

Agenda Report

REVISED

FEBRUARY 26, 2001

TO: City Council
THROUGH: Business Enterprise Committee

FROM: Cynthia J. Kurtz, City Manager

SUBJECT: Legislative History and Fiscal Findings Regarding 10% Arroyo Green Fee Fund

RECOMMENDATION

It is recommended that the City Council:

1. Receive and file this legislative and fiscal history report and related attachments regarding the 10% Green Fee (10% Arroyo Green Fee Fund or Fund).
2. Reaffirm the City Council's action of May 19, 1992 to capitalize the revenue stream from the 10% Arroyo Green Fee Fund and authorize the Director of Finance to charge the 10% Arroyo Green Fee Fund for 100% of that portion of the debt service on the 1992 COP's relating to the \$2.7 million in new money for Arroyo related projects. This includes the portion of the 1992 COP proceeds that were spent on Rose Bowl improvements and will be applied both prospectively and retroactively.

BACKGROUND

At its December 6, 2000 meeting, the Business Enterprise Committee (BEC) requested a legislative and fiscal history regarding the establishment and use of the 10% Arroyo Green Fee Fund. In the course of compiling this information, staff was not able to locate documentation that clearly defined the intended use of this Fund or the establishment of any restricted uses. While the "initial intent" may never have been clearly recorded, based upon the attached documents, prior City Council actions have used these funds to support a variety of projects in the Arroyo, including the Rose Bowl and the Golf Course. In addition, a request was made of the City Attorney's Office regarding the legal use of the 10% Arroyo Green Fee Fund. Based upon the City Attorney's review of the Agreement between the City and American Golf, the City Attorney's Office has concluded that the City Council may use these funds for any capital project in the Arroyo Seco (**Attachment 1**).

DISCUSSION

As a result of the issuance of a Request for Proposal (**Attachment 2**), in December of 1985, the City of Pasadena entered into Agreement number 12,651 with American Golf (**Attachments 3 (the agenda report) and 4 (the Agreement)**) for the management of Brookside Golf Course. Germane to the issue at hand, Section 9 of this Agreement, entitled "Capital Improvement Fund" states:

"American [referring to American Golf] agrees to pay to City ten percent (10%) of the gross receipts from green fees from the Golf Course for a capital improvement fund for future projects related to the development of the Arroyo Seco. The tournament surcharge for green fees shall not be included in the above gross receipts. All specifications associated with such projects shall be reviewed and approved by the City Manager. American agrees that City shall have custody and control of this fund. City agrees that American may pay such monies to City on or before August 20th and February 20th of each year beginning on August 20, 1986."

CHRONOLOGY REGARDING THE USE OF 10% ARROYO GREEN FEE FUND

Since the approval of this Agreement, the City Council has approved agenda reports and budgets that have had both direct and indirect impacts on the 10% Arroyo Green Fee Fund. The following chronology summarizes these actions.

1. **Funding Set-Aside.** Following the approval of Agreement 12,651, funds were collected in accordance with Section 9 of the Agreement. Although all Golf Course related revenues were co-mingled and co-reported on the City's balance sheet within the Golf Course Fund, a separate spreadsheet was maintained by the Department of Finance accounting separately for the 10% Arroyo Green Fee Fund. While at any point in time, 10% Arroyo Green Fee Fund funds could be reported separately from all other Golf Course funds, to the reader of the City's financial statements, this method of accounting did not readily provide clear detailed information pertaining to the 10% Arroyo Green Fee Fund. At a minimum, these funds should have been listed as restricted funds within the Golf Course Fund. As of June 30, 2000, the 10% Arroyo Green Fee Fund has been segregated from all other Golf Course related transactions and are now reported separately on the City's financial statements. **Attachment 5** provides a recap of the accumulated 10% Arroyo Green Fee Fund revenues received by the City/Rose Bowl Operating Company (RBOC) through December 31, 2000.
2. **Capital Expenditures.** Beginning in fiscal year 1987, the City Board of Directors/City Council began appropriating funds from the 10% Arroyo Green Fee Fund for various capital projects. **Attachment 6** represents an accumulative fiscal recap of the projects funded directly with 10% Arroyo Green Fee Fund revenues. The various agenda reports and/or budget documents that authorized the appropriation and expenditure of these Funds are also referenced and attached.

