



## louisville arena authority

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**Board of Directors Meeting  
May 21, 2007  
9:00 a.m. EST  
Kentucky International Convention Center  
Louisville, KY**

**DRAFT**

**Directors in Attendance:** Mr. Larry Bisig, Metro Council President Rick Blackwell (Ex Officio), Mr. Neville Blakemore, Mr. Junior Bridgeman, Vice Chairman Larry Hayes, Ms. Alice Houston, Ms. Cissy Musselman, Mr. Tom Schifano (Ex Officio), Ms. Lindy Street, Mr. Dan Ulmer, Mr. Robert Woolery, and Chairman Host

**Directors Absent:** Mr. Todd Blue, Mr. Zev Buffman, Ms. Reba Doutrick, Mr. James Patterson, Mr. William E. Summers V

**Guests and Others:** Mr. Harold Workman, Executive Director; Mr. Mark Sommer, General Counsel; Mr. Tom Bond, Mortenson Company; Mr. Brad Clark, HOK Sport; Secretary John Farris, Kentucky Finance & Administration Cabinet; Mr. John Hilken, PC Sports; Mr. Tom Howard, Kentucky Office of Financial Management; Mr. Jerry Hurt, Deming Malone Livesay & Ostroff; Mr. Michael O'Sullivan, The Leib Group; Mr. Tom Rousakis, Goldman Sachs; Ms. Helen Thompson, Assistant General Counsel

**Opening Remarks and Welcome – Chairman Host**

Chairman Host declared a quorum and convened the meeting.

**DISCUSSION ITEM: Acceptance of the Minutes of April 23, 2007 Board Meeting – Chairman Host**

Robert Woolery moved to accept the Minutes of the April 21, 2007 Board of Directors Meeting. The Motion was seconded by Neville Blakemore, and the Motion passed unanimously with no abstentions.



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**DISCUSSION ITEM: Bond Rating Presentations Update – Chairman Host**

Chairman Host introduced Tom Rousakis of Goldman Sachs, who reported that the bond rating presentation received an enthusiastic response by the rating agencies, Standard & Poor's (S&P) and Moody's. The rating agencies will assign a credit rating to the Arena bonds, which could range from triple A to low triple B. The rating reflects the underlying economic strength of the project.

Mr. Rousakis reported that the presentation provided an overview of the Arena project, stressing the unique partnership between the city, state and university, as well as the long-term commitment of these entities. Additionally, it focused on the confidence of the Arena's cost and revenue projections. The next step is to deliver the contracts underlying the transaction, an updated Leib economic analysis report, and all agreements to the rating agencies.

Chairman Host asked Mr. Rousakis to describe the role of the bond insurer. Mr. Rousakis explained that for a fee, the bond insurance company converts the ratings, guaranteeing the credit of the Arena Authority. A high bond rating equates to lower interest costs; and the cost reduction increases the ability to sell the bonds.

Mr. Blakemore asked about the Arena Authority's chance to receive a triple A rating. Mr. Rousakis responded that the project is capped at double A, the city and state ratings, and arenas are generally in the triple B level; however, he expects the project will receive between a triple B and double A rating.

**DISCUSSION ITEM: Tax Increment Financing (TIF) Presentation – Chairman Host**

Chairman Host asked Secretary Farris and Tom Howard to provide an overview of the state Tax Increment Financing (TIF). Secretary Farris stated that the state's commitment to the Arena project includes the \$75 million grant and TIF revenue. The TIF district is a six-square mile area, and the TIF is comprised of three separate revenue streams: state property tax in the TIF zone, state sales tax in the TIF zone and state income tax on the Arena site.

Secretary Farris explained that the TIF is capped at \$265 million over 30 years, and he anticipates that the TIF will reach the cap in 2023, 13 years into the project. The funds will be collected the year before each debt service payment is due, with the first payout in 2010 for 2009.

Tom Howard discussed the TIF revenue streams. The Authority will receive 80% of the state property tax increment over the 2.40% annual growth rate in the six-square mile area. The Authority will receive 80% of the state income tax increment collected within the Arena site. Mr. Howard explained that the state sales tax has a 4% annual growth

rate, and the Authority will receive 50-80% of sales tax increment over the 4% growth line, meaning that the TIF increment must pay out at 50%, but not more than 80%.

Mr. Howard advised that the allocable amount of debt service provides ample coverage for the bonds and will cover any economic rough patches. He stated that the numbers provided by the Governor's Office of Economic Projections are conservative; projections could be off by 50% and still reach the \$265 million cap, which is based on 1 ½ times coverage levels for debt service necessary for the bonds to be rated on an investment grade basis.

