FORM GEN. 160 (Rev. 6-80)

# CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

0220-02221-8896
C.F. 11-0023

DATE: July 25, 2011

TO: Honorable Members of the Ad Hoc Committee on Downtown Stadium and Convention Center Renovation

FROM: Gerry F. Miller, Chief Legislative Analyst
Miguel A. Santana, City Administrative Officer
Pouria Abbassi, General Manager, Los Angeles Convention Center

SUBJECT: Los Angeles Convention Center and Event Center Memorandum of Understanding


**SUMMARY**

Motion (Perry-Smith/Garcetti, CF# 11-0023) instructed the Chief Legislative Analyst (CLA) to engage Anschutz Entertainment Group, Inc. (AEG) in formal discussions regarding its proposal to construct an event center in Downtown Los Angeles (Project) that would host a National Football League (NFL) team, concerts, and other sports and entertainment events; as part of the event center proposal, AEG would construct a new hall to replace the West Hall at the Los Angeles Convention Center (LACC) (collectively, the Project). The CLA established a negotiating team (City Team) comprised of the CLA, City Administrative Officer (CAO), City Attorney, and LACC. In addition, the Council authorized the CLA and CAO to obtain outside consultants to provide economic and fiscal analyses necessary to evaluate the Project.

The City Team met with representatives from AEG to review the proposed Project and determine whether it has merit. The CLA retained Convention Sports and Leisure International (CSL) as its consultant to evaluate the financial model for the Event Center, the economic impacts of the Project on City revenues, the valuation of signage that might be included in the Project, the proposed LACC improvements, and national models of stadium financing. In addition, the CAO retained Public Resources Advisory Group (PRAG) and KNN Public Finance (KNN) to provide analysis of bond structures and the financial guarantee. The CAO and City Attorney hired Orrick, Herrington, and Sutcliffe to provide legal review of potential bond options. It should be noted that Nixon Peabody LLP was recently selected by the CAO to replace Orrick, Herrington and Sutcliffe as bond counsel because of a potential conflict.

The result of discussions with AEG and the studies and analyses provided by the City's consultants is that the proposed Project is financially viable and would improve the LACC facilities, expand the City's economic base, and draw an NFL team to Los Angeles.

The analysis further shows that the proposed Project is entirely unique in that it does not use any public funds to complete the Event Center and actually leverages significant private resources to construct a public improvement, the improved LACC facility (New Hall).

To move this proposal forward, we recommend the Council approve a Memorandum of Understanding (MOU) (Attachment A) that outlines a development model of the Project developed by the City Team and AEG. This MOU is a non-binding framework that will guide discussions on the Definitive Agreements, the contractual documents that would implement the Project. These documents may include a Development Agreement, a Reciprocal Easement Agreement, a Gap Financing Agreement, and documents necessary to issue Bonds for the New Hall. These agreements will be subject to subsequent approval by the Council.

The terms of the draft MOU are as follows:

**Event Center**

- No public funds would be used to finance the Event Center;
- AEG would pay a fair market value to lease the City-owned site, adjusted annually, for 55 years; and
- The Project would not proceed until an NFL team has signed a contract to use the Event Center and Event Center financing is in place.

**New Hall**

- A New Hall comparable in size to the LACC West Hall with improved functionality would be constructed;
- Approximately $275M in tax-exempt bonds would provide funding for the New Hall;
- 73% of bond payments would be covered by AEG payments and 27% of net new tax revenues generated by the Event Center would cover the remainder;
- Series A bonds of approximately $195M would be backed by the Event Center lease payment, new possessory interest tax revenues and limited parking tax revenues; and
- Series B bonds of approximately $80M would be paid from a Mello-Roos District tax.

**Guarantee**

- A three-part guarantee would be provided to ensure sufficiency of funds to cover Project bonds:
    - -- Period 1, first four years: $50 million letter of credit, completion guaranty for the Event Center and New Parking Structures, first position for City on the New Parking Structures, a signed team lease, and assignment of team lease and other agreements to City;
    - -- Period 2, first three years of operation: Completed Event Center, NFL team is playing, $28 million letter of credit;
    - -- Period 3, remainder of 30-year bond term: Stability in Event Center and team operations, $5 million letter of credit plus cash or Letter of Credit to secure Mello-Roos bonds; and
    - -- AEG would guarantee any shortfall in revenues to pay debt service.

**Economic Impact**

- Total incremental new tax revenues earned by the City General Fund over 30 years would be $410 million, or $146 million net present value; and
- Approximately 2,600 temporary and 6,320 permanent jobs would be created in the City of Los Angeles.

