

PRIVATE ACTIVITY BOND AUTHORITY BOARD MEETING

Department of Community and Culture
Division of Housing and Community Development
Salt Lake City, Utah

MINUTES

Wednesday, April 13, 2011

Members Present

Gordon D. Walker (Chairman)
Richard K. Ellis
Grant S. Whitaker
Meghan Holbrook
Christina Oliver
Steve Rawlings
Michael Jensen
Wayne Parker
Kyle Kershaw
Lee Gardner

Representing

Department of Community and Culture
State Treasurer
Utah Housing Corporation
Utah State Board of Regents
Governor's Office of Economic Development
Davis County
Tooele County
Provo City
City of South Salt Lake
Salt Lake County

Excused Members

Tom Hardy

Bountiful City

Staff and Visitors

Sanobi Johnson
John Brereton
Stuart Adams
Sophia DiCaro
Shelli Goble
Brenda Brown
Cleon Butterfield
Ben Logue
Richard Abruscato
Randy Sant
Jason Burningham
Fred Olsen
Ryan Warburton
Richard Davis
Jay Minnick
Misty Deakin

Housing and Community Development
Affordable Housing Advisors
Utah Senate
Governor's Office of Economic Development
Housing and Community Development
Housing and Community Development
Utah Housing Corporation
La Porte Properties
Agriculture Waste Solutions
South Salt Lake
Lewis Young Robertson and Burningham, Inc.
Ballard Spahr
Ballard Spahr
Board of Regents
Miller Development Co.
Miller Development Co.

WELCOME AND INTRODUCTIONS

The Private Activity Bond Authority (PAB) Board Meeting was held in Salt Lake City, Utah, at the Department of Community and Culture and called to order at 9:03 a.m., by Gordon D. Walker, Chairman.

Chairman Walker recognized Senator Stuart Adams and Sophia DiCaro with the Governor's Office of Economic Development in attendance at the meeting.

APPROVAL OF MINUTES

Chairman Walker requested a motion to approve the minutes of January 12, 2011.

Richard Ellis moved and Grant Whitaker seconded a motion to approve the minutes of January 12, 2011. The motion carried unanimously with Wayne Parker absent from the vote.

STATUS OF ACCOUNTS

Chairman Walker reviewed the 2011 Volume Cap Accounting Summary as shown below. He also noted the new category of Qualified Redevelopment Projects, which has recently been approved by the Legislature to allocate volume cap to these types of projects.

PAB ACCOUNTING SUMMARY

April 13, 2011

	2011 Allocation
Starting Balance	\$ 43,480,000
Manufacturing Account	\$ 23,338,400
No Applications	
Qualified Redevelopment	
Market Station	\$ 15,000,000
Balance	\$ 8,338,400
Multi-Family Account	\$ 17,363,400
No Applications	
Balance	\$ 17,363,400
Exempt Facility Account	\$ 2,778,200
No Applications	
Balance	\$ 2,778,200
Balance - All Accounts	\$ 28,480,000

Grant Whitaker asked which volume cap account Qualified Development Projects would be funded from and questioned whether it should come from the Multi-Family Account rather than the Manufacturing Account. Chairman Walker responded that it would not matter at this time of the year since the Manufacturing, Multi-Family and Exempt Facility Accounts would all be combined into the Pool Account on July 1. He also stated that no decision was made, in H.B. 287, as to where this type of project would be funded from. A policy decision and/or additional legislation will need to be determined by the Board at a future meeting.

LEGISLATIVE UPDATE

As part of H.B. 287, from the recent legislative session, the Private Activity Bond Authority Program will move from the Department of Community and Culture to the Governor's Office of Economic Development (GOED), effective July 1. The Executive Director of GOED, or

his designee, will chair the PAB Board Meetings, but the present membership of the Board will remain the same.

Also included in this bill was the authorization to allocate volume cap for Qualified Redevelopment Bonds, which are used to redevelop designated blighted areas by a governmental unit

Wayne Parker joined the meeting.

RECOVERY ZONE BONDS

A final report was compiled on our State's use of the Recovery Zone Bonds (RZB) volume cap allocated under the American Recovery and Reinvestment Act (ARRA). Recovery Zone Bonds were used by local communities to assist in their economic development plans. Two categories of RZB funding were provided: 1) Economic Development, a special category of Build America Bonds, used by public entities (cities, towns, counties and/or the State) issued for economically distressed areas; and 2) Facility, which allows a municipality to finance private business type improvements on a tax-exempt basis that could not otherwise be financed.

The amount of allocation in the Economic Development Category was \$90,000,000. A total of nine (9) projects issuing \$86,998,000 were funded, leaving a little over \$3,000,000 in unused cap.

