

**Board of Directors Business Meeting**

**Tuesday, February 9, 2021, 7:00 a.m.**

**Location: Idaho Falls Auditorium District Office/Zoom Videoconference**

<https://zoom.us/j/8694715148>

**467 Constitution Way, Idaho Falls, Idaho 83402**

**Attendees: Terri Gazdik, Bob Nitschke, Steve Vucovich, Mike Carpenter, Rob Spear, Mark Fuller, Mike Clements, Blake Davis, Kevin DeKold, Laura Lewis, Tracy Scott, Russ Stenquist, Chris Nations, Rob Hunden**

**Agenda**

1. **Action Item** - Call to Order 7:03a
2. **Action Item** - Accept the Agenda. Vucovich moved to accept the agenda. Carpenter seconded. Motion passed.
3. **Action Item** - Accept the Consent Agenda
	1. Meeting Minutes 1-26-21 – Nitschke stated that he wanted some grammatical changes made that would not affect the content of the meeting minutes.
	2. Review of the Payables/Financials – Gazdik stated that December revenues were at 85% of 2019 levels which is very encouraging. Spear briefly reviewed the financials and pointed out that the District has a healthy financial position. Nitschke asked what percentage of the revenues are associated with market-place facilitators. Spear responded that market-place facilitators account for about 10% of the revenues. Vucovich moved to accept the consent agenda. Nitschke seconded. Motion passed.
4. **Discussion Item** –Public Comment (Any member of the public is welcome to take three minutes and share concerns or questions with the Board). Spear indicated that Russ Stenquist and Tracy Scott were both present and have expressed interest in joining the Board. Unfortunately, both reside outside the District and are not eligible to serve. Spear asked Fuller if Board eligibility is defined by statute or if that was something that was adopted by the District. Fuller said he believes it is part of Idaho State Statute but would verify. (After verification, Board Members must reside in District).
5. **Action Item** – Approve process for accepting Donations/Gifts and approve IFAD assets to be included in current and future proposals. Fuller described the change in 2f of the policy which incorporated some community standard language, “IFAD shall not accept any donation which may in the Board's sole discretion conflict with the contemporary community values standard identified in the Centennial Management Agreement, Para. 4.14, or otherwise conflict with the terms of any contractual agreement previously approved by the Board. The Board shall carefully evaluate acceptance of any donations which could restrict the Board's ability to receive other donations.” Fuller explained this gives the Board the ability to decline donations.

Nitschke expressed concern with section 2d that “Donations can be accepted without IFAD Board approval when the donor/sponsor does not receive use of IFAD assets.” Nitschke claims this is inconsistent and that this could preclude the Board from getting to section 2f. Nitschke doesn’t like the way it is written because it doesn’t require Board approval. Nitschke would like it to state that donations can be accepted by the Executive Director but must be approved by the Board. Gazdik suggested adding to 2d the statement, “subject to the provisions in paragraph 2f.” Fuller said the policy requires the formation of a Donation Acceptance Committee and this would allow the committee to accept and approve donations without having full Board approval. Fuller said he did not think full board approval was necessary for all donations. Nitschke was still concerned that 2c only applied to donations that were of a sensitive nature and if the Executive Director viewed that none of the donations were of a sensitive nature, the Gift Committee would never participate. Spear said he is happy to incorporate changes to the policy and that his goal is to have the Board involved in approving donations, but to also give the Executive Director some flexibility in adjusting proposals when closing the gift or donation. Spear suggested adding to 2d that the donations could be accepted by the Donation Acceptance Committee when there is no obligation of assets.

Nitschke went on to express concern that other assets are not clearly defined and asked, as an example, if the tilt up panels could be named. Spear said in that example, the naming of the tilt panels would be brought to the Donation Acceptance Committee for approval. However, Spear said he would also inform the full Board of any potential donation and request that Board members respond if there are any concerns. Spear said anything structural in the facility is an IFAD asset.

