

**MEMORANDUM**

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**TO:** Members, Appleton Redevelopment Authority

**FROM:** Michael J. Lokensgard

**DATE:** November 20, 2023

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

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On behalf of the Fox Cities Performing Arts Center, Inc. (“PAC”), we are writing to request the Appleton Redevelopment Authority’s (“ARA”) approval of a Remarketing Circular which will be provided to investors in connection with the PAC’s replacement of Associated Bank with Thrivent Financial for Lutherans 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 paid in full in 2018.*
- \$36,700,000 Series 2001B Bonds. These are variable rate bonds, backed by an irrevocable letter of credit. The letter of credit is the source of payment to investors; interest and principal are payable via draws on the letter of credit, which is reimbursed to the letter of credit provider by the PAC. The letter of credit provider takes the risk that the PAC doesn’t reimburse it. The investors get paid whether or not the PAC reimburses the letter of credit provider.
- The Bonds were 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. U.S. Bank exited the deal in 2003, and M&I exited the deal in 2009, leaving Bank One (n/k/a JPMorgan Chase Bank NA) as the letter of

credit provider. Following an RFP process instituted by the PAC in 2020, JP Morgan Chase Bank NA was replaced as letter of credit provider by Associated Bank.

- The Bonds have a single bullet maturity on June 1, 2036. They bear interest at a variable rate which is subject to reset weekly. The weekly rate of interest payable is set by the market; the less risky the Bonds are perceived to be, the lower rate the bondholders will expect. Because investors are being paid by draws on the letter of credit, the risk to investors is based upon the creditworthiness of the letter of credit provider, not the PAC.
- Thrivent has been involved in this financing from the start. To induce the prior letter of credit issuers to issue their letters of credit, Thrivent has entered into a “Standby Purchase Agreement” which acts as a guaranty of payment to bondholders. This transaction will simplify the structure by making Thrivent the primary source of payment to bondholders.
- ***The ARA is purely a conduit for this financing. The sole source of payment for the bondholders is the Thrivent letter of credit. The Bonds are not general obligations of the ARA or the City, and neither the bondholders nor Thrivent can look through to either the ARA or the City for payment.***

### **The Current Request**

The PAC did not anticipate having to replace Associated Bank as letter of credit provider; however, Associated was downgraded by Moody’s Investors Service in August, 2023. The downgrade caused the interest rate on the Bonds to increase, as the Bonds were perceived as carrying additional risk. This has increased the PAC’s monthly interest expense by approximately 150 basis points, which equates to around \$45,000.

The PAC and Thrivent began discussing having Thrivent become the letter of credit issuer shortly after the Associated downgrade. Thrivent is able to issue an irrevocable letter of credit, and upon doing so, Moody’s has confirmed that the Bonds will receive a rating of Aa3/VMIG 1. That higher rating will, in turn, reduce the PAC’s interest cost.

In connection with the replacement of Associated Bank with Thrivent Financial for Lutherans as letter of credit provider, the PAC is 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 Thrivent, as the new letter of credit provider.

In 2020, the ARA was also asked to approve amendments to the Bond Indenture and Loan Agreement. No such amendments are being done in connection with this transaction.

Attached to this memorandum are copies of a proposed Approval Resolution of the ARA and a new Bond. Please note that the resolution approves the Remarketing Circular and Bond 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 transaction.

We have provided a notice to the ARA, bond trustee and Associated Bank, as current letter of credit provider, that we intend to replace the existing letter of credit on December 15, 2023.

Both the CFO of the PAC, Lisa Shovan, and I will attend the November 29 ARA meeting to answer any questions.

Thank you very much.

Enclosures: Remarketing Circular  
Proposed ARA Approval Resolution