

TIMPANOGOS SPECIAL SERVICE DISTRICT
ADMINISTRATIVE BOARD
EMERGENCY ELECTRONIC MEETING

APPROVED

Date: November 28, 2017 6:00 P.M. Conference Room

Board Members

Present: Mark Johnson Lynn Walker Brian Braithwaite
Chris Condie Sullivan Love

Phone: Dale Ihrke Craig White Commissioner Bill Lee
Mack Straw *Mark Christensen

Excused: David Bunker Chandler Goodwin Tracy Wallace

Staff: Jon Adams, District Manager
Danette Smith, Board Secretary

Others (Phone): Craig Carlile, Attorney
John Crandall, George K. Baum
Elizabeth Reed, George K. Baum
Matt Dugdale, George K. Baum

Conducting:

Mark Johnson, Board Chairman called the meeting to order. 6:03 p.m.

I. Board discussion to reach a decision, by majority vote, on whether to proceed with the cross-over refunding of the District's 2010 B Series Build America Bonds, including the amount of cash reserves, if any, allocated to the cross-over refunding effort

Brian said this really comes down to whether we are interested in doing a refinance or not. There are a couple of reasons to not be interested. Some board members have said, let's hold off and save up enough cash and pay it all off in June 2020, when the bonds become callable. Also, there has to be some financial benefit to us. If those benefits are not at a threshold that makes sense, then we shouldn't be moving forward. The financial benefits to move forward is the benefit in lowering the fee, and to change our covenants. To meet our current covenants, we have to have a lot of cash on hand, if we bond with this crossover bond, we can eliminate the current covenants and replace them with something that will allow us to have a lower cash threshold.

Brian said the rates have gone up since these options were put out as there are more individuals interested in doing these. We will not know what those savings are, until we put this out, that is why we will have to set some parameters. If the marketplace keeps going in that direction, it may become uninteresting to us, or it may swing the other way. It appears based upon the analysis that has been done, that there is some beneficial value in doing this, by lowering our rates and getting new covenants. If we move forward with this, we need to decide which option are we interested in.

Brian said Dale Ihrke, and David Bunker had asked, if it is more beneficial if we put \$15 million cash into investments or to contribute it to the bonds and reduce our debt. Unless you have a crystal ball how do you know what you are going to make on your investments over the next several years. If the market stays the same, and you invest in stocks you will probably do really well, if the market stays the same and you invest into CDs you may make the same.

Dale asked for explanation on the different options. John Crandall said all the bonds are callable under these options. The current maturity of the existing bonds is 2035, and all bonds will be paid off by 2035 if nothing is done. There are bonds that mature between now and the call date of June 2020, which are not callable, nor do we want to

1 advance refund those bonds, that would trigger a defeasance and trigger the IRS to not give the treasury subsidy to the
2 district for the entire bond issue.

3 Chris asked if the change in the market since November 17th would show in the net value savings. John Crandall
4 said yes, that is correct, due to rates going higher, that is a net present value reduction. Chris said if we decide to move
5 forward tonight and give a dollar option, how quickly can we lock in that interest rate. John Crandall said the date we
6 are talking about pricing the bonds, which would lock in the interest rates, is December 6, 2017.

7 Craig White said any other debt issue the District has done in the past, whether refunding or new bond, we have had
8 to go to the Utah County Commission and they had to formally approve it by resolution. Craig Carlile, said in 1976,
9 when the Administrative Control Board was created, the commission delegated certain authority, but expressly did not
10 delegate bonding. Based on that resolution in the past we have always had to go back to the County Commission
11 whenever we wanted to issue bonds. In January of this year, the County Commission adopted a resolution which
12 updates the 1976 resolution that delegates the Administrative Control Board all the authorities that can be delegated
13 under the statute. That exclusion is no longer there, so you do not have to go back to the county commission for bonds,
14 unless there is an election related to that.

15 Brian said Craig White asked how many members of the board are required for the vote; if it is a majority of the
16 board members participating, or majority of the board. Jon said our by-laws state that when you are doing District
17 funding, it has to be two thirds of the entire administrative control board, which would be 9. Chris said we have 9
18 members participating, so it would need to be unanimous vote. Brian said Mark Christensen has said he would be able
19 to join and vote if this falls within certain parameters.

20 Commissioner Lee said usually with refinancing, one of the tipping points is whether we will be short on cash now
21 or in the projected future. The refinancing is typically to free up cash, so we can have that in the future, if we are
22 putting money in, will that be depleting our cash on hand. Brian said we are working through the process to understand
23 what our cash needs are going to be for capital by adopting an asset management program to help drive what those costs
24 are going to be. That is going to be a capital improvement cash need moving forward. We currently believe that we are
25 going to need about \$10 million a year on average over the next five years. Based upon that \$10 million and other
26 projects, we believe we have sufficient cash on hand to be able to put cash into this.

