Notice of a Special Meeting of the

FINANCE COMMITTEE

5:30 p.m. – Tuesday, July 17, 2012
Council Chambers, Room S249

NOTICE IS HEREBY GIVEN that a special meeting of the Finance Committee will be held **Tuesday, July 17, 2012** at **5:30 p.m.** in the Council Chambers, Room S249, at the City of Pasadena City Hall, 100 N. Garfield Ave., Pasadena, California.

A. CALL TO ORDER

B. PUBLIC COMMENT

C. NEW BUSINESS

1. Rose Bowl Renovation Project Update

D. ADJOURN FINANCE COMMITTEE MEETING

CHRIS HOLDEN
Chair, Finance Committee

This notice, in its entirety, was posted at City Hall and distributed as indicated below by 7:30 a.m. Monday, July 16, 2012.

Lori Eubanks, Recording Secretary

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July 17, 2012

TO: City Finance

FROM: Rose Bowl Operating Company

SUBJECT: Renovation Project Update

RECOMMENDATION

This is an information item only report.

BACKGROUND

The project to renovate the Rose Bowl was undertaken in order to secure the future of the 90 year old facility, a National Historic Landmark. In October 2010 when the City Council approved the undertaking, the Rose Bowl Renovation Project was estimated to cost $152 million, which was to be funded primarily through the issuance of lease revenue bonds. With costs committed now for about two-thirds of the project and the remaining work to be completed, it is currently estimated the project, as originally envisioned will cost $176.9* million or approximately $25 million over the initial estimate. In addition, at the time the revenue bonds were issued in November 2010, the bond proceeds realized were less than anticipated, creating an initial $12 million funding gap that, when added to the estimated construction cost gap, results in a total project unfunded construction cost gap of approximately $37.6* million. The purpose of this update is to provide the RBOC, City Council, and public relevant information concerning the project, as action will need to be taken by the end of July to address the project cost gap situation and substantial completion of the project.

The five primary objectives of the project were established in 2005. These objectives have not changed since that time, and are paramount to the completion of the project:

- Improve public safety
- Create revenue stream in order to provide funding long term improvements
- Enhance the fan's experience
- Maintain National Historic Landmark status
- Improve facility operations

* The staff report for both the June 7, 2012 RBOC and June 11, 2012 City Council Finance Committee reported the estimated project cost at $175 million with a $35 million funding gap. The monthly project reconciliation update, dated July 11, 2012 identified a $1.9 million calculation error that has been corrected in this report.

Currently, the Rose Bowl Renovation Project is in the middle of phase two, and the third phase is scheduled to begin immediately after the 2013 Rose Bowl Game. The project is scheduled to be substantially complete by the beginning of the UCLA football season in 2013.

The most significant challenge since early in the project has been the budget. The current estimated project costs reflects the work that has been completed or committed to date plus remaining contingency in addition to an estimate that was completed by Parsons, the Owners Representative, for the remaining phase three work, which is scheduled to begin in January, 2013.

In terms of where to go from here, it is important to recognize that there are contractual obligations to complete certain elements of the project that are contained within both the Tournament of Roses and UCLA contracts, and it is our intent to fulfill these obligations. There are however, some areas of flexibility as well. Staff and City leadership have met with representatives of both the Tournament of Roses and UCLA with the focus of developing a consensus for potential deferred elements for consideration by the Board and City Council, given the financial challenges that exist.

In June, staff identified a timeline to determine the scope of work to bid along with the funding source for the next phase of the project. In order to start construction in January 2013; direction to the project team needs to be provided by the end of July to enable proper bid document preparation, bidding and contract award to be completed by the end of this calendar year.

In addition, last month, a number of options were presented for consideration to meet the project's primary objectives, i.e. 1) eliminating and/or deferring scope; 2) extending the project 1 year to evaluate revenue projections, and as appropriate complete deferred project elements in year 4; and 3) consider additional financing opportunities through a bridge loan and/or re-financing pre-existing RBOC debt.

