

MEMORANDUM

To Banking Committee

From: Board Office

Subject: Approval of Master Lease Financing for WOI Radio Station (ISU)

Date: February 9, 2004

Recommended Action:

Subject to Board approval of the purchase of radio station KIIC-FM, recommend that the Board authorize Iowa State University to utilize master lease financing in an amount not to exceed \$270,000.

Executive Summary:

Summary of
Acquisition

Details of the proposed acquisition of KIIC-FM are outlined in G.D. 5b.

Iowa State University requests Board approval to purchase the radio station, to submit a letter of intent and an asset purchase agreement to the seller, and to submit the necessary paperwork to Federal Communications Commission (FCC) regarding the license transfer.

Also requested for Board approval is authorization for Iowa State University to begin discussions with Public Radio Capital, whose mission is to broaden the reach of public radio and who acts as an intermediary in buying stations on behalf of public radio, for the purchase of the physical plant, and for a lease arrangement that enables WOI to operate the station.

Request for
Master Lease

Subject to Board approval of the purchase as outlined in G.D. 5b, the Banking Committee is requested to authorize utilization of master lease financing in an amount not to exceed \$270,000 to assist in financing the acquisition of the license until grants and community support are obtained.

The University proposes to finance the project for no more than a five-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 3.46 percent for a five-year term, which would result in semi-annual payments of approximately \$29,800.
- Funding for the semi-annual payments would be from the WOI Radio Group at Iowa State University which has sufficient assets to cover the cost of the lease payments if the grants and gifts financing does not materialize.

Background:

Master Lease Agreement

In November 2001, the Board approved entering into a new master lease agreement (Agreement) with Wells Fargo Brokerage Services, LLC (Wells Fargo) to provide short-term financing (3 to 10 years) for real and personal property. The agreement was effective through January 1, 2004.

The option for an additional three-year period effective through January 1, 2007, based on the mutual consent of both parties, was approved by the Board and Wells Fargo in December 2003.

Property up to an outstanding principal amount of \$20 million can be financed under the Agreement; to date, borrowing commitments of \$2.9 million of the \$20 million have been made.

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

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

Analysis:

Purchase

An opportunity exists for the WOI Radio Group at Iowa State University to acquire KIIC-FM, (Osceola), including its license and assets. The station is currently in receivership.

An appraisal of the station has been made and any offer would not exceed the appraised value.

There is some urgency in completing a Letter of Intent and negotiating with the bankruptcy representatives to acquire the station.

Acquisition of the station would appear to be the most cost effective way to provide public radio coverage in south central Iowa, which is currently considered "unserved" by the public radio industry.

Subject to Board approval of the purchase of the license and assets of radio station KIIC-FM in Osceola, Iowa, Iowa State University requests Board approval to utilize not more than \$270,000 in master lease financing for the purchase of the license, for a period not to exceed five years.

Master lease financing would be used to provide interim financing until grants and community support are received.

- WOI has a lead gift commitment of \$50,000 from the Vredenburg Foundation of Chariton for the purchase of the station. Additional fundraising would be undertaken.
 - If grants and additional community support are not received, WOI Radio Group has sufficient assets to cover the cost of the lease payments.
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