**Parking**

- AEG would construct and operate two parking facilities (4,000 total spaces) at its cost:
  - -- LA Live Way Garage -- A 3,000-space garage constructed on the site of the existing City-owned Cherry Street Garage that replaces parking spaces lost from West Hall (1,600 spaces) and Cherry Street Garage (800 spaces) demolition, and
  - -- Bond Street Garage – A 1,000-space garage on the site of the City-owned Bond Street parking lot;
- The City would have use of the Bond Street Garage for its events when there are no events at the Farmers Field Event Center or Staples Center;
- AEG would pay fair market value to lease these sites, adjusted annually, for 55 years; and
- City and AEG would collaborate to ensure parking availability for LACC events.

**Other Issues**

- AEG would compensate the LACC for any reduced convention or trade show revenues that result from construction period disruptions;
- AEG would not schedule events into the Event Center that compete with LACC events;
- LACC and AEG would establish a Macro-Booking Committee to coordinate events campus-wide;
- The Staples Center lease would be extended to expire at the same time as the Event Center, in consideration for AEG paying an additional special tax; and
- A Public Benefits package would be developed.

This MOU is consistent with the principles for Project consideration discussed by your Ad Hoc Committee on the Proposed Downtown Stadium and Convention Center Renovation at its meeting of April 18, 2011.

## RECOMMENDATIONS

That the City Council:

1. AUTHORIZE the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) to execute a Memorandum of Understanding (MOU) between the City and Anschutz Entertainment Group, Inc. (AEG) substantially in conformance with the attached document setting forth the general terms and parameters for the development of the Event Center, parking garages, and Los Angeles Convention Center (LACC) New Hall; and

2. INSTRUCT the CLA, with the assistance of the CAO, City Attorney, Los Angeles Convention Center, and other departments as appropriate, to prepare and present to Council the Definitive Agreements necessary to fully implement the terms of the MOU.

**BACKGROUND**

In late 2010 and early 2011, representatives from Anschutz Entertainment Group, Inc. (AEG) began publicly discussing their interest in attracting a National Football League (NFL) team to Los Angeles and constructing a Event Center for its use in Downtown Los Angeles at the current site of the West Hall of the Los Angeles Convention Center (LACC). A key part of the proposal was that the West Hall would be demolished and a New Hall constructed immediately adjacent to the South Hall. The intent was to replace the aging West Hall with a modern exhibition hall and meeting space in a more functional convention center facility. The Event Center and the New Hall comprise the Project.

The AEG proposal indicated that no City funds would be used to fund the Event Center. Further, the proposal provided that only net new revenues generated by the Project would fund the LACC improvements. The intent expressed by AEG was that the City General Fund would be protected, and that the Event Center would leverage new City revenues to support improvements to the LACC.

On January 5, 2011, Motion (Perry-Smith/Garcetti, CF 11-0023, Attachment B) was introduced to begin consideration of the AEG proposal. Motion designated the Chief Legislative Analyst (CLA) as the lead negotiator, with the assistance of the City Administrative Officer (CAO), City Attorney, and LACC (City Team). Motion also instructed the CLA to establish an interdepartmental task force to coordinate the activities of all City departments with regard to consideration of the AEG proposal.

On February 16, 2011, AEG sent a letter to City officials seeking to formally initiate the Project (Attachment C). That letter contained the first written details from AEG concerning its proposal and provided the starting point for discussions between the City and AEG. The City Team initiated regular meetings with AEG to discuss its proposal, identify issues associated with the Project, and determine whether the Project would be financially viable and economically sound.

To assist the City with independent analysis of the proposal, the CLA initiated a competitive search for consultants to advise the City on all aspects of the proposal, including stadium economics, NFL franchise financial considerations, convention center facility needs, and other relevant issues. In April 2011, the CLA hired Convention Sports and Leisure International (CSL) to provide these services.

Concurrently, the CAO conducted a competitive search for consultants to advise the City on potential bond financing plans for the proposed New Hall, as well as guarantees necessary to ensure that any proposed bond structure had fiscal security and support. The CAO selected Public Resources Advisory Group (PRAG) and KNN Public Finance (KNN) to provide these services. The CAO and City Attorney also conducted a competitive search to identify bond counsel to provide legal advice concerning the bond scenarios under consideration. Orrick Herrington and Sutcliffe was selected to provide these services. However, they have been replaced by Nixon Peabody LLP due to a potential conflict.

## LACC EXPANSION

The publicly owned and operated LACC originally opened in 1971. By 1980, the facility experienced high demand and facility usage, but the existing 234,000 square feet of exhibition space, meeting rooms, and parking spaces were not adequate to meet the demands of expanding convention events. This prompted an effort to significantly expand the facility, which was completed in 1993. The expansion added a new exhibition hall, two levels of meeting rooms, the concourse facility, and parking spaces. The parking structure under the new South Hall was later improved into a hybrid facility that could serve either as parking or exhibit space.

In 1999, the Staples Center was constructed adjacent to the LACC facility, by demolishing the North Hall, a temporary structure, which eliminated 100,000 square feet of exhibit space. Today, the Convention Center contains approximately 867,000 square feet of functional exhibit hall and meeting room space.

