

MEMORANDUM

To Banking Committee

From: Board Office

Subject: Extension of Master Lease Agreement and Approval of Master Lease Financing for Jack Trice Stadium – Deferred Maintenance Project (ISU)

Date: December 4, 2003

Recommended Actions:

Recommend that the Board:

1. Seek to extend the master lease agreement with Wells Fargo for the three-year extension period provided under the current agreement.
 2. Authorize Iowa State University to utilize master lease financing in the amount of \$850,000 to provide deferred maintenance improvements to four concession/toilet buildings at Jack Trice Stadium.
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Executive Summary:

Extension of Master Lease Agreement The Board has established a master lease agreement to provide short-term financing (3 to 10 years) for real and personal property.

The master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of Request for Proposal processes held in 1991, 1996, and 2001.

The Board approves each financing utilizing the master lease agreement and Wells Fargo must agree to lease the property.

The current master lease agreement became effective on January 1, 2002, for an initial two year period with a provision to renew for one additional, three-year period upon mutual consent of both parties.

The Board Office, the Regent institutions, the Board's financial advisor, Springsted Inc., and the Board's bond counsel, Ahlers Law Firm, recommend extension of the agreement with Wells Fargo for the additional term; Wells Fargo has agreed to the extension.

The agreement provides very favorable interest rates and Wells Fargo personnel have been flexible in meeting the needs of the Regent institutions.

Master Lease
Financing for ISU

Iowa State University requests approval to utilize \$850,000 in master lease financing to provide deferred maintenance improvements to the northeast, southeast, and two southwest concession/toilet buildings at Jack Trice Stadium.

The University proposes to finance the project over a ten-year period, with the final interest rate set per the master lease agreement at the time the borrowing commitment is executed.

- The estimated interest rate is approximately 4.30 percent, which would result in semi-annual payments of approximately \$52,467.

Funding

Beginning in 2003, a \$15 stadium facilities fee was added to the football season ticket prices. Revenue from the facilities fee would provide the funding for the semi-annual lease payments. If the concession stand portion of the project does not qualify for tax exempt financing, funding would be paid from existing athletic revenues.

In April 2003, the Board approved master lease financing for the Jack Trice Stadium – Exterior Stair Replacement project, which requires master lease payments totaling \$70,632 per year for a term of five years. These payments are also made from the stadium facilities fee revenue.

If \$850,000 of the \$950,000 project cost for the deferred maintenance improvements is financed from the master lease, the annual master lease payments for both Jack Trice Stadium improvement projects would total approximately \$175,500.

The University reports that the budgeted FY 2005 facilities fee revenue is \$230,000.

Background and Analysis:

History

The Board has utilized the master lease concept since July 1985 to provide short-term financing (3 to 10 years) for real and personal property.

The Board's first utilization of the master lease concept was through an agreement between Iowa State University and Dougherty Dawkins, which ran through June 1988.

The use of master lease financing was made available to all Regent institutions in June 1988.

As a result of the Request for Proposal process, the Board entered into a master lease agreement with BancNew England Leasing Group (later acquired by Bank of Tokyo) from June 1988 through June 1991.

Since November 1991, the master lease program has operated through Wells Fargo (previously known as Norwest Investment Services) as a result of RFP processes held in 1991, 1996, and 2001.

Current Agreement The current master lease agreement, which provides that principal of up to \$20 million may be outstanding at any one time for leased property, became effective January 1, 2002; the agreement is for an initial two-year period with a provision to renew for one additional, three-year period upon mutual consent.

The Board approves each financing utilizing the Master Lease Agreement and Wells Fargo must agree to lease the property.

The Regents hold title to the leased real and personal property while Wells Fargo holds a first lien security interest; the extent of Wells Fargo's security interest is reduced as the principal is paid.

Advantages The lease financing option offers certain advantages for financing necessary and essential property.

- Leases do not have the high origination costs of small bond issues that result from establishment of bond reserve funds, underwriter discounts, and issuance expenses.
- The negotiation of lease financing terms and amortization schedules allows lease payments to be better matched with available cash flows.

Interest Rate The interest rate formula under the Wells Fargo current agreement sets the rate at .82% over the "A" rated tax-exempt municipal bond yield for a ten-year lease, rising to a spread of 1.74% for a four-year lease; the spread is reviewed annually and may be adjusted downward to reflect market conditions.

Leases under 2002 Agreement Leases approved under the 2002 Agreement include:

- Purchase of property at 2421 James Street, Coralville, IA for the University of Iowa (\$700,000).
- Scoreboard and video display system at Jack Trice Stadium at Iowa State University (\$1,000,000); and
- Stair replacement at Jack Trice Stadium at Iowa State University (\$325,000).

The Board Office, the Regent institutions, Springsted Inc., and Ahlers Law Firm recommend extending the agreement with Wells Fargo for the additional three-year period.

Master Lease
Financing for ISU

Iowa State University requests the utilization of master lease financing in the amount of \$850,000 to provide deferred maintenance improvements to four concession/toilet buildings at Jack Trice Stadium.

Buildings

There are a total of nine concession/toilet buildings located along the perimeter of the Stadium concourse. Improvements to five of the buildings were completed as part of earlier deferred maintenance projects.

The University reports that the four remaining structures are antiquated, deteriorated, and in need of repair.

Project Description

The project, which was approved by the Board in March 2003 with a total budget of \$950,000, would correct deferred maintenance at the northeast and southeast facilities, as well as two southwest facilities (a total of approximately 11,400 gross square feet).

Proposed Work

The work for each building would include renovation of the heating, ventilating, air conditioning and plumbing systems, replacement of the roofs, and repair of the exterior fascia.

Financing

Beginning in 2003, a \$15 stadium facilities fee was added to the football season ticket prices. Revenue from the facilities fee would provide the funding for the semi-annual lease payments.

Payments

Based upon a financing period of ten years and current interest rates, the semi-annual master lease payments would be approximately \$52,467, if the sum of \$850,000 is borrowed.

If the Board approves the use of master lease financing for the project, notification to the Legislative Services Agency will be made. The information provided to the Services Agency is provided to the Legislative Fiscal Committee at its next scheduled meeting.
