

**Board of Directors Special Meeting**

**Friday, November 2, 2021, 7:00 a.m.**

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

[**https://us06web.zoom.us/j/85004230687**](https://us06web.zoom.us/j/85004230687)

**467 Constitution Way, Idaho Falls, Idaho 83405**

**Participants: Terri Gazdik, Mike Carpenter, Steve Vucovich, Bob Nitschke (via Zoom), Mark Fuller, Rebecca Casper (via Zoom).**

**Agenda**

1. Call to Order 7:00 AM
2. **Discussion Item** - Public Comment. There were no public comments.
3. **Action Item** – FF&E Financing Plan Approval. Laura Lewis provided an update to the Board. Laura Lewis said she discussed the proposal with Chris Stout the leasing agent for TEQ about the interest rate calculation. The initial proposal was a variable rate that is subject to increases whenever a new draw is made. Lewis said that TEQ proposed a 4.99% fixed rate that is capped at a maximum 5.39%. Although TEQ has not agreed to this in writing, Lewis is confident that TEQ will provide these details in a formal lease document.

Lewis briefly reviewed the analysis she performed that evaluated entering into a fixed rate agreement versus a variable rate agreement. Stating that she does not have a perfect predictor of what future rates are going to be, a review of 5-year LIBOR rate over the last year indicates there has been an increase of 80 basis points. Using this information Lewis said they constructed what the interest expense would be for both variable and fixed rate scenarios. Basically, the analysis showed there is not a huge difference and that she recommends entering into a fixed rate agreement because she is expecting more upward pressure on interest rates than downward pressure. Lewis added that most of her government clients don't like dealing with variable rates.

Lewis said she asked TEQ to provide a termination schedule that coincides with the time IFAD can first consider calling its initial bond offering. Lewis said she did not receive the schedule but will work with TEQ to get something in writing. Lewis indicated TEQ would allow the ability to pay off the lease early but she wants to evaluate to determine if it is economically beneficial to pay it off at some point. In summary we know we can prepay but it won’t be calculated in such a way as a traditional bond, where it is based on a percentage. This looks like more of a make-whole kind of provision.

Lewis explained that if the outstanding balance on the FF&E lease becomes problematic then when it comes time to pay off the lease as IFAD considers issuing other bonds as part of refinancing, we can do what is called defeasance. Mainly we borrow enough new bonds to set aside in an account with the trustee that we could say to the new bondholders that all the money to make those remaining lease payments over time is earmarked.

Gazdik asked if there is a violation of fiduciary responsibility if IFAD elects to accept a variable rate versus a fixed rate. Lewis said she has some clients that use variable rates, but those clients have control over future revenues, like a large water district that can raise rates. However, 99% of her clients enter into fixed rate agreements.

Gazdik asked if this transaction is considered an operating lease and when the time comes to buy out the lease are we required bid this out because now IFAD is buying the assets at that point in time, as opposed to having an operating lease throughout the financing period. Lewis said she would not view this as an operating lease and views it as a capital lease because you're buying capital and that matters in the tax-exempt world. Lewis said whether to bid it out depends on Idaho law and would defer to Fuller. Fuller said he would research this and get back to the Board.

Lewis said that in five years there'll be no more construction, and you'll have three plus years of operational history. It is Lewis’s expectation that we will be able to get the bonds rated at that point. This will give you a longer runway, we will be through COVID, and people will know how people are acting relative to traveling and staying in hotels. The things that prohibited IFAD from getting rated bonds will be gone in five years, and we'll be able to take a run at rating agencies and get the bonds rated in the BBB+ or AAA-category. Stephanie Bonney had previously indicated IFAD could take the bonds out another 30 years from that point and lower the annual debt payment and provide IFAD with more headroom.

Spear asked about IFAD’s buyout liability assuming a FF&E lease balance of $1.3M after 5 years. Lewis said the liability would be the interest that TEQ would earn from the time we paid it was paid off. IFAD will basically have to make the payments as if you were going to keep the lease for the remaining duration, which would be about two years. Gazdik stated this obligation would be calculated at present value. Lewis agreed and said the present value is based on what they think they could invest that money at. Lewis said she has not done an amortization schedule yet.

Vucovich asked about refinancing equipment once it is used. Spear said the FF&E would not be refinanced; the construction certificates of participation would be refinanced. Lewis added that the outstanding FF&E balance could be rolled into the construction refinancing.

