

CAPITAL IMPROVEMENT BOARD OF MANAGERS
OF MARION COUNTY, INDIANA
Minutes of Special Meeting
Monday, January 27, 2009

A Special Meeting of the Capital Improvement Board of Managers of Marion County, Indiana ("Board") was held on Tuesday, January 27, 2009, in Room 101 of the Indiana Convention Center.

Present were Robert T. Grand, Patrick J. Early, Ann Lathrop, Douglas R. Brown, Robert E. Cockrum, Dorothy A. Henry, Craig Huse, Jay K. Potesta, John D. Short, and Donald P. Welsh, Ex-Officio.

Others present included Barney Levensgood, Executive Director, Dixie Gough, Controller, W. Tobin McClamroch, General Counsel, Bingham McHale LLP, Raju Chinthala, MCCRFA, Dollyne Pettingill Sherman, MCCRFA, Bryan Collins, Bingham McHale LLP, Joseph P. Vande Bosche, BKD, Michael D. McDaniel, Director of Governmental Affairs, Krieg DeVault LLP, Lou Gerig, Sease Gerig & Associates, Robert Gildea, Sease Gerig & Associates, Timothy Watson, DDS, American Dream Builders, Jack Woodside, ICCLOS, Susan Jackson, ICCLOS, and members of the media.

Mr. Grand thanked everyone for coming to this Special CIB meeting. First, on behalf of the Board, Mr. Grand welcomed Craig Huse, the newest appointee to the Capital Improvement Board. He also shared the news that members Doug Brown, Dorothy Henry, Jay Potesta and John Short had been reappointed to serve another term with the Board.

Because the Special Meeting was a joint meeting with the Marion County Convention and Recreational Facilities Authority (MCCRFA), Mr. Grand asked the two members from MCCRFA who were present to introduce themselves, and thus acknowledged Raju Chinchala, Vice President, and Dollyne Pettingill Sherman, Secretary/Treasurer, of MCCRFA.

Mr. Grand stated that the purpose of this Special Meeting was to set forth the most current information available. In introducing Ann Lathrop, who would present a comprehensive review and discussion of the CIB's current financial challenges and possible financing options, Mr. Grand credited Ms. Lathrop, former City Controller, and Chairman of the CIB's Finance Committee, as well as David Reynolds, City Controller, and the accounting, financial and Mayor's groups for their diligence and hard work regarding these important matters. He stressed the importance of meeting at this time, "when we have facts, rather than just speculation." He cited the City's long tradition of building consensus among parties to solve tough issues, and he pledged that the Board would work with every stake holder in order to find a solution the community expects, and doing so in a public forum, while keeping the parties apprised.

Before beginning her presentation, Ms. Lathrop took a moment to express her thanks to Anne Dillon, John Short, the Mayor's office, Mr. Levengood, Ms. Gough, and others, for their help in dealing with these matters over this past year. Besides Ms. Lathrop, the team reviewing the current budget, actual expenditures, revenue streams, and debt requirements, consisted of Bryan Collins, Bingham McHale, Bob Swintz, London Witte, and David Reynolds, Controller, City of Indianapolis and Marion County.

In a detailed review of challenges faced by the CIB, Ms. Lathrop began her presentation by telling the group we would be looking at known operating short falls of Lucas Oil Stadium and other CIB facilities, anticipated challenges expected in a 12-18 month period, and one-time financial challenges, both short and long term.

The Problem:

The CIB's recurring Annual Deficit is growing from \$25 million in 2009 to greater than \$45 million in the future. This Annual Deficit consists primarily of the following:

- Facility Operating Deficit - \$20 million budgeted for Lucas Oil Stadium
- Operating Deficit - \$5 + million on all other CIB operations (net of debt service)
- Facility Operating Deficit - \$15 million for Conseco Fieldhouse (anticipates CIB will need to absorb Conseco facility expenses in 2010). Ms. Lathrop noted if the CIB does not reasonably assume some of the operating responsibility of Conseco Fieldhouse, we could face the loss of an NBA franchise, as well as the added loss of tax and tourism dollars. The City is approaching contract talks with the Pacers for a ten-year contract. If the Pacers would leave Indianapolis, the City would still be responsible for the operational costs of Conseco Fieldhouse. Ms. Lathrop stated the Finance Committee believes it more prudent to assume operating costs for Conseco and collect anticipated tax revenues, as opposed to having to pay these operating costs anyway, should the Pacers leave the City. The Pacers have been studying a \$3 million investment to be returned to the CIB.
- ICVA requires additional staff, marketing dollars, and incentive dollars to lure additional convention activity to our new and expanded facility. The Board heard that the ICVA has studied this matter and believes that an investment in the amount of \$3 million for future marketing efforts would ultimately return \$2 million to the CIB and an additional \$5 million to the state in the actual year of the investment.

