

COMMITTEE ON COMMUNITY IMPROVEMENT

September 7, 2004

5:30 PM

Chairman O'Neil called the meeting to order.

The Clerk called the roll.

Present: Aldermen O'Neil, Shea, Garrity, Smith

Absent: Alderman Lopez

Messrs.: R. Sherman, M. Lanoie, R. Ludwig

Chairman O'Neil addressed Item 3 of the agenda:

Continuing discussions regarding the Derryfield Country Club.

Randy Sherman, Deputy Finance Director, stated you should have a copy of the presentation in front of you. I do have a couple of others if anybody back here wants one. If you recall, this was actually approved by the Board about 18 months ago. We went through the design and bid phase and the prices came in much higher than we thought. We came back to the Committee and got the approval to sort of stray a little bit away from the agreement and go out and redesign and get bids. Those bids are right around where we thought they should be and now we are back in front of the Committee to request some changes in the agreement as it currently stands. I will just do a real quick refresher. I won't spend a lot of time on these early pages but again we just want to refresh your memory about the current facility and some of the deficiencies that exist. These are the deficiencies that were there 18 months ago and trust us they haven't gotten any better. The proposed facility, which is actually on Page 4 if you are following along, is actually a little bit smaller than we had originally talked about. We were talking about 10,000 square feet on each floor. It is a little bit smaller. The deck, I believe, has actually gotten a little bit bigger but it is going to contain the same features that we had talked about 18 months ago. It is still a two-story structure. It hasn't changed location. It is still on the East Side of the parking lot. Again, it pretty much has the same layout that we have seen. As we go through here you will see that there are some renditions in the presentation. The original agreement that we had with the developer was that the cost of the facility, including the demolition of the current facility was capped at \$2.2 million. The way that we had structured the deal in the past is we said if there were any costs over and above

that \$2.2 million they would be absorbed by the restaurant. What we are back for today is to request that the \$2.2 million be amended to \$2,650,000. Let me walk you through that and again there are some pictures here. I won't spend a lot of time looking at the pictures. If you have questions we can get to those afterwards. The project costs pretty much...

Alderman Shea interjected amended to what.

Mr. Sherman responded we are going from \$2.2 million to \$2.650 million. So it is an additional \$450,000. The project costs appear on the screen. This is pretty much how they breakdown. The reason that we are back here and we have gone from \$2.2 million up to \$2.650 million has to do with a number of issues. Again, we did go back out and have the facility redesigned. So there were some additional architectural costs that were incurred and along with that in doing the redesign on the architectural you had to redesign the mechanical and electrical. So that was roughly \$100,000. We have also found that there are some unsuitable materials under the parking lot and at the building site, which of course will add to the initial costs. The current building we had to put in an allowance for asbestos removal and then obviously there has been an increase in the lumber and steel costs as we noted down on the riverfront development as well. So that is really part of the issue of why we have gone from \$2.2 million up to \$2.650 million. This is really what we are really in front of the Board for is the financing proposal and making some amendments to it. Currently and again I am going to walk you through this screen, the deal calls for \$2.2 million. The Board has passed a Resolution for \$2.3 million. The extra \$100,000 was to give Parks & Recreation some money to pay for legal costs and some preliminary design and engineering work. That \$100,000 was set aside exclusively for the use of Parks & Recreation. Within the actual management agreement that we have with the restaurant, they would have \$2.2 million to build the building from the architectural phase until the end. What we are again asking for is that that get amended to \$2,650,000. The second feature that we are asking to change is under the current agreement there is no letter of credit requirement from the developer in this case. Under the new agreement we are adding a \$400,000 letter of credit. The reason we are adding that letter of credit is what we don't want to have happen is for the City to go out and put up \$2.650 million to build a restaurant and administration office and have no money left over to finish the building. The \$2.650 million does not include the bar. It doesn't include the kitchen fit-up. It doesn't include the walk-ins. There are a number of items that they are going to need that will add dollars to the project over and above that \$2.650 million. So what we wanted to do was insure that those funds would be available. We also have the \$400,000 letter of credit in place in the event that the \$2.650 million is insufficient to finish the actual construction of the building we would be able to draw on that letter of credit to make up some shortfalls. The third item...when we had set-up the debt service