In the course of the last several weeks, the staff and project team have identified approximately $14.3 million in deferred project elements which would establish an estimated total project cost through Phase III work of $162.6 million (refer to Attachment 1 – Recommended Phase III Work/Project Sources and Uses).

The staff and city leadership have worked with the stakeholders in establishing a list of potential Phase III project elements for consideration by the Board and City Council to be construction beginning in 2013.

There have been several options on how to proceed, but to date the option that is currently contemplated, focuses improvements on the north side of the stadium. (refer to Attachment 2 – Recommended Phase 3 Plan).

1. This area of the stadium has been overlooked and is in need of the most attention on the concourse. The north concourse currently has 2.67 SF per person in contrast with the south at 4.69 SF per person (the entire concourse currently averages 2.75 SF per person).

The elements include expansion of the fence line between gates C and D and from gates N to F. The identified elements include construction of new concession stands, improved entry gates (A, C, D, E, F), creation of open green space (temporary restroom areas), new screen storage areas, new broadcast cable termination building, and the electrical and technology infrastructure and cabling to support expansion areas. It proposes the deferment of the demolition of an existing 15 year existing restroom and the construction of a new replacement restroom. This proposed deferment facilitates the requirement to defer the service yard improvements as they directly impact the same area. The improvements noted above have estimated costs ranging from $7.5 – $11.6 million[†] depending on the number of concession stands built.

2. In addition, there are a number of project elements that should be completed regardless of the selected scope of work; the restrooms on the west side of the stadium needs to be reconstructed, the remaining two electrical enclosures with the completion of the new 17 KV electrical service (including the PWP costs), and the completion of the bio-swale located at the south median. These improvements are estimated at $4.6 million[†].

3. A few project elements that are contractual requirements have been identified as important to proceed with are related to the field wall reconstruction with hedge (east and west side lines), tunnels 7A and 15A improvements, and south field restrooms. If both sides are completed these improvements are estimated at $2.8 million[†].

Rose Bowl Project Financing Issues

As reported previously in this report, if nothing is done, the project unfunded construction cost gap stands at approximately $37.6 million. The following summarizes the recommended action plan to address this gap.

Current Construction Cost Gap Funding Summary

Current Construction Cost Gap	**$**	**37.6**	**million**	***(Amount includes $5.3 million that will require a bridge loan)***
Current Construction Cost Gap Funding Plan:				
Project Scope Reductions	$	14.3	million	
2014 BCS Revenues	$	4.0	million	***(Amount will require a bridge loan)***
Added Bond interest on existing proceeds	$	0.4	million	***(Amount will require a bridge loan)***
Legacy Donations ($8m current pledges; $11m future pledges)	$	18.9	million	***(Amount will require a bridge loan)***
Total	**$**	**37.6**	**million**	

[†] Estimated Direct Construction Costs, excluding contingencies

A number of the resources above identified to address the funding gap will not be received for 2 to 7 years. As a result, a "bridge loan" in the amount of $28.6 million will be necessary to provide funds to complete the project when needed. The components of the bridge loan are as follows:

Concessionaire Advance, TOR Capital User Fee, etc	$	5.3	million
2014 BCS Revenues	$	4.0	million
Added Bond interest on existing proceeds	$	0.4	million
Legacy Donations ($8m current pledges; $11m future pledges)	$	18.9	million
Total	**$**	**28.6**	**million**

It should be noted that given the tax requirements and revenue estimates involved with the 2010 bond issue, any project scope reduction must be carefully analyzed to avoid tax issues or reductions in revenue that could impact the paying of debt service. The recommended scope reductions meet these criteria.

Structure options reviewed to address the $28.6 million bridge loan included:

1. Bank loan
2. EB5 program
3. Internal loan from City of Pasadena
4. Bank Letter/Line of Credit

A further review of the bank loan structure with bond counsel revealed that State debt limit laws prohibit municipalities from issuing interest only debt with a balloon payment at the end of term. Consequently, minimizing the debt service requirements will require a different bank loan structure than originally anticipated. The new structure would provide for interest only payments for the first 3 to 4 years with a back-loading of principal over a longer amortization period to minimize, as much as possible, the debt service for the first 7 years while providing full principal amortization over the remaining years to meet debt limit laws. The City has issued debt with a 5 year interest only structure before, however, it was in connection with Pension Obligation Bonds, which, per bond counsel, is one of the exemptions from State debt limit laws. Unfortunately, the bridge loan for this project is not exempt. The Pasadena Public Financing Authority (PPFA), which is the issuer for the 2006 and 2010 Rose Bowl bonds has more flexibility in regards to State debt limit laws and can issue interest only debt with a balloon, however, per bond counsel, if the revenues supporting the debt is received from entities which fall under the State debt limit law, the same restrictions would apply.