Mr. Woolery asked if the bonds were taxable. Mr. Howard responded that the bond issue may contain a taxable component; however, if the issue is all non-taxable, that will strengthen the Authority's financial position.

Mr. Blakemore asked if the scope of the TIF impacts other downtown projects. Chairman Host responded that certain projects such as the 4<sup>th</sup> Street Live expansion and Museum Plaza have been exempted from the Arena TIF district. Secretary Farris explained that recent legislation (HB 549) created new tools for economic development, and the Arena project will not stunt future economic development projects in the city. Vice Chairman Hayes remarked that not every project requires a TIF. Chairman Host noted that the Arena project was "grandfathered" into the new TIF law.

**DISCUSSION ITEM: TIF Compliance Agreement – Chairman Host**

Chairman Host explained that the TIF compliance agreement is an agreement between the state, city and a private CPA firm that will perform an audit of the TIF zone for 2006. Vice Chairman Hayes moved to allow Chairman Host to take the necessary steps to authorize the TIF compliance agreement. The motion was seconded by Dan Ulmer and passed unanimously.

**DISCUSSION ITEM: Approval of Deming Malone Livesay & Ostroff for accounting/auditing services – Chairman Host**

Chairman Host introduced Jerry Hurt, President of DMLO, who responded to the Authority's RFP for accounting services and will perform the 2006 audit of the TIF district. In accordance with state guidelines, their fees will not exceed \$125/ hour. Further, fees are capped at \$40,000. Mr. Hurt expressed the firm's pleasure at being selected to perform the audit. He stated staff accountants are available for tasks including reviewing data base information and revenue comparisons to verify growth rates and projections.

Dan Ulmer moved to approve the hiring of DMLO for TIF audit services consistent with their agreement with the Arena Authority. The motion was seconded by Cissy Musselman and passed unanimously.

Chairman Host introduced John May, Deputy Commissioner of the Department of Revenue, who will provide a letter of authority from the Commonwealth regarding confidentiality of taxpayer information reviewed during the audit.

**DISCUSSION ITEM:           The Leib Group Presentation – Chairman Host**

Chairman Host introduced Michael O’Sullivan, Vice President of The Leib Group, who provided an update of the Arena’s cash flow projections based on changes in the development program.

Mr. O’Sullivan reported that the Arena’s key success factors include the following:

- Solid anchor tenant
- Competitive location
- Experienced management
- Demonstrated market support
- Planning/design driven by economics
- Financing plan that matches investment with benefits

Mr. O’Sullivan reported that Louisville is the #1 city for college basketball fans in the country, and he stressed the importance of having UofL as a solid anchor tenant, which will provide 63% of operating income for the Arena.

Mr. O’Sullivan advised that at least 13 organizations have expressed interest in bringing events to the Kentucky International Convention Center as a result of the Arena. Further, he stated that the Arena will be in an excellent competitive position for NCAA championship events. The experienced management of KSFB and its ability to coordinate events at the Arena and Freedom Hall is also very important to the Arena’s success.

Mr. O’Sullivan stated that of the \$15 million projected for Arena operation income, more than ½ is contractually-obligated income from naming rights, premium seating, advertising, sponsorships, etc. Non-contractually obligated income includes facility rental, concession revenues, ticketing and facility fees, etc.

The Leib Group estimates annual operating expenses of \$4.9 million. Mr. O’Sullivan noted that KSFB’s management of the Arena should result in significant savings from shared services and staff. Additionally, Freedom Hall will receive a \$750,000 reimbursement fee set aside for the first three years, although this amount could be reduced if Freedom Hall’s operating expenses are less than projected. Further, \$1 million in capital reserve will be set aside, for a total operating cost of \$6.7 million. Tom Schifano commented that because the state owns Freedom Hall, the funds paid to Freedom Hall essentially are returned to the state.

Mr. O'Sullivan reported that other income sources include a team store operated on a year-round basis, additional retail, food/beverage sales, and space rental in the Arena. Additionally, Riverside Parking will pay the Authority \$1 per car for all arena events. The Leib Group anticipates net operating income in excess of \$10 million per year for the first 10 years, and this amount should increase thereafter. The estimate does not include TIF revenue.

Chairman Host explained that Louisville Metro's minimum guarantee and TIF funds total \$471 million, leaving \$102 million to be made up by private revenue streams in order to pay down the \$573 million debt. Revenue from advertising and interior marketing, naming rights, the Authority's share of premium seating and facility fees equal \$363 million, an amount more than enough to cover the debt service. Further, this does not include other sources of revenue such as restaurant and retail space rental.

