



louisville arena authority

WWW.ARENAAUTHORITY.COM

**Board of Directors Meeting
January 28, 2008
9:00 a.m. EST
Kentucky International Convention Center
Louisville, KY**

DRAFT

Directors in Attendance: Mr. Larry Bisig, Mr. Neville Blakemore, Mr. Zev Buffman, Ms. Alice Houston, Metro Council President Jim King (Ex Officio), Ms. Cissy Musselman, Mr. James Patterson, Ms. Lindy Street, Mr. William E. Summers V, Mr. Dan Ulmer, Mr. Robert Woolery (via telephone), and Chairman Jim Host

Directors Absent: Mr. Todd Blue, Mr. Junior Bridgeman, Ms. Reba Doutrick, Vice Chairman Larry Hayes

Consultants and Staff of Arena Authority: Mr. Harold Workman, Executive Director; Mr. Mark Sommer, General Counsel; Mr. John Hilkene, PC Sports; Mr. Steve Hotujac, HOK; Mr. Tom Rousakis, Goldman Sachs; Ms. Helen Thompson, Assistant General Counsel

Welcome: Chairman Host

Chairman Host declared a quorum and convened the meeting. He welcomed newly-elected Metro Council President Jim King to the Authority.

DISCUSSION ITEM: Acceptance of the Minutes of December 10, 2007 Board Meeting – Chairman Host

Ms. Musselman moved to accept the Minutes of the December 10, 2007 Arena Authority meeting. The Motion was seconded by Mr. Summers, and the Motion passed unanimously with no abstentions.

DISCUSSION ITEM: Presentation of Financial Statements –Chairman Host

Chairman Host introduced Mr. Jerry Frantz, Director of Administrative Services for the Kentucky State Fair Board, who provided an overview of the draft financial statements for December 2007, the end of the Arena Authority's fiscal year.



P. O. Box 21179, LOUISVILLE, KENTUCKY 40221-0179
221 SOUTH FOURTH STREET, LOUISVILLE, KENTUCKY 40202
(502) 815-6963 PHONE / (502) 815-6962 FAX

Mr. Frantz advised that expenses through December 2007 were \$529,374. The statements include a new entry of \$14,001,583, which represents the purchase of the Humana building, and an entry of \$50,729, which reflects the Authority's exchange agreement with the Galt House. The statements also include an entry representing the Authority's agreement with Metro Louisville, whereby the Parking Authority of River City ("PARC") will reimburse the Authority for the design and construction of the Arena parking garage. The investment income earned through December is \$2,473,173 and the cash on hand for the period ending December 31, 2007 is \$33,230,626.

At the conclusion of Mr. Frantz's report, Chairman Host noted that the \$2,473,173 interest income earned is an important entry in the financial statements as it represents a contingency fund for the Authority.

DISCUSSION ITEM: Insurance Broker Presentation – Bob Woolery

Chairman Host advised that the Insurance Committee, chaired by Mr. Woolery, conducted extensive interviews with finalists to the Construction Insurance Broker RFP. Additionally, a long session was held with an attorney from Greenebaum Doll & McDonald who specializes in insurance matters. The proposals were scored, and Marsh was selected to present to the full Authority. Mr. Woolery reiterated that the Committee members independently scored the proposals.

Chairman Host introduced Mr. John Logan, Managing Director of Marsh. Mr. Logan introduced his associates, including Mr. Darrell Fuller, President of iServe, a local minority-owned insurance agency that will partner with Marsh on the Arena project. Mr. Logan advised that Marsh is the world's largest insurance advisory firm, with clients in more than 70 countries and a long history of serving clients in Louisville and throughout the Commonwealth.

Mr. Logan stated that Marsh has considerable experience with arena projects and has practices within the firm dedicated to sports, construction and public entities. Marsh provides insurance services for more than 60 professional sports franchises and has worked on numerous arenas (including the Miami Heat, Dallas Mavericks and Charlotte Bobcats), ballparks and stadiums. Mr. Logan explained that Marsh will design an insurance program for the Arena while it is under construction and will place the necessary insurance, including general liability, environmental and property. Mr. Logan stated that Marsh places more insurance premiums in the market than any other provider.

Mr. Woolery moved that the Arena Authority retain Marsh as its insurance broker. The motion was seconded by Mr. Ulmer. Chairman Host explained that the Insurance Committee negotiated a flat fee with Marsh, rather than a commission-based fee, in order to keep costs down. The fixed fee for Marsh to place construction insurance is \$200,000.

Ms. Musselman asked if the \$1.5 million that the Arena Authority budgeted for construction insurance would be sufficient. Mr. Logan responded that Marsh initially estimated the premium to be \$2 – \$ 2.5 million; however, the premium amount will

depend on the line of coverage, deductibles, and the extent of coverage. He assured the Authority that they will obtain the best deal in the market and will bring options to the Insurance Committee for its consideration.

