



WESTMINSTER

Westminster Economic Development Authority

TO: The Westminster Economic Development Authority Board Members

DATE: August 8, 2012

SUBJECT: WEDA Agenda for August 13, 2011

PREPARED BY: J. Brent McFall, Executive Director

Please Note: WEDA Study Sessions and Post meetings are open to the public, and individuals are welcome to attend and observe. WEDA was created by the Westminster City Council for the purpose of moving forward with strategic redevelopment of key areas of the City. WEDA Study Sessions and Post meetings are not intended to be interactive with the audience, as this is time set aside for WEDA Board Members to receive information, make inquiries, and to provide Staff with policy direction.

ROLL CALL

PRESENTATIONS

1. North Huron Urban Renewal Area Loan Refunding

EXECUTIVE SESSION

INFORMATION ONLY

1. 2ND Quarter 2012 Financial Update

Items may come up between now and Monday night. You will be apprised of any changes to the agenda.

Respectfully submitted,

J. Brent McFall
Executive Director



WESTMINSTER

Staff Report

WEDA Study Session Meeting
August 13, 2012



SUBJECT: North Huron Urban Renewal Area Loan Refunding

PREPARED BY: Tammy Hitchens, Finance Director
Robert Smith, Treasury Manager
Robert Byerhof, Senior Financial Analyst

Recommended Board Action:

Provide direction for Staff to execute the refinancing the 2009 loan with Compass Mortgage for the North Huron Urban Renewal Area.

Summary Statement:

On May 7, 2012, the Board reviewed a Study Session report regarding the refinancing of an existing loan with Compass Mortgage (Bank) for the North Huron Urban Renewal Area (URA) project. This report updates the March report to apprise the Board of the current status of the refinancing and projected costs associated with anticipated public infrastructure within the URA.

Expenditure Required: Not to exceed \$60,000,000

Source of Funds: Loan proceeds and increment revenues within the URA

Policy Issue

Should WEDA refinance the current loan with Compass Mortgage and obtain additional loan proceeds needed to construct public infrastructure with the North Huron URA?

Alternative

Do not refinance the loan at this time or obtain additional loan proceeds. This is not recommended due to financing risk associated with the uncertainty of both interest rates and a loan provider in the future. WEDA currently has the opportunity to refinance and obtain new funds at a historically low fixed interest rate and allows WEDA the opportunity to borrow additional funds to construct public infrastructure while reducing annual debt service.

Background Information:

In 2009, the Westminster Economic Development Authority (WEDA) entered into a loan agreement with Compass Mortgage (Bank) in the amount of \$62,375,000 to refinance bonded debt issued in 2005 for the North Huron Urban Renewal Area (URA) redevelopment project. The refunding was necessary after the original bonded debt converted into Bank Bonds when the Letter of Credit provider was downgraded by the rating agencies due to credit concerns associated with this provider, which accelerated debt payments and increased the interest rate. It should be noted that the need to restructure this debt was entirely due to the provider's credit issues and had nothing to do with WEDA's ability to service the debt.

The loan agreement structured with Compass Mortgage includes a scheduled balloon payment of \$46,975,000 in 2016 and features an interest rate exchange agreement (swap), which fixed the interest rate at 4.51%, an attractive rate at the time for a six year loan term. The proposed new loan refunds the existing loan with one that will secure financing for the next sixteen years through the duration of the URA's statutory Tax Increment Finance (TIF) period, which ends in 2028. This refunding offers WEDA the ability to fix a low interest rate today with long-term financing certainty versus taking on interest rate risk to refund the loan in 2016. Interest rates are at historic record lows and there is a greater likelihood that interest rates will rise rather than fall or even remain at current levels over the next four years. Compass Mortgage has indicated a new fixed interest rate of around 3.50%, which is lower than the projected rate of approximately 3.70% mentioned in the March Study Session report.

As mentioned, the current loan features a swap agreement to fix the rate. The swap would terminate on the same day as the initial loan, June 1, 2016. In the May report, Staff estimated termination fee associated with the agreement would be \$4.00 million and currently, the estimated termination fee ranges between \$3.70 million to \$4.20 million depending largely on the direction of interest rates.

