



## **WESTMINSTER**

### **Westminster Economic Development Authority**

TO: The Westminster Economic Development Authority Board Members

DATE: August 22, 2012

SUBJECT: WEDA Post City Council Meeting Agenda for August 27, 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. South Sheridan Loan Refinancing Summary

#### 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 Post City council Meeting  
August 27, 2012



**SUBJECT:** South Sheridan Urban Renewal Area Loan Refunding

**PREPARED BY:** Tammy Hitchens, Finance Director  
Robert Byerhof, Senior Financial Analyst

### Recommended Board Action

Provide direction for staff to execute refinancing the 2009 loan with Vectra Bank for the South Sheridan Urban Renewal Area Project.

### Summary Statement

On June 11, 2012, the Westminster Economic Development Authority (WEDA) Board approved a three-month extension of an existing loan agreement with Vectra Bank (Bank), which expires on September 13, 2012. This Staff Report appries the Board of the current status to refinance the loan with the Bank through 2028, the end of the South Sheridan Urban Renewal Area's (URA) term.

**Expenditure Required:** Not to exceed \$7,500,000

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

## **Policy Issue**

Should WEDA refinance the current loan with Vectra Bank for the South Sheridan URA Project?

## **Alternative**

Do not refinance the loan at this time. WEDA approved an extension of the existing loan on June 11, 2012, which expires on September 13, 2012. If an alternate financing solution is not approved, the outstanding principal in the amount of \$7,420,000 plus accrued interest will be due on this date. WEDA currently has the opportunity to refinance with a long-term loan through 2028, which is the end of the URA period and also coincides with the final maturity of the original debt issued in 2007.

## **Background Information**

In 2009, WEDA refinanced three outstanding Variable Rate Revenue Bonds that had been secured by letters of credit from DEPFA Bank plc after the Bank's credit rating fell below investment grade. The WEDA 2007 Revenue Bonds (South Sheridan Project) were refinanced with a \$8,075,000 loan from Vectra Bank, which was scheduled to expire on June 15, 2012. On June 11, 2012, the Board approved a 3-month extension of the original loan with the Bank, which expires on September 13, 2012. The original 2009 Loan Agreement, as approved, did not specify a specific interest rate reset methodology; however, the Bank and staff agreed to negotiate the terms needed to establish a mutually acceptable interest rate reset formula for a long-term borrowing solution during the extension period.

Under the terms of the new loan agreement being drafted, the Bank will offer interest rate reset options to consider prior to the expiration of the then existing reset modes described below. Depending on the current and projected direction of interest rates as the reset date approaches, Staff will manage interest rate risk with one of the following interest reset modes:

- 70% of the 3-month LIBOR plus 2.25%
- 70% of 6-month LIBOR plus 2.25%
- 70% of the 1-year LIBOR plus 2.25%
- 70% of 5-year LIBOR plus 2.25%.

The London Interbank Offered Rate (LIBOR) is similar to the US Federal Reserve's Federal Funds rate, which is the rate US Banks charge to loan money between each other. LIBOR is the rate international banks will charge each other to lend US dollar deposits they hold and it sets the base rate from which lending rates are determined for banks and other entities based on their credit worthiness.

WEDA has employed variable interest rate reset options traditionally based on 1-week reset modes but has recently fixed two larger WEDA debt issues, Mandalay Gardens and North Huron URA projects, due significantly to the favorable capital market rates offered. Staff believes it prudent to keep the South Sheridan debt variable with the Bank for the following reasons:

- Since the principal amount is \$7.420 million, exposure to increases in interest payments when interest rates rise in comparison to the other larger issues mentioned isn't as significant
- WEDA will not incur Cost of Issuance expenses typical in an underwritten debt issuance, which were projected to be \$105,000

- The flexibility to manage interest rate risk under the terms of the Loan Agreement provides Staff the ability to assess the financial market environment relative to interest rates through the duration of the agreement in 2028. If Staff believes that interest rates are more likely to rise versus fall when a reset date approaches, Staff may reset the term with a longer interest rate reset period and conversely, when rates are more likely to decrease, a shorter reset period may be selected.
- The proposed Loan Agreement with the Bank is structured in a similar fashion to the other WEDA loan agreements, which permit excess increment sales tax dollars to flow back to the City. Based on current market conditions where 3-month LIBOR is 0.437% and the 5-year LIBOR is 1.026%, the range of interest rates offered through the proposed agreement are 2.56-2.97%. At these levels, the City will receive sales tax increment revenues in 2013 estimated to be \$1.954 million and in 2014 \$2.139 million.

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.

Staff will present the formal financing documents for review and recommended approval on September 10, 2012.

Respectfully submitted,

J. Brent McFall  
Executive Director