AEG proposes to replace the West Hall with a New Hall in a location and configuration that retains similar square footage in exhibition and meeting room space, maximizes contiguous space, and adds a ballroom.

### *Comparison to Competitive Market*

Renovation of the West Hall and expansion of exhibition and meeting space in the LACC is generally recognized as an eventual necessity. The LACC is currently 15th in the nation in terms of overall exhibit hall size and the West Hall is nearly 40 years old. CSL has reviewed improvement plans for competitive convention centers in California, and indicates that there are current and pending infrastructure and capital plans in San Francisco, San Diego, and Anaheim as follows:

- San Francisco has funded and is implementing $70 million in upgrades, including modernized systems, renovation of aesthetic elements, and communications upgrades. Discussions are underway concerning extensive reconfiguration or expansion.

- San Diego plans a $753 million expansion that would add 200,000 square feet of exhibit space, a third ballroom, and 100,000 square feet of meeting rooms. Architects have been retained and funding sources are being evaluated. Completion is targeted for 2015.

- Anaheim is developing a $20 million, 100,000-square foot outdoor pavilion to be completed in 2012. Planning for a 72,000-square foot expansion is underway.

One of the key competitive factors for any convention facility is the amount of contiguous space available for an event. Among 16 competitive facilities, LACC ranks 13th in available contiguous space. Completion of the proposed New Hall would place LACC ahead of San Francisco and San Diego for available contiguous space, which would in turn enhance its competitive market position.

*Potential Citywide Event Growth*
CSL reports that national convention activity is relatively stable, with modest growth anticipated in the near future. The recent economic downturn affected the convention business, which is only now starting to rebound. In this economic state, LACC would need to attract existing convention business that is currently using other facilities.

Data indicate that LACC is currently near or at effective capacity for convention and trade show business, operating at or above 70% for most of the last five years. CSL reports that any increase in business would require a change in the mix of events at the facility, implementation of a scheduling pattern that is highly efficient, or a combination of both.

Under these conditions, and based on a review of the 2012 booking calendar, LACC might be able to accommodate up to ten additional citywide conventions. But CSL indicates that these levels of usage do not appear sustainable over an extended period.

*Cost of a City-only Project*
LACC staff estimate that it would cost anywhere from $50-80 million to improve the existing West Hall as a modern convention facility. To remain competitive, though, the City would need to add additional exhibition and meeting room space. The estimate to build the New Hall over Pico Boulevard is $275 million. Including issuance costs and capitalized interest, the total cost of a City-only funded project would be approximately $315 million.

If the City were to reject the AEG proposal and move forward with an LACC expansion and modernization project, debt service on $315 million in bonds would have an annual payment of $22 million for 30 years. The source of funds for this expansion would be the General Fund. Although such an expansion would likely result in some increase in the number of citywide conventions, it would likely generate revenues comprising only a fraction of the additional costs.

In conclusion, CSL indicates that an increase in the proportion of contiguous space and modest increases in efficient use of space would benefit the LACC. It may be possible to add up to 10 additional citywide events to the LACC calendar, but this would require a different approach to booking the facility. Most importantly, significant improvements in competitive facilities throughout California would cause LACC to experience a gradual decline in business if the current facility was not renovated or replaced.

## COMPARATIVE STADIUM TRANSACTIONS
A review of NFL stadium projects completed and proposed across the United States was conducted by CSL to provide context for the proposed Event Center. The study considers the total cost, amount of private funding, and amount of public funding for 22 different stadium projects completed or proposed since 1992. The full analysis is provided as Appendix C of the

CSL report (Attachment D). It includes both summary data and detailed analyses of each of the 23 stadiums included in the study.

Data show that only the new Meadowlands Stadium in New Jersey and the proposed Farmers Field Event Center in Los Angeles are financed completely with private funds. No public money was used in the new Meadowlands Stadium and no public money is used in the proposed Farmers Field Event Center.

The remaining 21 stadiums built or proposed in the United States since 1992 include anywhere from 12% to 100% public funding. On average, public funding comprised 63% of the funding used to complete these projects.

One project of particular note is the Cincinnati Bengals stadium, owned and operated by Hamilton County, Ohio. That project had an estimated cost of $449.8 million, well above the initial estimated construction cost of $280 million. Public funds were used to cover 94% of the project's cost, including a county sales tax increase, a State grant, and other public resources. All cost overruns were borne by the County.

The proposed Farmers Field Event Center would be unique in the recent history of NFL stadium projects in that it is not financed with any public funding. Funding is provided entirely by private financing and AEG equity. Because the City would not own or have any financing relationship in the Event Center, all risks and liabilities for costs, leasing, management, and operations are on AEG.