In analyzing the various options, the evaluation criteria included the processing time to complete the debt issuance, cash flow impact on the City, ease of administration of the debt, flexibility of proceed use, risks to the City, and cost of issuance of the debt. The debt issuance will have to be complete prior to the award of bid for the next bid package to meet the bid award requirement. Based on the application of these evaluation criteria to each of the options mentioned above, staff believes that the bank loan structure is the best option at this time.

Bank Loan Structure

The bank loan structure would consist of a direct placement with a bank for the $28.6 million bridge loan requirement. The structure would not be a restructure and extension of the 2006 bonds, it would be a separate instrument with a term of 10 years or longer and would be backed by the City to take advantage of the City's AAA credit rating. In negotiating the final structure, staff will ensure that any risk to the City is minimized.

The structure would be modeled to allow multiple principal draws with interest only for the first 3 to 4 years and the back-loading of the principal to minimize debt service payments for the first 7 years. The debt would have no or minimal prepayment penalties, which will allow the principal to be repaid as funds from other sources are received to minimize interest costs. The issue would be a combination of taxable and tax-exempt debt to maximize the flexibility use of the debt proceeds to complete the project. Since the debt would be directly placed with a bank, the cost of issuance fees for items such as bond council, underwriter, and ratings should be significantly reduced or eliminated. The time to negotiate the final business points could also be significantly reduced depending on the bank instrument selected. Additionally, this structure will not impact the existing interest rate swap associated with the existing 2006 bonds.

Staff has received a number of proposals from various banks which range from direct placement structures using lease financing and lease revenue bonds to direct placement debt instruments that are unique to a certain bank. All of the proposals provide the basic effect of minimizing debt service costs for the first 7 years, allowing for the prepayment of principal at intervals that could coincide with the receipt of equity contributions, the ability to refund and restructure any outstanding debt at the end of 7 years, and the ability to compete the loan process prior to award of the next project bid package in October As discussed earlier, the bank quotes reported in previous updates assumed the ability to issue 5 to 7 year interest only debt with a balloon payment at the end of term. This shorter maturity resulted in lower interest rates. However, revised structure necessary to meet debt limit law will require longer term terms, resulting in higher interest rates. Since the last update, two additional quotes incorporating the revised structure were received and contained interest rates which range from 3.38% to 4.25%.

Staff is continuing to receive quotes and structure proposals from banks and will evaluate each to ensure the most advantageous for the ROBC and the City. Assuming, however, the lowest interest rate quote in our possession at the time of this report (3.38%) and that $28.6 million of debt would be issued with a combination of interest only with back-loaded principal for the first 7 years, annual debt service payments would be approximately $970,000 for the first 3 to 4 years. Debt service payments after that will depend on how principal would be amortized. Annual payments in the first year would be paid by the RBOC from existing fund balances and a FY2012 better than anticipated operating surplus. After the first year, RBOC would make the debt service payments from equity receipts. The equity receipts will also be used to reduce principal and thus interest costs going forward. Although the use of any of the equity receipts to pay interest on the bridge loan will mean less money to apply to principal, it will provide RBOC

with time to begin to receive surplus revenues anticipated from the incremental revenues of the renovation project. A large part of this gap funding plan depends on the receipt of at least $18.9 million in donations from Legacy. If Legacy is unable to raise the donations anticipated with this funding plan, a backup option would be to restructure the existing 2006 Rose Bowl debt to provide the funding necessary to fill the Legacy gap. This not a preferred option because it prevents the use of funds that would be available to fund on-going operational improvements and capital maintenance and improvements to the non-renovated part of the Rose Bowl facility.