Nitschke said overall 2a was also not very clear because 2a only lists Exhibit K as the assets available. That is why this is getting more confusing than I think it needs to be. Spear thought 2a was fine because that is what the Board approved, any asset falling outside of that would be brought to the Donation Acceptance Committee. It the Committee felt it was necessary for more input, the issue would be referred to the full Board. Nitschke said the Gift Acceptance Committee is a new thing and the process has not been flushed out. Nitschke said he agrees the entire Board does not have to approve everything but thinks more approval is needed than just the current Executive Director and because there will be other Executive Directors.

Gazdik asked if we can agree to make an adjustment to paragraph 2d that it is subject to 2e. Carpenter made a motion to accept the policy under the conditions that Gazdik’s suggested changes become part of the policy. Nitschke seconded for discussion. Nitschke said he is still confused on assets. There are some assets that are listed and subject to approval by the IFAD Board and other assets that are not. Spear said the issue is addressed in 2b because it states the Executive Director will send drafts of most recent proposals. Spear said in those drafts, those “other assets” are identified and available for Board member review.

Gazdik restated the motion made by Carpenter that the policy be accepted with the changes to 2d stating that the section is subject to 2e. Vucovich seconded. Motion passed with Gazdik, Carpenter and Vucovich voting in the affirmative and Nitschke abstaining.

1. **Action Item** – Review and approve audit engagement letter from Rudd and Company. Gazdik presented the topic and stated the proposed fee was $7250 and asked Spear what the cost was in 2019. Spear said last year the cost was $7000. Gazdik said the new cost is a 3% increase which is reasonable. Carpenter made the motion to accept the proposal. Vucovich seconded. Motion passed.

1. **Action Item** – Approve Hunden Strategic Partners new scope of work for hotel market analysis. Spear briefed the Board and said that updating the Hunden study was a recommendation made by one of the companies working with Raymond James. The last Hunden study was completed in 2017. Spear indicated the need to have updated hotel market analysis. The time requested to complete this study is three weeks. Carpenter asked if there were other companies that could perform this work or is it necessary to use Hunden. Spear asked Laura Lewis if there were other alternatives since she was in contact with others who could perform this service. Lewis said while it is reasonable to look elsewhere, the time constraints may prohibit that. Carpenter expressed that the old study should not be just “dusted off” and needs to reflect the COVID impact and address the mass migration into this area. Spear asked if three weeks was soon enough. Lewis thought that three weeks was doable. Chris Nations said in his opinion the study is needed and the proposed fee will be money well spent. Lewis said the most important piece is what is going to happen over the next ten years. Lewis referenced a recently completed appraisal in Wasatch County which stated it will take two years for hotel revenues to return to normal, however Wasatch County is not the Idaho Falls area. Lewis also said that is why the Orix deal has the first ten years as interest only. If things rebound sooner that will only be a good thing. Spear said he compared the projections from the last Hunden study to the actuals in 2019 and said the projections were quite accurate. Spear reminded the Board that the actual totals for 2019 did not include the market-place facilitator revenue.

Lewis proceeded to give some additional information contained in the Wasatch appraisal summary. Lewis said travel trends are improving and are estimated to improve at a faster pace over the next 2 quarters. The general consensus is the travel industry should see considerable growth during the second half of 2021. Nitschke responded and said the Wall Street Journal recently put out a story that the virus would be with us for many, many years because of the variants and the number of people that will get the vaccine. Nitschke said he would like to know how Hunden would address current market conditions, including the impact of COVID and the influx of people coming to the area.

Gazdik suggested contacting Rob Hunden. Spear contacted Hunden and Hunden joined the conversation by telephone. Spear asked Hunden if the statement in the proposal “updated hotel data and projections to reflect the current market conditions” would include the COVID impact. Hunden said they are going to do the same study as before but will reference the current COVID situation and include projections for a rebound. Hunden anticipated a full rebound in 2022 or 2023. Hunden said the study will look at historical information and what the trends are. Hunden said he thinks this area has done better than most. Hunden said they will make projections moving forward on how this area will recover. Hunden said they will not just look at 2020 and do a rinse and repeat and then say you are doomed. Hunden said they are excited for the future of this area and that 2020 was just an ugly blip in an overall good story. Nitschke asked Hunden how they will address the impact of the new virus strains, herd immunity and vaccines. Hunden said in the prior study they had a base case, an average case, and an optimistic case and that they will do the same thing this time. Nitschke said he likes that rather than one deterministic point but wanted to know if the positives and negatives of the rebound will be addressed. Hunden said they would.