**EVENT CENTER PERFORMANCE**

CSL conducted a review of the program for the Event Center, including event type and attendance, stadium finances, and team finances. The CSL analysis is provided in Attachment D to this report.

The Event Center as proposed by AEG would provide a venue for NFL games, as well as soccer, concerts, and other sports and entertainment events. It would contain approximately 72,000 seats, with 200 luxury suites and 15,000 club seats. The Event Center would be financed, constructed, and managed entirely by AEG. Approximately 10,200 parking spaces would be located within the immediate vicinity of the Event Center, specifically at LA Live and the Convention Center, with another 20,000 parking spaces within walking distance operated by third party entities. It would be developed as a modern, state-of-the-art venue.

CSL has reviewed the event program proposed by AEG and the operating performance of other major event centers across the country to determine a base scenario for event activity. They have determined that the Event Center would likely host at least 27 events each year, with a total of 1.3 million attendees. These events include NFL pre-season and regular season games, college football, concerts, motor sports events, and soccer. Additional post-season NFL games could occur, as well as "mega" events such the Super Bowl or Final Four, but the CSL model does not incorporate revenues from these events as they will not occur at the facility on a recurring basis.

Based on these assumptions, the Event Center is estimated to earn $105 million in revenues annually, with expenses of approximately $50 million.

Analysis of the proposed financing structure for the Event Center indicates that this is a unique project. First, as indicated above, there is no public financing for the Event Center. Typical NFL stadium financing structures provide that a stadium is owned by a public entity and operated by a team. The team retains revenues generated at the facility, including naming rights, concessions, parking, and suite and seat revenues. In return for its right to retain these revenues, the team bears all operating costs and pays the public entity a lease payment for facility use.

AEG has developed a financial model for stadium construction and operations that is completely financed with private resources, including a combination of equity, seat licenses, and other private financing. Table 1 shows the expected financing structure for the Event Center. The estimated Internal Rate of Return (IRR) for AEG is 6.7% based on their contribution of $900 million and an annual operating profit for the Event Center growing over time. This IRR is significantly below the traditional IRR sought by AEG or other developers of 15-20%. This low IRR indicates that it is not possible to allocate any additional Event Center revenue to the City.

**Table 1**
**Event Center Development**

| | |
|---|---|
| Estimated Event Center cost | $1,200,000,000 |
| AEG/Team Responsibility (% of Total) | 100% |
| NFL G-3 Loan | ($150,000,000) |
| Net Personal Seat License Sales (estimated) | ($150,000,000) |
| AEG/Team Contribution (net) | $900,000,000 |
| AEG/Team Equity | $450,000,000 |
| Debt Service | $450,000,000 |
| Interest Rate | 6.5% |
| Term | 30 years |
| Annual debt payment | $34,500,000 |

Source: CSL, "Fiscal Analysis of Proposed Downtown Stadium and Convention Center Project," July 2011.

The arrangement between AEG and an NFL team will also be unique. As noted earlier, the typical stadium deal provides that the NFL team operates the stadium. In this case, AEG would operate the Event Center, but is not expected to own a majority interest in the team. Since the team would not be receiving revenues that typically accrue, this would require an agreement between the team and AEG that includes sharing of revenues from premium seating, sponsorship sales, and other sources. These revenues are not typically distributed in this fashion. CSL estimates that the team would generate approximately $336 million in revenues annually, with expenses of $283 million. This provides an income of approximately $53 million.

A significant unknown variable in this analysis, however, is the potential that the NFL will charge a relocation fee for any team that moves to Los Angeles. The fee could exceed $500 million. If such a fee is assessed, the team could be forced to operate at a loss for a number of years.

## ECONOMIC IMPACT

As presented, the City would retain half of the net new site specific General Fund tax revenues resulting from the Project and half of the net new site specific General Fund tax revenues would be re-invested in the New Hall. In gross dollars, the City would retain $210 million in net new tax revenues over the 30-year period, with a present value of $80 million. As discussed previously, the City's share of the cost of the New Hall is approximately 27%, with 73% of the costs covered by non-tax revenues.

It should be noted that the above figures are very conservative. Initially, tax revenue projections included certain assumptions relative to NFL Super Bowls and college basketball Final Fours. In an effort to be very cautious, the consultants were instructed to remove those assumptions. However, it is highly likely that such events will occur at the Event Center, so the City faces significant upside in net new tax revenues should those events occur. It is also important to note that, as is consistent with City policy, the projections include only direct tax revenues. The "multiplier" effect, which would include such things as higher hotel occupancy and room rates in general, greater sales and economic activity resulting from the increase in job creation, increases in property taxes resulting from investments in the area as a result of the Project, are not included in the projections and would all be retained by the City.