27 Brian said for clarity we can refinance in June of 2020 and eliminate the covenants, as long as we do not bond
28 between now and then. Brian said this refinance today allows us to do the same thing, with today's rates, that we would
29 do in 2020. This is called a crossover refinance; we are refinancing under new terms today and the debt we are
30 incurring will pay off the old bonds in 2020 and eliminate those covenants in 2020. Commissioner Lee said the reason
31 we are looking at it today is because the Senate and the House bills on tax reform are eliminating the refinance. Brian
32 said yes, and if we do not do it by December 31, 2017 the only option we have is to look at refinancing in June 2020.
33 Brian said we have to decide, with the information we have, what is the right decision. We do not know what rates will
34 be in 2020, we do know what they are today. Brian said these are not going to be callable until the dates in these options,
35 there is a 5, 7, and 10-year call. The 5, and 7-year call are more expensive, but those are still options.

36 Dale Ihrke said the savings are pretty significant and he is on board with the 2030 payoff, not extending out to
37 2035. The question to him is no contribution versus a \$15 million contribution, that is why he wanted to have the
38 numbers run about investing that money. Dale is surprised how little interest we make on our cash, is there a reason we
39 only get 1.35%. Jon said the District's philosophy is to always put it in the state's PTIF fund, which is not uncommon.
40 Up until this year we were right around 1%, it has increased a little, if the board wanted to pass a resolution that allowed
41 them to invest that another way they could do that. We just take what the state pays, it's safe, we are not risking the rate
42 payer's money, and that has been the conservative attitude. Brian said the 1.35% is on the high end, the assumption is
43 that rates will probably go up, that is why refinancing now would be a smart thing, if rates are going up then interest
44 paid would also go up. That 1.35% is on the top end of what we have received over the last 6-7 years.

45 Mark Johnson asked Dale which specific option he preferred. Dale said if we contributed \$15 million, he preferred
46 4b with the 7-year call option; he thinks 4c is too expensive with the 5-year call option. Mark asked what other's
47 thoughts were on the options they preferred. Chris said he preferred 4a, \$15 million contribution and 10-year call, but
48 he could go with 4b. Chris said this goes back to the discussion last time, when the expansion was done, at the time it
49 was done for 22% of the current rate payer and 78% of the future growth; we still are not at capacity with the expansion.

1 Chris said the money was collected for a reason, to build the expansion, he feels the \$15 million is appropriate to
2 contribute. The financial statement of October 31, 2017, shows cash on hand at \$44 million, if we put \$10 million in
3 cash reserves, that brings us down to \$33 million and then if you take \$10 million and assign to capital projects, we are
4 still at \$23 million. Chris feel the district is very healthy, cash wise, and this is the prudent thing to do with the money
5 we do have, for our current rate payers and moving forward. Chris said he preferred option 4b.

6 Lynn Walker said he is leaning toward 4b. Mack Straw said he would also pick option 4b. Sullivan Love said he
7 feels comfortable with 4b; it sounds like we will have plenty of cash value in our budget to make that additional
8 contribution, as long as we can do that and feel comfortable to meet our other obligations. Sullivan said he does want to
9 save money and he thinks refinancing is a good way to go. Commissioner Lee said he was fine with it 4b, as long as our
10 position is strong. Craig White said he is opposed to the refunding itself. Brian asked Craig if he was interested in any
11 option. Craig White said no, even with 4b, we are going to give up \$15 million, in order to save \$360,000/ year for the
12 next 13 years. He does not see why we would tie our hands like that. We could be in a position to pay off whatever we
13 wish in 2.5 years, we are now going to be in a position where we will need to wait 13 years. Why would you do that.
14 Wait the 2.5 years and pay off whatever you want and don't have any restrictions on paying it off in the future, and for a
15 \$360,000/year savings; that is really being short sighted. Brian said the reality is we will not pay it off in 2-3 years, we
16 would have to re-bond. Craig so no we will not. Craig said it is totally unrealistic to think we will have enough cash to
17 pay all of our debt off in 2.5 years, but he thinks in 5-6 years we will at the current rate we are going. Craig White said
18 they become 100% callable in 2.5 years, we can pay off whatever we wish then, we then have the flexibility in 5 years- 6
19 years to pay more money to the callable portion and get more debt paid off.

20 Brian said with option 4b, it would be an additional 7 years before they become callable, not 10. Brian asked John
21 if the timing on the 7 years begins when these bonds are executed, not when the crossover happens. John Crandall said
22 yes that is correct. Dale said he wants to pay off the current rate payers bond value, which is about \$11 million, we have
23 the cash in the bank, those rate payers should not be paying interest, he is totally interested in paying off that \$11
24 million. He doesn't think we should be paying off a bond for future growth, current rate payers should not pay for future
25 growth. He is fundamentally opposed to that. Dale said as he understands, future growth is built into the impact fee,
26 there is a bonding component, and interest that is supposed to be figured in their payment and they should pay the bonds
27 off over time. Chris Condie said he agrees with Dale 100%. Chris said he appreciates Craig White's feedback, but we
28 are going to have bonds. Chris said he does not see it as tying our hands for another 10 years, it is part of what we do,
29 and the way we run the district.