Nitschke made to motion to accept the proposal from Hunden. Vucovich seconded. Motion passed unanimously. Hunden left the meeting.

1. **Action Item** – Review financing scenarios from Lewis, Young, Robertson & Burningham and the potential adoption of a financing plan. Spear provided an introduction and explained that he individually met with each Board member to brief them on the financing plan and the specific components included in the plan; future revenue projections, growth rates, market place facilitator revenues, identifying more short-term rentals, projected interest only payments for a ten-year period of time, the ability to refinance, and the benefits constructing the facility in order to remove the impact of construction risk from refinancing. Spear also referenced the coverage sheet that detailed the debt service payments once refinancing occurs.

Lewis then provided a recap for the Board. Lewis said the thing that is in our favor is that the bond market is hot right now for entities wishing to issue bonds. It is not great for investors but there is a lot of money on the sidelines waiting to find better yields that are tax exempt transactions. There are several reasons for this including the change 3-4 years ago that abolished the concept of advanced refunding of tax-exempt securities. Before the change, an entity could do one refinance before the call date. Now you can only do a refinance after a call date. Because advanced refunding was taken away and interest rates are so low, many of these transactions are becoming taxable. Tax exempt investors are starving for paper.

Lewis said Raymond James was careful to reach out to only a select few investors and ones that could take on the entire deal on their own. By reaching out to only a few investors, this protected the project from future disinterest. In case we needed to wait a year to pursue financing, Raymond James didn’t want companies to have a tainted view of the project or the transaction.

Lewis said they approached five companies, two declined and three agreed to further conversations. The three companies that were interested were: Preston Hollow, Nuveen and Orix. Preston Hollow offered a standard 30-year amortization with an interest rate that was just too high. The financing structure recommended by Nuveen was for 30 years at 5.5% but the Certificates of Participation (COPS) could not be recalled until after 10 years. Lewis said the call date was an issue with her, especially since you can’t do any refinancing until after the call date. Lewis expects the District to have a much better story within the next 3-4 years. Lewis said she would much rather take on the interest rate risk over the next 3-4 years than after ten years. Orix provided the most flexible plan and call dates that could happen after 2 years and beyond. While there will probably need to be a premium paid if the Certificates of Participation (COPS) were called after years 2 and 3, after that point, the COPS could be called at par. Orix may want to purchase the COPS at a discount which could drive up the interest rate. Lewis hopes that she and Raymond James can go back to Orix and negotiate a fixed rate at 5.75% or lower because there is a demand for non-rated paper. Lewis explained the Orix proposal is for 30 years with interest only for the first ten years. It requires IFAD to capitalize one year of interest which means we will need to set aside one year of interest from the proceeds of the COPs. This payment will be held by a trustee and will be used to make the first payment. This means the District will not make a payment for the first year and only a half payment in the second year. This helps the District and helps reduce the risk for Orix. Orix also eliminated the need to fund a debt service reserve fund. The elimination of the reserve fund offsets the need to capitalize the first year of interest.

Lewis said if the District can get to a call period, at par, after four years, the building will be built and that will eliminate any construction risk if the COPs are going to be refinanced. This could result in the District getting an investment grade rating in the ‘A’ rated category. Lewis said she verified with Bond Counsel that a refinancing can occur that extends for another 30 years from the time of the refinancing. Gazdik asked if there was a limit on the number of times refinancing could occur. Lewis said there was no restriction and was really based on how economical it would be to do a refinance. Lewis said it is her expectation that a refinancing after four years would result in a more traditional, tax exempt, rated, public offering, that would come with a 10-year call date. Doing any refinancing prior to 10 years would result in the transaction being at taxable rates.

