

## EXECUTIVE SUMMARY

To the Governor of the State of Utah and the Honorable Members of the Utah State Legislature:

We are nationally recognized bond counsel serving the State of Utah (the “*State*”) and its counties, cities, towns and special districts. We understand that proposals have been made to amend the Sales and Use Tax Act in order to eliminate or substantially reduce (i) the “local option” sales taxes and (ii) the sales and use tax base, including by eliminating the tax on unprepared food. As you consider these proposals, please be advised of the following:

(1) Since 2001:

(a) At least 28 cities, 8 counties and a public transit authority have issued approximately 63 series of bonds that are secured by revenues obtained from the collection of sales and use taxes (“*Sales Tax Revenue Bonds*”).

(b) Approximately \$1 billion of Sales Tax Revenue Bonds have been issued.

(c) These Sales Tax Revenue Bonds have provided financing for governmental facilities and infrastructure on a cost effective basis.

(2) Debt service on Sales Tax Revenue Bonds has been carefully structured to ensure marketability at the lowest interest cost, with the highest possible bond ratings. Experience has shown that issuers of Sales Tax Revenue Bonds can obtain the most favorable interest rates and bond ratings if expected sales tax revenues are at least 200% of debt service.

(3) Eliminating or substantially reducing the “local option” sales taxes or shrinking the sales and use tax base, including by eliminating the tax on unprepared food, would likely:

(a) Violate the State’s covenant in Section 11-14-307(3)(a), U.C.A, that states, in part, “The State pledges to and agrees with the holders of [certain Sales Tax Revenue Bonds], that *the State will not alter, impair or limit the excise taxes in a manner that reduces the amounts to be rebated to the [issuer]... until [such Sales Tax Revenue Bonds], together with applicable interest, are fully met and discharged.*” A narrow exception exists if adequate provision is made by law for the protection (which most likely includes market value protection and payment protection) of the bondholders.

(b) Violate the “Contract Clauses,” Article 1, Section 10 and Article I, Section 18, respectively, of the Federal and State Constitutions, each of which prohibits the State from passing any law that retroactively and substantially impairs the obligation of contracts *unless* the impairment serves an important and legitimate public interest and is a reasonable and narrowly tailored means of promoting that interest.

(c) Result in a downgrade in the ratings for the Sales Tax Revenue Bonds (which means increased interest costs for future issues of Sales Tax Revenue Bonds and for all variable rate Sales Tax Revenue Bonds and reduced market value of currently outstanding Sales Tax Revenue Bonds) and a possible downgrade of the issuer’s other obligations as well.