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To: Board of County Commissioners

From: Christian Sigman, County Administrator

CC: Douglass W. McDonald, President & CEO, Cincinnati Museum Center

Subject: Union Terminal Preservation and Restoration Project

Date: October 20, 2014

This report responds to the Commission's request to determine the viability of the Union Terminal renovation project given the Board's approval of placing on the November 2014 ballot an increase in the County's sales tax rate to support the project.

Summary Recommendation:

The Administration concludes that there is a continuum of viable financing approaches to support the full scope of work developed by the Cultural Facilities Task Force (Task Force) for Union Terminal. The continuum ranges from complete County control and risk to a public / private partnership which is supported by Cincinnati Museum Center's (CMC) board and executive leadership that greatly limits the County's risk. Regardless of approach, the renovation, rehabilitation and preservation of Union Terminal is estimated to total $212.7 million (excluding financing costs) and will be funded via state capital bill grant funding, state and federal historic tax credits, philanthropy and sales tax revenue bonds supported by the proceeds from a one-quarter of one percent increase in the County's sales tax rate for a period of five years.

The balance of this report is from a traditional County capital construction project perspective. Attachment Q provides a framework for a potential public / private partnership that would largely eliminate risk to the County. Concerning the County centric financing approach that follows, further analysis of interim financing mechanisms and potential additional funding sources is needed to address debt service coverage ratio challenges and any unanticipated decreases in sales tax performance in the early years of the planned sales tax bonds.

Based on estimated project cash flow, the sales tax bonds would not be issued until early 2016. As 2015 progresses, the sales tax bond assumptions will be revisited to determine the affordability of the planned project scope.

This report includes the following sections:

- Background
- Project Cost Estimate, Components and Assumptions
- Resources
- Project Schedule & Financing
- Ownership & Project Management
- Project Risks
- Recommendation
- Next Steps

Background:

The Union Terminal building has a long history of reviews, evaluations and assessments:

- 2007, a 900-page comprehensive Master Plan of Union Terminal was completed. The project was contracted by Hamilton County and managed jointly with Cincinnati Museum Center.

- 2009, the Hamilton County Tax Levy Review Committee (TLRC) hired CR Architecture and Messer Construction to conduct an independent evaluation and pricing of the Master Plan. This was paid for from the Cincinnati Museum Center operating levy.

- 2009, the Hamilton County and Cincinnati Museum Center entered into an operating contract which called for the development of a Union Terminal capital plan, directed County staff to develop a revenue and cost scenario in order to establish a complete financing plan for the repair of Union Terminal and to identify alternative revenue sources for the capital plan.

- 2011, over $10 million (38% from the Cincinnati Museum Center operating levy) was spent on repairing one section of Union Terminal. This project allowed for a comprehensive analysis of the extent of problems related to the Union Terminal building envelope and the extent of the damage to structural steel.

- 2012, the 2009 pricing and scope by CR Architecture and Messer was updated and reported to the TLRC as part of the TLRC's Mid-Term Review of Cincinnati Museum Center operating levy. The excerpt that follows is from the 2012 update.

  "The Cincinnati Union Terminal is at a critical juncture in its life-cycle. As illustrated in this report, the amount and severity of deterioration of the facility will continue to increase progressively. If these critical system

deficiencies are not addressed, the facility will continue to deteriorate at a rapid rate until a catastrophic system failure occurs. The most effective and cost efficient expenditure of tax-payer money is to address these problems holistically and in the near short term."

– CR Architecture, May 11, 2011

- 2013, the Union Terminal building issues were addressed by the TLRC as part of the operating levy renewal. The TLRC Chair wrote, "We believe that the Cincinnati Museum Center will continue to need funding from some source at the end of this levy in order to continue property maintenance."

- In the fall of 2013, the Cincinnati Museum Center sought the renewal of its operating levy for the 2015-2019 levy cycle. As part of the TLRC report concerning the CMC request, the TLRC recommended that the City of Cincinnati, CMC, and Hamilton County form a task force to "ascertain and approve the necessary plans and cost for renovation and ongoing upkeep of Union Terminal." Attachment A includes the November 14, 2013 TLRC report as well as the supporting consultant's report.

In response to the TLRC recommendations, the Cultural Facilities Task Force (Task Force) was formed by The Greater Cincinnati Foundation and The Carol Ann and Ralph V. Haile Jr. / U.S. Bank Foundation in December 2013. The Task Force includes 22 community leaders and was chaired by retired Procter & Gamble CEO Robert McDonald.[1] Attachment B includes the Task Force membership. After eight months of work, utilizing over 5,000 hours of professional services, the Task Force presented its report and recommendation to the County Commission on June 23, 2014. Attachment C includes the June 23, 2014 presentation and Attachment D includes the Task Force's Project Funding Committee Report.