One-Time Payment Issues:

Ms. Lathrop spoke about several one-time issues involving significant payments that face the CIB. As discussed extensively last summer, when the CIB determined it would abandon a variable rate refinancing that had become uneconomical, a refinancing contract entered into in 2005 with KeyBank (the "2005 Swap") had to be terminated, which resulted in the CIB having to borrow \$16.9 million from the State Treasurer to

make the required termination payment under the 2005 Swap. Ms. Lathrop restated that the 2005 Swap was a contract from 2005. When the variable rate bond market collapsed in the spring and summer of 2008 that meant the CIB was faced with having to either post about \$22 million dollars in collateral for the 2005 Swap (which amount was subject to continuing increases over time) or terminate the agreement. The CIB chose to terminate the 2005 Swap. This was approved at the July 28th Board meeting including to borrow the \$16.9 million from the State Treasurer. She advised that some experts have speculated the CIB might have had to pay (or post collateral of) up to \$40 million had the CIB not terminated in August of 2008. Accordingly the CIB must now arrange a payment source for the \$16.9 million due to State Treasurer in June of 2009.

Another one-time issue is the need to replace AMBAC/MBIA surety policies because their ratings have been downgraded. This could require posting of \$26.3 million in September of 2009, unless a replacement policy from a AA rated bond insurer or another acceptable solution is found. Ms. Lathrop mentioned other possible options in addition to the use of the CIB's cash or the issuance of new debt.

Another one-time issue discussed involved arranging a plan to repay the CIB's low-rate loan (currently less than 3%) from the 13 entities that lent their Circle Centre Mall investment returns to the CIB as part of the private sector's involvement in assistance with the funding of Conseco Fieldhouse; \$33.8 million was borrowed by the CIB from this source starting in 1997 which will come due in December 2017. Among other options the CIB could ask these lenders to forgive all or part of their loan.

With reference to the CIB as having a possible "Going Concern" issue, Ms. Lathrop explained that this was "a technical accounting term". In this case, BKD, the CIB's Auditors, will be considering the CIB's plans for continuing as a "going concern" based upon whether there are reasonable plans for addressing the CIB funding issues. If not, the audit opinion may be qualified under that standard. Additional risk reviews and analyses will be conducted as part of this year's audit. The Board will need to develop management plans to deal with these adverse matters and conditions, and significant continuing effort will be invested to explore and discuss which plans might be effectively implemented.

With regard to matters pertaining to the CIB's cash, Ms. Lathrop called attention to page 6 of her presentation, "Cash on Hand – October 2008", Funds on Hand - December 31, 2007 – Operating Fund. At the end of 2007, the CIB cash balance was \$59,671,198. Funds on Hand, as of October 31, 2008 – Operating Fund, totaled \$46,812,757. "We eroded almost \$15 million in cash in this fiscal year," Ms. Lathrop noted. Ms. Lathrop pointed to the \$7.7 million budgeted for Lucas Oil Stadium. However, the budgeted expenses create a \$19.5 million shortfall, making the total annual recurring operating shortfalls \$43,348,200, and one-time challenges totaling \$77,000,000.

The Financial Committee would like the Board to consider the following:

- An immediate minimum of 8% in operating cuts
- Salary freeze
- Hiring freeze
- Travel freeze

Mr. Levengood was asked to come back to the CIB at the February 9th meeting to detail the 8% operating cuts. And, at the March 9th meeting, the Board will hear updates and projections and discuss and finalize '08 operating expenses.

Ms. Lathrop said the CIB cannot do all of this alone, and expressed the Finance Committee's hope of being able to work toward solutions in collaboration with other groups.

A copy of Ms. Lathrop's presentation is attached hereto as a part of these Minutes.

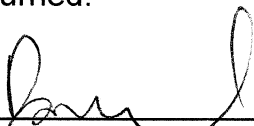
Mr. Grand thanked Ms. Lathrop and asked if there was any other business to be brought before the Board at this time, or any public comment to be heard. There being none, Mr. Grand called for a motion to adjourn, contingent upon the Board's adoption of the Finance Committee Recommendations. In response, Mr. Brown moved that the Board adopt the Finance Committee Recommendations, which included the following four immediate budget cuts:

- Minimum 8% cut to operating budget (net of COLTS payments)
- Salary freeze
- Travel ban
- Hiring freeze

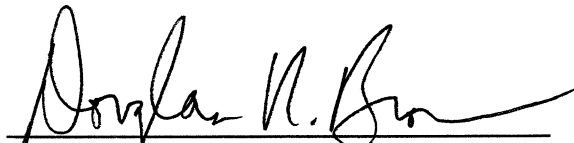
And,

- Barney Levengood to report Operating cuts at February 9th Board Meeting
- Finalize FY'08 Operating expenses and update projects – March Board Meeting
- Work collaboratively with all interested parties to develop solutions

Mr. Brown's motion was duly seconded by Ms. Henry, voted upon by the Board, and unanimously adopted, after which Mr. Grand announced that the Special Meeting was adjourned.



Robert T. Grand, President
THE CAPITAL IMPROVEMENT BOARD
OF MANAGERS
OF MARION COUNTY, INDIANA



Douglas R. Brown, Secretary
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