Questions have also arisen relative to how the proposed transaction would benefit the City compared to a scenario in which the City finances the LACC renovations itself. In order to achieve a similar result to the proposed transaction, the City would have to build the New Hall largely as designed in order to make the majority of the LACC's exhibit space contiguous, and invest in capital improvements in the West Hall in order to improve its connectivity to the rest of the LACC and have in excess of one million square feet of exhibit space.

The total cost of the improvements described above would be approximately $650 million over 30 years in gross dollars and approximately $315 million in present value. If the tax benefits from the proposed transaction that the City would be foregoing are added to the cost, the total cost to the City from a self-financed project rather than the proposed project would be roughly $860 million in gross dollars over a 30 year period and approximately $395 million in present value.

## SIGNAGE

In 2008, the City Council approved a tentative signage plan that would have allowed AEG to install signage on the LACC. In that agreement, the City would have received an annual payment of $2 million, plus additional revenue-sharing income. That agreement required AEG to install and maintain all signage at its cost. Economic circumstances and changes in the legal framework and entitlement process concerning signage, however, prevented AEG from moving forward with their signage plans.

The proposed Project includes a provision that the signage concepts originally approved in 2008 by the City for LACC would remain in place, with certain revisions related to the removal of West Hall and construction of the New Hall. CSL reports that the exterior wall of the South Hall which faces the Highway 110/Interstate 10 Interchange is not impacted by the proposed Project and that this is the most valuable space for signage in the plan. As a result, any revisions to the original signage plan would not significantly change the potential revenues generated by the site.

CSL has modeled the signage plan proposed by AEG and has determined that the size and configuration of signage in this plan would generate approximately $5.3 million to AEG (Appendix A of the CSL report). Valuation in the CSL model is based on daily average number of adults that would view the signs, the average number of people who are likely to see the signs, a visibility score, and cost of the signage. The visibility score incorporates factors such as distance to the road, sign format and size, number of signs in an area, street type, and orientation of the sign to the road.

Any changes to the proposed signage plan that may result from new campus designs would be re-evaluated and amended as appropriate.

## MEMORANDUM OF UNDERSTANDING

The City Team, in discussions with AEG, has developed a Memorandum of Understanding (MOU) that, if approved by Council, would guide the preparation of the final documents necessary to implement the Project. Should Council move forward with this Project, several documents would be prepared that provide the contractual obligations to allow the Project to be constructed (collectively, the Definitive Agreements). These documents may include a Development Agreement (DA), Ground Lease, Gap Funding Agreement, Reciprocal Easement Agreement (REA), and all documents necessary to issue bonds for the New Hall. The MOU serves as the framework for development of these documents.

It is critical to note that the proposed MOU is a non-binding document. The MOU does not require the City to complete a negotiated deal with AEG, does not obligate the City to move forward, does not restrict the City to the terms therein, and does not impose any financial liability on the City. The intent of the MOU is to establish the framework for preparation of the Definitive Agreements. The City may not, and should not, adopt a binding document until the environmental impact report (EIR) has been completed. Full analysis of the environmental effects of the Project must be analyzed before the City makes a final commitment to the Project. The EIR is expected to be completed in May of 2012.

The proposed MOU prepared by the City Team and AEG is attached as Attachment A. The terms of the MOU are summarized below.

### *Event Center*

AEG would construct an Event Center suitable for an NFL team, soccer events, concerts, and other large sports and entertainment events. The facility would be located on the site currently occupied by the West Hall of the LACC. AEG would pay fair market value, adjusted annually, for a 55-year lease of the site. No public funds would be used to construct the Event Center or to provide incentives for the Event Center to be built.

LACC would receive the right to use the Event Center for a certain number of days, at rental rates comparable to those charged for LACC events. This would allow LACC to provide up to one million square feet of exhibition and meeting space for citywide convention events at a competitive price.

Provisions in the MOU also ensure that an NFL team would be signed to play in the facility for at least 30 years. AEG would not be able to initiate construction of the Event Center until an NFL team has signed a lease and AEG must make every reasonable effort to make sure the team stays in the Event Center. If a team leaves, AEG must find another team to use the facility within a specific period of time.

***Parking***

The proposed Project includes elimination of 1,600 parking spaces beneath the West Hall of the Convention Center and demolition of the City-owned 800-space Cherry Street Garage. In their place, AEG would build two parking garages, at their own expense, with a total of 4,000 parking spaces. These garages would be located at the site of the current City-owned Cherry Street Garage and Bond Street parking lot.

AEG would receive a 55-year ground lease for the two City-owned properties for an annual payment currently estimated at $500,000. AEG would own and operate these garages and retain revenue earned, with one exception. LACC would have the right to use the Bond Street Garage for its events when there are not events at the Farmers Field Event Center or Staples Center, and would retain parking revenues earned by those events.