In short, the Task Force recommended a $331.7 million renovation, rehabilitation and preservation project including Union Terminal <u>and</u> Music Hall. Of this total, $208,212,000 was for Union Terminal and $123,500,000 was for Music Hall. The primary funding source for the project would be an increase in the County's sales tax rate of one-quarter of one percent for the period projected to be 9 years, but in no case to exceed 14 years.

The Commissioners asked the TLRC to review the proposal and subsequently engaged Hines, an internationally respected development and project management company with experience with large, complex cultural arts facilities, to assess the cost estimation approach and assumptions. The Hines report substantiated the Task Force's cost estimation efforts with minor recommendations for additional scope elements that totaled less than 3% of the total project estimate. The Hines report is included in Attachment E. A reconciliation process between Hines and the firms assisting the Task Force determined that the Hines recommendations were sound, but from a value engineering perspective the additional scope

[1] Mr. McDonald subsequently left the Task Force with his confirmation as the Secretary of the U.S. Department of Veterans Affairs.

elements are not included in the project. Attachment F includes a reconciliation report between the Hines report and Task Force estimates. [Hines' recommendations related to Music Hall are not discussed in the report from County Administration advanced today.] Attachment G includes the TLRC report to the County Commission concerning the Task Force recommendation.

On August 6, 2014, the Board approved a resolution to submit to the November 2014 ballot an increase in the sales tax rate of "one-quarter of one percent for a period of five years to be used for the purpose of providing additional general revenues for the limited purpose of acquiring, constructing, equipping, improving, maintaining, rehabilitating, and renovating Union Terminal" (Attachment H).

The purpose of this report is to determine the viability of the sales tax proposal in addressing the renovation, rehabilitation and preservation project for Union Terminal. On August 20, 2014, the County Commission introduced a draft policy overlay resolution providing direction on various aspects of the proposed Union Terminal renovation project (Attachment I). Though the policy overlay has yet to be adopted by the County Commission, this report is responsive to the draft policy document.

Project Cost Estimate, Components and Assumptions:

This section provides a cost description of the Union Terminal renovation project. It includes cost estimates by major building systems and soft costs including contingency.

The Task Force approached their cost estimating effort by having two highly respected firms (Messer Construction and Turner Construction) develop independent cost estimates for the Union Terminal renovation project. These estimates were reconciled by Langan Engineering to generate the original project estimate of $208.2 million.

Subsequent to the Task Force's presentation to the County Commission, the Tax Levy Review Committee (TLRC) engaged Hines...

> *"to independently assess the processes, methods, assumptions, estimates and recommendations of the Cultural Facilities Task Force concerning the renovation of Cincinnati's Union Terminal... The primary objective of this independent review is to ensure, to the extent reasonably possible, that the renovation work is appropriate and can be accomplished within the cost estimates and schedule developed by the task force."*

The Hines report found no substantive differences in the costs estimates, but there were minor recommendations for additional scope elements. The Hines report is included in Attachment E.

Once the sales tax initiative was approved on August 6 for the November 2014 ballot, County Administration asked for a reconciliation of the original Task Force cost estimate and the Hines Report. This reconciliation was completed September 3, 2014 and is included in Attachment F. Key to the reconciliation is the assumption of the 30-month project schedule and the complete closure of Union Terminal. The project estimates in this report include the continued operation of the Union Terminal, with periodic closures of museums throughout the project. At no time will the entire facility be closed. Additionally, access to passenger train service via Amtrak will continue uninterrupted.

The project estimates assume a 7.5% contingency, which is appropriate at this stage of the project. The estimate also includes soft cost estimates for professional services and fees totaling $31.1 million. Table I provides a summary of major cost components of the project.

Table I – Union Terminal Renovation Costs Estimate

Exterior Masonry & Limestone Restoration	$16,500,000
Exterior Windows / Historic Door Restoration and Canopies	7,100,000
Roof Replacement	6,200,000
Building Structural Repairs	1,800,000
Interior Construction & Finishes	24,700,000
Heating Ventilating & Air Conditioning	26,800,000
Electrical, Lighting	14,600,000
Plumbing Systems	5,200,000
Visitor Safety, Security, Accessibility & Security Technology	9,400,000
Site Refurbishments	16,400,000
Construction Contingency	10,750,000
Phasing & On-going Occupancy	4,500,000
Professional Fees & Fees	31,600,000
Owner's Contingency & Costs	37,150,000
Total	$212,700,000

Resources:

Anticipated funding sources for the Union Terminal project include:

State of Ohio Grant	$5,000,000
Federal Historic Tax Credits	21,250,000
State Historic Tax Credits	3,250,000
Philanthropy	7,500,000
Public Funds (sales tax)[2]	175,700,000
Total	$212,700,000

The purpose of this section is to delve into each of these resources in light of the Board's action to limit the proposed sales tax rate increase to Union Terminal only and for a period not to exceed five years.

