Item 25-0057: Update on bonds for the Fox Cities Exhibition Center by Baird

Appleton Redevelopment Authority

Wed, Feb 12, 2025 9:00AM

Jim Van Dyke (ARA Member) 02:28
Okay, we'll be moving on then to informational items. Item 25-0057, update on bonds for the Fox Cities exhibition center by Baird.

Director Kara Homan (Community And Economic Development) 02:40
Okay, so I'll kind of kick him off, and then—could you make sure his microphone's on? We have Brad from Baird here. We actually have this item on here. We'll be doing the same thing at March's Exhibition Center Advisory Committee meeting, but Chair Downs had requested an update on the bonding. For those of you that might be new-ish to the Redevelopment Authority, the way that the exhibition center is structured is the Redevelopment Authority is the conduit for issuing the bonds. The bonds are paid by room tax, and then the actual facility is owned by the City of Appleton, and then the City of Appleton contracts with the operators of the Hilton to manage the exhibition center. So, because ARA is the issuer of the bonds, we thought it was a good time to give you a formal update on how the bond repayment schedule is going. Updates have been made on the bonds routinely to the Room Tax Commission, which is administered by the CVB. So, we have Brad from Baird. I'll turn it over to him.

Brad Viegut (Baird) 03:49
Great. Thank you. I'll walk through a brief presentation, answer any questions. So, Baird's role in this transaction originally was to serve as underwriter for these bonds, and I was the investment banker assigned to the transaction. So, I developed the structure that we're going to talk about a little bit here. This is the structure that the investors looked to in deciding what a reasonable rate of return was in terms of interest rates.

Brad Viegut (Baird) 04:11
So back in 2018 the Redevelopment Authority issued $31.86 million—er .865 million of bonds to fund the Expo Center. The bonds were secured by a pledge of room tax from the 10 communities—regional room tax—at 3%. So, 3% of the annual room tax is held by a trustee, and that room tax is available to pay debt service, principal, and interest on the bonds. At the time this was created—the structure was created—we projected forward looking what room tax revenues might look like with a 3% growth rate. So, this really goes back to 2017. We took then the annual room tax from year end of 2016, added a 3% inflator, and used that for our modeling. We were trying to be conservative because we didn't want to make debt payments higher than what anticipated room tax would be, because that just puts the city at risk.

Brad Viegut (Baird) 05:08
So secondly, there's what's called the Debt Service Reserve Fund, and that that fund is set aside, held by trustee, that if there's a shortfall and the RDA is unable to make payments with room tax revenues that debt service reserve could be tapped into before any other source of funds had to be used. And that reserve fund is just over $2.4 million.

Brad Viegut (Baird) 05:29
So then additionally, we put on one more method of support, really, to protect the RDA and the city, and that is there's a stabilization fund of $900,000, and that fund was funded with borrowed proceeds. It's also held by a trustee. That $900,000 was approximately 50% of the annual room tax revenue from 2017, so that's that we

came up with that number. The intent here was that if room taxes would drop, we were trying to protect the city from ever having to tap into any other source of funds outside of the bond proceeds to make payments. So, the structure that was developed then said room tax will be collected, one year of the subsequent year of debt service payments will be set aside. So, for this year, for example, we're funding the 2025—or now we're funding 2026 debt service payments with room tax revenues. Anything that's above once we have 100% funding of the 26 payments will that—those will then water flow, waterfall, or flow into a fund where we can use those proceeds to call the bonds. So those funds are set aside. This is what's called a turbo call effectively. We take the latest maturity, any surplus funds once subsequent year's debt service is covered, we can call those that latest maturity.

Brad Viegut (Baird) 06:56
So, we've been doing that for a number of years now, and I'll give you an update on where we are, but what I would, before we get into that formal update, you know, shortly after these bonds are issued, about a year and a half, get into COVID, right? We saw significant disruption to room tax because people weren't staying in hotel rooms largely. Even with that drop, that downfall in room tax, we never had to touch the stabilization fund, or the debt service reserve fund. That really had to do with the conservative modeling we put together. So, when we when we were projecting room tax revenues (again, we only used a 3% inflator), but we also made sure that the room tax that was projected was 125% above the annual required debt service payments. So, we had another buffer built in there. So even with COVID, never had to touch the stabilization fund, and in fact, we've been pre paying—the city's been pre paying—this debt since, since the debt was issued.

Brad Viegut (Baird) 07:53
So, the first page of my presentation—this page, this is just a summary of where you are today. These were taxable. These revenue bonds issued back in 2018, through April 1 of this year (so we're looking ahead a little bit), but these are known numbers. Because of tax that has been collected through February, we know where these numbers land. We're going to see mandatory redemption in total of $3,865,000. So that's since the first—since the issuance date, you've prepaid principal of $3,685,000. This includes $915,000 that's going to be prepaid on April 1 of this year. So, the gross debt service savings is $8,310,850. That's how much debt service city, or the RDA, is saving because of the structure of the bonds that we developed.