Volume cap received for the Facility Category was \$135,000,000. Ten projects were funded using \$90,900,500 in volume cap leaving \$44,099,500 in unused cap. Private businesses found it very hard to find buyers for the bonds. Due to the housing recession, lending institutions tightened the amount of available capital, as well as their requirements, to fund these projects. Past experience with bond projects of this type have not encountered as many problems in securing financing for the bonds.

A more in-depth report can be obtained from Roxanne if any Board Member would like additional information.

Grant Whitaker asked how Utah did in comparison to the rest of the nation. Chairman Walker commented that Utah did fairly well. He will ask Roxanne to obtain information on this issue and report back to the Board at the next meeting.

VOLUME CAP ALLOCATION REQUESTS

Qualified Redevelopment – Small Issue Account

South Salt Lake Redevelopment Agency requested \$15,000,000 in volume cap from the Qualified Redevelopment Account for the Market Station Project.

This is the first application in which tax-exempt Private Activity Bonds are being used for the acquisition of property and demolition of buildings in a "qualified redevelopment area." The city has already purchased 18 of the 24 acres in the redevelopment area. The goal is to promote economic development within a designated blighted area. Central Pointe Project, a Transit Oriented Development (TOD), is located in South Salt Lake City. The Market Station Project is part of the Central Pointe Project.

John Brereton provided a review of the project highlighting the following points:

- Taxable bonds have already been issued and bought by Wells Fargo last December for this purchase. Tax-exempt bonds will be substituted for the taxable bonds. The tax-exempt bonds will have a lower interest rate of 4.42% resulting in a \$2.7 million net savings. This savings can be passed on to the developer of the project.
- Funding will be for Phase I of the project: 315,000SF of retail commercial and office space; and 850 owner-occupied residential units.
- Employment and income impacts will be substantial, once the project is completed, but will take some time to accomplish.
- The project generates favorable benefits to other taxing entities within the project area (State, County, South Salt Lake City and Granite School District).
- A new developer paying for a parcel in the development must pay fair market values for the property. They do not receive any benefit from this type of funding, but the City can offer Tax Increment Financing incentives.
- The project will generate 515 direct jobs with an average wage of \$15.00.
- All documents have been submitted and the City has given all approvals for the project.

Comments from the applicants stated that the \$2.7M in savings will be used to purchase additional property (100 acres) within the designated blighted area.

Following are questions asked by the Board of the applicant and their responses.

- What are the maturities on the new bonds? The \$15 million taxable bond had a 20-year amortization, at a 6.65% taxable rate. The tax-exempt bonds will have a lower interest rate of 4.42% resulting in a \$2.7 million net present value savings. There will be additional savings over the 20-year period. The \$2.7M has already been placed into escrow to purchase additional land. The available cash flow is able to pay the debt service on the \$15M loan, assuming the interest rate will be 4.42%. All proceeds with the exception of the \$2.7M were taken out to service the debt in case the City did not receive an allocation of tax-exempt volume cap.
- Over a 20-year period if parcels are sold to a new developer, they must be sold at fair market value. The new developer does not receive any benefit from the tax-exempt bond deal, but the City can offer tax increment incentives. If the City sells parcels of land, they will pay the bonds off earlier or reinvest it in other areas of the Market Station Project.
- In connection with the transit redevelopment project located in the Market Street Project is the money for the streetcar line still available, since there were big budget cuts in the Federal transportation budget. The streetcar line was still funded, since it was tied to an older project. New start projects received the budget cuts.

The Board had the following questions/comments regarding the volume cap used to fund this project:

- What account is the cap being issued from since no provisions were made in H.B. 287 to establish a new account or a percentage of the total volume cap allocation for Qualified Redevelopment Projects? Future policy discussions will need to take place to determine the percentage of the total volume cap used for these types of projects.

- Does the legislation provide any ability to set standards on the use of these funds? Is a new policy needed to establish standards for these types of projects? Fifteen million dollars (\$15M) to create 500 retail jobs is good, but allocating cap to these types of projects takes away dollars from eligible manufacturing projects; projects that pay higher than average wages in comparison to low paying retail jobs. In adding to the economic development of the State the Board would not want to take any opportunities away from manufacturing jobs in exchange for retail jobs.
- New legislation brings up significant new questions the Board needs to review, such as, what is the goal that PAB volume cap should be used for.
- Board members can go to the State Legislature web site and listen to the discussion on this bill and hear that there was no discussion on the bill except for the exchange of operating funds between DCC and GOED for the PAB Program.
- This bill enabled, what is authorized by Federal law, the ability to fund redevelopment projects; however. Federal regulations state that redevelopment projects need to be specifically authorized by State statute in order to receive Private Activity Bond volume cap.
- Is there any overlap with S.B.6, by Senator Jenkins regarding the reorganization of State Boards? This bill does not impact the PAB Board.