[2] Potential sales tax bonds interest expense not included.

State of Ohio Grant: The Cincinnati Museum Center applied for and received a $5 million capital grant in the State of Ohio's biennial capital budget for fiscal years 2015 and 2016. This grant funding must be matched dollar for dollar and fully expended by June 30, 2016. The Board's sales tax resolution does not impact the access to, or use of this state funding. It is envisioned that the County, City and CMC would petition for additional state capital funding in the next biennial budget cycle.

Federal & State Historic Tax Credits: Federal and state Historic Tax Credits ("HTC's") are awarded in connection with certified historic structures, such as Union Terminal. Federal HTC's are equal to 20% of "qualified rehabilitation expenditures," while state HTC's are equal to 25% of "qualified rehabilitation expenditures" incurred during a construction period not to exceed 24-months.

Application for federal HTC's must be made to the National Park Service (as the administrative agency for the Secretary of the Interior) through the applicable State Historic Preservation Office ("SHPO"), presently, the Ohio Historic Preservation Office. Application for state HTC's must be made through the Ohio Development Services Agency in partnership with the SHPO, and this process is a competitive process. Generally speaking, the initial applications are made prior to starting rehabilitation. Once the applicable rehabilitation is complete, another application is submitted for recommendation as to certification of the "qualified rehabilitation expenditures." Ultimately, a determination as to certification of federal HTC's is made by the National Park Service to the extent there is compliance with the Secretary of the Interior's "Standards for Rehabilitation," while a similar determination is made for state HTC's by the Ohio Development Services Agency and the SHPO working cooperatively. Federal and state applications may be submitted in conjunction with one another or separate from one another.

In order to qualify for federal and state HTC's, it is necessary to not only make "qualified rehabilitation expenditures," but it is also necessary to closely follow I.R.S. eligibility guidelines such as guidelines pertaining to:

(a) the use of the building (for example, the building must be used for certain qualifying uses)
(b) the rehabilitation of the building (for example, expenditures for rehabilitation are measured against the adjusted basis of the building)
(c) timing considerations (for example, most HTC's are generally awarded once a building is placed in service)
(d) expenditure considerations (for example, costs for building expansion, parking lots, and sidewalks, unless they are a significant historic element, are usually not considered "qualified rehabilitation expenditures")
(e) tax consequences regarding certification decisions and/or ownership decisions (for example, potential deductions and/or payment considerations as part of capturing upfront "qualifying rehabilitation expenditures" and upon the transfer or disposition of the rehabilitated property).

In addition to the I.R.S. considerations set forth above, it is also necessary to account for tax considerations, such as (i) prior and present use by governmental entities and/or nonprofit organizations, including considerations regarding tax ownership for federal tax purposes which often differs from fee simple ownership for state law purposes, (ii) disqualified leases, (iii) passive activity limitations, (iv) "at risk" rules, and (v) step transaction risk, to name a few of the tax considerations. Both the I.R.S. considerations and the tax considerations set forth above will dictate the type of ownership and operational structure necessary to attain federal and state HTC's.

A number of potential structures have been identified which satisfy the requisite HTC rules and regulations. Although each of these possible structures has the potential to necessitate changes to the current ownership and/or operational structure of Union Terminal by Cincinnati Museum Center, these potential HTC structures provide workable solutions and help to facilitate the receipt of HTC's as a funding source for "qualifying rehabilitation expenditures" to be made to Union Terminal and its continued benefit as the home of the Cincinnati Museum Center.

Based on current estimates for "qualifying rehabilitation expenditures," the estimated sources of federal and state HTC's provide accurate estimates of the HTC's as sources of funds; however, the ultimate determination as to the final certified HTC's will not likely be realized until substantial completion of the "qualifying rehabilitation expenditures." The application for state HTC's is a competitive process and the ultimate award to state HTC's may be capped.

In addition, in order to enhance the application for federal and state HTC's and/or mitigate the effects of facilitating HTC's from an ownership and/or operational standpoint, cooperation from the City of Cincinnati and Hamilton County is likely to be beneficial.

