

# Agenda Report

DATE: DECEMBER 11, 2006

TO: CITY COUNCIL

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: MEMORANDUM OF UNDERSTANDING AND MANAGEMENT AGREEMENT BETWEEN THE CITY AND PASADENA ICE SKATING CENTER AND AMENDMENT TO THE AGREEMENT FOR ARCHITECTURAL AND ENGINEERING DESIGN BETWEEN THE CITY AND THE ALBERT GROUP ARCHITECTS FOR A PROPOSED NEW ICE SKATING FACILITY LOCATED BETWEEN FOOTHILL BOULEVARD AND ORANGE GROVE BOULEVARD

## RECOMMENDATION

It is recommended that the City Council:

- 1. Approve a Memorandum of Understanding between the City and Pasadena Ice Skating Center (PISC) related to the terms in which PISC will vacate its existing ice rink facility in the Civic Center.
- 2. Approve the proposed business terms negotiated between the City and the Pasadena Ice Skating Center for the management of a new ice rink facility and authorize the City Manager to execute a Management Agreement between the City and Pasadena Ice Skating Center that incorporates the approved business terms.
- 3. Adopt a Resolution declaring the City's intention to reimburse itself from the proceeds of one or more tax-exempt financings for certain expenditures made and/or to be made in connection with the Pasadena Ice Sating Rink Facility.
- 4. Authorize an increase of \$171,000 to the not to exceed amount of contract 18,912 with the Albert Group Architects thereby increasing the not to exceed amount \$690,250 to \$861,250.
- 5. Amend the FY 2007 Capital Improvement Program (CIP) Budget to reflect a revised total estimated project cost of \$16,200,000 for the Pasadena Ice Rink Facility Project (71144).

 Recognize and appropriate \$ 1 million from Pasadena Center Operating Company Unappropriated Fund Balance to Capital Projects Account # 71144 (Pasadena Ice Rink Project)

#### BACKGROUND

On August 8, 2005 the City Council amended the FY 2006 Capital Improvement Budget to include a new project in the "Municipal Buildings and Facilities" section titled, "Pasadena Ice Rink Facility". This project was approved by the City Council to assist the Pasadena Ice Skating Center (PISC) to find a new location for the ice skating facility that is currently located in the Civic Center. It has been the desire of the Pasadena Center Operating Company to relocate the ice rink and restore the historic ballroom as part of the civic center expansion plans.

At the August 8<sup>th</sup> meeting the City Council approved in concept the proposed business terms to be incorporated into a management agreement. The City Council directed staff to return to the Finance Committee and City Council when the final terms had been agreed upon and the management agreement has been completed. The Council also directed staff to include in the business terms clarification of the division of duties between what the City's responsibilities are related to maintenance and repairs of the new facility and what the management team's responsibility are regarding the facility.

Over the past year staff has been working toward the completion of a management agreement between PISC and the City and a Memorandum of Understanding (MOU) which sets forth the terms in which PISC will terminate its ice rink lease with the PCOC and vacate the Civic Center. The Memorandum of Understanding and the Management Agreement are attached as Exhibits 1 and 2. The clarification related to maintenance and repairs are set forth in Section 3.2.1 and 3.2.2 of the Management Agreement.

Staff has continued its work with the architect in refining the scope of the project and updating the financial structure most appropriate to pay for the cost of construction. The following sections provide a summary of the revised Scope of Development and the financing structure for the project.

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## SCOPE OF DEVELOPMENT

The proposed project is to be located between Orange Grove and Foothill Boulevards. The proposed project is adjacent to the newly constructed Vina Vieja Park on the north and Pasadena City College (Community Education Center) on the south. To the east is property owned by Southern California Edison and on the west is the Los Angeles County Flood Control Channel. The project involves the construction of an approximately 62,000 square feet, one story commercial recreational ice rink facility (containing two NHL size ice rinks), a spectator seating requirement and surface parking for approximately 143 parking spaces. Other amenities include a food preparation area, offices, skate rental, locker rooms with showers, restrooms, lobby/waiting area, a small retail shop and small eating area.

Currently, fifty percent construction documents have been completed. The cost estimate developed at this stage revealed that the project is not feasible from a financial standpoint based on revenue projections prepared by PISC. During the process of preparing construction documents, it was determined that the cost of the project is higher than initially reported to the City Council. The increased cost of the project relates to site issues. The cost of providing utilities due to distance from the nearest point of connections, discovery of uncompacted soil condition and the development of foundation design, methane gas mitigation and Leed compliance requirements were not known at the beginning of the project.