30 Brian said Joe has been keeping track of how much of this bond was paid into the changes we did in 2010 to our
31 facility; we expanded, but we also paid some costs of fixing certain areas that were capital improvements, that were not
32 increasing the total volume. It was calculated that 22% of that was capital improvements, it was fixing things that
33 needed repair, which current rate users were using, so they should continue paying for it. The 78% was the growth
34 aspect of that plant expansion. Dale said he appreciated the option Craig is talking about, when we hit 2020 paying \$15
35 million down and continuing at the same rate, he does not know what that looks like and it is a little late for more
36 options.

37 Brian said Mark Christensen has said that he feels that we should continue bonding, and it is fiscally irresponsible
38 not to look at ways to reduce the costs, as long there is a level of return greater than 10% and eliminate the covenants.
39 In option 4b, the savings listed there are 13.295%. For clarity these numbers are high because they were based upon the
40 November 17th numbers, and rates have changed; we have to recognize we still have another week before we can get
41 locked in, so they could go up or down. We would put in parameters, and if it is not going to be within a certain
42 percentage we are not interested in moving forward. Chris asked Mark Johnson if he was on board with this. Mark
43 Johnson said at the last meeting he was more in line with Craig White's comment. He had a long discussion with Mark
44 Christensen, before tonight's meeting and he wants at least 10% savings or there is just no value in it. Mark Johnson
45 said he also sees an advantage of being able to pay off this off and the \$365,000/year savings is not very significant.
46 Dale said it would save over \$4 million in a 13-year period, and you are saving about \$3.8 million in interest by putting
47 \$15 million in.

48 *Mark Christensen joined by phone. 6:53 p.m.

1 Mark Johnson told Mark Christensen that the majority of members were opting for option 4b. Mark Christensen
2 said, if we could get rid of some of the restrictions, that is going to be in our best interest. Mark Christensen said he was
3 looking for a net present value saving of 10% or higher, and asked what is the net present value savings on this option.
4 Mark Johnson said it is showing 13.295%. Mark Christensen said his gut feeling is when you can get a percentage like
5 this on a refunding deal it is generally good enough to move on it. Mark apologized and said would have liked to spend
6 a lot more time understanding the intricacies of this, but because of his personal situation, he has not been able to
7 dedicate the time to that. He thinks this is probably worth moving on. His concern is whether we are getting into any
8 covenants or restrictions that would put us into a similar situation with this refunding issuance. John Crandall said no
9 there are no fund balance requirements. The rate covenant will change from a two-prong test to a one prong test debt
10 service coverage of 1.25 of all revenues. Mark Christensen said he can support this option.

11 Brian Braithwaite let Mark Christensen know the rates have gone up and we could lock in is December 6, 2017, so
12 we would want to set some parameters. The 13.295% savings is not accurate, it is somewhere around 12% right now
13 and it may go lower depending on what happens. John Crandall said they ran some numbers while they have been
14 talking and the 4b option is the \$15 million cash contribution with a seven-year call, the savings just calculated on that
15 would be just over 10% and \$4.482 million net savings. John said the board needs to decide what their savings
16 threshold would be. John said they would monitor the market to move forward, but the day before pricing; they would
17 pull the deal if it doesn't meet the savings threshold set by the board. Mark Christensen asked if the board would adopt
18 a parameters resolution tonight authorizing the sale of the bonds within that parameters setting. John Crandall said the
19 parameters resolution was authorized at the last meeting. Tonight's discussion is more subsequent to the parameters
20 resolution, specifically if you want to move forward, what option you want, and what your savings threshold if you
21 move forward; which is not part of the parameters resolution, but the board's vote. Mark Christensen said he is
22 comfortable at a 10% net present value savings, he is not saying that is a hard ceiling, but for a seven-year issuance that
23 seems like a good position for us to be in.

24 Mark Johnson called for a motion

25
26 **Chris Condie made a motion to proceed with the cross-over refunding of the District's 2010 B Series**
27 **Build America Bonds, including the amount of cash reserves, if any, allocated to the cross-over**
28 **refunding effort, with the parameters pursued are found in option 4b, which includes a \$15,000,000.00**
29 **contribution from the District, a seven call date, that the net present value saving percentage be at 10%**
30 **or greater, which would be a savings of about \$4,082,000.00 with a maturity date of June 1, 2029. Mark**
31 **Christensen seconded the motion. Mark Johnson took a roll call vote.**
32 **Those voting "Aye" - Chris Condie, Brian Braithwaite, Sullivan Love, Lynn Walker, Mark Christensen,**
33 **Mack Straw, Commissioner Bill Lee, Dale Ihrke, Mark Johnson. Those voting "Nay" - Craig White**
34 **The motion passed with a majority vote of 9 to 1.**

35
36 Mark Christensen left the meeting. 7:03 p.m.

37 John Crandall said they would continue to monitor that and if it falls below the 10% savings, things will be put on
38 hold, as discussed. John Crandall said the Fitch Rating came back; they upgraded the District to a AA+ and S & P will
39 re-rate the District the same rating which is a AA-.

40
41 **Chris Condie made a motion to adjourn. Sullivan Love seconded the motion. All present "Aye". Meeting**
42 **adjourned. 7:05 p.m.**