The floor was opened for questions. Larry Bisig asked about the possibility of a hockey franchise, and Mr. O'Sullivan responded that they have not received assurances regarding a hockey franchise, although there is an interest in hockey in Louisville. Further, the Arena will accommodate ice events.

Metro Council President Rick Blackwell asked about the ability of arenas to make money. Mr. O'Sullivan responded that there is clear precedent for the line items contained in the Leib report. He advised that arenas are more likely to lose money with a professional team tenant. However, the revenue sharing agreements for the Arena are very strong; for example, the Louisville Arena will receive 100% of the income from naming rights and corporate sponsorship. Mr. O'Sullivan stated that the Louisville Arena deal is structured in a way to best position the Arena to be a success.

#### **DISCUSSION ITEM: PC Sports Update – Dan Ulmer**

Dan Ulmer asked John Hilkene to provide an update from PC Sports. Mr. Hilkene commented that the recent tour of arenas in Washington and Charlotte was very informative. The Charlotte arena's interior theme and use of sponsorship opportunities were particularly impressive.

Mr. Hilkene reported that LG&E has issued building drawings for construction related to electrical equipment and has hired a contractor. The building contract was awarded to Graycor. Further, LG&E has issued bidder qualifications for electrical work. Mr. Hilkene estimated that 70 – 75% of the project has been purchased; the transmission cable is the final big piece remaining for LG&E to purchase. He reported that LG&E remains on schedule and on budget.

Mr. Hilkene provided an update on the hotel, which was originally included in the project due to its potential for synergy with the Arena and because it contributed to revenue. Mr. Hilkene reported that the hotel is no longer necessary to finance the Arena and the hotel's design impact has led to PC Sport's recommendation that the project proceed without the

hotel. The design impact includes the location of the program components – the hotel was a large structure to include on the site. Further, the entry and plaza will be enhanced without the hotel, providing less congestion, a greater architectural impact and improved connection to Main Street.

**DISCUSSION ITEM: HOK Sport Update – Dan Ulmer**

Dan Ulmer introduced Brad Clark, who presented a number of exhibits showing the project's conditions with and without the hotel. He stated that the hotel resulted in a congested front entry plaza. The hotel pushed the Arena far north on the site, and the Arena's impact at River Road will be softened without the hotel. Eliminating the hotel will also allow an opportunity for a major entrance off Washington Street. Further, Mr. Clark noted that the hotel would have inhibited exposure to the West Main Street corridor. Mr. Clark concluded that HOK will have greater design flexibility by excluding the hotel.

Mr. Ulmer commented that the Arena Authority had stated that it would build a great arena with a great entrance and plaza, and that was not possible with the hotel. Chairman Host advised that the hotel was not an issue with Mortenson, who wanted to develop it.

**DISCUSSION ITEM: Mortenson Company Update – Dan Ulmer**

Mr. Ulmer asked Tom Bond to provide an update from the Mortenson Company. As the Pre-construction Manager, Mr. Bond did not comment on the hotel, other than expressing his agreement with the benefits to Main Street and the Arena's entrance without the hotel.

Mr. Bond reported that Mortenson has been working with HOK on the design schedule to determine how it impacts the construction schedule and price estimate. Mortenson is currently reviewing historical data such as the costs of Sprint Arena and the Xcel Center, pulling the value of those projects to present time.

Mr. Ulmer moved that the Arena Authority cease pursuing the hotel component of the Arena project. Cissy Musselman seconded the motion, which passed unanimously.

**DISCUSSION ITEM: Insurance Committee Update – Robert Woolery**

Mr. Woolery reported that the Insurance Committee met with PC Sports, Mortenson and insurance experts regarding appropriate insurance for the Arena. Although, it initially considered OCIP, owner controlled insurance; the Committee has determined that it is not prudent for the Arena Authority to assume responsibility for an OCIP policy, especially as there is no guarantee of savings with an OCIP program. The Committee recommended that the contractor assume responsibility for insuring itself and subcontractors, and the Arena Authority will carry excess insurance coverage.

John Hilkene advised that the savings from a “wrap up” policy are not 100% assured. Further, the administrative costs and time are extensive. He stated that the project will still meet the MWBE goals.