- Golf Course Cart Barn (**Attachment 7**). This project was approved on October 13, 1986 and was for the construction of a cart barn at the southeast corner of Brookside Golf Course. The original appropriation was \$96,400. This amount was increased to \$112,662 on March 21, 1989 (**Attachment 8**). A total of \$112,662 was spent and this project is now closed.
- Washington Snack Stands (**Attachment 9**). This project was approved on August 17, 1987 and was for new roof rafters, roof sheathing, fascia, insulation and other repairs to the snack stand on Course Two. The original appropriation was \$20,000. A total of \$21,694 has been spent. This project has been closed.
- Underground Fuel Tanks (**Attachment 10**). This project was approved on September 21, 1987 and was to make modifications to the underground fuel tank at Brookside Golf Course in compliance with state law. The original appropriation for this project was \$10,000. A total of \$1,500 was spent and this project is now closed.
- Cart Path Replacement (**Attachment 11**). This project was approved on March 31, 1989 and was for the general improvements of the cart paths along both courses. The original appropriation was \$120,000. A total of \$121,914 was spent. This project is now closed.
- Brookside Lobby/Golf Shop (**Attachment 12**). This project was approved on April 20, 1993 and was to accommodate the expansion of the Golf Shop into the then existing lobby area (paid for by John Wells Golf Shop) and the construction of a new lobby. The original appropriation was \$24,500. A total of \$24,500 was spent. This project is now closed.
- Brookside Golf Course Improvements (**Attachment 13**). This project was approved on January 9, 1995 and was established in response to an adopted 1994 green fee increase and was for general golf course improvements. The original appropriation was \$300,000. A total of \$24,628 has been spent. This project is still open.
- Brookside Clubhouse Irrigation (**Attachment 14**). This project was first included in the City's fiscal year 1993 Capital Improvement Budget and was for the renovation of the existing irrigation system in the planters around the exterior of the Brookside Clubhouse. The original appropriation was \$40,000. A total of \$33,959 was spent and this project is now closed.

- **Parking Lot D Resurfacing (Attachment 15).** This project was first included in the City's fiscal year 1993 Capital Improvement Budget and was for the resurfacing of Parking Lot "D" south of Brookside Golf Course. The original appropriation was \$267,000. A total of **\$156,216** was spent. This project is now closed.

The City Council will note that two of the projects listed above over spent their final appropriation by a total of \$3,608 (\$1,694 and \$1,914, respectively). This over expenditure was covered by the 10% Arroyo Green Fee Fund and the current ending cash balance reflects this. In addition, when a project is closed and the final expenditures come in below the appropriation, funds are released back to the 10% Arroyo Green Fee Fund. This too is reflected in the current cash balance. Finally, if a project is still open and there is an unspent balance, the funds are reflected in the 10% Arroyo Green Fee Fund cash balance, however, are not available to be appropriated to another project until the original project is closed. Currently, there is only one project that falls under this category and has an unspent balance of \$275,372.

3. **Certificates of Participation - 1992.** In fiscal year 1992, the City Council authorized the refunding of the 1987 Certificates of Participation (**Attachment 16**). As part of this action, the Council authorized the capitalization of 10% Arroyo Green Fee Fund for projects contained in the Lower Arroyo Master Plan or other designated projects within the Arroyo Seco. In this agenda report, it was written:

"...staff has concluded that it is feasible to include the capitalization of funds for proposed capital projects in the Arroyo Seco with the refunding of the Certificates of Participation (1987 Capital Improvements Project). The area of the Arroyo Seco has been stipulated because there is a revenue source that provides exclusively for capital improvements to the Arroyo Seco, and a need exists for immediate capital work in the Arroyo Seco area. As most of you know, a capital improvements fund within the Golf Course Fund of the City receives 10% of green fees revenue each year from the American Golf Corporation pursuant to a contract between American Golf and the City. These funds are separate from other contract arrangements which require payments to the Golf Course Fund, and are reserved only for capital improvements in the Arroyo Seco area. Last year, this revenue was \$237,000."

The agenda report goes on to say:

"It is staff's recommendation that this annual contribution be capitalized and included in the refunding issue in order to fund projects identified in the Lower Arroyo Master Plan, or other designated projects in the Arroyo Seco. By assuming annual payments of \$230,000 from this revenue source, a 20 year life of the debt, and a 6.5% interest rate, the City would be able to

capitalize approximately \$2,700,000 in renovations to help fund projects identified by the Lower Arroyo Seco Master Plan, or other capital projects in the Arroyo Seco.”

The COP's, dated July 1, 1992 (**Attachment 17**) were issued and the \$2.7 million was set aside for future projects. To date, \$2,371,151 of the original \$2.7 million has been spent. Taking into account the interest earned on the unspent bond proceeds, as of December 31, 2000 there is approximately \$859,112 in 1992 COP proceeds and interest available for additional projects. Below is a recap of the projects for which the \$2.371 million was spent (**Attachment 18**).