In addition to local professionals, some of the best and most experienced professionals in the nation have been actively engaged in the Union Terminal rehabilitation project as architects and as Historic Tax Credit counsel.[3]

Philanthropy: The Task Force report included a goal of $40 million in private philanthropy for Union Terminal and Music Hall combined. As of August 6, 2014, the total pledged was approximately $36 million. The Task Force funding plan called for $15.5 million directed to Union Terminal and $24.5 million directed to Music Hall. However, the fund raising campaign

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[3] Dr. George C. Skarmeas, Principal and Director of Planning & Design Preservation at Design Partnership, LLC ("PDP"), who prior to joining PDP, was the founding Principal and Director of the Preservation Studio at RMJM (formerly HillierArchitecture) from 1996 – 2010, leading projects involving major iconic National Historic Landmarks such as the U.S. Supreme Court, Thomas Jefferson's Virginia Capitol, Lincoln Cottage, and the Wyoming State Capitol, as well as many other projects nationally.

Andrew Potts, partner at Nixon Peabody, Washington D.C., focuses his legal practice on federal and state Historic Tax Credits and New Market Tax Credits as such tax credit programs are used in conjunction with financing community revitalization projects.

noted that all pledges were contingent on both Union Terminal and Music Hall being completely restored.

As of October 20, 2014, no donor foundation or individual has given any indication that they are withdrawing the support they had pledged. Thus to realize these funds, the voters must approve the sales tax proposal in November and the Cultural Facilities Task Force must create a new plan which restores Music Hall. Until they have completed this work, it would be premature to assign a philanthropy level based on the Task Force's efforts available for the Union Terminal project. If a plan to restore Music Hall is achieved, the $7.5 million in private funding for the Union Terminal project has already been raised. If a plan to restore Music Hall is not successful and the sales tax is approved, CMC officials will begin a capital campaign to raise the private funding required for the Union Terminal project. For purposes of this report, the Administration recommends $7.5 million of the project cost contingent upon fundraising or other non-public resources.

Public Funds (sales tax): The Task Force proposed an increase in the sales tax rate of one-quarter of one percent for a maximum period of 14 years and a projected Board of County Commissioner termination of the sales tax after 9 years when it was projected the bonds would be paid in full. The Board approved resolution is for a sales tax ballot issue authorizing an increase in the sales tax rate of one-quarter of one percent for a period of five years.

The current sales tax rate in Hamilton County totals 6.75%. Of this rate, 5.75% goes to the State of Ohio, one-half of one percent to the County general fund and one-half of one percent to the County's sales tax fund to support riverfront stadia and associated infrastructure. Attachment J provides the current sales tax rate for each of the 88 counties in Ohio. For comparative purposes, the sales tax rate in Kentucky is 6% statewide and 7% statewide in Indiana[4].

Based on collections through September 2014, the County Budget Office estimates that an increase in the rate from 6.75% to 7.0% would generate $35.8 million annually. Including the 2014 projection, annual sales tax growth rates have averaged 1.25% the past ten years; 3.62% the past 5 years; and 5.18% annually since the first County sales tax in 1972. Attachment K provides the history of sales tax collections for Hamilton County based on a one-quarter of one percent increment. Based on year-to-date collections, an increase in the rate from 6.75% to 7.0% for a period of five years would generate from $179.2 million to $192.1 million depending on an annual growth rate assumption of zero to 2%.

Attachment L provides an analysis from the University of Cincinnati Economics Center concerning the relative share of sales tax paid by County residents versus non-County residents.

City Maintenance Contribution: As part of the vetting of the Task Force's proposal, the County Commission expressed a desire for the City of Cincinnati to play a role in ensuring Union

[4] Indiana provides for an incremental sales tax on food and beverages of 2% in Marion County / Indianapolis and an incremental 1% food and beverage sales tax in counties adjoining Marion County to fund sports stadiums and capital expenses of convention facilities.

Terminal and Music Hall (both City-owned buildings) have a long-term funding mechanism for annual maintenance.