Carpenter wanted to know the net effect and what are the dollars that we are discussing today? Lewis said the challenge she sees is that you don't have a lot of other options and although Lewis is willing to beat the bushes again, she stated that she is not sure IFAD will find a better deal. Lewis said the worst-case scenario is that IFAD would have to pay 4.99% on the remaining balance for two years. Carpenter asked if there was a firm commitment on the 4.99%? Lewis said there is a commitment for a 4.99% fixed rate. Lewis estimated that IFAD’s liability on a $1.7M outstanding balance would be about $169K.

Carpenter asked about when FF&E items would need to be replaced. Spear said in his experience you have about a five-year window before you start to see some real significant breakdown. For the first two years the equipment will be under warranty. Also Centennial Management has budgeted for maintenance contracts in its pro forma. Spear said in five years, assuming a refinancing, IFAD would be eligible for capitalized interest again, $2+M dollars’ worth, and that those funds could be used to replace some equipment if necessary.

Lewis reminded the Board that the variable rate would not be capped. Only the fixed rate.

Fuller commented that it is hard to make a recommendation regarding a lease with so many blanks yet to be filled in. Fuller said there is a non-appropriation provision in the document, and it appears to meet the Board’s needs. What it says is that if at some point, this board determines not to appropriate the funds to make the payments, you agree to give the stuff back and you agree that you won't use that option to simply to cash them off and then go buy the same equipment from somebody else. It will really be a non-appropriation if the Board determines to close down operations, or you simply don't have the funding. So that provision complies with the law. Fuller said he has not had the opportunity to read through the entire document and given there are so many blanks, he could not recommend the Board approve the document. Fuller did state that the Board could authorize moving forward with parameters identified and understanding that nothing is finalized until there is a finalized lease document. Gazdik said it is important to let TEQ know we are willing to move forward with the 4.99% rate and understand that IFAD expects a complete lease agreement listing all the parameters. Lewis agreed and said for today if the Board would agree to the previously discussed parameters, we can move forward with getting a lease contract with all the numbers filled in. IFAD needs to let TEQ know by Friday 11-6-21 so that closing can occur by the end of November.

Spear asked that even if IFAD signs the proposal, if it can still walk away if the final lease agreement is not suitable to the board. Lewis said that is correct, until a contract is signed nothing is final.

Nitschke expressed his concerns that only one proposal was received despite contacting over 20+ entities and wanted clarification as to why there was not more interest. Lewis explained of the entities she contacted the theme was generally that there is much demand for their money, and this is a harder credit scenario to understand and it's a little bit more nontraditional. Although IFAD’s coverage to assume this debt is good, it’s tight and the revenue stream is not city or county tax dollars. So many of them just passed on the opportunity.

Carpenter asked if there were any other leasing companies that Lewis could reach out to. Lewis said she could search the internet and identify other entities but most likely these would be entities that she is not familiar with. Lewis said her fear is that IFAD would not find anything better. Plus, it may not save IFAD significant money. Gazdik said we must ask whether we think 4.99% is a good rate for financing and stated that she is not opposed to that rate and doesn’t think it is abnormally high at all. We just need to know what the buyout looks like?

Spear stated to the Board that it is his intention to not draw down the entire $4.4M. Spear thought through trade agreements the final number would be below $4M. Lewis said the Board is not required to draw down the entire $4.4M and that there is flexibility on how much of the $4.4 IFAD uses.

Carpenter asked Fuller to suggest language for a motion. Fuller said you are not actually approving this plan. The agenda states the action item is approved financing plan. What you're doing is authorizing Lewis to continue negotiations toward a document to be approved at the Board meeting on November 23, 2021. Gazdik said the motion is to extend authorization to Spear and Lewis to continue negotiations. Spear added that Spear and Lewis are authorized to continue negotiations in anticipation of entering into a contractual agreement by November 30 that will be reviewed and approved by Fuller. Carpenter moved to adopt that motion. Vucovich seconded. Fuller summarized and said this is the equivalent of a letter of intent. The Board is stating that we are still moving forward and interested.

Gazdik called for the vote. Motion passed.

1. Calendar and Announcements
   1. Upcoming IFAD Meeting/Events – **Next Meeting on November 9, 2021**
   2. **Discussion Item** - Announcements and Minor Questions
   3. **Discussion Item** - Agenda Items for November 9, 2021 meeting
2. **Action Item** - Adjournment from Public Session

Meeting adjourned at 8:46 AM.