



## **WESTMINSTER**

### **Westminster Economic Development Authority**

TO: The Westminster Economic Development Authority Board Members

DATE: May 2, 2012

SUBJECT: WEDA Study Session Agenda for May 7, 2012

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

#### INFORMATION ONLY

None at this time

#### EXECUTIVE SESSION

None at this time

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

Respectfully submitted,

J. Brent McFall  
Executive Director



WESTMINSTER

## Staff Report

WEDA Study Session Meeting  
May 7, 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 to staff regarding refinancing the 2009 loan with Compass Mortgage for the North Huron Urban Renewal Area.

### Summary Statement:

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 debt issued in 2005 for the North Huron Urban Renewal Area (URA) redevelopment project. The current loan features a balloon payment in 2016 in the amount of \$46,975,000. The interest rate under the loan is a variable rate, but this rate was fixed to 4.51% through a rate exchange agreement (swap) with the parent company of Compass, Banco Bilbao Vizcaya Argentaria (BBVA). Staff was aware of the need to refinance this debt at the time the loan was secured. Current market conditions afford WEDA an opportunity to obtain a long-term interest rate loan with the Bank through a refunding of the existing debt.

On February 23, 2009, and May 4, 2009, Staff briefed the Board on the uses of and risks associated with interest rate exchange agreements.

**Expenditure Required:** \$0

**Source of Funds:** N/A

**Policy Issue:**

Should WEDA consider refinancing the current loan with Compass Mortgage?

**Alternative:**

Do not refinance the loan at this time and wait until current loan matures in 2016 to restructure and refinance the debt. 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 the existing debt through 2028 at a historically low fixed interest rate.

**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, which accelerated debt payments and increased the interest rate, when the Letter of Credit provider was downgraded by the rating agencies due to credit concerns associated with this provider. 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. The Bank proposes to refund the existing loan with one that will secure financing 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 3.70%.

The current loan with Compass Mortgage includes a variable interest rate based on the one-month London Interbank Borrowing Rate (LIBOR). To fix the rate, WEDA entered into a variable to fixed rate swap agreement, as was necessary to secure the financing after the collapse of the financial markets in late 2008. The loan secured provided WEDA the breathing room needed until a long-term debt structure was available given the unsustainable repayment terms of the Bank Bonds, which reduced the amortization from 25 years to 10 years and required quarterly interest and principal payments. Since WEDA entered into the swap agreement, interest rates have declined and thus, to terminate the agreement prior to 2016, WEDA currently would need to pay a current termination fee of approximately \$4,000,000 to release itself from the swap obligation. It should be noted that if the current loan and swap agreement were maintained until their scheduled maturity in 2016, there would be no termination fee associated with the swap.

Although the upfront cost of paying off the current loan and refinancing with a new one appears to be exceptionally high due to the swap termination, 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 \$4,000,000 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 3.75%. By entering into a new loan today versus waiting another 4 years, WEDA will save approximately \$4,514,000 in interest costs over the life of the loan on a nominal basis and on a present value basis saves WEDA \$1,788,000, inclusive of the \$4,000,000 swap termination fee (see attached). Under the new loan, the interest rate will be fixed and so no new interest rate exchange agreement will be required.

Staff recommends pursuing the refinancing of the Compass Mortgage loan given the opportunity to extend the term of the loan through the end of the 25 year TIF period in 2028 and the ability to secure a low interest rate, which can be locked in today versus the taking on the refinancing uncertainties of waiting until 2016. The uncertainties include both the explicit interest rate risk since it is unknown what rates may be offered in the future and also the refinancing risk of having a loan provider available in 2016. As experienced during the 2008 financial market crisis, the ability to effectively refinance debt during a financial meltdown of credit markets can be challenging and places considerable risk of obtaining financing. By refinancing the Compass loan today, WEDA removes both of these exposures and secures low cost financing through 2028.

Staff has consulted with Helen Cregger and Bryan Stelmack from Piper Jaffray. They will be in attendance at the study session.

Staff is also analyzing the potential of funding additional projects with the refunding and will make a recommendation at a later date.

Respectfully submitted,

J. Brent McFall  
Executive Director

Attachment

**WEDA - North Huron URA  
Comparison of Refinancing Options**

Last Update: **25-Apr-12**

**Assumptions:**

Rates: 2012 Refinance Rate of: 

<b>3.69%</b>
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 Compass Mortgage Estimate of April 25, 2012  
2016 Refinance Rate of: 

<b>5.50%</b>
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**Scenario 1** Continue borrowing under terms of current Loan Agreement with Compass. Bullet payment of \$46.975M in 2016 Refinance when Loan matures in June 2016. Replace with a new loan with a 12 year loan term to end in 2028, the end of the TIF period. Do not pay down principal in 2016 with some of balance in Supplemental Reserve Funds. New Loan amount = \$46.975M.

**Scenario 2** Refinance current Loan in June 2012. Replace with a new Compass Loan with a 16 year loan term to end in 2028, the end of the TIF period. Do not pay down principal in 2012 with some of balance in Supplemental Reserve Funds. New Loan Amount = \$56.865M. Pay \$3.97M fee to terminate the interest rate exchange agreement (interest rate swap) using funds in Supplemental Reserve Funds.

**Analysis:**

	Scenario 1		Scenario 2		Savings
Total Payments for the Period 2009 - 2028	Principal Repayments	Calculated Interest (Cash Basis)	Principal Repayments	Calculated Interest (Cash Basis)	
Principal	\$ 62,375,000		\$ 62,375,000	\$ 0	\$ 0
Interest		\$ 36,462,706		\$ 27,982,893	\$ 8,479,813
Swap Termination Fee:		\$ 0		\$ 3,966,257	\$ (3,966,257)
Total Payments:		\$ 36,462,706		\$ 31,949,150	
<b>Total Savings</b>					<b>\$ 4,513,556</b>
<b>Net Present Value of Savings (@ 4.51% Interest)</b>					<b>\$ 1,788,636</b>