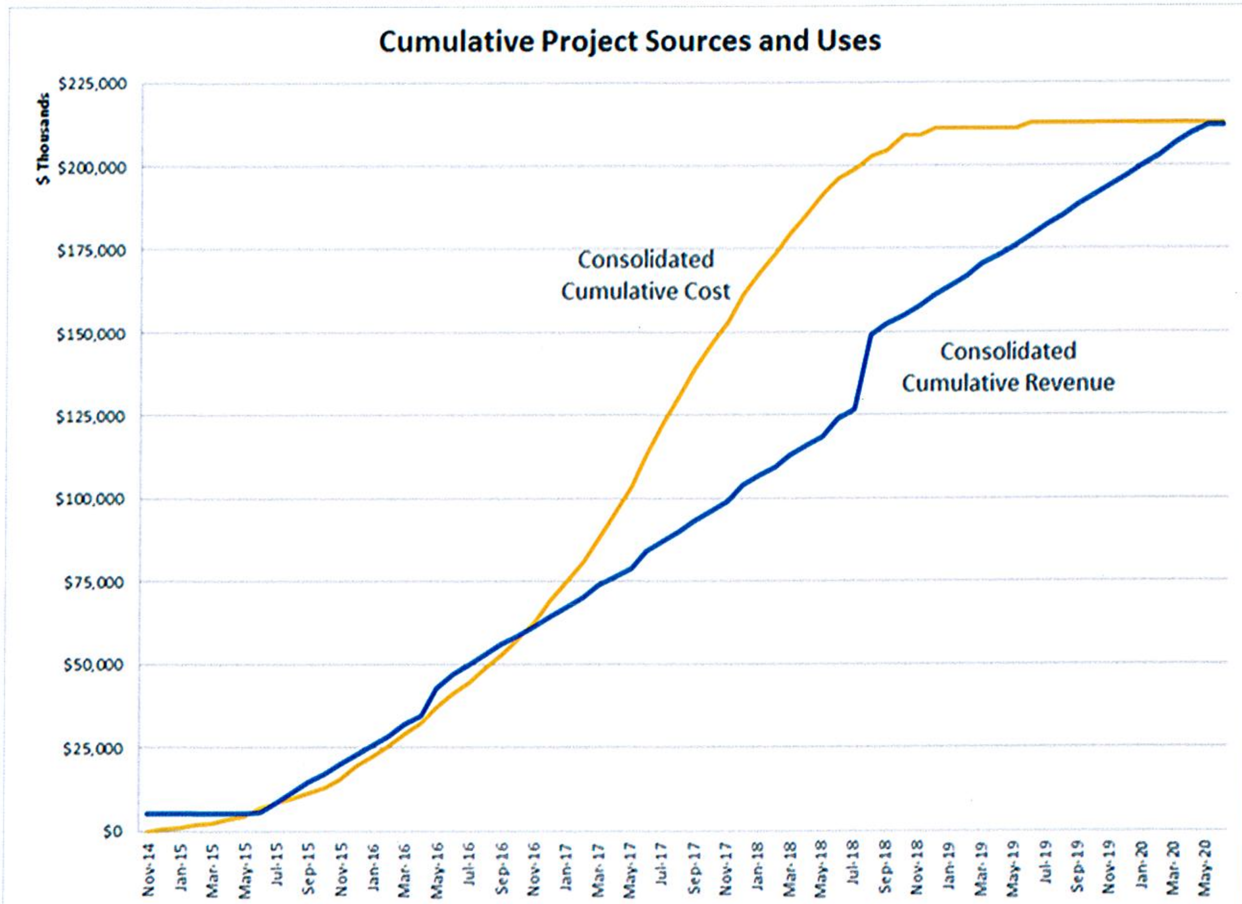
City Council approved an ordinance on August 6, 2014 to provide $200,000 annually to both Union Terminal and Music Hall for a period of 25 years (Attachment M). The ordinance includes contingency language as to the Task Force's proposal being approved by the County Commission for placement on the November 2014 ballot and subsequent approval by the voters. Following the Board's approval of a limited sales tax increase for the renovation, rehabilitation and preservation of Union Terminal only, the Mayor has advised the Cincinnati Museum Center and the Cultural Facilities Task Force that the planned $400,000 annual contribution which would have been allocated for the maintenance of both buildings will be redirected to fund the unfunded restoration needs of Music Hall. At this time, City Council has not amended or rescinded the existing City legislation.

User Fees: Part of the Board's discussion of the Task Force's proposal was an effort to implement a ticket surcharge related to activities within Union Terminal and Music Hall. An accord was reached with CMC and the resident companies of the Music Hall (see Attachment N); however, it is unclear if this accord is still valid given the Board's action to approve a limited sales tax to support just the renovation, rehabilitation and perseveration of Union Terminal. Early indications from CMC suggest that additional fees paid by the users of Union Terminal via a ticket surcharge or increase in the overall ticket costs will exceed $200,000 annually to support annual maintenance and future capital repairs.

Project Schedule & Financing:

The prior section was intended to only provide a description of the various resources contemplated for the renovation of Union Terminal. This section describes potential financing approaches to align these resources with the Union Terminal project schedule to 1) minimize financing costs and 2) limit the amount of time the CMC is closed to patrons. This analysis was based on an assumed project cost of approximately $212.7 million.