It is common for the termination fee on such financial instruments to fluctuate due to interest payments made as well as the level of interest rates in the market, which impact the fee due if a swap is terminated prior to its maturity. As rates decline a negative impact on the swap termination fee WEDA must pay follows; however, lower interest rates mean that WEDA will pay less in interest on the new loan for the next 16 years. Thus, despite this double edged sword, the refunding makes financial sense from both a nominal and present value analysis given today's low interest rate environment.

Staff completed a financial analysis of the projected cost to keep the existing loan in place until 2016 and then enter into a new loan versus securing long-term financing today and paying the upfront \$4.00 million swap termination from available funds in the Revenue Fund of the loan agreement. The interest rate assumption commencing in 2016 is based on a long-term rate averaging 5.5% versus entering into new loan this year with an interest rate of 3.50%. By entering into a new loan today versus waiting another 4 years, WEDA will save approximately \$5,210,000 million in interest costs over the life of the loan on a nominal basis and on a present value basis saves WEDA approximately \$2,160,000 million, inclusive of the \$4.00 million swap termination fee. Under the new loan, the interest rate will be fixed and so no new interest rate exchange agreement will be required.

The current loan has an existing principal balance of \$56,865,000 with annual debt service payments equating to approximately \$4,879,000. Although the principal balance will increase to \$59,000,000 with the refinancing, the estimated annual debt service will basically remain the same at approximately \$4,878,000 assuming a 3.5% interest rate. The March Staff Report mentioned that in conjunction with the refinancing, additional borrowing needs may be requested to fund capital projects within the URA boundaries, specifically the construction of Orchard Parkway from about 136th to 144th Avenues and construct 142nd Avenue between Huron Street and Orchard Parkway. These public capital improvements will connect critical planned retail and other commercial developments. The additional \$2,635,000 of loan proceeds above the current principal balance is anticipated to partially fund Orchard Parkway road improvements along with essential storm water capital improvements within the URA. The balance of the capital needed for the project will be obtained from surplus balances in the existing Revenue funds as well as anticipated property and sales tax increment revenues.

This recommended action supports the strategic objectives of a Financially Sustainable City Government Providing Exceptional Services, a Strong, Balanced Local Economy and Vibrant Neighborhoods in one livable community. It does so by controlling the financing costs for debt issued by WEDA and providing more certainty for the sales tax revenues generated in the Urban Renewal Area that the City will be able to retain.

If the Board directs Staff to proceed, Staff will present the formal financing documents for review and recommended approval on August 27, 2012.

Respectfully submitted,

J. Brent McFall
Executive Director



WESTMINSTER

Staff Report

WEDA Information Only Staff Report
August 13, 2012



SUBJECT: Westminster Economic Development Authority 2nd Quarter 2012 Financial Update

PREPARED BY: Barb Dolan, Sales Tax Manager
Karen Creager, Special District Accountant

Summary Statement

This report is for information only and requires no action by the Board. The report represents the unaudited financial position for each of the Westminster Economic Development Authority's (WEDA) Urban Renewal Areas (URAs) as of June 30, 2012.

Background Information

WEDA currently includes seven separate URA's. This report presents the financial activity as of June 30, 2012. Included in the report are the following for each URA:

- Year-to-date comparative graphs showing three years of operating revenues and expenses and debt service, as of June 30; and
- A chart with an at-a-glance looks at the changes in revenues and expenses for comparable reporting periods from 2011 to 2012.

Additionally, attached are:

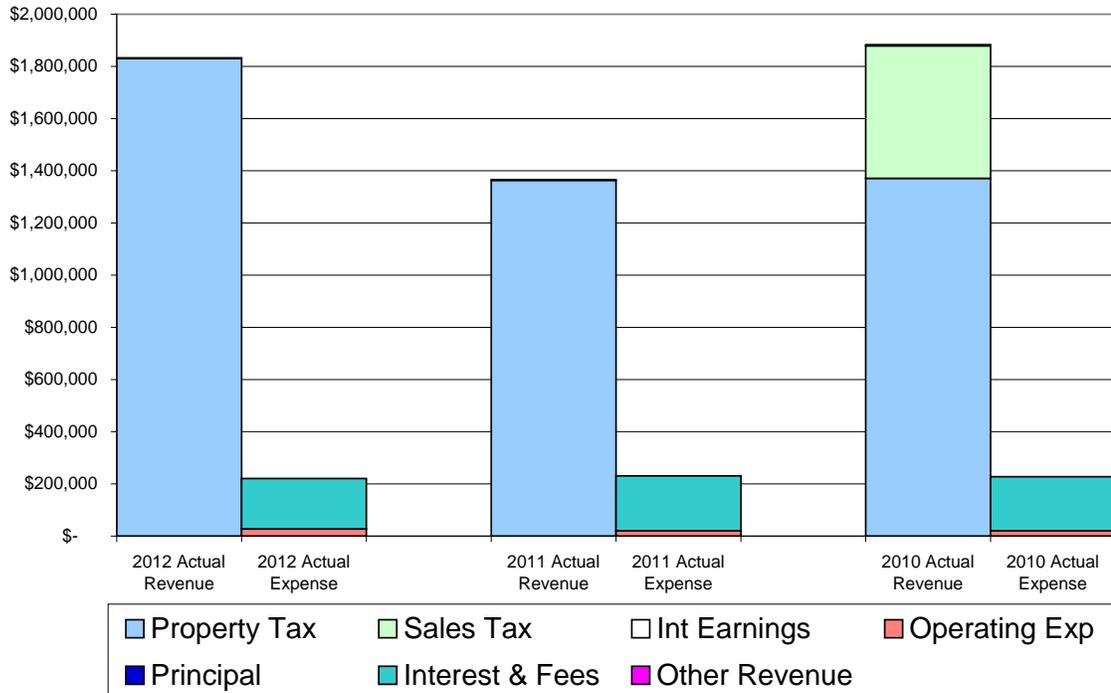
- A chart summarizing the unaudited financial position as of June 30, 2012; and
- A list of all current outstanding obligations of the URAs.

Holly Park URA

- The General Fund and General Capital Improvement Fund loaned \$120,000 and \$1,125,000, respectively, to this URA to fund the capital project for the clean-up of the Holly Park property to ready it for resale. It is anticipated that the interfund loan will be repaid when the property is sold.
- Interest earnings, the only revenue recorded in this URA to-date, decreased by \$254 in 2012 from 2011.
- Due to minimal operating activity in the URA, no comparison table is included.

Mandalay Gardens URA (Shops at Walnut Creek)

Mandalay Gardens URA Comparative Revenues vs Expenses as of 6/30/12



Description	2012	2011	Change
Property tax increment	\$ 1,830,822	\$ 1,363,334	\$ 467,488
Interest Earnings	1,662	2,005	(343)
Operating Exp	27,462	20,450	7,012
Interest and Fees	193,190	210,279	(17,089)

- Incremental assessed valuation decreased in 2012 from 2011. However, actual property tax collections fluctuate from month to month resulting in higher property tax increment collection in the 2nd quarter 2012 from the 2nd quarter 2011.
- The sales tax pledge was 3% from October 2009 through February 2010. From March 2010 through current, the pledge decreased to 0%, as funds already on deposit with US Bank Trust along with anticipated property tax increment were sufficient to meet debt service requirements. Therefore, all sales tax revenue received from this URA was retained by the City.
- Due to the low interest rate earnings environment on funds at the Trust, the interest earnings on the funds invested at the US Bank Trust are low relative to historic performance.
- Year-to-date operating expenses increased slightly in 2012 from 2011 due to an increase in the property tax collection fee paid to the county treasurer, consistent with the increase in property tax increment revenue.
- Year-to-date debt service costs decreased slightly in 2012 from 2011 due to a lower variable interest rate paid in 2012.