schedule and actually maybe I will combine the third and fourth item up there. When we set-up the debt service schedule on the \$2.2 million we had based the calculation as if we were amortizing that \$2.2 million over a 20 year period. What that ended up was that the manager would actually pay 69% of the debt service. In order to allow them to absorb that \$450,000 because they are going to pay 100% of this increase...in order for them to do that they have asked that the debt be amortized over 25 years. Now that doesn't necessarily mean that the City will sell it over 25 years. We may still sell it over 20 years but what it does is it reduces the increase of their annual payment so that they can afford that \$450,000 but what it does and I will go back up to the third line is it changes the allocation from 69% of the debt service to 74.25% of the debt service. Now at the end of the day, under the old scenario or the current scenario that we are operating under, the total debt including principal and interest that the City would be paying was roughly \$1.1 million. Under the new scenarios the total amount that the City is paying is roughly \$1.1 million. So the City's position, even though we are adding \$450,000 to the bond, the City is still paying the same amount of debt service under both scenarios. The last thing that we are looking to change in the agreement...under the revenue sharing provision that we had is we were actually phasing in the percentage of gross that was coming back from the City. We were starting at a lower amount and over a couple of years we were getting up to the cap. That was to allow the restaurant sort of a grace period to get in, get events booked and actually ramp in. Under the new scenario we are eliminating the phase in. We are going right to the higher amount. Actually I believe the higher amount was supposed to be kicking in this coming January and obviously we don't have a facility. So rather than have a phase in period with a delay of the project we are going to eliminate the phase in and go right to the higher amount. Those are really the five changes that we are looking for. Again, this is really a rehash of what we currently have but it is a 25-year lease. Years 1-10 will be based on the debt service as we calculate it based on that 25 year amortization and then for Years 11-25 there actually is a CPI escalator in there. We do have a rate collar. The minimum increase is 3% and the maximum is 5%. Then again as far as the revenue sharing provision this is now the highest that you had under the current agreement and we are going to start with this right from the start. You can see on the bottom what the prior numbers used to be. It used to start at 0% for \$0 to \$1 million. 1% for \$1 million to \$1.6 million and then anything over \$1.6 million it was only 1.5% and now it is going to be 0, 1.5 and 2. A couple of points again that I would like to mention, we are asking that an additional \$450,000 be added to the Resolution. I guess it is actually a separate Resolution that we are bringing in but it would add to the financing package. Again, to emphasize the manager is picking up 100% of the additional cost of that \$450,000 so they are picking up the \$450,000 and all of the interest costs related to that. Again, this is an Enterprise fund operation so there is no impact on the general fund debt capacity. This \$450,000 doesn't take away from another project that you would

like to do on the general fund side. Again, what we are looking for is really the authorization on the bonds and then the authorization to make these amendments to the lease arrangement or the management agreement that we have. Those are really the changes. I can take questions or we can go back and look at some of the pictures if you would like.

Alderman Shea asked, Randy, if everything goes as it is supposed to and I am in favor of this as it were but when would the construction start and when would you anticipate it would finish.

Mr. Sherman replied the reason we kind of moved this thing along is they would like to sign the contract this month if they can. Being able to do that would really rely on two things and if they sign a contract this month they can get in the ground this fall. You have heard that from the hotel people and everybody else. They want to get in now. There would be two things that would be required in order to sign that contract. One, we would have to obviously get the bond passed and get the 2/3 votes on the bonds and the second thing would be to have the letter of credit in hand because we won't sign the contract unless we have that additional \$400,000 letter of credit.

Alderman Shea stated so you said that the person involved in the process is willing to do this and I am saying that according to what you are saying it would take maybe a month or two before and this could be finalized at the Board of Mayor and Aldermen.

Mr. Sherman responded the idea is if the Committee is satisfied with what they hear tonight we can move it to the full Board and maybe get the first vote from the full Board tonight and then it really depends on how quickly they can produce the letter of credit as far as when we can come back and ask for the second vote. I think the latest probably would be the first meeting in October, which I believe is the 5th or something like that but there is the possibility that if they can get their letter of credit together in two weeks we may want to come back and that would pick up two weeks in the construction season. The idea is to get it in the ground and if you can get that shell on you can work all winter. If you miss that then obviously you are in delay and you are in construction all next summer.