Mr. Buffman advised the Authority that he contacted his associates with the Miami Heat regarding Marsh and was told that their relationship with Marsh was flawless.

Chairman Host called the question for vote, and the motion carried unanimously.

DISCUSSION ITEM: Demolition Services Provider – Dan Ulmer

Mr. Ulmer stated that demolition of the site is one of the most important aspects of the Arena project. He advised the Authority that the Construction Committee recently interviewed three finalists to the Demolition Services RFP and selected O'Rourke Wrecking, a Cincinnati-based demolition company, to present to the full Authority. He explained that O'Rourke's experience in the Louisville area, their close proximity to Louisville, as well as their presentation and price led to their selection.

Mr. Ulmer introduced Mr. Michael O'Rourke, President of O'Rourke Wrecking. Mr. O'Rourke explained that O'Rourke Wrecking Company is a full service demolition specialty contractor that has been in business for 45 years. They offer a cost effective, turnkey environmental and demolition package and will work in partnership with the Arena Authority on the project. They have an exemplary safety program and strive to maintain a safe working environment and safe project site. Mr. O'Rourke acknowledged that scheduling is extremely important and reported that they have extensive experience in dealing with time sensitive demolition projects. Further, Mr. O'Rourke advised that they carry \$12 million in general liability insurance, above the industry average.

Mr. O'Rourke provided a brief overview of some of O'Rourke's past projects, including demolition of the former Brinley Hardy Warehouse for construction of Louisville Slugger Stadium; the Cincinnati Reds Ballpark; Wheatland Tube Plant in Pennsylvania, which involved demolition and hazardous material abatement. Mr. O'Rourke explained that the Wheatland project included demolition of a large smokestack directly adjacent to an active electrical substation.

Chairman Host advised the Authority that five bids were submitted in response to the Demolition RFP. The number was narrowed to three by the Authority's consultant, Godsey & Associates. The cost (net of salvage value) is \$2,764,000. Additionally, O'Rourke agreed to pay a penalty of \$5,000 per day if the project is not complete on time. Chairman Host stated that this is extremely important because if O'Rourke is late, then the start of construction will be delayed.

Mr. Bisig asked if explosives would be used to demolish any of the structures, and Mr. Ulmer responded that the Humana Building will be imploded. Ms. Musselman asked if O'Rourke would advise neighboring property owners about the demolition process. Mr. O'Rourke responded that their public outreach effort will begin a few months prior to the

Humana building's implosion and will include both a public meeting and a series of meetings with neighboring property owners, as well as meetings with the police department, fire department and utility companies.

In response to Mr. Patterson's question regarding the salvage value of the site, Chairman Host responded that the \$2.7 million total demolition cost is net of salvage value. He explained that the gross bid was more than \$4 million, and the salvage value was deducted to arrive at \$2.7 million.

Council President King, who participated in the Construction Committee interviews, commented that he was impressed by the professionalism of O'Rourke's presentation and by the fact that O'Rourke owns its own in-house demolition company.

Mr. Ulmer moved that the Arena Authority engage O'Rourke Wrecking as its demolition services firm. The motion was seconded by Ms. Houston and passed unanimously. Chairman Host recognized Mr. Chris Hermann from LG&E, and he thanked LG&E for their participation in the Arena project.

DISCUSSION ITEM: PC Sports Update – Dan Ulmer

Construction Committee Chairman Ulmer asked Mr. John Hilkene to provide an update from PC Sports. Mr. Hilkene commented that he too was impressed by O'Rourke's presentation to the Construction Committee.

Mr. Hilkene advised that a representative from Mortenson was not in attendance, as Mortenson is finalizing its Guaranteed Maximum Price ("GMP"). Mr. Hilkene expressed his confidence that the construction cost estimate will be lower than the IGMP. Chairman Host reminded the Authority members that Mortenson's first IGMP was \$254 million and included a 15% contingency. He stated that the GMP, which is due on February 1, will contain a 6% contingency.

Mr. Hilkene reported that eight steel bidders have expressed interest in the Arena project. He stated that in contrast, two years ago the Lucas Oil Stadium project in Indianapolis received only one steel bid.

Mr. Hilkene reported that PC Sports has been working with HOK and UofL to finalize the Arena's interior designs. Also, he continues meeting with LG&E, whose project remains on budget and on schedule. Finally, he advised that representatives from Marsh and Greenebaum Doll & McDonald will meet on January 29 to discuss the Arena's construction insurance needs.