- Renovation of Fannie Morrison Building (**Attachment 19**). This project was for the renovation and rebuilding of two buildings within the Fannie Morrison complex. The appropriation from bond proceeds for this project of \$420,984 was reduced to \$390,984 on August 29, 1999 (**Attachment 20**). A total of \$316,438 has been spent to date for design work on the Kidspace Museum (as approved in contract between Kidspace and the City. This project is still open.
- Center Arroyo Master Plan (**Attachment 20**). A contract was let to Benshoof, Withers and Sandgren to prepare the Central Arroyo Seco Master Plan. Multiple funding sources were identified to pay for this contract. The original appropriation transferred from the Fannie Morrison Building project to the Planning Department's operating budget was \$30,000. A total of \$30,000 was spent. This project is closed.
- Lower Arroyo Master Plan (**Attachment 21**). This project is for the Lower Arroyo Master Plan, with the intent to restore the Lower Arroyo to a more natural state with free flowing water while revitalizing the Arroyo Seco and meeting the varied recreational needs of the community. The original appropriation was for \$250,000. A total of \$35,055 has been spent. This project is still open and remaining funds are being held for implementation of the Master Plan when approved.
- Brookside Park Landscaping – Jackie Robinson Field (**Attachment 22**). This project provides for the design and installation of an irrigation system and landscape planting of the existing planters located behind the bleachers. The original appropriation from the Arroyo Fund was for \$75,000. A total of \$54,948 has been spent. This project is still open.
- Brookside Park Restrooms (**Attachment 23**). This project was for the remodeling of an existing restroom and the construction of a new one. The existing restroom in the center of the park on the right field side of the center ball diamond was remodeled to make it disability accessible. The existing restroom at the Jackie Robinson Field was demolished and a new restroom constructed. The total

appropriation for this project was \$304,479. A total of **\$304,479** has been spent. Technically this project is still open. A memorandum from the Department needs to be put on file requesting that this project be closed.

- Various expenses related to the 1996 Capital Improvement Program at the Rose Bowl (**Attachment 24**) (there is additional discussion regarding these funds in Section 4, below). This included comprehensive professional services such as surveying, environmental consultation, acoustical engineering, etc. that support improvements such as restrooms, thin-profile seating, accessibility improvements, and sound systems. The original appropriation for this project from this source was \$2,000,000. Of this amount, **\$1,660,231** was actually spent. Technically this project is still open. A memorandum from the Department needs to be put on file requesting that this project be closed.

4. **Certificates of Participation – 1996.** In September 1995, staff presented a series of recommendations to the City Council in order to fund capital improvements at the Rose Bowl (**Attachment 25**). Recommendation 1 of the agenda report stated:

“Approve a capital financing plan that calls for the issuance of up to \$21,500,000 of Certificates of Participation that generates a construction fund of \$19,000,000 (additional \$2,500,000 is required for reserve fund and financing costs) for the capital plan. This construction plan incorporates the assumptions as outlined in the background portion of this report”.

Recommendation 2 of the agenda stated:

“Approve, in concept, a major capital expenditure at the Rose Bowl of \$22,500,000 (\$19,000,000 from Certificates of Participation, see above, \$2,000,000 from Lower Arroyo Bonds and \$1,500,000 from the Golf Course Fund)”.

Based upon these approved recommendations, \$2 million of unspent 1992 COP proceeds were allocated to the Rose Bowl project. As noted above, \$1,660,231 of this amount was eventually spent. A careful review of the attachments 3B, 4A, & 4B to **Attachment 25** indicates that it was contemplated that the 10% Arroyo Green Fee Fund would be made available to cover the debt service on the 1996 COP's should Rose Bowl and other golf course revenues not be sufficient to cover the debt service. This was intended to add another layer of protection to the General Fund. As such, while not clearly delineated in the agenda report, the reference to the 10% Arroyo Green Fee Fund in the 1996 COP agenda report and the City Attorney's opinion that eligible projects for the 10% Arroyo Green Fee Fund include the Rose Bowl and Golf Course, one would conclude that the debt service on the \$2 million from the 1992 COP's should be supported from the 10% Arroyo Green Fee Fund as originally stated in the 1992 Agenda report (**Attachment 16**) and not the Rose Bowl Fund and that the 10% Arroyo Green

Fee Fund should be a backstop to the debt service on the 1996 COP's should it be necessary.