North Huron URA

North Huron URA Comparative Revenues vs Expenses as of 6/30/12

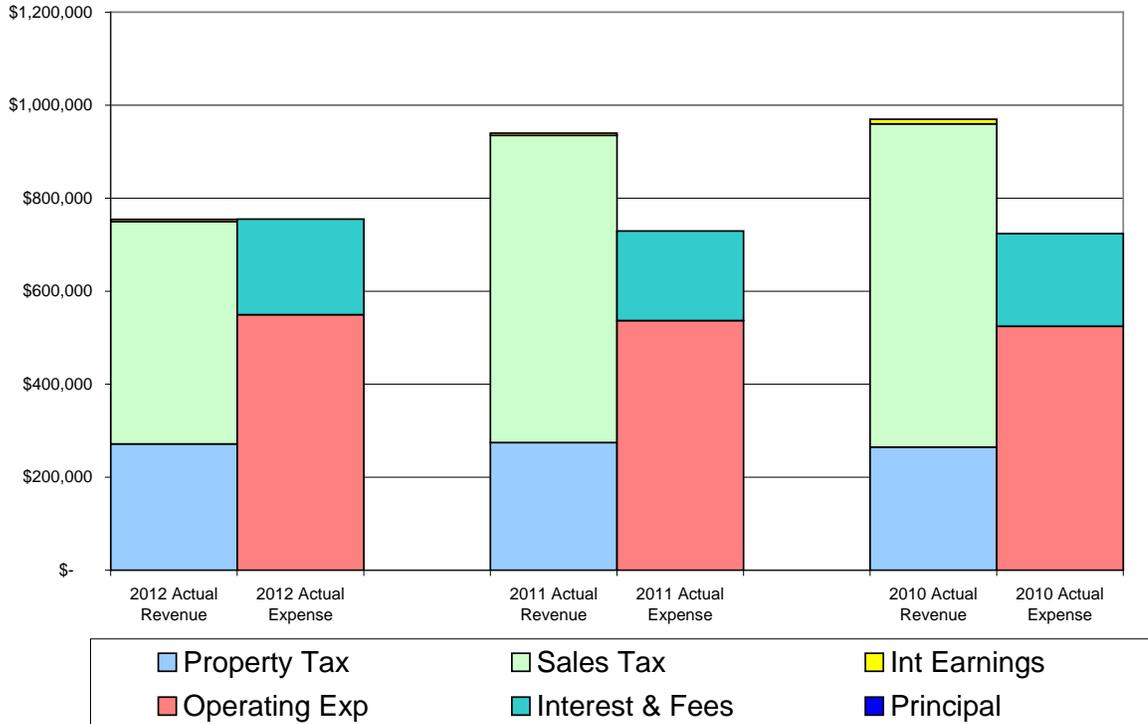


Description	2012	2011	Change
Property tax increment	\$ 4,134,754	\$ 3,681,909	\$ 452,845
Interest Earnings	14,837	47,053	(32,216)
Operating Exp	225,614	196,450	29,164
Interest and Fees	1,282,413	1,332,298	(49,885)

- Incremental assessed valuation increased in 2012 from 2011 resulting in higher property tax increment in 2012 from 2011.
- The sales tax pledge was 1% from June 2009 through February 2010. From March 2010 through current, the pledge decreased to 0%, as funds already on deposit with Compass Bank along with anticipated property tax increment were sufficient to meet debt service requirements. Therefore, all sales tax revenue received from this URA was retained by the City.
- Interest earnings decreased in 2012 from 2011 as a result of an error in the rate of interest paid by the Trust in 2011. The correction reduced the amount of interest paid by the Trust in 2012.
- Total operating expenses increased in 2012 from 2011 due to the increase in intergovernmental cooperation agreement (ICA) payments in 2012 and an increase in the property tax collection fee paid to the county treasurer, consistent with the increase in property tax increment revenues.
- Year-to-date debt service costs were slightly lower in 2012 from 2011 consistent with a lower scheduled interest payment as a result of a reduced principal balance.

South Sheridan URA

South Sheridan URA Comparative Revenues vs Expenses as of 6/30/12



Description	2012	2011	Change
Property tax increment	\$ 271,705	\$ 274,487	\$ (2,782)
Sales tax increment	477,820	660,699	(182,879)
Interest Earnings	4,826	4,818	8
Operating Exp	549,578	536,866	12,712
Interest and Fees	205,565	192,585	12,980

- Assessed valuation decreased in 2012 from 2011. Even though actual property tax collections fluctuate from month to month, property tax increment collections remained consistent in the 2nd quarter of 2012 from the 2nd quarter of 2011.
- The sales tax pledge was 3% in January and February 2011. From March 2011 through February 2012, the pledge decreased to 2.3% resulting in a decrease in sales tax increment. Beginning when the sales tax base was met in May 2012, the pledge decreased to 1.2% and the City retained 1.8% of the sales tax collections, thereby further reducing the sales tax increment in the URA.
- Interest earnings remained consistent in 2012 from 2011.
- Operating expenses increased slightly due to increased Economic Development Agreement (EDA) expenses.
- Year-to-date debt service costs increased slightly in 2012 from 2011 consistent with an increase in the interest rate when the rate reset in June 2012.