Alderman Shea replied I don't mean to beat this to death but assuming that everything goes accordingly and the letter of credit is in and the Aldermen okay it and they begin to do the work say in October when would the final date be...

Mr. Sherman interjected when would opening day be. April or May. You are looking at about an eight-month construction season if they can get in in the fall.

Alderman Garrity asked did you say that the \$2.65 million doesn't include fit-up costs for the restaurant.

Mr. Sherman answered within the \$2.650 million there is enough to get the billing done and there are also some of the costs to do some of that work but they are looking at an additional \$400,000 over and above this \$2.650 million. That is why we have that letter of credit in place. To actually finish off the kitchen, the petitions in the banquet room and those types of things that they want in order to get to opening day. The original agreement was that we would finance a "vanilla box." We would get them a plain basic building and then they would have to do all of the finishes.

Alderman Garrity asked and the debt payments on the \$2.65 million comes out of Enterprise. There is no impact on the tax rate?

Mr. Sherman answered correct.

Alderman Garrity asked what were the gross revenues for the restaurant in the past five years. The reason I ask is that part of the presentation talked about revenue sharing so I would hope you have that information for us.

Mr. Mike Lanoie stated it was \$1.35 million.

Alderman Garrity asked do you have anything in writing or are you just going to tell us off the top of my head.

Mr. Lanoie answered I can tell you off the top of my head. I don't have it in writing. It was \$1.35 million last year.

Chairman O'Neil asked when you say last year was it the last calendar year.

Mr. Lanoie answered yes the last calendar year.

Chairman O'Neil asked so that would be 2003.

Mr. Lanoie answered yes.

Chairman O'Neil asked that was \$1.3 million.

Mr. Lanoie answered \$1.35 million. It has averaged about an 8-10% increase over the last five years.

Alderman Garrity asked so five years ago you didn't make the \$1 million mark. Is that what you are telling me.

Mr. Lanoie answered no we were over \$1 million and that was without a banquet facility. In the new building we are going to have a 200-seat banquet facility that we expect around the second year should bring in revenues of \$600,000 to \$1 million.

Alderman Garrity asked what was the 2002 revenue.

Mr. Lanoie answered probably \$1.25 million.

Alderman Garrity asked and you don't have 2001 or 2000 or 1999 for me.

Mr. Lanoie answered it would be a little less than that.

Alderman Smith stated Randy I noticed the site demolition is \$250,000 but you have \$300,000 for soft costs. Can you explain that?

Mr. Sherman responded that would really be your engineering costs and the architectural. The architectural at this point I believe is close to the \$200,000 already.

Mr. Lanoie stated it is probably close to \$260,000.

Alderman Smith stated when you first came in the figure to be bonded was \$2.2 million and it came in at \$3.7 or \$3.2 million is that correct.

Mr. Sherman asked the initial bids.

Alderman Smith answered yes. What I am trying to do is I don't want anymore changes. I am all for the Derryfield Country Club but is this going to be etched in concrete that this is the final figure. You have been coming to us for about a year.

Mr. Lanoie replied yes. We have actual bids from contractors – signed bids with exact numbers.

Alderman Smith stated one other thing. I want to protect the golfers at Derryfield Country Club. If we pass this tonight and we go to the Board of Mayor and Aldermen for approval you are saying we would probably start in October and be finished with the clubhouse and everything around May at the latest.

Mr. Lanoie responded the contractors we talked to said seven to eight months.

Alderman Garrity asked Randy have you seen the documentation regarding the gross revenue for the past five years.

Mr. Sherman answered I have not but I believe they do file that at the Parks office.

Chairman O'Neil asked can we get that to the Aldermen tomorrow.

Mr. Ron Ludwig answered yes.