There are a number of risks connected with any of the new debt options reviewed. They include:

- Market risk – There is no market to refund the outstanding debt if the anticipated revenues to repay the outstanding debt don't materialize. This would require the City/RBOC to either pay the principal from city funds or default on the debt.
- Interest rate risk – There is a market to refund the outstanding debt if the anticipated revenues to repay the outstanding debt doesn't materialize, but the rate is significantly higher resulting in a debt service payment higher than anticipated revenues to pay the debt service. This would also require the use of City/RBOC funds to address any shortfall or default on the debt.
- City's credit rating downgrade – Typically, these types of debt structure include a requirement that significantly increases the debt rate if the City's credit rating falls below a certain level. There are a number of issues in the current environment that pose a risk to the City's current AAA credit rating. Examples include
- Continued economic declines that reduce the fund balance of the General Fund
- Changes in the law or accounting reporting requirements that reduce or eliminate General Fund revenue (RDA elimination)

Anticipated revenues to repay the debt are insufficient requiring the use of City fund balance to repay the debt thus decreasing fund balance or not paying and defaulting on the debt.

However, staff believes that the recommended option provides the best balance of achievement of project goals and minimization of risk to the City and RBOC.

Each of the proposals, received to date, has nuisances that are favorable and unfavorable to the City/RBOC. Consequently, staff recommends that it be allowed to negotiate with interested banks to develop the most favorable bank loan structure to address the bridge loan requirements and return to the Council and RBOC for the required document approvals prior to the award of the next bid package scheduled for October 2012.

Rose Bowl Legacy Campaign

A unique element of the effort to renovate the Rose Bowl has been the development of Legacy Connections, and specifically, "Rose Bowl Legacy Campaign." This organization has been developed due to the Rose Bowl renovation project. It is a private 501C3 non- profit organization that has been established. They have been soliciting donations and offering naming opportunities throughout the stadium. Rose Bowl Legacy has a campaign goal of $20 million, and to date they have pledges in the amount of $8.2 million. These pledges have been received

by individuals and companies who have an outstanding history of philanthropy, and are considered to be reliable donors.

One of the important decision points for the RBOC and City Council will be to determine how much, if any additional revenue should be part of the financing plan. RBOC staff believes that Legacy revenue will continue to grow, and will attain its goal of $20 Million. In the event Legacy falls short of its goal, there is an opportunity for the RBOC to refinance its debt that is not part of the renovation; thereby providing a layer of protection for the General Fund.

FISCAL IMPACT

The current Rose Bowl Renovation Project with the proposed Phase III work is estimated at $162.6 million, which is $10.6 million over the approved project budget of $152 million. Project Team along with primary stakeholders will continue to review options of either eliminating and/or deferring scope, extending project one year to evaluate revenue projections, and as appropriate complete deferred project elements in year 4, and continue exploring additional financing opportunities.

For additional information refer to Attachment 1, "Recommended Phase III Work - Rose Bowl Project Sources/Uses Table," attempts to clarify the current project fiscal situation.

