Agenda Report

January 31, 2011

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Finance Department

SUBJECT: **ROSE BOWL RENOVATION PROJECT FINANCING UPDATE**

RECOMMENDATION:

It is recommended that the City Council receive and file this report.

BACKGROUND:

After numerous years and extensive analysis and negotiations, a feasible financing plan was developed for the renovation of the iconic Rose Bowl facility. The financing was completed on November 23, 2010, and took advantage of a favorable construction pricing market, a historically low interest rate environment, and a municipal debt financing program under the 2009 federal stimulus program called "*Build America Bonds*" (BABs). At the November 22, 2010 City Council Strategic Workshop, staff was directed to provide a financing update to the City Council and Finance Committee in January 2011.

DISCUSSION:

The bond sale produced approximately $156.4 million of proceeds. After the cost of issuance and a set-aside to pay capitalized interest, approximately $125.6 million of net bond proceeds remained for the Rose Bowl renovation project. This figure is approximately $3.8 million less than originally anticipated. The reduced net proceeds resulted from a volatile municipal bond market caused by an influx of municipal bonds due to the cancellation of the BABs program on December 31, 2010, and a decrease in demand for municipal bonds due to the announcement by the Federal Reserve of its "Quantitative Easing" policy. This policy entailed the purchase of $600 billion long-term, U.S. Treasuries by the Federal Reserve and raised fears of increased inflation. On the positive side, the City received AA+ ratings on the bonds and a confirmation of the City's AAA rating from both Fitch and Standard and Poors debt rating agencies.

Unfortunately, these ratings were not enough to offset the effects of the volatile market conditions. If the City had begun the pricing three business days earlier, an additional $7 million of net bond proceeds would have been realized. Unfortunately, the completed agreements which solidified a majority of the revenue supporting the proposed debt were not completed in time so that the City to could take advantage of the earlier date. Before proceeding with the sale, staff consulted the City's financing team and other independent market experts to determine if the pricing should be temporarily postponed in anticipation of an improved market. All parties concluded that the market would get worse, not better, and that the pricing should proceed. This proved to be the right decision. A two week delay would have reduced net bond proceeds by an additional $1.2 million to $1.4 million. By the end of December, the loss of net proceeds would have increased to approximately $2.5 million. Though the City sold the bonds at the best possible time given the market conditions, approximately $25 million remained unsold at the terms offered by the City. Bank of Montreal (BMO), the senior underwriter for the bond deal, agreed to purchase all $25 million of unsold bonds so that the bond sale could be completed.

The bonds will mature in 30 years as anticipated, but the blended interest rate at 4.98 percent is about 28 basis points or .28 percent higher than originally estimated; however, the City of Pasadena bond sale produced better results than other comparable entities that were in the market during the same period.

The reduction in net bond proceeds and a revision of the anticipated equity revenue sources increased the overall project shortfall from the approximately $7.5 million originally anticipated to approximately $12.3 million. Consequently, staff is re-examining all aspects of the project for reductions and/or additional revenue that could be used to address the project funding shortfall. Staff is confident that project reductions and Legacy contributions will be sufficient to close the gap and General Fund support will not be necessary.

The table below presents a comparison of pre-sale estimates and post-sale results of the bond transaction.

	Pre-Sale Estimate	Post-Sale Amount	Variance
Net Project Bond Proceeds	129,400,000	125,616,100	-3,783,900
Equity Contribution	15,000,000	14,000,000	-1,000,000
Total Sources	144,400,000	139,616,100	-4,783,900
Project Costs	151,900,000	151,900,000	0.00
Project Funding Gap	**-7,500,000**	**-12,283,900**	**-4,783,900**

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goals of maintaining fiscal responsibility and stability and of improving, maintaining, and enhancing public facilities and infrastructure will be advanced by this project.

FISCAL IMPACT:

The annual debt service ranges from $6.3 million to $15 million. Estimated annual revenue from the same period ranges from $9.9 million to $23 million. The revenues available for debt service would come from six primary sources: premium seating, horizon/field memberships, advertising/sponsorships, ticket & parking surcharges/premium ticket revenue, concessions, and miscellaneous revenues from meetings, banquets and other minor events. Additional funding would be received in the form of a $100,000 annual gift from the Tournament of Roses Association. Moreover, through the use of Capital Appreciation Bonds, the proposed financing has been tailored to take advantage of revenues which will be available for debt service once existing Rose Bowl debt is paid off in 2023. Impact to the General Fund will be mitigated through a number of measures including:

- A 1.475x debt service coverage factor to create a surplus reserve for potential unanticipated revenue shortfalls and/or capital needs
- Inclusion of terms in tenant lease agreements that require use of the stadium and continued revenue contributions that are co-terminus with the bonds
- Inclusion of terms in tenant lease agreements that provide an incentive for TOR and UCLA to help maximize project revenues
- Inclusion of terms in the UCLA lease agreement that allows the retention of revenue amounts over $250,000 of UCLA's share of revenues received from Horizon Level seating to be used for debt service, if necessary, on an annual basis
- Inclusion of a pre-funded debt service reserve.

Respectfully submitted,

ANDREW GREEN
Director of Finance
Department of Finance

Approved by:

MICHAEL J. BECK
City Manager