Lewis said they developed a coverage sheet of what the financing scenario would like moving forward, after four years. They did the analysis projecting that interest rates could rise and used a 1.37% rate yield increase with a 1.51 debt service coverage. If we reduced the debt service coverage ratio to 1.25 the model could absorb a 2.80% interest rate increase. If the new transaction required a reserve fund, the model might only absorb a .90% interest rate yield increase. Lewis said it would be nice to set cash aside to cover this potential reserve fund over the next four years.

Lewis said she has been involved in this project for nine years and developed multiple financing scenarios and every time the construction and the financing was always just outside the reach of the District. Now Lewis believes that the financing and construction is just within reach of the District. Lewis said it is her recommendation that the District seriously consider the Orix offer.

Gazdik asked the Board if there were any questions. Nitschke said he has some concerns with the short-term financing scenario and the slim revenues remaining after debt service. Nitschke said he also had concerns with the effects that supply chain issues could have on the Guaranteed Maximum Price (GMP). Gazdik asked Lewis if she can go out and negotiate but then put things on hold if the numbers don’t pan out. Lewis said that is correct and also said the investors are aligned with Nitschke’s concerns. The investors’ ultimate security is the building, they do not want a building that doesn’t have a roof. The investors are anxious for the GMP to come in at the previous level or, ideally, below the previous number. Lewis agreed that once the details are written in a contract, it will be brought back to the District. The Board can then elect to accept the deal or not. Lewis was hoping the deal could be negotiated and papered in two months, but Raymond James indicated they may need three months.

Carpenter said he thinks the Board needs to proceed with allowing Lewis and Raymond James to have negotiations with Orix asap because construction inflation is projected over the next two years and interest rates are projected to hold over the next two to four years. Carpenter said there is a window of opportunity right now that the Board should move forward confidently and quickly.

Nitschke asked if the second financing scenario would be included in the Orix proposal. Lewis said it would not be included. Nitschke stated he is still concerned with the short-term financing scenario and the slim revenues remaining after debt service and the need to cover expenses and the management fee, etc. Spear responded that Lewis developed the coverage sheet with fundraising being distributed equally over 20 years. Spear said that he is confident that those fundraising dollars will come in much earlier in the cycle. This will give the District more revenues after debt service than what is projected. For example, Spear said the Teton Auto Group will contribute $150k up front in 2021 and the current coverage sheet has zero fundraising dollars being received in 2021. Spear also said market-place facilitator revenues only reflect 10 months and do not show any escalation. Spear also said the Executive Director position needs to become more focused on grant writing in the future and generating funding to help with event center operations.

Nitschke said the District has never received an updated pro forma from Centennial reflecting increased operational costs from COVID. Also, Nitschke thinks attendance numbers for events need to be reduced for the first few years of operations. Spear said he discussed cost increase due to COVID with Kevin Bruder and from an operational standpoint, only surface area cleaning has been incorporated at the Maverick Center and this has not increased costs significantly. Spear also said the HVAC mitigation strategies adopted by the Board have positioned the facility to not incur significant increased costs for cleaning. Nitschke said the District only receives anecdotal information from Centennial and he would like to see something in writing.

Gazdik asked about the funds available in 2021 and 2022 and if those are available for construction. Lewis said because this financing structure does not fund FFE, those funds, ~$4.1M is free cash that can be used for FFE.

Gazdik stated that the market-place facilitator number is conservative because it is only based on 10 months of activity in a COVID year and does not include an escalator. Spear agreed and stated there are still some short-term rentals that have not been identified and is hopeful that Host Compliance can assist in identifying these short-term rentals and then getting the State Tax Commission to ensure compliance.

Gazdik stated the proposed Stay Bridge Suites Hotel with 95 rooms could generate another $110,000 per year.

Gazdik asked for a motion. Vucovich moved to allow Lewis to proceed with negotiations on the financing agreement. Carpenter seconded. Motion passed unanimously.