Respectfully submitted,

Darryl Dunn
General Manager

ATTACHMENT 1 - RECOMMENDED PHASE III WORK
PROJECT SOURCES AND USES

Updated 7/13/12_v2

Financials			**Anticipated Sources**	**Estimated Cost**	**Projected Deficit**
Original Project Budget (11/10)			$139.3 M	$151.8 M	$ 12.5 M
Projected Project Cost (4/11)			$139.3 M	$156.4 M	$ 17.1 M
Projected Project Cost (12/11)			$139.3 M	$160.0 M	$ 20.7 M
Funding	Available as of 4/25/12	Planned			
Net Bond Proceeds	$126.1M	$126.1M	$126.1 M		
Equity Contributions	$7.9M	$13.2M	$13.2 M		
TOR; 2006 & 2010 BCS	*$4.0M*	*$4.0M*			
RBOC 2010 BCS Revenue	*$2.0M*	*$2.0M*			
RBOC Retained Earnings/IMG	*$1.1M*	*$1.5M*			
TOR; Capital User Fee (during construction)	*$0.8M*	*$1.7M*			
Concessionaire Advance + Brick Campaign	*$0.00*	*$4.0M*			
TOTAL AVAILABLE FUNDING SOURCES			**$139.3 M**		
Total Funds Committed to Date (Column G)					
Total Direct Costs Awarded to Date *(includes approved changes + potential changes)*				$104.3 M	
Encumbered Construction Contingency				$1.8 M	
Indirect Construction Cost Committed				$8.3 M	
FFE Costs Committed				$1.8 M	
Soft Costs Committed				$18.8 M	
TOTAL COMMITTED COSTS (as of 7/9/12)				**$135.0 M**	
Total Remaining Project Budget (Column H)					
Remaining Direct Cost Option 4A				**$19.0** M	
Remaining Budgeted Construction Contingency				$3.6 M	
Additional Appropriated Construction Contingency				$1.9 M	
Remaining Indirect Construction Budget				$0.1 M	
Remaining Soft Costs Budget				$2.0 M	
Remaining FFE Budget				$1.6 M	
Remaining Budgeted Soft Cost Contingency				$1.1 M	
TOTAL REMAINING PROJECT COSTS (as of 7/9/12)				**$29.3 M**	
	available		anticipated		
Third Party Reimbursement				($1.7) M	
PROJECTED TOTALS (Column I)	**$ 134.0**		$139.3 **M**	**$162.6 M**	**$ 23.3 M**
Identified Anticipated Revenue Opportunities			$12.4 M		$ 10.9 M
2014 BCS Projected Revenue	*$4.0 M*				
Miscellaneous Bond Interest	*$0.4 M*				
Legacy (pledged to date)	*$8.0 M*				
Legacy (additional)	*TBD M*				