South Westminster URA

South Westminster URA Comparative Revenues vs Expenses as of 6/30/12

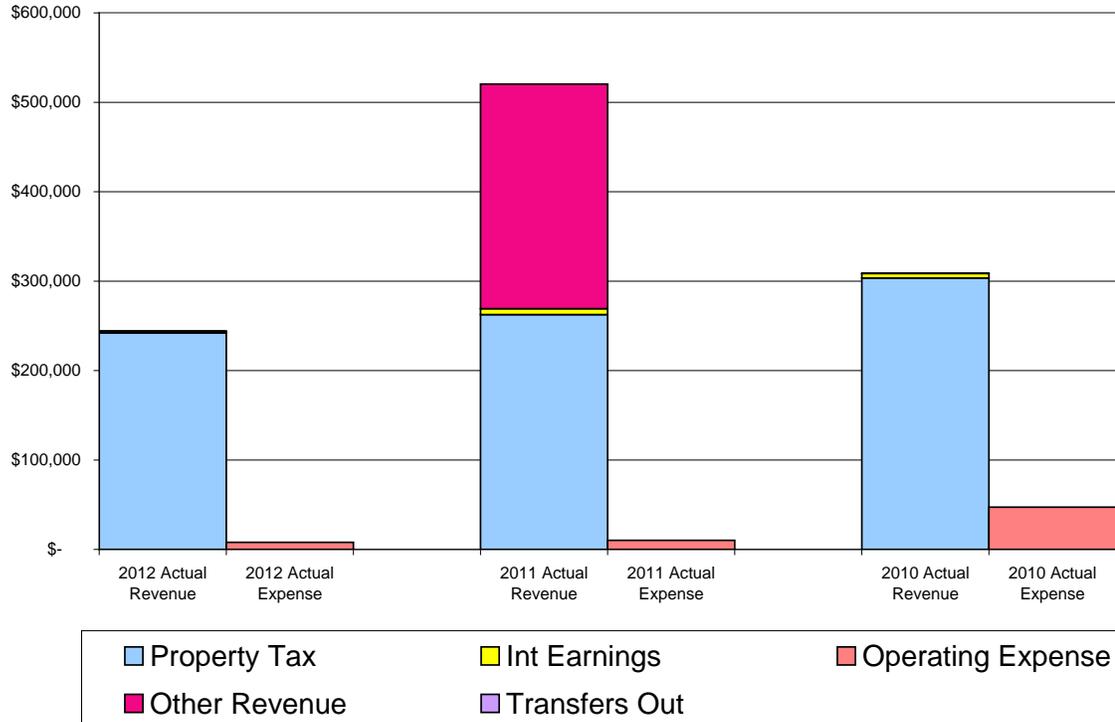


Description	2012	2011	Change
Property tax increment	\$ 323,775	\$ 298,762	\$ 25,013
Sales tax increment	61,045	9,579	51,466
Interest Earnings	12,367	20,744	(8,377)
Other Revenue	10,005	-	10,005
Operating Exp	4,857	4,481	376
Interest and Fees	74,765	85,690	(10,925)

- Incremental assessed valuation increased in 2012 from 2011. Therefore, property tax increment increased slightly in 2012 from 2011.
- Sales tax increment increased in 2012 from 2011 due to increased sales at some of the larger businesses within Phase I of the URA.
- Interest earnings decreased in 2012 from 2011 as a result of a lower cash balance in the URA.
- The property tax collection fee paid to the county treasurer increased in 2012 from 2011, consistent with the increase in property tax increment revenues.
- Year-to-date debt service expenditures were lower in 2012 from 2011 consistent with a lower scheduled interest payment as a result of a reduced principal balance.

