering Division's capacity to absorb the additional workload, availability of contractors in the local market, phasing projects over multiple bond issuances (which is a common strategy), and if CIP projects could be delayed. While taxable bond funds do not have a legally required spending deadline there is a practical concern to spend before they lose significant amounts of purchasing power.
4. **\$300+ Million Unfunded Capital Needs and Bond Proposals** – The Council may wish to discuss how to balance the City's \$300+ million unfunded capital needs including deferred maintenance for existing assets with funding construction of new assets that will create new unfunded maintenance needs including increased staffing workloads.
5. **Public Engagement** – The Council may wish to discuss what public engagement should look like for the bond and individual projects. The Council may also wish to ask the Administration about public engagement efforts for projects so far and how residents can provide feedback on the other projects.
6. **Project Prioritization** – The Council may wish to discuss with the Administration which projects to prioritize for the following situations:
 - a. Excess funds are available to go to another project
 - b. Actual costs exceed available project budget, and a project (or multiple projects) must be reduced in scope
 - c. A project will not be constructed because available funding is significantly less than needed even after scope reductions
7. **American Rescue Plan Act (ARPA) Funding for Bond Projects** – The Council may wish to discuss with the Administration the option to use ARPA funding for bond projects eligible under the Treasury's final guidance.
8. **CIP Debt Level** – The Council may wish to discuss with the Administration what debt level in CIP is preferred to balance long-term bond payments with annual CIP project funding needs. The proposed bonds would have an annual debt service payment of nearly \$4.4 million. See Additional Info section for debt service payments out to FY2026.

ADDITIONAL & BACKGROUND INFORMATION

CIP Debt Load Projections through FY2026

The Administration provided the following chart to illustrate the ratio of ongoing commitments to available funding for projects over the next six fiscal years. Most of these commitments are debt payments on existing bonds. Other commitments include, ESCO debt payments, the Crime Lab lease, capital replacement funding for parks and facilities, contributions to the CIP cost overrun account and the 1.5% for art fund. The CIP Budget Book includes an overview and details on each of the ongoing commitments. 79% of the General Fund transfer into CIP was needed for these ongoing commitments in FY2021. Note that the chart does not reflect the proposed bond which would increase annual debt service payments and reduce funding available for CIP projects.

The projected debt load significantly decreased in FY2022 because Series 2014A Taxable Refunding of 2005 bonds matured (paid off). It was approximately \$80 million when the bond was originally issued (before refunding). This reduces the debt load from 79% to 45% and removes a \$5.3 million annual debt payment. The Mayor is recommending a new sales tax revenue bond totaling \$65 million with an estimated annual debt payment over \$4.4 million. Note that General Obligation (G.O.) bonds are not paid from CIP because they are funded through a separate, dedicated voter-approved property tax increase.



Cost Overrun Account

At the time of publishing this staff report, the account has an available to spend balance of \$910,720. The Council established this account for projects that experience costs slightly higher than budgeted. A formula determines how much additional funding may be pulled from the Cost Overrun account depending on the total Council-approved budget. This process allows the Administration to add funding to a project without returning to the Council in a budget amendment. A written notification to the Council on uses is required. The purpose is to allow projects to proceed with construction instead of delaying projects until the Council can act in a budget amendment which typically takes a few months.

Fisher Mansion Feasibility Analysis

SLC has commissioned CRSA Architects to conduct a feasibility analysis for restoring and establishing active use in the Fisher Mansion building. CRSA’s work will look at a series of conceptual alternatives, including the adaptive reuse of the Mansion as a food & beverage + music & art venue, and alternately as a café and exhibition gallery space with office space for city staff and/or community organizations, along with a reimagined outdoor plaza for activities and events.

ATTACHMENTS

- 1. FY2023 Capital Investments Summary Sheet (GO Bond, Sales Tax Bond, and CIP Projects)
Note this is also attached to the CIP staff report
- 2. Comparison Table of Sales Tax and GO Bond Questions

ACRONYMS

ARPA – American Rescue Plan Act

CAN – Community and Neighborhoods Department

CFP – Capital Facilities Plan

CIP – Capital Improvement Program

ESCO – Energy Service Companies

FY – Fiscal Year

G.O. Bond – General Obligation bond

HUD – U.S. Housing and Urban Development Department