

MEMORANDUM

TO: Members, Appleton Redevelopment Authority

FROM: Michael J. Lokensgard

DATE: November 4, 2020

RE: Redevelopment Authority of the City of Appleton, Wisconsin Adjustable Rate Demand Redevelopment Bonds, Series 2001B (Fox Cities Performing Arts Center Project) (the “Bonds” or “Series 2001B Bonds”).

On behalf of the Fox Cities Performing Arts Center, Inc. (“PAC”), and at the request of Executive Director Karen Harkness, we are writing to request the Appleton Redevelopment Authority’s (“ARA”) approval of amendments to several documents relating to the Bonds. The changes relate to the PAC’s replacement of JPMorgan Chase Bank with Associated Bank as the provider of the letter of credit securing payment of the Bonds.

History

In 2001, the ARA issued two series of bonds relating on behalf of the PAC:

- \$8,300,000 Series 2001A Bonds. These were fixed rate bonds, originally backed by a letter of credit provided by Associated Bank, and subsequently backed by a pledge of room tax revenues. The Series 2001A Bonds were refunded in 2012 and the 2012 Bonds were redeemed in 2018.
- \$36,700,000 Series 2001B Bonds. These are variable rate bonds, originally backed on a prorata basis by three letters of credit, issued by M&I Marshall and Ilsley Bank, Bank One, and U.S. Bank. US Bank exited the deal in 2003, and M&I exited the deal in 2009, leaving Bank One (n/k/a JP Morgan Chase Bank NA) as the letter of credit provider

The Series 2001B Bonds have a single bullet maturity on June 1, 2036. They bear interest at a variable rate, currently in the Weekly Rate Mode, which is subject to reset weekly. Interest payments are made via draws on the JPMorgan Chase Bank letter of credit, which are reimbursed by the PAC. Security for the letter of credit is ultimately provided by the PAC’s endowment and a Standby Purchase Agreement under which Thrivent

Financial for Lutherans agrees to purchase the Series 2001B Bonds upon the occurrence of certain events of default by the PAC. Security is also provided by a mortgage of the PAC's real estate in favor of the ARA (which mortgage has been assigned by the ARA to U.S. Bank National Association, as trustee (the "Trustee"), for the benefit of the bondholders).

The Current Request

Earlier this year, the PAC issued an RFP for banking services and selected Associated Bank as its new lender and letter of credit provider. Under the bond documents, the PAC is authorized to replace its letter of credit provider, and intends to do so effective December 18, 2020 (the "Effective Date"). As part of the substitution, the existing Reimbursement Agreement between the PAC and JPMorgan Chase Bank will be replaced with a new Reimbursement Agreement between the PAC and Associated. The Standby Purchase Agreement, under which Thrivent guarantees the PAC's reimbursement obligation, will remain in place.

In connection with a letter of credit substitution, there will be a mandatory tender of the Bonds on the Effective Date by their current owners; the Bonds will then be remarketed and purchased by new owners. That gives the PAC the opportunity to make amendments to the underlying Bond documents - specifically, the **Loan Agreement** between the ARA and the PAC, the **Trust Indenture** between the ARA and the Trustee, and the **Mortgage** by the PAC for the benefit of the ARA. Redlined versions of the amended and restated Loan Agreement, Trust Indenture, and Mortgage are attached to this memorandum, together with a draft **Assignment of Mortgage** assigning the Mortgage to the Trustee. These changes are largely non-substantive, and are intended to modernize documents that are at this point almost 20 years old. The PAC is asking that the ARA approve and execute the amended documents and the Assignment of Mortgage, which will include a replacement Bond and an assignment of a replacement promissory note (the forms of which are attached as exhibits to the amended Trust Indenture and Loan Agreement, respectively).

The PAC is also asking that the ARA approve and execute a Remarketing Circular, a draft of which is attached. This is the document that investors will be provided in connection with the remarketing of the Bonds and their subsequent purchase. It describes the underlying transaction, and provides investors with certain financial information regarding Associated Bank, as the new letter of credit provider.

Finally, attached to this memorandum is the Approval Resolution of the ARA, which we are asking to be considered and acted upon in order to evidence the ARA's approval of the amended and restated Bond documents and the Remarketing Circular. Please note that the resolution approves the documents in substantially the forms presented at the meeting, allowing for changes subsequent to the meeting and before the Effective Date that further the intent of substitution, remarketing, or update and/or clarify provisions in the Bond documents. *The ARA does not need to act on each of the documents individually.* Bond counsel will be sending a separate signature page package to the ARA closer to the Effective Date that will contain the signature pages to the documents that have been and will be circulated by email.

Both the CFO of the PAC, Lisa Shovan, and I will attend the November 11 ARA meeting to answer any questions. In addition, we have attached a brief “Q&A” addressing some questions that Executive Director Harkness sent us last week.

Thank you very much.

Enclosures: Q&A
Amended and Restated Loan Agreement
Amended and Restated Indenture of Trust
Remarketing Circular
Mortgage Assignment
Proposed ARA Approval Resolution

Q&A

- **Why is the PAC doing this now?**

For several years, the JPMorgan letter of credit was renewed in 3-year increments. In 2019, it was renewed for one year, as the PAC intended to pursue an RFP for a lender and letter of credit provider with more competitive rates. As planned, the PAC released its RFP early in 2020, and chose Associated Bank as its new letter of credit provider. Associated proposed a lower letter of credit fee (50 bps vs. JPMorgan's 82.5 bps), and is a bank with a local community presence.

- **When will the Series 2001B Bonds be paid off?**

The Series 2001B Bonds mature on June 1, 2036. There is no change to the Bonds' maturity date.

- **What is the amount of the Bond issue, and what is the interest rate?**

The principal amount of the Series 2001B Bonds is \$36,700,000. The interest rate is set weekly by J.P. Morgan Securities, who acts as Remarketing Agent. For the week of October 27, 2020, the floating interest rate payable to the bondholders was 0.13%.

That rate is only one aspect of what the PAC pays, however. The overall cost of funds to the PAC is the variable rate plus J.P. Morgan's remarketing fee (.125%), plus the bank's fee for the letter of credit (0.825%), plus, the fee paid to Thrivent for its guaranty (.25%). All in, the effective date of interest payable by the PAC is 1.33% at present.

This will change following the letter of credit substitution, since the letter of credit fee will drop to 0.5%, while the variable rate on the Series 2001 Bonds themselves will go up somewhat, as a reflection of the difference in the market's reaction to the Series 2001B Bonds now being backed by a smaller bank.

- **Is there any risk to ARA?**

No. The ARA is acting purely as a conduit. The sole source of payment for the bondholders is the Associated Bank letter of credit. The Bonds are not general obligations of the ARA or the City, and the bondholders cannot look through to any of the ARA, the City, the PAC, or Thrivent as the third-party guarantor of the Series 2001B Bonds.

- **What happens if the PAC cannot pay off the Series 2001B Bonds?**

Associated Bank is required under its letter of credit to pay interest and principal on the Series 2001B Bonds, no matter what. Payments by Associated to the bondholders are reimbursed by the PAC. If the PAC defaults on its obligation to reimburse Associated, Thrivent purchases the Series 2001B Bonds under the Standby Purchase Agreement.

The PAC is mortgaged to the ARA as collateral for the Series 2001B Bonds. That mortgage is assigned by the ARA to Trustee for the benefit of the bondholders.

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