Westminster Center East URA

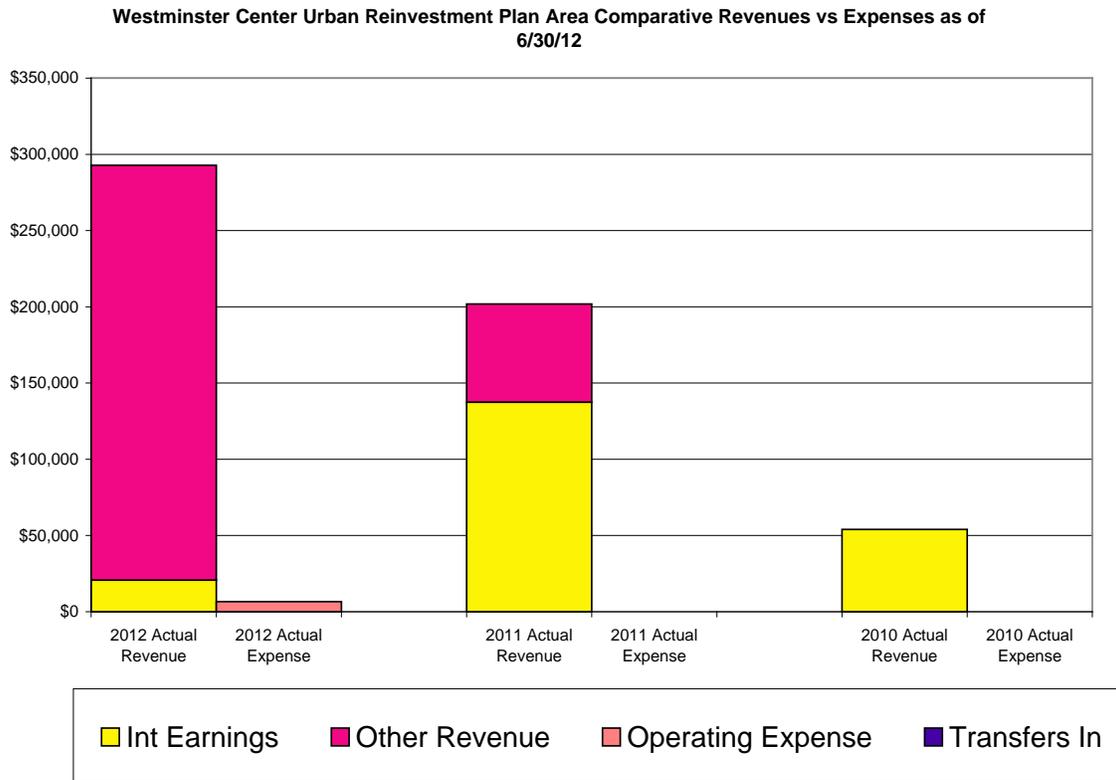
Westminster Center East URA Comparative Revenues vs Expenses as of 6/30/12



Description	2012	2011	Change
Property tax increment	\$ 242,010	\$ 262,566	\$ (20,556)
Interest Earnings	1,832	6,604	(4,772)
Other Revenue	129	251,170	(251,041)
Operating Exp	7,921	10,172	(2,251)

- Incremental assessed valuation decreased in 2012 from 2011, resulting in a decrease in property tax increment in 2012 from 2011.
- No sales tax increment was realized in the second quarter of 2012 or 2011, since the base sales tax amount for this URA has not been met. Property tax increment was sufficient to meet the URA's second quarter obligations.
- Interest earnings decreased in 2012 from 2011 due to the lower cash balance in the URA.
- Other revenue decreased substantially in 2012 from 2011. This decrease resulted from the return of funds in 2011 that were previously rebated under an EDA because the business ceased operations in the City prior to the required length of time stipulated in the EDA.
- The property tax collection fee paid to the county treasurer decreased in 2012 from 2011, consistent with the decrease in property tax increment revenues.
- This URA has no bonded debt obligations.

Westminster Center Urban Reinvestment Project Area



On April 13, 2009, City Council approved Resolution 12, Series 2009, which established the Westminster Center Urban Reinvestment Project Area (WURP) and the Reinvestment Plan. Tax increment financing approval was not requested at that time.

- While the above chart reflects only operating activity in this URA, it is important to note that City participation funds of \$31,312,408 have been transferred to the WURP URA for redevelopment capital project expenditures. Currently, there is \$3,268,994 available in the WURP capital project.
- This URA has received revenue and other financing sources consisting of interest earnings, rent from tenants, additional participation funds from the City and a loan for property acquisitions made during the quarter. A portion of these revenues was appropriated to the redevelopment project during the first quarter of 2012.

This financial update assists the City in meeting the following Strategic Plan Goals: Financially Sustainable City Government Providing Exceptional Services, Vibrant Neighborhoods in One Livable Community, Strong Balanced Local Economy and Beautiful and Environmentally Sensitive City by reporting to the Board the changes in the revenues and expenses in the URAs in order to monitor the development and redevelopment efforts in the City.