Junior Bridgeman asked that Mortenson advise the Construction Committee regarding how minority firms can participate without the wrap up insurance coverage. John Hilkene responded that the second and third tier subcontractors are not required to maintain the same level of insurance as the prime subcontractors. This will be reflected in the Authority’s contract with Mortenson. In addition, sub-tier contractors that have difficulty obtaining insurance may participate in the project by entering into a joint venture with a prime or larger subcontractor that has the appropriate coverage.

Robert Woolery made a motion for the Arena Authority to accept the Committee’s recommendation and not pursue an OCIP or CCIP policy. The motion was seconded by Neville Blakemore and passed unanimously.

**DISCUSSION ITEM: Affirmative Action & Labor Committee Report – Chairman Host**

Chairman Host asked Dan Ulmer to provide an update of the Committee’s recent tour of the union’s electrical and carpenter apprenticeship programs. Mr. Ulmer thanked Dr. Joe Wise for arranging the tour and remarked that the training programs were very impressive. Another tour will be scheduled for members of the Committee who could not attend the first tour. Additionally, a meeting will be scheduled with Ben Richmond, Rev. Coleman and others regarding recruitment and training.

**DISCUSSION ITEM: Marketing RFP Update – Lindy Street**

Lindy Street reported that the Media and Public Relations Committee anticipates making its recommendation regarding the Marketing/Naming Rights vendor at the June Authority meeting. She stated that negotiations could occur with two or all of the finalists.

**DISCUSSION ITEM: Concessionaire RFP Update – Dan Ulmer**

Mr. Ulmer reported that the Concessionaire RFP responses were rejected based on changes in the scope of the project and a new RFP will be issued.

**DISCUSSION ITEM: Geotechnical Services RFP Update – Dan Ulmer**

Mr. Ulmer reported that the Construction Committee will meet to review responses to the Geotechnical Services RFP. John Hilkene advised that the Geotechnical Services

engineer will make three prime recommendations, including the type of foundation needed for the Arena as determined by soil borings; how to handle dewatering during construction; and how to handle earth retention during construction.

**DISCUSSION ITEM: Bank Trustee RFP – Mark Sommer**

Mark Sommer reported that the Bank Trustee RFP was being reviewed by bond counsel and the Kentucky Finance Cabinet; however, he anticipates that it will be posted on May 22, 2007.

**DISCUSSION ITEM: Title Insurance RFP – Mark Sommer**

Mr. Sommer advised that the RFP was posted on May 3, with responses due June 11, 2007. He anticipates that a recommendation will be offered at the July Authority meeting.

**DISCUSSION ITEM: Update on U of L Agreements – Mark Sommer**

Mr. Sommer reported that all parties are prepared to sign the development agreement, with a draft lease agreement as an exhibit, and he expects that it will be finalized on May 22, 2007. The agreements are consistent with the MOU. Chairman Host stated that upon finalization and signatures, the agreement will be posted on the website.

Vice Chairman Hayes moved that Chairman Host be given the Authority to execute the agreement with UofL. The motion was seconded by Mr. Ulmer and passed unanimously.

**DISCUSSION ITEM: Update on KSFB Agreement – Mark Sommer**

Mr. Sommer reported that drafts of the agreement are being circulated among counsel for all parties.

**DISCUSSION ITEM: PARC Agreement – Mark Sommer**

Dan Ulmer made a motion to authorize Chairman Host to enter into an agreement with PARC regarding financing and development of the Arena parking structure. The motion was seconded by Robert Woolery and passed unanimously.



**DISCUSSION ITEM: Arena news articles/press – Larry Bisig**

Larry Bisig reported that the Media and Public Relations Committee met regarding development of a public relations strategy. The Committee is also working on a calendar of significant events involving the Arena project. Dan Ulmer stated that an updated timeline for the project is needed.

**DISCUSSION ITEM: Contract/Vendor Matters – Chairman Host**

Chairman Host advised that the Kentucky Ethics Commission issued its opinion that Arena Authority members are subject to the state Ethics Commission. Junior Bridgeman made a motion to approve Mark Sommer as Ethics Officer for the Authority. The motion was seconded by Lindy Street and passed unanimously.

**DISCUSSION ITEM: Old Business**

Mr. Blakemore reported that the Parking Committee had met with representatives from the Parking Authority of River City (PARC) regarding parking arrangements for the Arena. The Committee will meet with Chairman Host in 30 – 60 days to review next steps.

**DISCUSSION ITEM: New Business**

Chairman Host advised that the Louisville Arena Authority posts all RFPs on its website. He encouraged those interested in RFPs or other Arena matters to consult the Authority's website.

No other business to come before the Authority, the meeting was adjourned at approximately 11:30 a.m.

Respectfully submitted,  
Laura Chandler