In addition to these, staff incurred the cost of redesigning the project to match the project finances. A design solution has been developed to address these issues in a cost efficient manner while being responsive to the needs of PISC. In order to reduce construction cost, staff evaluated program reduction options that will not result in direct revenue impact based on the initial proforma. The resultant effect is that the volume of the structure has been reduced and the spectator seating has been reduced from 500 to 325 seats. This revised design is projected to save approximately \$2 million and is a project design solution that has been developed to mitigate the increased cost to the project and stay within the fiscal parameters of the project. The proposed redesign will require additional architecture and engineering professional service fees to implement and incorporate the resolution of the previously unknown issues into the project. The additional fees as outlined above will add a total \$171,000 to the cost of the design. See attached Exhibit 3 for the architect/engineer fee break down.

#### **PROJECT FINANCING**

At the time the City Council approved the ice rink project the estimated total project cost was \$12 million. The \$12 million project cost included \$10 million hard construction cost and a \$2 million PCOC commitment for off site improvements, relocation and professional services. However the project has increased in cost over the past year due to increasing cost of construction and site issues. The total project costs are now estimated at \$16.2 million. However the development proforma for the project indicates that the revenue stream for the project can only support a \$13.2 million financing leaving a \$3 million gap. This gap will be funded by the initial \$2 million PCOC commitment and an additional \$1 million approved by the PCOC Board on November 20, 2006. It is proposed that the City issue Certificates of Participation (COPs) to pay for the cost of construction. The COPs will be paid from the revenues generated from the ice rink project. The gross revenues from the project are estimated to be approximately \$2,090,000 in the first year of operation and are projected to grow

over time. The COPS will be tax-exempt and in today's interest rate environment, it is estimated that the lowest cost of financing will be bonds with a synthetic fixed interest rate of approximately 4.25% for a thirty year term. An updated proforma is attached as Exhibit 4 related to the updated financing structure. The proforma indicates that the project will experience modest deficits over the first five years. It is expected that the project will require an average annual subsidy of \$10,000 to cover all the cost of operating the ice rink. If actual results significantly deviate from the projected numbers the level of subsidy will be impacted positively or negatively based upon on the project's actual financial performance. Similarly, if interest rates fluctuate prior to pricing the proposed bond issue, the amount of the debt service will increase or decrease based on the direction of the interest rates change, and therefore, impact the projected subsidy level. Upon Council approval of the project, staff will return to the City Council for approval of the financing structure and the COPs.

PISC will borrow \$350,000 from the City and will be used to pay for project cost. This includes \$160,000 in costs associated with the termination of its current lease and the restoration of the Ballroom to its pre-existing condition. The obligation to pay the \$350,000 to the City will be evidenced by a promissory note and loan agreement. PISC will be responsible for this note including interest assessed at 5.5% per annum.

The City Council is also being asked to adopt a reimbursement resolution. The requested resolution allows the City to reimburse itself for certain expenditures made for capital improvements and other expenses related to the Ice Rink project. The Reimbursement Resolution provides the City the ability to reimburse itself for expenditures made 60 days prior to this resolution and up to 18 months from the date of the expenditures are made.

#### **FISCAL IMPACT**

The projected revenues and expenses as verified by the outside consulting firm of Rosenow Spevacek Group, Inc. indicate that the net operating income generated by the facility can support a bond issue not to exceed \$13.2 million using current market financing rates. The projected proforma and the proposed financing provide no debt service coverage in the initial years of the project's operation, and therefore make the project a very interest rate sensitive underwriting. Given the assumptions used, it is projected that a cumulative \$53,000 subsidy will be required in the first five years of operation. A sensitivity analysis indicates that if revenues fall short by 10%, approximately \$200,000 annual subsidy will be required to cover the projected operating cost and debt service on the bonds, and if rates increase by 0.5%, an additional annual \$67,000 will be required to cover the debt service on the proposed bonds.

Funds are available for the architect's contract amendment in account number 71144 based upon previous appropriations. The amendment to the FY 2007 CIP will allow this revised project cost to be reflected.

Respectfully submitted,

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