Aside from the possessory interest and parking taxes as discussed below, the City will receive other revenues from parking operations that will not be attributed as a source of funds for repayment of the bonds. This is to make the City "whole" for the loss of parking revenue as AEG would now own and operate the New Parking Structures. These other revenues include the following:

- New Parking Structure Ground Rent: The fair market value would be established through an independent appraisal performed by the City.
- Revenues from Bond Street Garage: The City would retain revenues received from Bond Street Garage on days that the LACC hosts events that do not conflict with a Staples Center or Event Center event.
- Parking Taxes from Off-site Parking: The City would retain incremental parking taxes received from all other parking garages that generate business from Event Center events.

The City will conduct an audit of LACC parking revenues prior to the completion of Definitive Agreements to ensure that net new parking revenues are sufficient to replace any parking revenues lost due to this Project.

*New Hall*
AEG would be required to construct a New Hall immediately adjacent to the existing South Hall of the LACC. This new exhibition and meeting space would be comparable in area to the West Hall with improved functionality and of a quality that meets modern standards for convention facilities. AEG would design and construct the New Hall on behalf of the City, with design approvals by the LACC and Department of Public Works, Bureau of Engineering. The New Hall is estimated to cost $275 million, with funds to be provided through tax-exempt bonds. AEG would be reimbursed for reasonable project expenses from the bond proceeds.

This ensures that the West Hall will be replaced and that there will be no loss of meeting space compared to current facility conditions. The effect, however, will be to provide a modern convention and meeting facility in a much more compact, efficient and contiguous configuration.

*Finance*
The proposal as it was originally presented by AEG included a plan to finance the New Hall and new parking structures through the issuance of tax-exempt bonds in the amount of $350 million. As discussions progressed, the cost increased to $374 million. The debt would have been financed through Lease Revenue Bonds, making the LACC improvements an obligation of the General Fund. To reduce the General Fund obligation, the City Team proposed that AEG finance, own, and operate the New Parking Structures, which would be located on City property leased to AEG. The City Team also proposed that a portion of the debt be financed through Mello-Roos Bonds instead of Lease Revenue Bonds, making this portion of the debt an obligation of AEG.

The bond financing for the New Hall as it is currently proposed is approximately $275 million, however the deal points regarding the New Parking Structures and the Mello-Roos Bonds reduce the General Fund obligation to approximately $195 million. The remaining estimated $80 million would be a Mello-Roos tax obligation of AEG and would represent no claim to the City's General Fund. The ratio of Lease Revenue Bonds to Mello-Roos Bonds may be adjusted to reflect market conditions.

The proposed plan of finance for the New Hall includes two issuances. The first issuance consists of approximately $195 million in Lease Revenue Bonds (Series A) and the second issuance consists of approximately $80 million in Mello-Roos Bonds (Series B). Bond proceeds from both issuances would finance construction of the New Hall, interest payments during the construction period, and the costs of issuance. The proposed term of the bonds is 34 years (4 years of construction plus 30 years of operation) to mature by 2046. Analysis of the proposed bond structure has been prepared by PRAG and is attached as Attachment E.

The current financing plan is based on an analysis of estimated fair rental value and other financial market conditions as of July 2011 that require further verification and confirmation.

The City's financial advisors are in the process of determining if the values are consistent with current estimates.

Table 2 summarizes the amount of bonds in each series and the source of revenues that will pay for those bonds.

**Table 2**
**Bond Finance Summary**

| | | Private Funding | | Public Funding | |
|---|---|---|---|---|---|
| | Total Bond Proceeds | Sources | Annual Payment* | Sources | Annual Payment* |
| Series A: Lease Revenue Bonds | $195M | –Ground Lease | $6.5M | – Possessory Interest Tax<br>– On-site Parking Tax | $3.9M<br>$0.7M |
| Series B: Mello-Roos Bonds | $80M | – Special Taxes | $5.0M | – None | |
| Total | $275M | | $11.5M | | $4.6M |

* Average over 34 years

<u>Series A – Lease Revenue Bonds (approximately $195 Million)</u>
Lease Revenue Bonds are used to finance construction or improvements of a municipal facility, which are secured by lease payments made by a financing authority on behalf of a municipality. In this case, the Los Angeles Convention and Exhibit Center Authority (Authority) would be the financing authority to issue the debt and make debt service payments from lease payments on the New Hall paid by the City. The Authority previously financed the existing LACC facility and uses City lease payments towards the annual debt service.

Lease Revenue Bonds are funded from the General Fund and are therefore a General Fund obligation. However, it is expected that amounts derived from all funding sources identified in Table 2 would equal or exceed the Series A debt service. The annual debt service payment would be approximately $11 million and is proposed to escalate. The final payment scheduled for 2046 is approximately $19 million.

A requirement of this finance plan is that AEG would guarantee to cover any gap between debt service and the funding sources under a Gap Funding Agreement. It should be noted that, based on the proposed estimated revenues, no gap is anticipated.