The fiscal picture regarding the \$1.5 million in "Golf Course" funds is not as clear. At the time this agenda report was presented to the City Council, the only Golf Course funds available were 10% Arroyo Green Fee Fund. What is not clear is whether or not the City Council was aware of that and whether or not it was the City Council's intention to use 10% Arroyo Green Fee Fund versus just the other Golf Course funds for this project. This is somewhat of a moot issue since no expenditures were actually charged against "Golf Course" funds for the 1996 Project. All costs associated with the 1996 Rose Bowl Capital Improvement Program were charged to either the 1992 COP's or the 1996 COP's.

5. **Recap of Sources and Uses of 10% Arroyo Green Fee Fund.** Three separate recap schedules have been prepared and attached, each depicting a different methodology for allocating debt service payments on the 1992 COP's. Staff recommendation stated above refers to **Attachment 27**, below. While it is clear that the original intent of the City Council when the 1992 COP's were first issued was to use the 10% Arroyo Green Fee Fund to pay the debt service on the \$2.7 million (**see Attachment 16**), it is not clear what the City Council's intent was once it allocated \$2 million of these funds to the Rose Bowl project. There is no documentation that staff could locate that would even indicate that the City Council even discussed or considered this. As a result, staff has prepared two additional "Sources and Uses" analyses (in addition to the original version previously distributed) relating to the allocation of the 10% Arroyo Green Fee Fund to debt service. These are discussed in greater detail below.

Attachment 26 represents the sources and use of 10% Arroyo Green Fee Fund originally presented to the BEC on December 6, 2000 (updated with December 31, 2000 revenue information). This schedule reflects a 69.14%/30.86% debt service split between the Rose Bowl Fund and 10% Arroyo Green Fee Fund based upon the percentage split of actual expenditures to date. While this is the most conservative split, staff now believes that this method of allocating debt service is inconsistent with previous City Council actions.

Attachment 27 represents the scenario where 100% of the debt service is paid by the 10% Arroyo Green Fee Fund. After carefully reviewing the documents, it would appear that this is the alternative consistent with prior City Council direction.

Attachment 28 represents the scenario where the debt service on the \$2.7 million is still pro-rated between the 10% Arroyo Green Fee Fund and the Rose Bowl Fund, however, is done so based upon a closer approximation of when the dollars were spent and based upon the total available dollars (principal plus accrued interest). Since the accrued interest has not yet been appropriated by the City Council, the debt service on this portion of the bond proceeds is being allocated to the 10% Arroyo Green Fee Fund. Should the City Council wish to have the Rose Bowl Fund pay for a pro-rated portion of the debt service, this approach represents a more equitable allocation of debt service.

6. **Amendments to the Agreement with American Golf.** Attached for further reference are additional amendments to the Agreement between the City and American Golf, including the subsequent assignment of the City's interest to the Rose Bowl Operating Company (RBOC). None of these amendments seem to impact the 10% Arroyo Green Fee Fund, except to the extent green fees are increased and additional 10% Arroyo Green Fee Fund revenue is generated.

On July 9, 1986, Agreement 12,651 was amended (**Attachment 29**) to modify the Capital Improvement Program described in the original agreement.

On May 20, 1987, Agreement 12,651 was amended (**Attachment 30**) to adjust the fees charged by American Golf.

On July 1, 1987, Agreement 12,651 was amended (**Attachment 31**) to allow the City implement paid parking on the golf course.

On May 10, 1988, Agreement 12,651 was amended (**Attachment 32**) to provide for a green fee increase.

On November 3, 1992, Agreement 12,651 was amended (**Attachment 33, the Agenda Report and Attachment 34, the Amendment**) to extend the terms of the Agreement, increase the minimum monthly payments to the City/RBOC during the extension period, and increase American Golf's funding for capital improvements.

On March 31, 1995, Agreement 12,651 was amended (**Attachment 35**) to provide for a green fee increase and amend the Capital Improvement Program.

On September 29, 1998, Agreement 12,651 was amended (**Attachment 36**) to assign the City's interest to the RBOC. In addition, Section 9 was split into two sub-sections, 9.1 and 9.2. Section 9.1 added additional provisions to the Agreement and states, "From each green fee paid from April 15, 1998, American shall deduct one dollar (\$1.00) and pay it to either RBOC or City for a capital improvement fund for future projects related to the development of the Golf Courses. All specifications associated with such projects shall be reviewed and approved by the General Manager. American agrees that RBOC shall have custody and control of this fund. RBOC agrees that American may pay such monies to either RBOC or City on or before August 20th and February 20th of each year before August 20, 1998. American has voluntarily agreed to undertake this contribution program and understands that it is not a surcharge or tax imposed by government and agrees not to characterize, promote or advertise it as a surcharge or tax.

The language in Section 9.2 parallels the original wording of Section 9 of the original agreement, with some minor amendments to reflect the assignment of the agreement to the RBOC. All references to the City are replaced with the RBOC and all references to the City Manager now refer to the General Manager of the RBOC.

7. **Responses to Questions from the City Council and Community.** During the December 6, 2000 BEC meeting, several questions were raised by Committee members. In addition, a few letters were received with additional comments and/or questions (**Attachments 37 & 38**). It is staff's belief that most of these questions have been addressed with the information presented in this report. Some questions appear to be rhetorical in nature and staff did not try to address these.

FISCAL IMPACT

Depending upon the methodology agreed to for allocating debt service, as of January 31, 2001, the 10% Arroyo Green Fee Fund cash balance is between \$1,508,142 and \$2,469,892. If the approach reflected in **Attachment 26** is approved, there will be no change to the financial status of the 10% Arroyo Green Fee Fund, the General Fund or the Rose Bowl Fund. If the approach reflected in **Attachment 27** is adopted (staff's recommendation), the cash balance in the 10% Arroyo Green Fee Fund would be reduced by \$961,750. Of this amount, \$694,647 would be returned to the General Fund to reflect the amount paid by the General Fund on behalf of the Rose Bowl Fund prior to fiscal year 2000, while \$267,103 would be returned to the Rose Bowl Fund to reflect fiscal year 2000 and 2001 payments. If the approach reflected in **Attachment 28** is approved, the cash balance in the 10% Arroyo Green Fee Fund would be reduced by \$536,482. Of this amount, \$467,925 would be returned to the General Fund to reflect the amount paid by the General Fund on behalf the Rose Bowl Fund prior to fiscal year 2000 and \$68,557 would be returned to the Rose Bowl Fund to reflect fiscal year 2000 and 2001 payments. Finally, if the approach reflected in **Alternative 1** is approved (an alternative discussed at the February 7th BEC meeting), the cash balance in the 10% Arroyo Green Fee Fund would be reduced by \$449,451. Of this amount, \$421,526 would be returned to the General Fund to reflect the amount paid by the General Fund on behalf the Rose Bowl Fund prior to fiscal year 2000 and \$27,925 would be returned to the Rose Bowl Fund to reflect fiscal year 2000 and 2001 payments. The difference between each option is how debt service on the 1992 bonds is allocated. The impact each option is captured in the chart below.

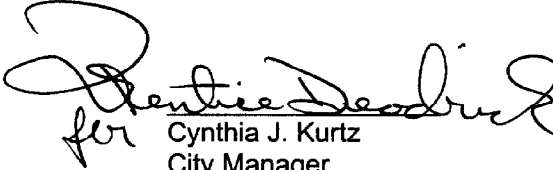
IMPACT ON 10% ARROYO GREEN FEE FUND CASH BALANCE

| | 1/31/01 Total Cash Available | Amount Returned to General Fund | Amount Returned to Rose Bowl Fund | 1/31/01 10% Arroyo Green Fee Fund Cash Balance |
|------------------------------|------------------------------------|--|--|--|
| Attachment 26 Version | 2,469,892 = | 0 + | 0 + | 2,469,892 |
| Attachment 27 Version | 2,469,892 = | 694,647 + | 267,103 + | 1,508,142 |
| Attachment 28 Version | 2,469,892 = | 467,925 + | 68,557 + | 1,933,410 |
| Alternative 1 | 2,469,892 = | 421,526 + | 27,925 + | 2,020,441 |

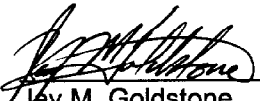
Funds returned to the General Fund could be used for any purpose, including, park improvements in the Arroyo or other areas of Pasadena. Funds returned to the Rose

Bowl Fund could be used to fund unmet capital requirements of the Rose Bowl, pay down debt service on existing outstanding Rose Bowl bonds, build up a reserve, or to meet any other financial need of the RBOC. Any decision to spend any funds returned to either the General Fund or Rose Bowl Fund would require City Council approval.

Respectfully submitted,


for Cynthia J. Kurtz
City Manager

Approved by:


Jay M. Goldstone
Director of Finance

NOTE:

FOR EASE OF REFERENCE, ATTACHMENTS 26, 27 AND 28 AS WELL AS ALTERNATIVE 1 HAVE BEEN SPECIFICALLY ATTACHED TO THIS AGENDA REPORT. ALL ATTACHMENTS REFERENCED IN THIS AGENDA REPORT, INCLUDING THE ABOVE, HAVE BEEN INCORPORATED INTO THE MAIN BINDER/ BOOKLET.