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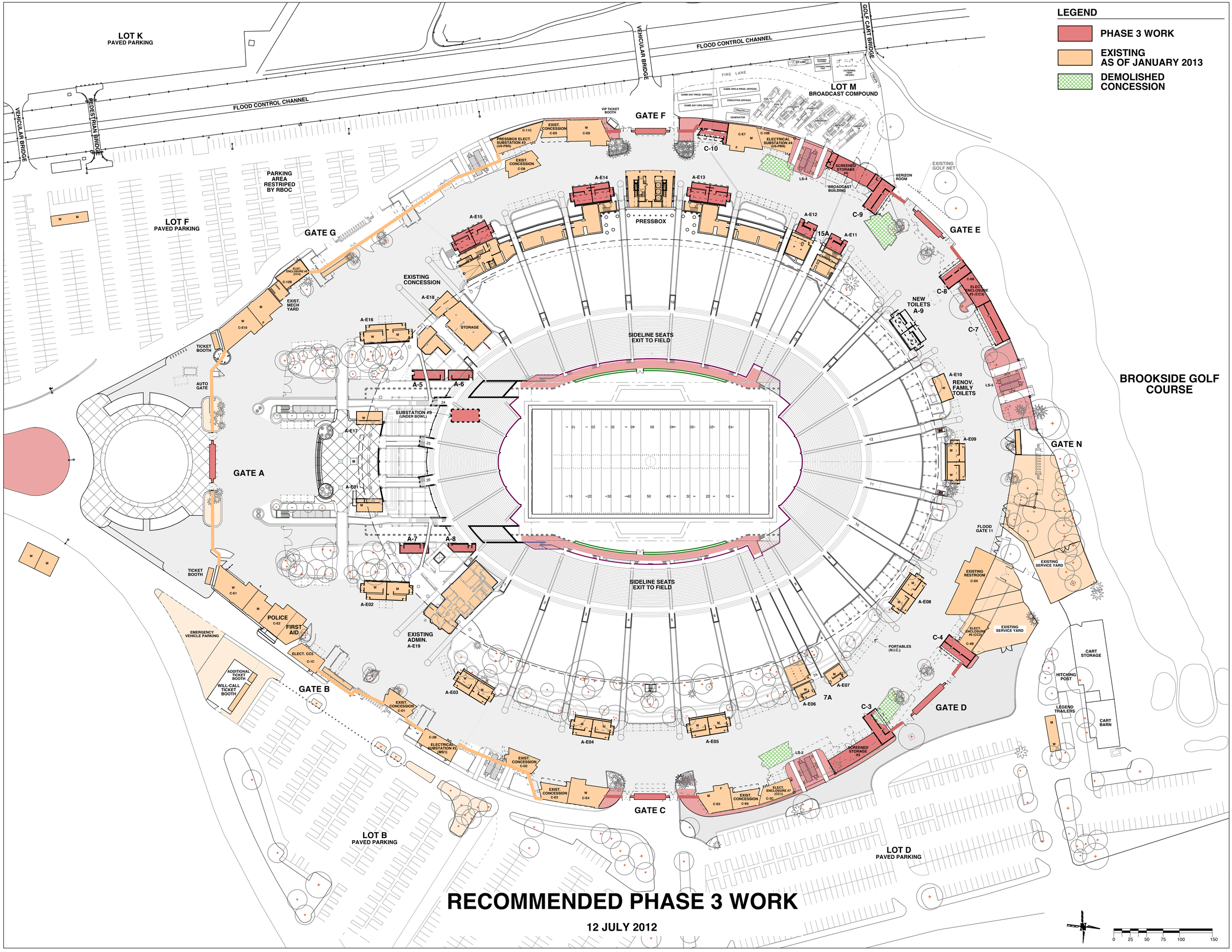
Remaining Project Elements *(as of 5/25/12)*	Project	Recommened Phase III	Deferred Elements	
* *8 entry gate structures*	*3.32*	*1.45*	*1.16*	*3 of 8 gates remaining*
* *11 concession stands*	*7.22*	*3.94*	*3.28*	*5 of 11 concession stands remaining*
* *5 temp restroom areas*	*0.30*	*0.18*	*0.12*	*2 of 5 remaining*
* *5 screened storage areas*	*0.18*	*0.07*	*0.11*	*3 of 5 remaining*
new counting room	*0.10*		*0.10*	
* *Perimeter Fence line expansion*	*0.19*	*0.10*	*0.10*	
Service Yard Modifications	*0.18*		*0.18*	
East/West field wall reconstruction and hedges (includes T23A & T28A)	*1.33*	*1.33*		
4 field temporary bleachers	*0.24*		*0.24*	
4 Final Tunnels	*5.81*		*5.81*	
T7A, T15A, tunnel modifications	*0.46*	*0.46*		
T23A & north electrical substation	*1.18*	*1.18*		
Field restrooms at T23A and T28A	*1.00*	*1.00*		
Bio-Swale (SSUMP)	*0.29*	*0.29*		
Reconstruct West Restrooms	*2.14*	*2.14*		
New North Restrooms	*0.82*		*0.82*	
PWP Allowance	*0.98*	*0.98*		
** *Site Electrical*	*7.69*	*5.77*	*1.92*	
Broadcast building	*0.07*	*0.07*		
TOTAL	*33.50*	***18.95***	*13.84*	

** project elements with implications to **Site Electrical estimated costs*



RECOMMENDED PHASE 3 WORK

12 JULY 2012

LEGEND

- PHASE 3 WORK
- EXISTING AS OF JANUARY 2013
- DEMOLISHED CONCESSION

ROSE BOWL
RENOVATIONS AND IMPROVEMENTS

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STRUCTURAL ENGINEER
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6080 CENTER DRIVE
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MECHANICAL, ELECTRICAL & PLUMBING ENGINEER
SYSKA HENNESSEY GROUP
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D'AGOSTINO IZZO QUIRK ARCHITECTS

SEAL:

PACKAGE:

NO:	DATE:	DESCRIPTION:
	05/23/12	ALTERNATE PHASE 3 MASTERPLAN

DAIQ PROJECT #: 0817
DRAWING TITLE:

CONCOURSE PLAN PHASE 3

SCALE: AS NOTED
SHEET #:

BC3 A2.1

DATE: 05/31/12
FILE #: