

Agenda Report

TO: CITY COUNCIL **DATE:** AUGUST 3, 2009
FROM: CITY MANAGER
SUBJECT: PROPOSED ICE RINK FACILITY

RECOMMENDATION:

It is recommended that the City Council:

1. Direct staff to return to City Council by December 31, 2009 with a negotiated long term ground lease with Polar Ice Ventures that includes:
 - a. Construction of an ice skating facility with two sheets of ice substantially conforming to the plans developed by the City;
 - b. Public benefits program similar to that negotiated in the proposed management agreement;
 - c. First Source Local Hire Program and a commitment to provide an opportunity to those currently working at the ice rink in Pasadena;
 - d. Shift financial risk associated with construction and operation to Polar Ice Ventures; and
 - e. Exclusive partnership agreement between Polar Ice Ventures and the Los Angeles Kings.
2. Reject all bids received in response to the Request for Bids for construction of the Pasadena Ice Skating facility.

Alternatively, if the City Council elects to move forward with the management agreement structure, staff recommends that the City Council:

1. Find that the project was subject to adequate environmental review in the Initial Study approved and the Mitigated Negative Declaration adopted by the City Council for the Pasadena Ice Skating Facility on August 8, 2005 and that there are no changed circumstances or new information which would require further environmental review;
2. Approve the proposed Management Agreement between the City and Polar Ice Enterprises Pasadena for the management of a new ice rink

facility in substantially the form attached and authorize the City Manager to execute the Management Agreement;

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 Skating Rink Facility;
4. Accept the bid dated April 1, 2009, submitted by Mallcraft, Inc., in response to the specifications for the construction of the Pasadena Ice Skating Facility, reject all other bids received, and authorize the City Manager to enter into a contract in an amount not to exceed \$19,633,900, which includes the base bid of \$17,849,000 plus an allowance of 10% to accommodate any contingencies; and
5. Authorize the City Manager to approve any other documents related to the construction of the new ice rink facility with the exception of any financing documents.

EXECUTIVE SUMMARY:

Economic conditions have change dramatically since the process began to look for an alternative site and new facility for an ice skating facility. Most importantly in the past week the State of California has adopted a budget which will significantly impact the finances of the City and indications are that the State will likely need to take more severe actions to balance its budget in upcoming months. Embarking on a new capital project that requires substantial up front city investment of \$20 million provides too much financial risk for the city at this time. With the possible financing option made available through the Federal Stimulus program, it might now be financially feasible for Polar Ice Ventures (PIV) to finance the project and therefore take on both construction and operating risk.

Staff has recommended a deadline of December 31, 2009 for negotiations of a ground lease and the requirement to inform Council of the outcome of negotiations no later than January 11, 2010. If negotiations prove unproductive, staff will work with PCOC staff to prepare a plan to ensure operation of the existing facility after the current lease terminates in September 2011. This will provide PCOC and city staff approximately eighteen months to develop management and physical improvement plans for the existing facility.

BACKGROUND:

Since 1976 the Pasadena Ice Skating Facility has occupied space at the Pasadena Center, formerly used as a ballroom. However, the current facility is substandard and not in keeping with the quality of recreational facilities appropriate for a community such as Pasadena.

In August 2005, the City Council approved a capital improvement project for the relocation of the facility, thereby clearing the way for renovation of the historic ballroom. Under this plan, the ice rink is to be relocated to a new facility to be constructed on approximately four acres of City-owned parkland located between Orange Grove Boulevard and Foothill Boulevard.

In conformance with this plan, the proposed new facility has been designed, bids have been received and a management agreement for operation of the facility has been negotiated. Given a low bid of \$17.85 million, plus a 10% construction contingency for total construction cost of \$19,633,000, the estimated total development cost of the project is slightly more than \$24 million.

City Council directed staff to negotiate a management agreement with Polar Ice Ventures for operation of the proposed facility. Based on the cash flow projections contained in the pro forma the project pays for itself over a 30 year period, however, during the first 10 years of operation there is a cumulative loss of \$3.06 million, which could rise higher if revenues fall below projections and/or expenses exceed estimates. Consequently, some form of subsidy, either annually or an upfront contribution to 'buy down' the debt service will be necessary to cover at a minimum the first 10 years of operation. Additionally, the City would be responsible for operating expenses and debt service for the t life of the facility.

Proceeding with the facility at this time would accomplish a stated City Council objective of retaining ice skating as a recreational amenity in Pasadena while returning the historic ballroom back to the control of the Pasadena Center Operating Company (PCOC). Given the climate of the construction industry the current bid price is likely to be the lowest possible. The project has received its design review and entitlement and is ready for building permits. A management agreement has been negotiated with an experienced operator with a relationship with the Los Angeles Kings.

However, this project occurs during a time of fiscal uncertainty when the State of California is considering budget balancing options that may impact the City's revenues and overall the economy remains weak, further impacting City revenues. Moreover, the addition of debt to the City's balance sheet combined with these factors may likely have a negative affect on the City's bond rating which may impact future borrowing costs.

Staff is therefore recommending that the City Council direct staff to attempt to negotiate a ground lease with Polar Ice Ventures that provides the City with less risk and more financial certainty. This would result in shifting most of the construction and operating risk from the City to PIV and PIV would have more of an incentive to operative the facility in a more profitable fashion.

Prior evaluation of a ground lease appeared less feasible because of the interest rate sensitivity of the project. The recently adopted federal stimulus package provides a significant benefit to a project of this nature. Our portion of the package provides cities of 100,000 or larger that had significant increases in unemployment the ability to be a conduit for tax-exempt bonds that provide the flexibility for the bond proceeds to be used for private facilities at a tax exempt rate. The for-profit user would assume all financial risk associated with the bond payments.

The terms of the ground lease would be presented to the City Council for approval and staff would negotiate the following:

- a. P.I.V. would be required to have an exclusive agreement with the L.A. Kings for at least the first 10 years of the agreement.
- b. The facility would have to look and function substantially the same as the facility approval by the Design Commission and would be required to meet LEED silver requirements.
- c. The City would continue to secure agreements with PCC and SCE for access to the site and complete the infrastructure for the facility.
- d. The ground lease would require PIV to operate a public benefits program similar to that included in the current draft management agreement.
- e. PIV would use reasonable efforts to employ persons currently employed at the existing Pasadena Ice Skating Center.

Given these considerations, the City Council could choose not to proceed with either the management agreement or the ground lease. If the Council decides, at this time, not to proceed with the new facility, it is recommended that they direct staff to return to City Council by February 28, 2010 a proposal to renovate the ice skating facility at the Convention Center, as well as a management agreement with PCOC to operate the facility. Staff would work with the Convention Center staff and Board to develop a rehabilitation plan for the facility and evaluate options for managing the facility as the current lease terminates in September 2011. This action would preclude the rehabilitation of the facility as a ballroom until such time that a new facility can be built.

Project Access

To achieve access to the site of the proposed ice rink the City will need to enter into agreements with Pasadena City College (PCC) as well as Southern California Edison (SCE). These agreements have not been concluded however, significant progress has been made. Both PCC and SCE have agreed in principle to access agreements and are committed to getting those agreements finalized in the next few months.

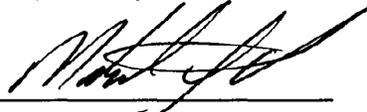
The agreement with PCC would cover a driveway located on PCC property that serves as entry to the student parking area. The student parking area itself is on SCE property. Staff has prepared a Memorandum of Understanding between the City and PCC that sets forth the business terms that the City is required to meet in order to use the PCC driveway for access to the ice rink site. These terms entail removing the island medians along Foothill Boulevard, installing a traffic light at the driveway entry, and completing improvements to the student parking area. These capital costs are included in the project costs and financing plan and would likely remain an obligation of the City should the ground lease option with PIV proceed.

In regard to SCE land required for access and overflow parking, staff is working with SCE on a long term lease. It is expected that the lease will include market rate compensation for the use of their property, which is included in the current operating pro forma.

FISCAL IMPACT:

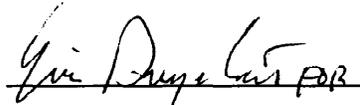
Staff will continue to negotiate ground lease with PIV based on the terms included in their report. If an agreement can be reached staff will return to City Council with an analysis of the financial impacts consistent with the terms outlined above.

Respectfully submitted,



Michael J. Beck
City Manager

Prepared by:



Frederick M. Jones
Senior Project Manager

Approved by:



Richard J. Bruckner
Director Planning & Development

Concurrence:



for Martin Pastucha
Director of Public Works

Attachments:

Attachment A – Key Term of Proposed Management Agreement

Attachment B – 30 year pro forma with 4% growth in revenue and 3% in expenses

Attachment C – 30 year pro forma with 3% growth in revenue and 3% in expenses

Attachment D – Bond sizing based on Year 5 stabilized revenues

Attachment E – Reimbursement Resolution

Attachment F – Responses to questions from City Council

Attachment G – Management Agreement between Polar Ice and City