1. **Action Item** – Approve Bateman Hall to move forward with the bid process. Spear said that he had a meeting with Blake Davis, Mike Clements, and Chris Nations on the rebid status to get their opinion on whether we should proceed with the rebid given the proposed financing scenario and whether Bateman Hall could achieve, at a minimum, the last construction GMP number. Spear asked Davis if he would mind sharing his thoughts on the rebid. Davis said he recently received information late Friday from his estimators and Vice Presidents who project construction costs remaining flat for this project right now. The projections moving forward indicate that toward the end of 2021 they expect to see a 4% increase in construction costs. Davis said within IFAD’s bid period, construction costs are expected to be flat. Davis anticipates construction costs will start to increase in June and July. Davis said he reviewed the last four years of Hogan construction data and construction inflation averaged 6-8% per year. Davis said not bidding the project right now will result in a large increase next year.

Davis said he also received information on steel pricing. Steel prices are as high now as they were in 2008. Davis said the future price of steel is about $10 over 2008 prices and estimated to be $1080 per ton. The reason for the prices increases are because the country ran out of scrap metal. Davis thinks we have seen the peak of steel prices because several mills are ramping up production. Davis does not think steel prices will plummet like they did following the economic crisis in 2008 but does anticipate that steel prices will fall from currently being up 300% to 50-75% around the May timeframe when we lock in prices. Davis thought that although steel may be high during the bid process, we might be able to negotiate credits into the final GMP. That could result in better steel pricing at the time the steel order is placed.

Davis said wood prices are expected to spike in August but that shouldn’t affect this project because most of the wood that will be used will be for forming materials. The casework number could have some pressure, but Davis thinks we can ride that pressure because by the time we get to milling the cabinets it should soften.

Gazdik asked if we can bid the steel package later in anticipation of lower prices. Davis plans on talking to the steel fabricators to make sure we have flexibility that when the fabricators actually secure their contract from the suppler, that we can lock that price in. Davis said Hogan runs a fabrication shop and they have adjusted prices to the current market and would expect the same from other fabricators. Davis recommended bidding steel and then negotiating.

Clements commented that whoever the low bidder is, we can negotiate with them. Clements said the thing we are up against is the mill steel deliveries that are running four weeks later than normal. With this project we need to order a chunk of steel early to support the construction timeframe. Because the walls need to be supported by the steel trusses, timing of getting the steel trusses is important.

Nitschke asked what percentage of the project cost is steel. Davis said in this scenario it is about 3% in raw materials. Based on the cost it is about 6% of the project cost. Nations said it is important to understand, we are talking about a 10% increase in 6% of the project.

Davis said in following steel futures, he predicts we should be in the $600-700 per ton range. That is down from the $1080 per ton now. However, that is double from the last GMP.

Spear asked Clements, Nations, and Davis to speak to the impact of potential increased competition. Nations said guessing what increased competition means is difficult, but the supply chain for projects is definitely down. Nations cited two examples; an arena in Palm Springs that was cost estimated at $220M in February 2020 and was bid at $175M last month and the Oregon State $150M project that they are trying to bid in June rather than October/November to capture the competition advantage. Nations said waiting to rebid will certainly result in increased costs. Nations thought by bidding now, we could see 3,4,5% savings from the last GMP.

Spear asked Davis if he still believed there could be savings over the last GMP. Davis said when evaluating two of the four projects that were bid in December, one was higher, and one was lower. The lower one saw costs decreased by $8-9 per sq ft. Davis said the same thing happened in January when comparing two projects. Davis said the lower costs indicate that sub-contractors are wanting to ensure work. This also means emotion is playing a role right now when bidding projects. Because this is a large project, Davis is optimistic we might see savings.

Spear asked Davis, based on his experience, to comment on the financing plan that was discussed earlier in the meeting. Davis said he recommended this option to the Board five years ago. Davis said it is a great financing plan for the hospitality sector because it gives you a bit of a runway to cash flow the project. Davis said they have had a lot of success with companies like Orix because they do what they say.