Respectfully submitted,

J Brent McFall
 Executive Director

Attachments

- WEDA Unaudited and Unadjusted Financial Statements for period ending 6/30/12
- WEDA Obligations at 6/30/12

**Westminster Economic Development Authority
Obligations at 6/30/12**

	URA	Outstanding Balance as of 12/31/11	Estimated 2012 Expense
<i>Debt-Principal only</i>			
2009 WEDA Bonds	South Westminster	\$ 3,935,000	\$ 595,000
2009 WEDA Loan	N Huron	56,865,000	2,315,000
2009 WEDA Bonds*	Mandalay	33,520,000	33,520,000
2009 WEDA Loan	South Sheridan	7,420,000	290,000
Total Debt		<u>\$ 101,740,000</u>	<u>\$ 36,720,000</u>

<i>Interfund loans</i>			
Gen Capital Improv Fund	Holly Park	\$ 1,125,000	\$ -
General Fund	Holly Park	120,000	-
Utility Fund	South Westminster	1,825,000	-
Total Interfund loans		<u>\$ 3,070,000</u>	<u>\$ -</u>

	URA	Maximum Payable per EDA	Estimated 2012 Expense
<i>Economic Development Agreement (EDA)</i>			
Shoenberg Ventures assigned to Wal-Mart	South Sheridan	1,210,217	1,073,000
Total EDA		<u>\$ 1,210,217</u>	<u>\$ 1,073,000</u>

*\$33,520,000 represents the amount that will be outstanding when the Letter of Credit expires on September 23, 2012. Staff is currently working on refinancing the WEDA Mandalay Gardens Revenue Refunding Bonds Series 2009.

**Westminster Economic Development Authority
 Unaudited and Unadjusted Financial Statements
 For the period ending June 30, 2012**

	Holly Park	Mandalay Gardens	North Huron	South Sheridan	South Westminster	Westminster Center East	Westminster Center Urban Reinvestment Area	Total
Revenues								
Property Tax	\$ -	\$ 1,830,822	\$ 4,134,754	\$ 271,705	\$ 323,775	\$ 242,010	\$ -	\$ 6,803,066
Sales Tax	-	-	-	477,820	61,045	-	-	538,865
Interest	328	1,662	14,837	4,826	12,367	1,832	20,725	56,577
Miscellaneous	-	-	-	-	10,005	129	272,087	282,221
Other Financing Source	-	-	-	-	-	-	4,200,000	4,200,000
Transfers In	-	-	-	-	-	-	250,000	250,000
Total Revenues	328	1,832,484	4,149,591	754,351	407,192	243,971	4,742,812	12,130,729
Expenses								
Operating	-	27,462	225,614	549,578	4,857	7,921	6,597	822,029
Capital Project -proj exp	438	-	34,008	-	-	-	4,836,575	4,871,021
Interest & Fees	-	193,190	1,282,413	205,565	74,765	-	32,116	1,788,049
Total Expenses	438	220,652	1,542,035	755,143	79,622	7,921	4,875,288	7,481,099
Revenues Over(under) Exp	(110)	1,611,832	2,607,556	(792)	327,570	236,050	(132,476)	4,649,630
Beginning Fund Balance	(333,208)	7,756,747	14,778,978	2,388,175	221,337	240,982	28,993,610	54,046,621
Ending Fund Balance*	\$(333,318)	\$ 9,368,579	\$ 17,386,534	\$ 2,387,383	\$ 548,907	\$ 477,032	\$ 28,861,134	\$ 58,696,251

* Ending fund balance includes the following reserved amounts that can be spent only as indicated in the line description:

Restricted: Debt Service	\$ -	\$ 9,339,312	\$ 16,019,868	\$ 2,267,712	\$ 548,907	\$ -	\$ 219,978	\$ 28,395,777
Restricted: Capital Improvements	-	-	1,359,869	66,848	-	-	-	1,426,717
Committed: Urban Renewal	24,083	-	-	-	-	-	3,268,994	3,293,077
Nonspendable: Inventory	850,000	-	-	-	-	-	25,050,523	25,900,523
Total Earmarked Fund Balance	\$ 874,083	\$ 9,339,312	\$ 17,379,737	\$ 2,334,560	\$ 548,907	\$ -	\$ 28,539,495	\$ 59,016,094