DISCUSSION ITEM: HOK Update – Dan Ulmer

Construction Committee Chairman Ulmer introduced Mr. Steve Hotujac, who provided an update from HOK. Mr. Hotujac reported that the 100% design development documents were issued by HOK on December 17. The items contained within the documents are currently being priced by Mortenson. He stated that on February 20, HOK

plans to submit its design development drawings for the Arena's parking garage. Further, HOK continues to refine the plaza design. He advised that in furtherance of the Arena Authority's goal of energy efficiency, the plaza lighting will meet the standards of the energy code and ASHRAE (American Society of Heating, Refrigerating and Air-Conditioning Engineers).

Mr. Hotujac introduced Mr. Brian Mirakian, who provided an update and presentation of the Arena's interior bowl and premium seating spaces. Mr. Mirakian reported that the color scheme within the Arena bowl will be primarily red with black accents. He advised that approximately 1000 club seats will be located on either side of the arena bowl and an additional 800 club seats will be accessed from the suite level. There are two stacked suite levels with 36 suites on each level, for a total of 72 suites. Additionally, the Arena will have four party suites. Mr. Mirakian also highlighted a 360° LED video board that will ring the entire fascia of the upper deck and a center-hung score board.

Mr. Mirakian presented images of the loge boxes and reported that the Arena will contain approximately 70 boxes with a configuration of four and six-person boxes. The loge boxes will feature rolling caster chairs with the UofL emblem and two counter tops - one for food display and a front counter that will have inset video panels. Patrons of loge boxes will have access to a loge lounge.

Mr. Mirakian stated that the north side of the Arena will feature a club lounge with views into the bowl, the concourse and the Ohio River. Designs of the club lounge will be unveiled at a future meeting.

Mr. Mirakian presented images of a typical suite layout. The suites will include 12 fixed seats, four barstools at a drink rail, and standing room for eight occupants for a total occupancy of 24. The suites' entry area will feature a hard wood floor with a painted emblem, similar to a basketball court. As currently designed, the suites will include full size refrigerators, a coat closet, black granite counter tops, and a side board for serving hot food. Suite holders will have a choice of three furnishing options.

Mr. Mirakian reported that 16 of the 72 suites are corner suites, which will accommodate five barstools at the drink rail and standing room for 10, for a total occupancy of 30. The four party suites will have a total capacity of 54 - fixed seating for 24, eight bar stools at the drink rail, six bar stools at a back bar and standing room for 16.

Mr. Mirakian advised that additional renderings would be presented in coming months.

Mr. Patterson questioned the amount of maintenance required for the wood floors in the suites' entryway. Mr. Hotujac stated that the floors will be engineered hardwood with a protective coating over the paint. Additionally, the amount of wood is limited, which should limit the amount of maintenance required. Mr. Workman advised that the floors will require maintenance, but are manageable.

Mr. Bisig asked if suite holders will have any latitude in the design of their suites. Mr. Ulmer responded that suite holders will have three options on the suites' furnishings. Mr. Hotujac stated that suite holders may also have two carpet and upholstery options.

Mr. Patterson asked about access to restrooms on the suite level. Mr. Hotujac responded that four private men's and women's restrooms will be located in each corner of the suite level. Mr. Patterson asked that the restrooms be compartmentalized rather than simply partitioned.

DISCUSSION ITEM: Bond Issuance Update – Chairman Host

Chairman Host advised the Authority that he recently asked Goldman Sachs to examine financing alternatives in the event that Ambac, the Authority's bond insurer, did not improve its position in the market place. He explained that in order to justify its cost, bond insurance must provide economic value to the project.

Chairman Host introduced Mr. Tom Rousakis from Goldman Sachs, who provided an update on the bond issuance. Mr. Rousakis explained that during the past six months, the market has begun to unravel primarily due to mortgage defaults and securities backed by the mortgages. This has caused bond investors to sell their positions and has impacted bond insurers, including Ambac. He stated that for the last six months, investors have invested in treasuries, which is the most liquid market, and not in other types of bond products. Treasury market yields have been going down, and normally municipal bonds follow, but not in this case. He added that there is fear of recession in the market, which usually brings interest rates down. However, fear of inflation could drive long-term interest rates up. One year ago, 30-year treasury bonds yielded 4.96%, and the Authority's insured bonds would have been 4.44%. Today, 30-year Treasury bonds are yielding 4.27%, while the Authority's insured bonds would yield at least 4.69%.

Mr. Rousakis advised that Goldman Sachs has been working diligently over the last year to organize and assemble the Arena Authority's bond deal and present it to the rating agencies. The rating agencies have reviewed the transaction and given Goldman Sachs indications of investment grade ratings. Mr. Rousakis stated that the rating agencies understand how the Arena transaction works and its potential pitfalls. To this point, the rating agencies are comfortable with the project's construction risks; they have tested the revenue and expense risks; and have reviewed the bond security structure. Mr. Rousakis assured that Authority that it is in a great position to enter the market.

