

Attachment C
AEG Event Center Proposal

Prepared by AEG



Timothy J. Leiweke
President & CEO

February 16, 2011

Mr. Gerry Miller
Chief Legislative Analyst
City of Los Angeles
200 N. Spring Street, Room 255
Los Angeles, CA 90012

Mr. Miguel Santana
Chief Administrative Officer
City of Los Angeles
200 N. Main Street
Los Angeles, CA 90012

Dear Msrs. Miller and Santana:

We are pleased to submit for your consideration this proposal regarding the potential development of both a new multi-purpose Event Center at the location of the existing West Hall of the Los Angeles Convention Center and a new convention center hall (together with new parking structures) to replace the exhibition and meeting space currently contained in the West Hall.

Like most Angelenos, we are excited about the prospect of an NFL team returning to Los Angeles after a 16-year absence. However, as important as that objective may be, we firmly believe that the opportunity here transcends football. In particular, we envision a project that will not only constitute the next dramatic step in the continued revitalization of downtown Los Angeles, but will also enhance the attractiveness of Los Angeles as a destination for major convention and tourism business and fuel economic growth in a region still suffering from the deepest recession of our lifetime. This project will drive direct investment of over \$1.4 billion into facilities serving the tourism industry which, as you know, has become one of the region's most significant economic sectors.

As a backdrop to the attached Transation Overivew, we would like to highlight some important facts and principles that have guided our thinking in formulating this proposal:

First, the West Hall is an outdated facility in dire need of capital improvement. Not only is the aged exterior appearance of the facility a stark contrast to the newer structures that surround it (the South Hall, STAPLES Center, and LA LIVE), but more importantly the obsolescence and inadequacy of the physical facilities and infrastructure, including the central plant that services the entire Convention Center, will necessitate significant investment by the City going forward. In this regard, Convention Center Management has reported that the West Hall requires a minimum of \$50 million in improvements. The proposal we are putting forth will not only save the City the need to make this sizeable capital investment in the old West Hall, but will also lead to the development of a

brand new comparably-sized facility with much improved functionality funded entirely by newly created revenue streams.

Second, key constituents of the Convention Center (including LA Inc, hotel operators and Convention Center senior management) have made it abundantly clear that reconfiguring the Convention Center to provide for more contiguous exhibition space is critical to its long-term competitiveness. While previous plans contemplate potential Convention Center expansion in the airspace over the property immediately north of the current West Hall, recent conversations with convention planners, managers and others have consistently stressed the need to create new exhibition space closer to the South Hall. This proposal would accomplish this objective by providing for the new hall to be constructed immediately adjacent to the existing South Hall.

Third, the LA Convention Center is unable to compete with other cities for the largest conventions because it lacks sufficient convention, exhibition and meeting space. While the recent addition of LA LIVE (including significant meeting and ballroom space at the JW Marriott and The Ritz-Carlton Hotels) has helped in this regard, there is still a shortage of convention space (particularly flat floor space) needed to attract the large group events that would drive additional tourism and other related economic activity to the region. The Event Center we are proposing would be designed, constructed and located in a manner allowing for its use in conjunction with large-scale convention gatherings that currently cannot be booked into existing Convention Center facilities. The additional flat floor space and ancillary meeting space offered by this venue (which could be fully enclosed as needed) would help propel the Convention Center into the top tier of comparable facilities nationwide. And while a lack of conveniently located hotel rooms remains another factor impairing LA's ability to attract the largest conventions, discussions with prospective hotel developers and operators have strongly indicated that this project will serve as a catalyst for the construction of multiple new downtown hotels.

Fourth, at a time when jobs are scarce and families continue to struggle to make ends meet, this major development project will result in thousands of direct construction and operating jobs and will trigger additional economic activity and job creation in both the surrounding downtown area and the broader Los Angeles community. Recognizing the potential for this project to provide the kind of job-stimulating activity the region's economy desperately needs, key leaders of local labor organizations have already voiced their strong support for this initiative.