Gazdik asked how Batemen Hall intends to ensure sub-contractor competition for the bid packages. Davis said Chris Hogan, President of Hogan, is going to target sub-contractors and encourage them to bid. Davis said his estimators will also contact prospective sub-contractors. Davis said this project is in the upper echelon of projects coming out this year, even in Utah. Davis does not know of any projects over $68M. He thought Utah will provide good competition.

Gazdik asked about the significant residential work available and how that impacts the subcontractors who may bid on this project. Davis said in Idaho Falls a lot of the sub-contractors cross over between commercial and residential, but that isn’t the case in Utah, especially on this size of project. Clements said they would not see that much crossover on this type of project from Idaho subcontractors.

DeKold concurred with what Clements and Davis reported. DeKold said this is the biggest year CRSA has ever had and it is all due to housing. This is due to the influx of people coming to the area and bodes well for the operational future of the Event Center.

Gazdik ask if anyone would like to make a motion to allow Bateman Hall to move forward with the bid process. Carpenter made the motion. Vucovich seconded. Motion passed unanimously.

**Report and Updates**

1. **Discussion Items** - Executive Director Report
	1. Fundraising/Financing – Spear said there are several outstanding proposals, and he is hopeful he will hear back this week on one of the major proposals. Spear said he appreciated the Board approving Lewis to proceed with financing plan negotiations and approving Bateman Hall to proceed with the rebid because getting the facility started will only help fundraising. Bonham Wills will now get more aggressive in identifying prospects.
	2. State Tax Commission Reports – Spear said he is working on a grant for funding the Host Compliance proposal for identifying short-term rentals, since the State has declined to enter into an agreement with Host Compliance. Spear said the software error in the State Tax Commissions accounting system appears to be resolved. Now he will focus on getting the State to address the tax delinquencies.
	3. Other - Nitschke had a question about the design for potential circuses and general design changes overall. Spear explained that circus events were always part of the design and this was just getting clarification if the operator needed all those anchors that are in the original design. Nitschke expressed concern on how design changes are being made. DeKold said the contractor and operator were involved. Nitschke also suggested that the Board issue a press release notifying the public about Board vacancies. Fuller explained that historically the Board has not taken action in regard to vacant Board positions. Fuller said he serves as clerk and the deadline for filing is March 19, 2021 and said he could prepare an announcement. Fuller said there are a number of other Board type positions on the May ballot and anticipates this could receive some extended coverage. Nitschke said he thinks there should be a wider net cast to alert more people of the opportunity to be on the Board.
	4. Action Items
		1. Hunden signature
		2. Audit Engagement Letter
		3. Fundraising focus
2. **Discussion Item** - Legal Report. Fuller said he would be willing to assist by making a call to the manager of the hotel that has not remitted any payment since the State Tax Commission has taken over. Carpenter asked about the authority and procedure for Fuller or Board members to request payment. Gazdik said the responsibility for collections was granted to the State Tax Commission because the State Tax Commission would have a stronger hand in collecting outstanding debt. Gazdik said she assumes the entity is racking up significant penalties and at some point, a lien may be filed. Gazdik believes the State Tax Commission is the best enforcement agent the District can have. Spear cited the section in the State Tax Commission MOU on how collections would take place. “If a taxpayer does not make full payment of the taxes shown on the return, the Commission will send at least one notice to the taxpayer. If the payment is not received after notice, the Commission will assess the tax, and assign the account to its Compliance Bureau for collections. The Compliance Bureau will follow procedures for collecting unpaid taxes including but not limited to telephone calls to the taxpayer, recording liens and seizing assets. These procedures are identified in Idaho Code§§ 63-3636 as incorporated by Idaho Code§ 67-4917C.” Spear said he will continue to communicate with the State Tax Commission to get delinquencies resolved.

**Calendar and Announcements**

1. Upcoming IFAD Meeting – **Next Meeting on February 23, 2021**
2. **Discussion Item** - Announcements and Minor Questions
3. **Discussion Item** - Agenda Items for February 23, 2021 meeting
	1. Discuss Board vacancies and how to announce

Meeting adjourned 9:38a