As part of the original deal, AEG had proposed using the following General Fund sources of revenue for repayment of the bonds:

- Event Center ground lease payment;
- Incremental parking revenue;
- Incremental LACC operating revenue; and

- Incremental tax revenues including construction sales, retail sales, parking, business license, utility, transient occupancy tax, and possessory interest tax.

However, given the state of the economy and the fluctuating nature of tax revenues, the City Team's goal was to limit the sources of repayment to those revenues that are easy to measure and fairly consistent. As a result, the private funding sources that AEG will contribute toward the debt service will increase. According to the current proposal, retail sales, business license, transient occupancy and utility taxes generated by the Project will not be included as a source of repayment for the bonds but would instead benefit the General Fund. Only the following sources of General Fund revenues would be used for repayment of the Lease Revenue Bonds:

1. Event Center Ground Lease (approximately $6.5 million/annually): The rent will be based on a fair market value assessment. The value will be established through an independent appraisal performed by the City.

2. Possessory Interest Tax (approximately $3.8 million/annually): Since City property will be leased over a long term to a private party, the County will assess a possessory interest tax in-lieu of property tax. The tax would be paid by AEG on the Event Center and the New Parking Structures. AEG will finance, operate and own the parking structures that will be located on Cherry Street and Bond Street.

3. Parking Taxes (approximately $715,000/annually): The parking taxes will include incremental parking taxes from on-site parking locations owned by both the City and AEG. The City owned facilities would include the parking locations at the South Hall and Venice Garage, and the AEG owned facilities will include Cherry Street, Bond Street, Olympic East and Olympic West (LA Live Garages).

4. Construction Sales Tax (approximately $3.8 million/one time): Tax generated during the construction period of the New Hall and the Event Center will be credited by AEG to the City as the point of sale.

Series B – Mello-Roos Bonds (approximately $80 Million)
Under the Communities Facilities District Act, more commonly known as the Mello-Roos Law, local government agencies may levy a special tax as a means of obtaining funding for the construction and improvement of a public facility. Mello-Roos Bonds would be secured by property owned by AEG and therefore would be a private obligation of AEG. Unlike Lease Revenue Bonds, Mello-Roos Bonds are not an obligation of the General Fund.

The original financing plan proposed by AEG involved issuing approximately $80 million of City-backed Lease Revenue Bonds supported by an approximate $5 million annual signage payment. That component of the financing has been restructured so that, instead, approximately $80 million of Mello-Roos Bonds will be issued payable from special taxes on AEG property at Staples Center and LA Live. The result is that $80 million of bonds will no longer be payable from the General Fund and instead would become an obligation of AEG.

The annual debt service payment on the Mello-Roos Bonds would begin at $3 million and escalate throughout the term of the Bonds. Beginning in Fiscal Year 2024-25, the special tax payment would increase by an additional $2 million (present value). The final payment scheduled for 2046 is approximately $15 million.

*Guarantee*

In addition to guarantee measures incorporated as part of the financing plan to address the sufficiency of revenues, such as the Gap Funding Agreement, there would be a separate Guarantee that is co-terminus to the life of the Bonds. The Guarantee addresses the following three periods of risk:

<u>Period One – Fiscal Years 2012-13 through 2015-16</u>

The first period begins with the issuance of the Lease Revenue Bonds through the date when the NFL team plays its first home game in the Event Center. The risk occurs after the bonds have been issued and before the Event Center is completed, since a portion of the revenues generated from Event Center operations will be used to pay the debt service. The guarantee in this period requires that the Event Center be completed, that an NFL team is under contract, and that there is sufficient credit support and equity available to support payment of the Series A Bonds until the point in which the Event Center will be fully operational and generating the revenue to pay the Bonds.

Components of this guarantee are:

- Letter of Credit ($50 Million): The annual debt service payment for Lease Revenue Bonds would be approximately $11 Million. The letter of credit secures several years of debt service in case of default during this period. AEG may allocate up to $10 million to serve as a partial Reserve Fund for the Lease Revenue Bonds and up to $4 million to serve as a partial Reserve Fund for the Mello-Roos Bonds. The remaining balance may be allocated to secure the Gap Funding Obligation;

- Completion Guaranty: AEG would back a completion guarantee on the Event Center and New Parking Structures;

- City would be in the first position to assume AEG rights on the New Parking Structures if AEG defaults;

- A signed team lease; and

- Assignment of team lease and other ancillary agreements to the City subject to comparable rights (and obligations to cure) of the Senior Lender and then the City.

<u>Period Two – Fiscal Years 2016-17 through 2018-19</u>

The second period covers the first three years following the NFL team's first home game at the Event Center. At this point, the New Hall and Event Center would have been completed, the team would have begun play, and significant new revenues would be generated. At this stage, risk is related to the success of events at the Event Center, and is not associated with construction or completion. As a result, the guarantee would cover on-going bond payments in the form of a Letter of Credit in the amount of $28 million. AEG may allocate up to $10 million to serve as a partial Reserve Fund for the Lease Revenue Bonds and up to $4 million to serve as a partial Reserve Fund for the Mello-Roos Bonds. The remaining balance of $14 million may be allocated to secure the Gap Funding Obligation.