Brad Viegut (Baird) 08:47
On the flip page, I get little bit more detail. The left-hand side of this page is the debt service schedule when these bonds were initially issued. So, you can see the annual principal payments, which started in 2020. When you get to 2027 and through 2051 those principal payments are highlighted in yellow. All of those are callable. They're eligible to be prepaid at your option. So, there's no mandatory requirement to prepay those, but if we get an environment where interest rates are better than they are today, then you could issue new bonds to replace those. Or if there's surplus cash from some other source, other than room tax, that for whatever reason you'd want to apply, you could apply cash to prepay.

Brad Viegut (Baird) 09:32
But when you look at these rates (and this a taxable issue, so it's higher interest rates than the city would typically pay on a tax-exempt issuance), and they range from 2.8% to 4.28%. Very low interest rates, especially by in today's environment. You know, today, these rates would probably be closer, boy, probably to 6.5 - 7% for this type of an obligation.

Brad Viegut (Baird) 09:56
So, comparing the total debt service from the original schedule that 63.5 to the total debt service after these mandatory redemptions, you're at 55.2. The difference is shown on the right-hand side of the page, and that's where that gross savings numbers coming from, the $8.3 million.

Brad Viegut (Baird) 09:56
And you can see the total interest payments. Then they're paid semiannually. So, at the time of issuance, it was projected, or the scheduled payments, $31.7 million. If you move to the center part of the page, this is a reflection of the debt service schedule as it stands today, or as of April 1 of '25 taking into consideration these pre payments. So, if you look at the very bottom of the page where we prepay, it's from the latest year out and then working the way up, because that's the most expensive debt, starting at the end and paying off from there. So, you can see the 2051 scheduled payment of $1,480,000 has been fully retired, and a portion of the $2,545,000 has been retired. There's only 160,000 left for the 2050 payment.

Brad Viegut (Baird) 11:12
So overall, these bonds are doing everything we—it's—this is behaving how we hoped, right? We're not—the city hasn't—even with the with COVID interrupting room tax collections, the city has not been put in a position where it had to come up with any funds outside of the bond issue. In fact, we didn't even have to touch funds as part of the bond issue to cover debt service payments. We're expected, of course, to continue pre paying debt as surplus revenues are generated. I'll be providing another update in March, which would be really the same report, but when I meet with the room tax commission—that's each September—I'll have another update then where I'll have, be able to include the October prepayments.

Brad Viegut (Baird) 11:48
One last thing, the $2.5 million of the debt service reserve, and that $900,000 so total roughly about $3.4 million. Once we get to the final payment date, or once there's enough room tax to cover payments, that $3.4 will be applied to this repayment also. So right now, you're earning interest on those funds as they're set aside. When we get to the end of the amortization schedule, that full 3.4 can be paid off against the bonds. So, we're clearly on track to retire these bonds much earlier than the original amortization schedule indicated. So, I can go into more detail, if you like, or answer any questions.

Richard Carpenter (ARA Member) 12:28
I have a question. Is the—I'm assuming the room tax is going to bump immensely during the NFL draft from the revenue is, is that a correct assumption?

Brad Viegut (Baird) 12:37
I would think so. I mean, I think you'd have full—

Richard Carpenter (ARA Member) 12:39
So—

Brad Viegut (Baird) 12:40
—capacity really.

Richard Carpenter (ARA Member) 12:41
—that should give us a big bump in the revenue from the room tax.

Brad Viegut (Baird) 12:45
Yeah, I haven't done any analysis to gauge what kind of dollars we're looking at, but I would, I think it's fair to say you're going to see an increase in room tax from the draft, you know, during that week or so.

Richard Carpenter (ARA Member) 12:56
Is that potentially money that you would put down on the bottom-line start paying up on that?

Brad Viegut (Baird) 13:00
Yep, yep, anything—as soon as we've got—we've already got the 2025 debt service covered. We're—we've got the 2026 debt service covered. So, we're—so if room tax goes away tomorrow, we know that you can cover all of '26 payments. So, any surplus dollars that come in are going to be used to prepay this debt. So, if you get an extra, you know, $100,000 for example, that $100,000 would be used to prepay debt.

Richard Carpenter (ARA Member) 13:29
I heard that the rates are five to 10 times higher than they are normally for the draft. So that should be a pretty welcome, anticipated blitz, right?

Brad Viegut (Baird) 13:41
Absolutely, yeah, it's going to certainly help this. It's going to help everything that's funded with room tax. Because remember, only 3% of room tax is allocated to this bond issue.

Richard Carpenter (ARA Member) 13:50
Right.

Brad Viegut (Baird) 13:50
That other 7% has other allocations.

Richard Carpenter (ARA Member) 13:56
Thank you.

Jim Van Dyke (ARA Member) 13:58
Any questions?

Anne Higgins (ARA Member) 14:03
I just want to say that's wonderful. The COVID thing is really impressive. Thank you.

Brad Viegut (Baird) 14:10
You bet.

Jim Van Dyke (ARA Member) 14:19
All right, thank you. Thank you. Thank you very much.