

NOTE 8. LOANS AND NOTES PAYABLE

Delaware State Housing authority (DSHA)

Notes payable of the DSHA include \$2,553,373 of Financing Adjustment Factor (FAF) notes payable and a \$539,400 note payable to the Housing Development

Fund (HDF). FAF Notes payable in the Enterprise fund of the DSHA represent obligations to the State. The State issued General Obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the FAF issues in advance. Debt service requirements for these notes are shown on the following page.

Delaware State Housing Authority
Financing Adjustment Factor (FAF) Notes
 (Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 291	\$ 127	\$ 418
2004	301	112	413
2005	270	98	368
2006	285	84	369
2007	298	69	367
2008-2012	1,004	371	1,375
2013-2017	104	5	109
Total	<u>\$ 2,553</u>	<u>\$ 866</u>	<u>\$ 3,419</u>

The Public Housing Program was the recipient of a \$539,400 program loan through the HDF to acquire public housing. This non-interest bearing loan was a matching fund loan for the Public Housing Program and will be repaid from the sale of these units upon termination of the program. This renewable note payable to the HDF matures in 2017. No payments of principal or interest are required prior to maturity.

The Authority acquired a building for general administrative purposes using the proceeds from a mortgage note issued by Wilmington Trust Corporation. The note is payable through January 2007 at an interest of 4.75%. The total principal balance at June 30, 2002 is \$372,662. Annual debt service requirements on this note are as follows:

Delaware State Housing Authority
Wilmington Trust Corporation Note
 (Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2003	\$ 16	\$ 17	\$ 33
2004	18	16	34
2005	19	16	35
2006	20	15	35
2007	<u>300</u>	<u>8</u>	<u>308</u>
Total	<u>\$ 373</u>	<u>\$ 72</u>	<u>\$ 445</u>

Diamond State Port Corporation (DSPC)

Loan and Notes payable of the DSPC at June 30, 2002 are as follows.

(Expressed in Thousands)

City of Wilmington:	
Port Debt Service Notes	\$ 31,480
Transportation Trust Fund Loan	<u>27,500</u>
Total	<u>\$ 58,980</u>

Transportation Trust Fund Loan

On November 1, 2001, the DSPC entered into a loan agreement with the Department of Transportation of the State of Delaware (DOT). The DSPC borrowed \$27,500,000 (\$25,500,000 on February 2, 2002 and \$2,000,000 on May 2, 2002). The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note; and, at a discount, the City of Wilmington Deferred Payment Note. In addition, the loan provided \$8,648,136 to establish a fund to be invested. This fund is to be used to pay portions of debt service as they become due, and is restricted for this purpose.

The rate of interest on the loan is 4.6%. The first payment on the loan is due January 1, 2003 and is for interest only. Thereafter, payments of principal and interest are due semi-annually over a twenty-year period. Interest expense charged to operations in 2002 was \$424,145.

Transportation Trust Fund Loan

(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ - 0 -	\$ 1,065	\$ 1,065
2004	863	1,255	2,118
2005	903	1,215	2,118
2006	945	1,173	2,118
2007	989	1,129	2,118
2008-2012	5,678	4,911	10,589
2013-2017	7,128	3,461	10,589
2018-2022	8,948	1,641	10,589
After 2022	<u>2,046</u>	<u>72</u>	<u>2,118</u>
Total	<u>\$ 27,500</u>	<u>\$ 15,922</u>	<u>\$ 43,422</u>

City of Wilmington

In consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington, Delaware (the City), the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of \$39,900,000 and Port Debt Service Notes with original face amounts of \$51,080,622. These notes are secured by a first lien on substantially all of the DSPC's assets.

Port Deferred Payment Note

The Port Deferred Payment Note was recorded at the present value of the future payments as of September 1, 1995, the date of acquisition. Interest was imputed based on an estimated borrowing rate of approximately 5.5%. Interest for 2002 was \$163,338.

The DSPC received funds from the State of Delaware's 2000 Bond Bill in the amount of \$7,000,000 which was used, along with \$95,843 from the DSPC's operations, to pay off a portion of the Deferred Payment Note. The prepayment to the City included amounts accrued for 1997 through 2001 and amounts payable for 2001 through 2005.

On February 20, 2002 and May 2, 2002 the remaining amounts due, \$11,608,231 in total, were also prepaid to the City using \$8,000,000 of the proceeds of the Transportation Trust Fund Loan. The difference between these two amounts, less related legal costs, \$3,569,624, was effectively forgiven by the City. In exchange, the DSPC agreed not to pursue compensation for future potential environmental liabilities. The transaction resulted in a gain of \$3,569,642, reported as a special item.

Port Debt Service Notes

These notes obligate the DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund \$21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086 respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$261,619 for the year ended June 30, 2002, it reduces the Corporation's debt service payments by \$281,293 over the next eleven years resulting in an economic gain. The deferred loss on the refunding is accreted

over the eleven years of the life of the debt. The deferred loss balance as of June 30, 2002 was \$223,163.

The future principal and interest payments on Port Debt Service Notes are as follows:

Port Debt Service Note

(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 3,326	\$ 1,461	\$ 4,787
2004	3,554	1,313	4,867
2005	3,300	1,155	4,455
2006	2,980	1,007	3,987
2007	3,117	866	3,983
2008-2012	10,561	2,444	13,005
2013-2017	3,103	899	4,002
2018-2022	1,431	269	1,700
After 2022	331	8	339
Subtotal	31,703	9,422	41,125
Deferred Loss on Refunding	(223)	- 0 -	(223)
Total	<u>\$ 31,480</u>	<u>\$ 9,422</u>	<u>\$ 40,902</u>

Delaware River and Bay Authority Obligation

The DSPC entered into a "lease agreement" with the Delaware River and Bay Authority (DRBA) whereby the DSPC agreed to lease to the DRBA, certain parcels of land, together with a building referred to as Warehouse A, located at the Port, for an initial term of 15 years with successive one year renewal terms at the option of the DRBA. The rent for the entire 15-year initial term of the lease is \$7,000,000, which was paid to the DSPC. The rent for the one-year renewal terms is \$1 per year. It is the intention of the DRBA to sublet the leased premises, rather than being an occupant.

Simultaneously, with the execution of the lease agreement, the DSPC and the DRBA entered into an "operating agreement" that defines the responsibilities of the DSPC and the DRBA pursuant to the operations of the leased premises during the lease term. As part of this agreement, the DSPC has agreed to make certain "guaranteed payments" to the DRBA at the end of each month, for a period of 15 years. The total of the payments is \$7,000,000 plus interest calculated at 4.00% for the first five years, 7.20% for the second five years, and 8.72% for the third five years.

This transaction was accounted for as a loan from the DRBA secured by the land and warehouse identified in the lease agreement. On February 20, 2002, the outstanding balance of this obligation was prepaid to the DRBA using proceeds from the Transportation Trust Fund Loan.

Wilmington Trust Company Note

On April 9, 1999, the Corporation entered into a loan agreement with Wilmington Trust Company (WTC) for an amount up to \$2,320,000 for the construction and permanent financing of a new administrative facility. On February 20, 2002, the outstanding balance of this loan was prepaid using proceeds from the Transportation Trust Fund Loan.

Riverfront Development Corporation

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total \$15,607,062 at June 30, 2002. Interest rates for the mortgages vary between 4.34% and 8.5% and mature between January 2003 and May 2004. Estimated future annual debt service requirements are as follows:

(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 5,700	\$ 577	\$ 6,277
2004	9,970	224	10,194
Total	<u>\$ 15,670</u>	<u>\$ 801</u>	<u>\$ 16,471</u>