Chairman O'Neil stated I would like to entertain a motion. I think I speak for the entire Board when I say we hope this is the last time you come back on this. It might be three strikes and you are out next time. We do understand, I think, that the existing facility is old and tired and has a number of issues and this is the right thing to do. I think we are fortunate that we have a good partner in this with Mr. Lanoie and Mr. LaBerge and we can get this thing finally going and deliver it on time and on budget. With that, I would entertain a motion.

Alderman Smith moved to refer the bond resolutions and budget authorization to the Finance Committee with a recommendation that they be approved. Alderman Shea duly seconded the motion.

Alderman Garrity stated I am going to oppose this this evening because I don't have those gross revenue numbers in front of me.

Chairman O'Neil stated the recommendation will be to refer this to the full Board tonight. The full Board will have to take a vote but there will actually be a second vote. It is certainly your prerogative but there will be a second vote by the Board on this of which we will need 10 votes.

Alderman Garrity asked, Randy, did you do this finance package in your office.

Mr. Sherman answered yes.

Alderman Garrity asked and you didn't look at the gross revenues for the past five years.

Mr. Sherman responded had some projections that we were given to do the calculations and I had done something for Alderman DeVries and I was trying to see if I had it here with me but I don't. What we did was get the projected number. So as Mike is telling you that he was around \$1.2 or \$1.3 million...

Alderman Garrity interjected it is not that I don't trust him.

Mr. Sherman stated no and again we are working off of a different facility. So to work off the \$1.2 million we are figuring that it is almost going to double by that time.

Alderman Garrity stated I know but if they are going to share 1.5% or 2% of their gross revenue and you put a package together I would think that you would look at the documentation for the past five years just for the history of it.

Mr. Sherman responded that is what I was saying. It was projections and I did get the projections for a five-year period. It may even have been longer.

Alderman Garrity asked the past five years or the five years going out.

Mr. Sherman answered the five years going out.

Alderman Garrity stated well I think we would look at the five years in the past.

Mr. Sherman responded yes but Mike is telling you \$1.2 million and \$1.3 million. Those are the right numbers.

Alderman Garrity stated it is not that I don't believe him. I would just like to see them.

Mr. Lanoie stated we provide audited statements to Parks as part of our current lease on a yearly basis so they have all of that. They are all verifiable numbers.

Alderman Garrity stated I am just a little disappointed that Finance didn't look at the past five years for gross revenue and then put a finance package together for us. That is just an editorial comment.

Chairman O'Neil responded we will have that tomorrow. We have been assured of that.

Chairman O'Neil called for a vote on the motion.

Deputy Clerk Johnson stated I just want to clarify the motion and one other thing. There were two Resolutions and a budget authorization that were presented. Those are what would be recommended to be forwarded to the Board with the recommendation that they be referred to the Committee on Finance. The Committee on Finance tonight would presumably come out with an ought to pass and layover. Your recommendation is to refer the two Resolutions and budget authorization to the Board for referral to the Committee on Finance. You are also

in that process recommending the reacclimation of the management agreement and authorizing execution of documents to the extent that they meet all of the parameters that have been described tonight as part of the final package when it goes for final action by the Board. We would note that the Amending Resolution of the CIP refers to a Table IV Sources of General Obligation Bonds and we are checking now to see if it is Table IV or Table V so we may come into the Board with a slight amendment to that to make sure it is reflecting the right table.

Chairman O'Neil called for a vote on the motion as stated above. The motion carried with Alderman Garrity being duly recorded in opposition.

Chairman O'Neil stated I know this project kind of got off to a tough start and I know the Board has tried to bring some control to our construction projects. I think this emphasizes even more why we need control from Day 1 on these projects.

Alderman Shea stated I think what we are really doing is simply amending a particular project already bonded to include a \$400,000 letter of credit. That is simply what we are doing. We are not really changing any dynamics in terms of more obligation on the part of the City or anything else. Does that summarize it?

Mr. Sherman responded you actually have more protections now than when you originally passed it.

Chairman O'Neil stated other than the project will cost a little bit more to do now.

Mr. Sherman responded right.

There being no further business, on motion of Alderman Shea, duly seconded by Alderman Garrity it was voted to adjourn.

A True Record. Attest.

Clerk of Committee