Determining a viable financing plan for the project is contingent on the level and timing of project expenditures relative to the level and timing of project resources. As noted in the following graph, as project construction progresses the pace of project expenditures exceeds the collection of project revenue sources, including the monthly receipt of the proposed one-quarter of one percent sales tax revenue dedicated to the project. Attachment O provides the projected expense cash flow for the original project estimate. Consequently, providing adequate funding for project expenditures requires debt financing.



There are a number of financing options available for consideration of both an interim and permanent funding nature, including[5]:

A. Publicly offered bonds
B. Bank credit facilities, including loans, letters and lines of credit
C. Privately placed obligations
D. County-internal Funding Sources, including but not limited to Treasurer-purchased obligations

For purposes of this preliminary analysis, a public bond offering was considered to determine the potential funding capacity of the proposed County sales tax. Core assumptions for the offering included a term of five years, coinciding with the proposed sales tax levy term. Based on preliminary analysis from legal counsel, the debt structuring scenarios assumed the issuance of taxable bonds. It is also important to note that a legal security structure other than a direct pledge of sales tax revenue will need to be utilized. Alternative credit structures include Certificates of Participation and Installment Obligations. The incremental costs, if any,

[5] Additional financing options, which may be more flexible to address cash flow challenges, can be integrated into the project plan within a public / private partnership financing structure.

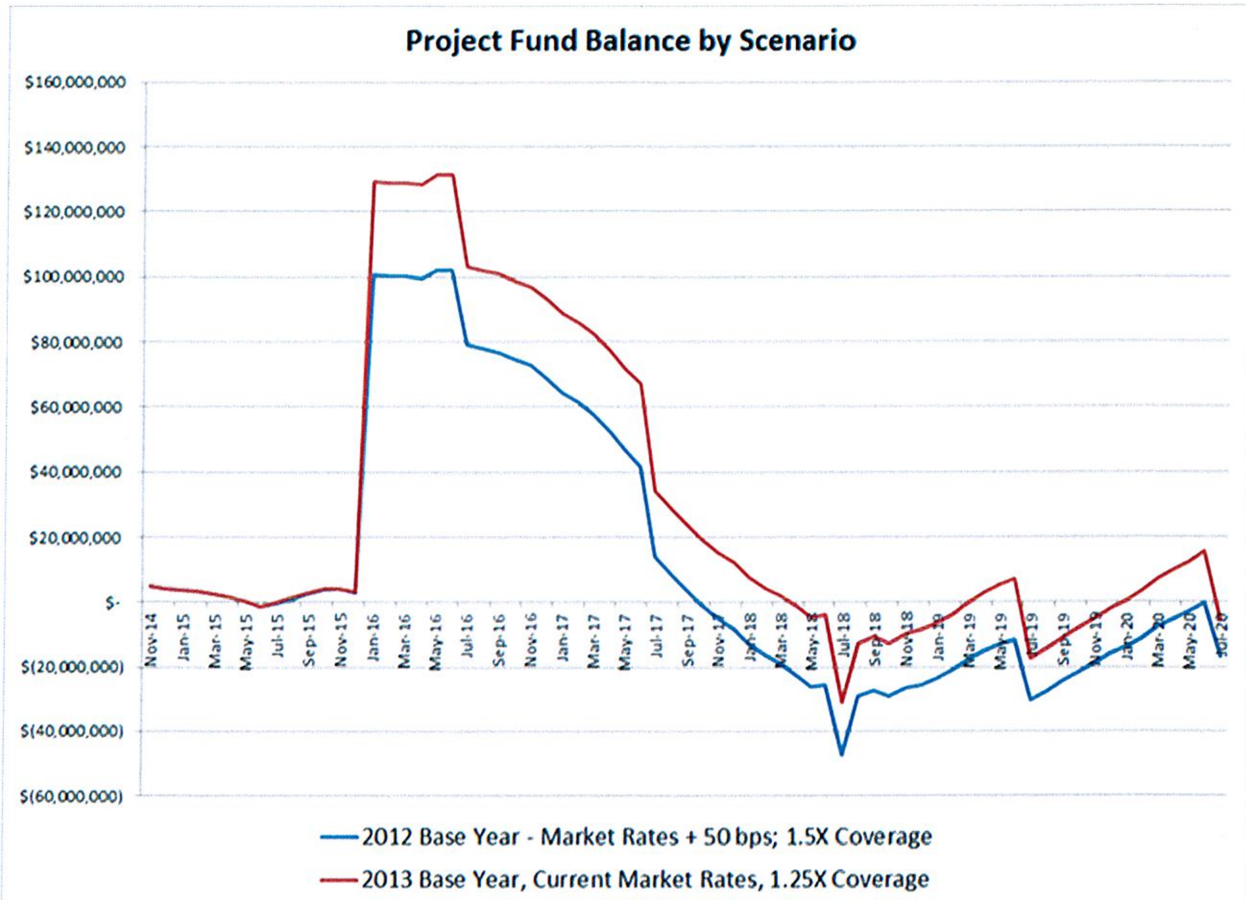
associated with these alternative obligations is still being assessed, but is not anticipated to be significant, based on current market conditions and given the short term of the debt.

