

Contact: Aimee Clayton

IOWA STATE UNIVERSITY PROPERTY TRANSACTION

Action Requested: Consider the following actions:

1. Approve Iowa State University's request for permission to enter into a purchase agreement with Connoisseur Media LLC for the acquisition of the assets of two radio stations, KZHZ-FM and KZHC-FM (collectively, the stations), at a cost of \$1.75 million. The purchase agreement and related legal documents shall be subject to Board Office review and approval.
2. Delegate to the Executive Director of the Board of Regents and Iowa State University the authority to take actions necessary to accomplish closing.

(ROLL CALL VOTE)

Executive Summary: Iowa State University proposes the acquisition of the assets of two radio stations from Connoisseur Media, LLC. The assets consist of radio frequency transmitters, a radio tower, and antennas located in Patterson and Pleasantville, Iowa. A map showing the location of each station's tower and transmitter equipment is included in Attachment A. The proposed acquisition includes the assumption of three leases, as modified to meet the needs of the University. These stations will be managed by Iowa Public Radio (IPR) pursuant to the existing Public Service Operating Agreement.

Background: Iowa Public Radio (IPR) was incorporated on February 28, 2006, under Iowa Code Chapter 504, the Revised Iowa Nonprofit Corporation Act. The Articles of Incorporation provide that IPR is organized exclusively for charitable and educational purposes, and has the primary purpose of supporting and promoting the welfare and growth of the network of public radio stations licensed to the Board of Regents.

In 2007, the Board of Regents entered into a Public Service Operating Agreement with IPR. Under the terms of the Agreement, IPR will manage the radio groups, including supervision of personnel, programming, technical support and administration, subject to the oversight of the Licensee Representative of the Universities. The Agreement further provides that IPR will manage the receipt, deposit and expenditure of all funds and income received by it, and invest and administer all funds and income consistent with the purposes of IPR and the provisions of the Board of Regents Policy Manual Chapter 7.04.

The proposed purchase is key to achieving IPR's strategic goal of strengthening the impact, reach and performance of the organization in order to better serve Iowans. The Des Moines market is currently served by means of two FM translators with limited coverage and reliability, and a single AM translator that must be powered down in the evenings according to FCC regulations. The proposed acquisition will allow IPR to invest in a 24-hour classical service for the greater Des Moines market. The purchase will also allow for a format change on stronger FM signals, enabling IPR to fully deliver news, talk, and contemporary music to the Des Moines market. By strengthening coverage and reliability in Des Moines, IPR projects an increase in both membership revenue and corporate sponsorships through underwriting.

Valuation and Financing

The proposed purchase price of \$1,750,000 is consistent with public radio industry valuation models that include the following factors: coverage area, population within the coverage area, and recent comparable sales of like-type stations. These factors are evaluated to arrive at an average price per person served. Comparables for KZHZ-FM (formerly KZWU) and KZHC-FM (formerly KZWF) are included in Attachment B.

Iowa Public Radio's Board of Directors met on May 25, 2011, to review the purchase and financing plan. The IPR Board determined that IPR will be solely responsible for funding the transaction and hold all the financial risk. Iowa Public Radio proposes utilizing \$672,500 from cash reserves and \$500,000 from I-Jobs funding for the initial investment. The remaining \$577,500 is expected to be financed through Iowa State University's Wells Fargo line of credit over a period of ten years, at an anticipated rate of 4.25% per annum. The University and IPR will enter into a Memorandum of Understanding covering the terms of the financing and IPR's repayment obligations.

Assets Acquired

Under the proposed purchase agreement, the University will acquire the following assets:

- The rights to the Federal Communications Commission (FCC) authorizations issued in connection with the operation of the stations, and all federal, state and local government authorizations issued in connection with the operation of the stations.
- Radio frequency transmitters, antennas, and equipment associated with the operation of the stations.
- The radio tower for KZHZ-FM, located in Patterson, Iowa.