Period Three – Fiscal Years 2019-20 through 2045-46
The third period entails the final operating years and ends with payment in full of all Bonds. During this time it is assumed that the Event Center has reached stability in its operations. AEG would be required to provide a Letter of Credit in the amount of $5 million to secure the Gap Funding Obligation. Also, the Reserve Fund for the Lease Revenue and Mello-Roos Bonds would be secured by cash from AEG, by excess cash available from Bond proceeds, or an additional Letter of Credit.

***Other Issues***
The MOU provides that AEG would compensate the LACC for any construction period disruptions that result in reduced convention or trade show revenues and that they would not schedule events into the Event Center that compete with LACC events. These measures ensure that construction activities prior to opening of the Event Center do not degrade business at the LACC, nor would the operation of the Event Center itself.

One of the most critical elements of the MOU is a requirement that LACC, LA Inc., and AEG establish a Macro-Booking Committee to coordinate events campus-wide. Much of the success of this campus will depend on the ability to manage transit and transportation into and out of the area. Event coordination will be essential to ensure that major events do not conflict with one another, particularly on NFL game days.

Another element of the MOU is that the Staples Center lease would be extended to expire at the same time as the Event Center, in consideration for AEG paying an additional special tax. The Staples Center agreement was executed in 1998 and includes a 55-year lease of that site. AEG has requested that an additional 18 years be added to that lease to ensure that the terms for both Staples and Farmers Field expire at the same time. Any extension, however, requires that AEG pay fair market value for the additional years.

Additionally, a Public Benefits package would be developed by AEG in cooperation with the City and community leaders. The elements of this package would be contributions above and beyond existing requirements such as the 1% for the Arts Fee.

## NEGOTIATING PRINCIPLES
At its meeting of April 18, 2011, your Ad Hoc Committee considered a report by the CLA that outlined 12 principles regarding negotiations with AEG. The principles included key concepts related to Project financing, protection of the City's General Fund, and the use of private financing in the Project. The MOU attached is fully compliant with these principles.

In addition, Councilmember Rosendahl introduced five amendments to those principles. Your Committee asked that the CLA report to Committee on those amendments. These amendments relate to protection of the General Fund, restricting the use of public funds in the Event Center, providing a guarantee that ensures coverage of payment obligations, CEQA compliance, and revenue sharing of Event Center naming rights. Upon review, it has been determined that the MOU as proposed is compliant with four of the five amendments presented.

The MOU, however, does not contemplate any revenue sharing of Event Center naming rights. Review of the financing and revenue sources by the City's independent consultant shows that the Event Center would not be feasible without AEG's full use of the naming rights revenues.

Attachment F provides the text of the principles considered by your Ad Hoc Committee with a review of the MOU elements that address those principles.

**TIMELINE**

Approval of the recommendations in this report would allow the Project to proceed to the next step, which involves the drafting of Definitive Agreements that establish the contractual obligations for the Event Center, parking garages, and New Hall construction, as well as the terms of the ground leases and release of the bonds. Concurrently, all required California Environmental Quality Act (CEQA) environmental review would be conducted.

Once all of these documents are approved and executed and CEQA requirements have been met, AEG would begin construction of the New Hall, the parking garages, and then the Event Center.

The following timeline provides a review of the milestones for complete Project implementation, assuming the Council approves this report in August 2011.

| | |
|---|---|
| August 2011 | Approval of the MOU |
| September 2011 | Initiate discussion of Definitive Agreements |
| May 2012 | Consider CEQA actions and Definitive Agreements |
| Summer 2012 | Initiate construction of the New Hall and New Parking Structures upon execution of contract between AEG and an NFL team |
| Summer/Fall 2013 | Opening of the New Hall and New Parking Structures and Initiate construction of the Event Center |
| Summer 2016 | Opening of the Event Center |

**FISCAL IMPACT**

There is no impact to the General Fund associated with this report. This is a non-binding Memorandum of Understanding to guide the development of Definitive Agreements that will establish contractual obligations for the Project, which will be presented at a later date should Council approve the recommendations contained herein.

*Attachments:*

A: Memorandum of Understanding Between the City of Los Angeles and Anschutz Entertainment Group, Inc. (AEG)

B: Motion (Perry-Smith/Garcetti, CF# 11-0023)

C: AEG Event Center Proposal (AEG)

D: Fiscal Analysis of Proposed Downtown Stadium and Convention Center Project (CSL International)

E: Proposed Plan of Finance for New Hall (PRAG and KNN)

F: City Negotiation Principles for Event Center Project (CLA)