Meghan Holbrook moved and Christina Oliver seconded a motion to approve the volume cap allocation of \$15,000,000 for South Salt Lake Market Station. The motion carried unanimously.

VOLUME CAP EXTENSIONS

Multi-Family Housing

ASWN+

ASWN+ requested the first extension on the \$15,975,000 volume cap allocation for the Traverse Mountain Apartments, approved by the Board in January 2011.

Lee Gardner moved and Michael Jensen seconded a motion to approve the first extension for \$15,975,000 to ASWN+. The motion carried unanimously.

Tannach Properties

Tannach Properties requested the third extension on the \$19,100,000 volume cap allocation for the State Street Plaza project approved by the PAB Board in July 2010.

Ben Logue updated the Board on the progress of this project. They have received the final approval from the Rural Development Administration (RDA) on the purchase sales agreement of the property. Both the construction and bond loans are currently in underwriting with the bank and the bond issuance is tentatively scheduled at the end of June.

Wayne Parker moved and Kyle Kershaw seconded a motion to approve the third extension for \$19,100,000 to Tannach Properties. The motion carried unanimously.

Miller Development

Miller Development requested the sixth extension on the \$27,575,000 volume cap allocation for the Fireclay II Apartments Project approved by the PAB Board in October 2009.

Jay Minnick provided background on the project for the newer members of the Board and an update on the extension request for the Fireclay II Apartments project. Fireclay I (400 market rate units) has already received approval from HUD and they should close on this project in a few weeks. Fireclay II (268 affordable units) is waiting for the Denver HUD Office to put their application into processing, which should be in about two weeks. Due to the housing recession, HUD is looking at all applications under a microscope so the application process is taking months longer to receive approval than before the crash. The Denver HUD Office has also had a greater increase in the volume of applications than they have ever had. With the approval of Fireclay I, HUD will already have background knowledge on Fireclay II, which should help move this application into processing faster.

Kyle Kershaw moved and Grant Whitaker seconded a motion to approve the sixth extension for \$27,575,000 to Miller Development. The motion carried unanimously.

Manufacturing

Agriculture Waste Solutions, Inc.

Agriculture Waste Solutions, Inc., requested the first extension on the \$10,000,000 volume cap allocation for the Waste-to-Energy Manufacturing Facility, located on Fassio Egg Farms, in Erda, Utah, which was approved by the Board in January 2011.

Richard Abruscato from AWS provided the following update to the Board on the status of the project.

AWS had previously submitted two grants to the United States Department of Agriculture (USDA) and Department of Energy (DOE). They received word at the beginning of April that AWS was not approved for any funding; the number of grants was cut and the recipients were larger companies.

Fassio Egg Farms has made an equipment grant application to NRCS in the amount of \$350,000-\$450,000. The award was pending at the time of the Board Meeting.

AWS has contacted the following equity partners, Pardee's, Emerald Development, and Chevron, who is interested in securing the greenhouse gas and carbon credits. The project will have ITC credit of approximately \$3.5 million. Investors have expressed great interest in this potential.

AWS has continued to look into government loan guarantee programs. They have also talked with Celtic and Zions Bank, both who have expressed serious interest in funding the project. The benefit of obtaining the loan guarantee of \$5 million means AWS would likely relinquish half of the volume cap allocation from PAB to help reduce their costs of the bond process. The equity partners have also inquired as to the possibility of increasing the size of the project by 5-6 times. This implication means the additional biomass feedstock (wood chips) used, an extra one ton per hour, would increase the amount needed from a Salt Lake City supplier, providing that company with a long-term contract. The applicant has

contacted a National Biofuels Wholesaler who is talking to Utah refineries about the Biofuels created from the project.

The current timetable for the project is as follows:

- Issue the bonds in June.
- Initiate sales in July.
- Order equipment in September.
- Project site preparation in September.

Christina Oliver made a recommendation that if another extension is requested by the applicant at the July Board Meeting that documentation from potential financial partners, at least letters of interest, be provided to the Board, in order for the extension to be approved.

Christina Oliver moved and Meghan Holbrook seconded a motion to approve the first extension for \$10,000,000 to Agricultural Waste Solutions, Inc., with the requirement that if another extension is requested by the applicant at the July Board Meeting that documentation from potential financial partners, at least letters of interest, be provided to the Board, in order for the extension to be approved. The motion carried unanimously.

Other Business and Adjournment

Chairman Walker expressed his appreciation to the Board for their participation in the meeting and the opportunity he has had to work with them.

The next regularly scheduled meeting of the Private Activity Bond Authority Board will be held on Wednesday, July 13, 2011, at 9:00 a.m., at the Governor's Office of Economic Development, 324 S. State Street, Suite 500, Conference Room #501, Salt Lake City, Utah.

The meeting adjourned at 10:10 a.m.

Submitted by:
Sanobi Johnson