



GOLDEN URBAN RENEWAL AUTHORITY

Memorandum

To: GURA Board of Commissioners
From: Mark Heller
Date: 08/04/05
RE: Refinancing and additional revenue

After the presentation by Alan Matlosz of GK Baum at the July 25, 2005 GURA meeting, I was directed to solicit additional bids from other investment firms to accomplish the refinancing of GURA's current debt and to generate additional revenue.

I have since contacted five firms, with a sixth being James Manire who we considered several months ago. The five are: Russell Heise (RBC Dain Rauscher); Gene Andrist (Andrist Capital Advisors); Russell Caldwell (Kirkpatrick Pettis); Alex Brown (UBS); and John Self (Wells Fargo). I forwarded to each of them copies of GURA's 2004 audited financial summaries, 2005 budget, payment schedules for GURA's current debt, and revenue projections. I asked them to consider the base case of a \$4.5 million bond issue at 4.5% over 9 years that would pay off GURA's debt and leave \$2.5 million to support new projects.

GK Baum and Wells Fargo would charge 1.25% of the total issue (or loan), and UBS would charge 1.15%. This is a fee range of between \$51,750 and \$56,250 without further negotiation. Two very important factors to consider in selecting the underwriter in this case is the very short time line that we need to work within, and the level of familiarity that Alan Matlosz already has with GURA and the NexCore deal. Manire and Andrist would charge .5% as a consultant, but this would be added to the fee charged by whichever underwriter GURA chooses.

Although GK Baum initially stated a debt service coverage of 2x, further discussions have resulted in this number coming down to as low as 1.25x. UBS would require 1.5x, and Wells Fargo would require only 1.25x. This variation could have significant impacts on the amount available to GURA, and merits further consideration.

After reviewing the information I faxed, Wells Fargo, Dain Rauscher, Andrist and RBC recommend that GURA first attempt to generate additional revenue through a bank loan or promissory note rather than through a sale of bonds. Russ Caldwell at Dain Rauscher has

forwarded the GURA packet of information to Conrad Freeman at Vectra Bank, but as of this date, I have not had an opportunity to speak with him. John Self from Wells Fargo Proposed a 4.5% interest rate and saw no reason why GURA could not borrow more than \$5,500,000 if its cash flow warranted such an increase.

There would be advantages and disadvantages to bonds versus loans, which I will have summarized by the meeting. Either strategy will take time to work out, so a decision is imperative.

Regardless of the strategy, we would have to analyze GURA's borrowing power. The attached spreadsheets show a variety of expense and revenue projections with and without the addition of \$5,525,000 through the sale of bonds. The spreadsheets also differentiate revenue from property and sales increment.

Since property tax revenue is a more reliable budgeting mechanism, it may be wise to use the property tax subtotal alone as the basis from which to gauge a bond sale or new loan. If that figure is insufficient, the less reliable sales tax revenue could be added.

The likely revenue from property tax through 2014 is about \$13.8 million. At the conservative debt service ratio of 2x, GURA could borrow about \$6.9 million. At 1.25x, GURA could borrow over \$10.3 million. Whichever underwriter is selected should review these projections and make recommendations as soon as possible. Alan Matlosz and I reviewed an earlier version of these spreadsheets on August 3, 2005, and he agrees that this improved analysis shows a much greater borrowing capacity than he had earlier calculated. The major differences being that I showed the TIF deals expiring per contract, and more accurately showed the revenue expected from the new and/or imminent development projects.

While we began this line of inquiry at our leisure at the beginning of this year, the arrival and very short time line of the NexCore Group requires this issue to be decided as quickly as possible. The timing is also important on a somewhat longer perspective since GURA is in an excellent position to take on more debt, but only has 9 years to retire: it is basically now or never.

The attached spreadsheet titled GURA Capital Improvement Options sets out very rough estimates on the types of projects GURA might fund with additional revenue. GURA would have three years from the bond issue to DECIDE on how to spend most of the bond revenue on such projects – such revenue would NOT actually have to be spent on such projects within the three years. Even if these estimates are high by 2/3, GURA could easily commit the entire bond issue within the required time. GURA would invest any bond/loan proceeds not immediately committed to projects to reduce interest expenses.

GURA could also approve a bond sale for a maximum amount, but issue in phases. This would create additional (but discounted) issuance costs, but would also reduce interest costs. Similarly, GURA could establish a type of line of credit loan to phase its borrowing on a loan.

Recommendation: Given the need to assure NexCore of GURA's support, GURA should agree to fund NexCore proposal's pursuant to negotiations as required. GURA should immediately:

- 1. Retain Gene Andrist to negotiate with Alan Matlosz and to compare Matlosz' solution to a potential bank loan. This should be accomplished by August 18, 2005.**
- 2. Depending on Andrist's recommendation, and based on the maximum amount supported by GURA's projected property increment, commit to either a bond issue or new bank loan so that funds are available to support the redevelopment of the Evans parcels and adjacent surface parking lots. Subsequent phases should be scheduled in a way to be determined that best facilitates the finalized capital improvement plan.**