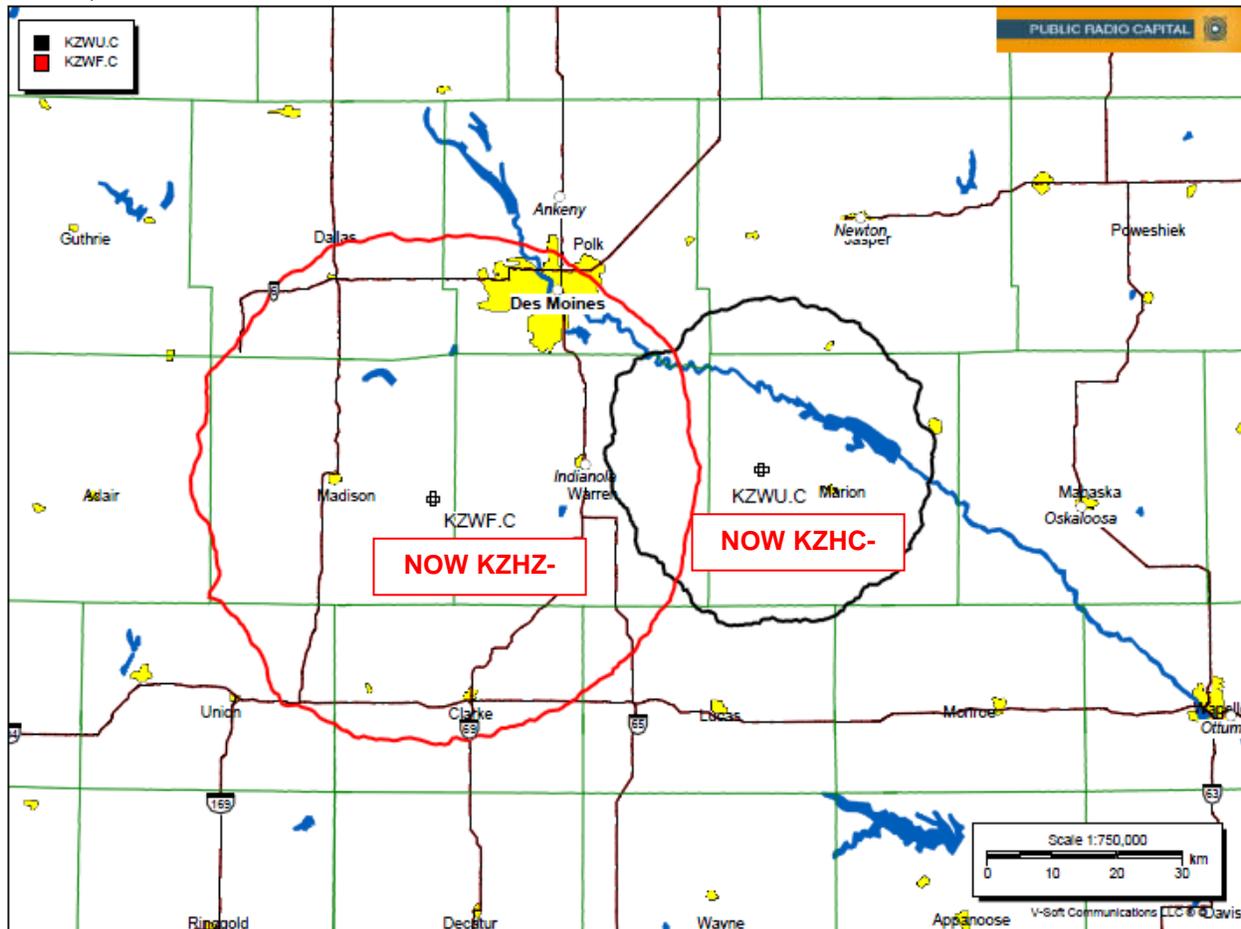
Leases

The University will also assume three preexisting leases as part of the transaction. IPR will be fully responsible for any financial obligations owed under the terms of each lease.

- Forget Properties, LLC – Office Lease. Lease with Forget Properties, LLC, for approximately 2,437 gross square feet of office space in Des Moines, Iowa. The current lease is for a five year term, commencing on January 1, 2011. The rental rate is \$9.21 per square foot in 2011 (\$22,444.77 per year); \$9.36 per square foot in 2012 (\$22,810.31 per year); \$9.51 per square foot in 2013 (\$23,175.87 per year); \$9.66 per square foot in year 2014 (\$23,541.42 per year); and \$9.81 per square foot in 2015 (\$23,906.97 per year). The lease includes an option to extend for two periods of five years each. The lease would provide space for IPR's underwriting sales department, marketing department and storage.
- Electronic Engineering, Inc. – Tower Lease. Lease for tower space in Pleasantville, Iowa, for a one year term renewable each year in October. Rent is assessed at \$360.00 per months or \$4,320.00 per year. The lease provides space for KZHC-FM's antenna. The tower allows for antenna to be installed approximately 200 feet above ground, with Tenant responsible for antenna maintenance.

- Donald S. and Judy L. Huntrods Revocable Trust – Ground Lease. Lease for a parcel of land near St. Charles, Madison County, Iowa, allowing for the operation of an FM radio broadcast tower facility and associated transmitter building. The lease, as amended, is for a term of ten years, commencing on June 25, 2009, with three five year options to renew. The rental rate is \$800.00 per month or \$9,600 per year. Tenant is responsible for tower maintenance. This lease provides ground space for KZHZ-FM's tower.

The contour of KZHZ-FM has been granted a constructed permit for a power increase and will operate at 15,000KW serving a population of over 329,000. KZHC-FM operates at 6,000KW serving a population of over 81,800.