Mr. Rousakis stated that Goldman is examining how to take advantage of the market changes, which may require a change in strategy. He advised that general market rates have been decreasing. Additionally, because of Ambac's downgraded position in the market Goldman Sachs has now begun discussion with other bond insurers that have clean credit. They are also considering banks that could potentially provide a letter of credit to support the Arena bonds. Other financial products such as interest rate swaps could be mixed into the financing to drive down the cost of financing. Mr. Rousakis commented that Goldman is considering adjusting the credit structure to highlight the credit strengths of the project.

Mr. Rousakis detailed three credit structure scenarios. The base case with all fixed rate bonds offers ease of execution; however, the all-in interest cost is 5.50%. By revising the credit structure with a combination of swaps and fixed rate bonds, the all-in interest cost

is approximately 5.03%. However, the structure is more complex. Finally, by using a fixed payer swap on all bonds, the all-in interest cost is further reduced to approximately 4.71%. However, it is also a more complex structure. Mr. Rousakis summarized by stating that Ambac is still the preferred insurer, and if they can resolve their situation, Goldman will retain them. However, Goldman will keep its options open in terms of other bond insurers and financing structures. The Authority's investment grade rating indications will ensure that the financing will close. He expressed Goldman Sachs' certainty that the bonds will close by the beginning of April. Goldman will mail the offering document in early March; price the bonds in mid-March; and close the bonds in early April.

Mr. Patterson asked if the decision has been made to go without bond insurance. Chairman Host and Mr. Rousakis responded that it depends upon the cost and the nature of the market at the time of issuance.

Mr. Blakemore asked if there is any chance that the project will not achieve an investment-grade rating. Mr. Rousakis responded there is no question that at least most of the deal (approximately 90%) will achieve investment grade rating. A very small portion may not be investment grade. Mr. Blakemore asked what is preventing Goldman Sachs from going to market now. Mr. Rousakis responded that they are currently meeting with other bond insurers for their pricing. Mr. Blakemore asked if the deal can be refinanced in coming years if the market improves, and Mr. Rousakis responded in the affirmative.

Mr. Buffman asked if other projects are similarly impacted, and Mr. Rousakis responded that Goldman Sachs is involved in at least four other projects that are similarly situated. Chairman Host commented that the project may ultimately receive better financing as a result of the market changes.

DISCUSSION ITEM: Affirmative Action and Labor Committee – William Summers V

Committee Chairman Summers acknowledged Ms. Lynn Littlejohn and Mr. Anthony Mathis, who have worked closely with KentuckianaWorks on the construction pipeline project. Mr. Summers introduced Mr. Michael Gritton, Executive Director of KentuckianaWorks, who provided an update on the construction pipeline project. Mr. Gritton reported that in November 2007, they began holding weekly recruiting events, and more than 300 people have attended the recruiting sessions. He stated that more than 75 people have participated in the orientation session. The first job readiness training class began in early January, and 17 people have graduated from the program and are ready to go to work. Two of the 17 are women. Mr. Gritton will provide Mr. Summers with the exact demographics of the graduates. He reported that Mr. Mathis will ensure that non-union contractors are aware of the candidates completing the program and will help place them in jobs. Mr. Joe Wise will ensure that the union apprenticeship programs are aware of the candidates completing the program. Mr. Gritton reported that one person has been hired by the concrete masons' union apprenticeship program.

Additionally, a number of individuals have visited the union electrical contractors. He stated that there are openings in the non-union side as well. Candidates will be given a choice of union or non-union positions. Finally, Mr. Gritton advised that they are waiting to determine if any candidates require additional hard skills training, as funding is available for this.

DISCUSSION ITEM: Media and Public Relations Committee Update – Lindy Street

Media and Public Relations Committee Chair Street directed Authority members to an Arena Fact Sheet included inside the board books and asked that they use it when discussing the Arena project. Additionally, she reported that as the Arena’s exterior designs are finalized, the committee will begin work to finalize an Arena informational pamphlet. Ms. Street thanked Mr. Bisig for offering to produce footage of the Arena project to be aired on Insight. She also thanked Insight for agreeing to provide air time for the project.

DISCUSSION ITEM: Arena news articles/press – Larry Bisig

Mr. Bisig directed Authority members to recent news items provided in the Authority binders, including an article on downtown initiatives featuring the Arena project.

DISCUSSION ITEM: Contracts Update – Mark Sommer

Mr. Sommer reported that the IRS ruling on the Arena’s revenue streams (specifically unrelated business income) is a critical item to be resolved. He stated that he has participated in approximately five conference calls and has provided approximately five supplemental submissions to the IRS. He is awaiting the IRS ruling on the issue.

DISCUSSION ITEM: Old Business

None

DISCUSSION ITEM: New Business

A conflict of interest policy will be mailed to members. Chairman Host asked that Authority members review and sign the policy acknowledgement.

No other business to come before the Authority, the meeting was adjourned at approximately 10:35 a.m.

Respectfully submitted,
Laura Chandler