CITY OF PASADENA INCORPORATED JUNE 1886

Agenda Report

TO:	CITY COUNCIL	DATE: DECEMBER 15, 2008
THROUGH:	FINANCE COMMITTEE	
FROM:	CITY MANAGER	
SUBJECT:	ICE RINK FUNDING PLAN	

RECOMMENDATION:

The following report is for information only, and provides the funding plan for completing the Ice Rink project.

BACKGROUND:

The project involves the construction of an approximately 65,000 square feet, one-story commercial recreational ice rink facility (containing two NHL-size ice rinks), a spectator seating area 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 a small eating area. The proposed project is to be located between Orange Grove and Foothill Boulevards. The proposed project is adjacent to the newly constructed Viña 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 (SCE) and on the west is the Los Angeles County Flood Control Channel.

The total estimated cost for this project is $26,625,000 and includes design, cost of construction, construction contingency, and predevelopment cost (utility undergrounding, studies) associated with the site between Orange Grove and Foothill. The construction estimate for the project is $19,500,000 and is based upon last construction bids and the integration of changes made to the project to reduce constructions costs. The cost for construction of this facility is approximately $300 per square foot.

There are four major factors that have driven up the cost of this facility associated with this location: 1) the cost of the pile foundation; 2) the cost of utility connections; 3) traffic signal; and 4) more than 500 feet of roadway construction for access to site. Because the soil conditions are basically uncompacted sand fill from the adjacent flood control channel, a structural system must be installed to provide the required support for this building. That cost is $3.9 million; a conventional slab on grade foundation would cost approximately $1 million, a difference of $2.9 million. Because the building is so far away from any availability utilities (power, sewer, water) a cost of $1.1 million is estimated for utility connections. The city is also required to install a traffic signal and 500 feet of roadway/driveway to gain access to this site at a cost of $500,000. If this site was in an area ready for development, the cost of utility connections would be at most half this cost. If these four site specific factors were removed from the cost of construction for comparison purposes, the cost per square foot of the ice rink facility is approximately $230.

There have been two Ice Rink projects constructed in the Los Angeles area since 2000. The Valencia Ice Skating Facility is an 85,000 square foot, two ice rink facility completed in 2001 at a cost of approximately $10.5 million. This was a private development project with construction based upon pricing received in 1999. Their cost per square foot for construction was $123.50. The second project was the East West Ice Palace in Artesia, CA which was a 43,000 square foot two story building housing one ice rink. The cost of this construction was $5.25 million or $122 per square foot in 2003 dollars.

In reviewing building construction cost from the database of Engineering News Record for the period between 2000 and 2008, there has been a 45% increase in the cost of building construction in the Los Angeles Region. If we factor in the cost of a public bid and the increased premium associated with constructing a building to LEED Silver standards that could add an additional 25% to the cost of the project. If we utilize these factors and modify the cost per square foot for the Valencia Ice Rink, you would have a cost of $224 per square foot in 2008 dollars. This number compares favorably with the city's estimated cost of construction of $230 per square foot when modified to exclude all the site specific factors such as poor soil, long utility connections, and additional access improvements.

Using the draft proforma submitted by Los Angeles Kings/PIV, staff has been working with the investment bankers of Banc of America Public Finance Group to determine how large of a construction fund and related annual debt service, the annual net operating income projected for the facility will support. This analysis has included a number scenarios based on projected revenue and expense growth and debt service coverage levels.

Specifically, Los Angeles Kings/ PIV's original submittal anticipates that after a four-year start up period and beginning with the fifth year of operations, revenues will grow at a rate of 4% annually and expenses 3%. In addition, staff has analyzed how net operating income would be impacted if the growth rate in revenues and expenses were equal at a 3% and at a 4% annual rate, a more conservative approach. For each of these three scenarios, debt service coverage at 110%, 115% and 120% of annual debt service were analyzed. For the purpose of the analysis it was estimated that the amount to finance totaled $23,625,000 which equals an estimated project cost of $26,625,000 less the $3 million contributed to the project by the PCOC.

Based on these various scenarios there is a gap between what level of debt service the operations are projected to be able to support and the current estimated cost of constructing the facility. This past summer when interest rates on tax-exempt debt was in the low 5% range, the gap based on 120% coverage ranged from $1.3 million to as high as $6.7 million depending on which revenue/expenses growth scenario was used. Essentially, this means that based on the projections, the City would need to invest between $1.3 million and $6.7 million up front to reduce the size of the bond issue sufficient such that the debt service could be covered by the annual net operating income plus a 20% margin. It should be noted staff is currently in negotiations with the Kings/PIV to complete a management agreement and there are certain business points (management fee, issues associated with tax-exempt financing and public benefits) that may impact projected gross revenues.

The recent problems in the financial markets have put upward pressure on tax-exempt rates. Current information indicates that were the City to issue bonds for the construction of the facility at this time, the effective interest rate would exceed 6%. Consequently, the gap referred to above would increase to between $5.7 million and $8.8 million, based on the same estimated project cost of $26.6 million.

While the bond market is still suffering dislocation, the market for construction has softened considerably in recent months due to the economic downturn. One means of taking advantage of this would be to move forward with the project now, financing it through internal borrowing, and at a later date, possibly one year when the municipal bond market has returned to normal, issue bonds and reimburse the City for funds advanced.

Such internal borrowing would involve advancing funds needed for the project, once determined through the competitive bidding process, from various funds of the City. The advance would be in the form of an interfund loan payable at the City's earning rate, currently 3.5%. Once the ultimate financing is competed, the interfund loans would be repaid, however, the City cannot use bond proceeds to pay the interest portion of the advance, therefore that portion would be an expense to the General Fund.

The advantages of such an approach include taking advantage of current market conditions for bidding, which may reduce the total project cost by several millions of dollars thus improving the overall economics. Financing the facility after construction would allow it to be included in the pool of City assets used to secure the financing thus improving leverage. The potential risks include reducing cash balances in various funds which may affect compliance with cash reserve policies and the potential, albeit unlikely, that the City could not obtain financing or financing at a reasonable rate due to continued distortions in the financial market.

Respectfully submitted

for MICHAEL J. BECK
City Manager

Approved by:

Steve Mermell
Acting Director of Finance

Martin Pastucha
Director of Public Works

Jennifer Paige Saleh for
Richard Bruckner
Director of Planning and Development