Developing a credit worthy obligation repaid exclusively from sales tax revenues is heavily dependent on the assumed sales tax base level and growth rate assumptions for subsequent years, as well as the projected debt service coverage--sales tax revenues divided by debt service. The sufficiency of sales tax dollars for debt service is heavily dependent on the base level assumed because future revenues are projected from this level. While the County's sales tax has realized significant year-over-year growth recently, the credit market will look most favorably on base level of sales tax (from which growth rates are applied) that does not assume the full level of current receipts. This is important because a significant reduction in sales tax revenues in the early years of a projection period has a compounding effect on future receipts. For this analysis, actual sales tax collections for 2012 were the base level upon which future sales tax revenues were projected. This level closely approximates the five-year average sales tax collected (2010-2014 YTD/Budget). Furthermore, an annual zero growth rate from the 2012 base level is assumed as an added measure of conservatism. [Noting that the 10 year historical annual growth rate for existing sales tax has been 1.25%.]

The level of debt service coverage modeled for this project ranged from 1.25 - 1.50 times. Based on the ultimate security structure, including any additional revenue or security pledged to the project, the market could accept coverage of 1.25 times. However, the assumption of 1.50 times is deemed more appropriate, particularly if the sole source of funds and security is the proposed additional sales tax. The preliminary debt capacity analyses assumed current market interest rates based on a preliminary assessment of the credit rating. To estimate debt capacity, additional sensitivity analyses assuming higher interest rates were also performed. Sensitivity analyses assuming a higher sales tax base year--2013 actual sales tax receipts--were also performed.

There are several common themes in each of the sensitivity analyses performed. All assume a long-term fixed rate taxable debt issuance in January 2016. Based on the assumed sales tax available, interest rate and debt service coverage assumptions, the scenarios generated proceeds available for construction ranging from approximately $98 - $126 million. Debt service is structured to be level and paid semiannually consistent with the term of sales tax levy. Assuming a project cost of $212.7 million and with the additional cost of debt service, each of the scenarios suggest a shortfall in project resources relative to expenditures. These shortfalls range from $5-17 million. In addition, the timing of construction expenditures and the timing of debt service payments create interim funding shortfalls, with maximum levels ranging from $28 - $47 million.

The following graph depicts of debt issuance scenarios for a 1.25 and 1.50 times coverage, reflecting the cumulative project fund balance for each. Maximum cash flow shortfalls occur in mid-2018.



There are several potential approaches to address the construction cash flow shortfall of this project. In any such analysis, there are significant unknown variables which can lead to a wide range of conclusions. Many of these variables will be better known before any construction contracts would be executed in the second quarter of 2016. In no circumstance would Hamilton County contract for obligations in excess of the total funds available.

The variables which will be better understood by that time are:

- 2014 & 2015 sales tax revenues will have been received permitting a more definitive and hopefully higher revenue base.
- Detail design will be completed and add alternates will have been created and valued allowing flexibility in the contracted cost.
- Further analysis will have been completed regarding the $4.5 million of additional scope recommended by Hines which was not part of the Task Force's recommendation.
- Interest rates will be defined.
- Specific construction management and financing options will be fully explored and incorporated into the plan.

The County should pursue developing unique financing options with financial counterparties with whom it already has strong relationships. These are the most flexible, and if willing parties can be found, perhaps requiring the assistance of Cincinnati Museum Center, the project can be completed as presented.

As a part of this type of plan, the County may find viable and/or cost effective options may also come from internal financing mechanisms.

If such financing vehicles are not possible; additional resources or project cost savings would need to be achieved. At this point, given detailed design is not complete and sales tax collections are not confirmed; it would be entirely speculative to suggest with specificity, if the funding exceeds what is required, or if it falls short.

The costs of these interim funding vehicles, including financing options internal to the County, will need to be further analyzed and are not incorporated in the analysis.

Concerning the primary pledge of sales tax to bond holders as the interim financing vehicle, it is likely that only a subordinate pledge of sales tax revenues would be available for such interim vehicles, unless the County, or other stakeholders, provides additional security sources. Because of this lesser priority and consequently fewer available tax revenues to support this debt, it is difficult to assess the success of acquiring such vehicles.