Note: The Federal Communications Commission (FCC) recently approved the name change of KZWF to KZHZ and KZHU to KZHC.

| Single Station Commercial FM Sales in Comparable Markets | | | | | | | | | |
|---|--------------|-----------|-----------|-------|------------------|-------------------|---------------------------------------|------------------|--|
| Primary Market | Call Letters | Frequency | Power (W) | Class | Acquisition Date | Acquisition Price | Coverage Area Population ¹ | Price per Person | |
| Des Moines | KZJU CP | 96.3 | 6,000 | A | NOW KZHC-FM | | 81,838 | | |
| Des Moines | KZWF CP | 105.9 | 15,000 | C3 | NOW KZHZ-FM | | 329,411 | | |
| Boise, ID | KPHD | 97.5 | 85,000 | C | Feb-11 | \$125,000 | 40,264 | \$3.10 | |
| Rochester, NY | WFLK | 101.7 | 5,400 | A | Jan-11 | \$450,000 | 142,944 | \$3.15 | |
| Jacksonville, FL | WSJF | 105.5 | 16,000 | C3 | Oct-10 | \$500,000 | 194,608 | \$2.57 | |
| Oklahoma City, OK | KINB | 105.3 | 930 | A | Sep-10 | \$2,000,000 | 325,674 | \$6.14 | |
| Victor Valley, CA | KRSX | 105.3 | 400 | B1 | Jun-10 | \$100,000 | 60,355 | \$1.66 | |
| Las Vegas, NV | KHIJ | 96.7 | 93,000 | C | Jun-10 | \$2,000,000 | 156,812 | \$12.75 | |
| Colorado Springs, CO | KKHN | 104.7 | 400 | A | Mar-10 | \$45,000 | 16,231 | \$2.77 | |
| Knoxville, TN | WIHG | 105.7 | 2,400 | C3 | Oct-09 | \$630,000 | 123,457 | \$5.10 | |
| Saginaw-Bay City-Midland, MI | WPRJ | 101.7 | 4,600 | A | Jul-09 | \$100,000 | 156,564 | \$0.64 | |
| Tulsa, OK | KOSG | 103.9 | 6,000 | A | Jun-09 | \$300,000 | 33,176 | \$9.04 | |
| Burlington-Plattsburgh, VT-NY | WVTK | 92.1 | 18,000 | C3 | Apr-09 | \$550,000 | 77,432 | \$7.10 | |
| Jacksonville, FL | WHJX | 105.7 | 25,000 | C3 | Apr-09 | \$1,600,000 | 439,140 | \$3.64 | |
| Charleston, SC | WPAL | 100.9 | 5,700 | C3 | Mar-09 | \$1,650,000 | 265,170 | \$6.22 | |
| Des Moines, IA | KEDB | 105.3 | 34,000 | C2 | Jan-09 | \$349,000 | 79,220 | \$4.41 | |
| Daytona Beach, FL | WBHQ | 92.7 | 5,500 | A | Oct-08 | \$350,000 | 89,974 | \$3.89 | |
| Huntsville, AL | WZZN | 97.7 | 950 | A | Apr-08 | \$1,100,000 | 327,087 | \$3.36 | |
| Saginaw-Bay City-Midland, MI | WLUN | 100.9 | 2,600 | A | Mar-08 | \$325,000 | 132,798 | \$2.45 | |
| Johnson City-Kingsport-Bristol, TN-VA | WOLD | 102.5 | 440 | A | Jan-08 | \$500,000 | 35,248 | \$14.19 | |
| Wichita, KS | KWLS | 107.9 | 50,000 | C2 | Oct-07 | \$600,000 | 174,472 | \$3.44 | |
| Greenville-New Bern-Jacksonville, NC | WLGT | 98.3 | 1,350 | A | Jun-07 | \$500,000 | 45,955 | \$10.88 | |
| Nashville, TN | WVRY | 105.1 | 50,000 | C2 | Mar-07 | \$900,000 | 146,499 | \$6.14 | |
| Sources of Data: BIA Financial Network, Media Access Pro. 2010 | | | | | | | Average Population | 145,861 | |

| Estimated value based on: | KZWU CP NOW KZHC-FM | KZWF CP NOW KZHZ-FM |
|--|--------------------------------|--------------------------------|
| Average Price per Person - All Stations | \$ 439,015.26 | \$ 1,767,106.43 |
| Average Price per Person - All Stations (Excluding Highest & Lowest Values) | \$ 421,376.88 | \$ 1,696,109.12 |
| Average Price per Person - 2007 & 2008 Sales (Excluding Highest & Lowest Values) | \$ 453,637.45 | \$ 1,825,963.06 |
| Average Price per Person - 2009 - Feb. 2011 Sales (Excluding Highest & Lowest Values) | \$ 374,493.08 | \$ 1,507,394.37 |

Fair Market Value of KZHC-FM and KZHZ-FM \$ 1,881,887.45