Ownership & Project Management:

Union Terminal will remain a City-owned building. As noted earlier, to access state and federal historic tax credits, it is uncertain if the current lease between the City and the Union Terminal is sufficient or a new lease between the City and a non-profit entity is required. The Task Force developed a potential ownership diagram that will allow the City to retain fee simple ownership and a long-term lease to comply with state and federal historic tax credits (see Attachment P). In short, the project management and ongoing capital maintenance would rest with the non-profit entity that could receive the historic tax credits, private fundraising and the public revenue sources. The County would transfer sales tax revenue / financing proceeds only necessary to meet the funding amounts in the approved project plan. If the other revenue sources come up short and / or the project cost increases above budget, it would be the non-profit agency's responsibility.

The ongoing maintenance requirements would be defined in the lease and development agreement documents. The County would have no long-term maintenance obligations.

The project would be managed either by the non-profit entity holding the lease of by Cincinnati Museum Center per a public / private partnership development agreement with Hamilton County. In the first case, the non-profit entity would have a board appointed by stakeholder entities including the County, Cincinnati Museum Center, etc. This board would determine the contract delivery vehicle, procurement policies, project management reporting, communication protocols, etc. In a public / private partnership structure Hamilton County would assure the protection of the taxpayer's funds through regular disclosures and reports will be provided to the County. This is very similar to reporting and oversight of The Banks riverfront redevelopment project which is a partnership between the County, City and a private developer.

The Administration and CMC recommends a "contractor-at-risk, maximum price" contract delivery vehicle in either project management model to ensure the project does not experience cost overruns. Please see Attachment I for additional project policy considerations.

Project Risks

This section discusses several risks associated with a large, complex capital project. The Administration, the Cincinnati Museum Center and other interested parties will strive to mitigate any risks to the project, but following risks are present:

Private Fundraising Shortfalls – The project calls for $7.5M in private funding. This funding has been pledged contingent upon a successful plan to restore Music Hall is achieved. If required, due to a plan for Music Hall not being successful, CMC would initiate a fundraising effort once the ballot initiative is approved in November.

City of Cincinnati Cooperation – The City will need to cooperate in the application for state and federal tax historic credits as well as the development of a long-term lease, development agreement and other documents.

Insufficient Contingency – The project estimate includes a prudent contingency; however, the uniqueness and age of the building may present unknown challenges once the project begins.

Interest Rate Risk – The level of debt related costs will be a function of when debt is issued and the change in interest rates during that time. In the sensitivity analyses noted earlier, interest rate risk was mitigated by the short-term of the debt, with a 50 basis point increase in interest rates adding incremental debt service of $1-$2 million. This incremental cost will increase with the size, timing and term of a debt issue.

Economic Risk – The financing plan is heavily dependent on the maintenance and growth of current sales tax revenues. These revenues are contingent on the level of economic activity in the County. These factors are mitigated by the lower base year sales tax level assumed in our analyses and drive the need to demonstrate debt service coverage, as described earlier.

Project Delay Risk – The effect of a project delay has implications for project costs, due to inflation. Furthermore, to the extent project delays impact the timing of the bond sale, there could be additional exposure to interest rate risks. Alternatively, initiating a borrowing too far in advance of the use of funds would create unnecessary interest expense and further stress the cash flow.

Operations Considerations – While the proposed financing plan is not secured by or contingent on the operations of the Cincinnati Museum Center, it is critical to demonstrate the continued operational viability of the Cincinnati Museum Center to the debt markets. Consequently, the project plan should demonstrate the ability to meet both operational and capital improvement and replacement needs on an on-going basis.

All of the aforementioned risks can be mitigated, or even eliminated, within a properly structured public / private development agreement.

Recommendations:

1. Continue the Board's support of the November ballot initiative to provide the necessary resources to renovate rehabilitate and preserve Union Terminal.
2. Develop bid and financing documents for the full project scope to be ready if the sales tax increase is approved by the voters in November. The existing state capital grant would fund this effort.
3. Further explore interim financing mechanisms and alternative funding sources to address any potential cash flow shortfalls.
4. Continue discussions with the CMC to develop a public / private partnership terms sheet as a framework for a potential public / private partnership development agreement.

Next Steps:

This report and attachments will be posted on the County website. It is also recommended that the City Council, Task Force and CMC Board be provided a copy of this report.

Once a project management approach is determined, the Administration will work with the CMC to develop a project management organizational structure and professional team to advance the project and develop for County Commission and CMC board consideration the necessary oversight and reporting mechanisms.

Acknowledgements:

This report was developed with the assistance of GBBN; Messer Construction; Turner Construction; Hines; Dinsmôre; Public Financial Management (PFM) Inc.; 5/3 Capital Markets; Ross, Sinclair & Associates and Cincinnati Museum Center (CMC).