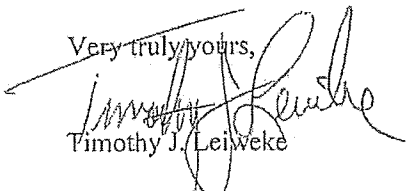
Finally, and most importantly, we are mindful that the City of Los Angeles cannot and will not subsidize a private stadium development with taxpayer dollars. We understand that the City, like most local governments, has been hit hard by the recent recession, and we recognize that the citizens of this City would understandably look askance at any proposal that contemplated public funding of a private facility. In this regard, key elected officials and City staff have consistently delivered the message that any Event Center proposal must be structured in a way that neither puts the general fund at risk nor threatens to divert existing tax revenues from other key City services. In response, the proposal we are submitting (a) does not contemplate any City funding of the Event Center and (b) provides for a brand new Convention Center hall and related parking structures that will be fully paid for by revenues and contractual payments that the City will receive directly as a result of the new Event Center (and which the City would not have received but for this project).

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For all of the above reasons, this proposal will result in a true "win-win" public-private partnership delivering new resources and facilities to the City without putting the general fund and the taxpayers at risk. As recently stated in a public hearing, this is a situation where private sector investment will generate substantial direct benefits to the public sector.

With that as the background, we are pleased to submit for your consideration the proposed arrangements described in the attached Transaction Overview. We look forward to working with you and other City officials in the coming weeks and months as we seek to reach an agreement on this exciting new project.

Very truly yours,


Timothy J. Leiveweke

Cc: The Honorable Antonio Villaraigosa
The Honorable Jan Perry
The Honorable Carmen Trutanich
The Honorable Wendy Greuel
The Honorable Members of the Los Angeles City Council
Austin Beutner
Maria Elena Durazo
Carol Schatz
South Park BID
Mark Liberman

TRANSACTION OVERVIEW

A. Proposed Transactions

1. Event Center. L.A. Event Center, LLC (“Developer”), a subsidiary of AEG, will construct an Event Center sufficient to accommodate a wide variety of uses, including without limitation, NFL football, soccer, conventions and exhibitions, trade shows, concerts and other entertainment, convention and sporting events on the property where the West Hall of the Los Angeles Convention Center is currently located. The Event Center will be designed to provide approximately 285,000 sq. ft. of usable space for convention and exhibition events, comprised of approximately 165,000 sq. ft. of floor space at the event level and approximately 120,000 sq. ft. of meeting space and other ancillary facilities.
 - (a) The Event Center will be constructed by Developer entirely with private funds. The City will provide Developer a long-term ground lease with rent to be determined.
 - (b) Developer will grant to City the right to reserve dates for the Event Center to be used for convention and exhibition events, with such use to be on fair market terms.
2. Construction of New Hall and New Parking Structures.
 - (a) Prior to constructing the Event Center, Developer will construct a new convention center hall (the “New Hall”), contiguous to the South Hall in an airspace parcel over Pico Boulevard, to replace the existing West Hall exhibition and meeting space.
 - (b) Developer will also construct parking garages totaling approximately 4,000 spaces on Convention Center property located west of the Event Center (e.g. Bond Street/Cherry Street garage locations) to (i) replace parking spaces currently located in West Hall and Cherry Street garages and (ii) provide approximately 1,400 additional parking spaces for use in connection with Convention Center, Event Center and STAPLES Center events (the “New Parking Structures”).
 - (c) Developer will be responsible for the design and construction of the New Hall and the New Parking Structures, provided that these facilities will be designed in accordance with criteria and standards reasonably acceptable to the City and will be constructed consistent with designs approved by the City.
 - (d) City and Developer will jointly develop a budget for the construction of the New Hall and the New Parking Structures. 100% of the cost to design and construct the New Hall (currently estimated by Developer to be approximately \$220 million) and the New Parking Structures (currently estimated by Developer to be approximately \$80 million) will be financed by new Bonds (see below).
 - (e) The New Hall will be owned and operated by the City for Convention Center use.
 - (f) The New Parking Structures will be owned by the City, but will be operated by Developer to ensure coordination with surrounding event uses. After deducting all operating costs and a reasonable management fee, Developer shall pay all revenue generated from the operation of the New Parking Structures to the City.

3. Signage

- (a) Developer, or its affiliate, will pay annual payments to the City in exchange for signage rights substantially consistent with the agreement previously approved by the City (but which has been pending completion of entitlements), subject to appropriate modifications to reflect the reconfigured Convention Center.
- (b) Developer will retain all signage and naming rights for the Event Center. The City will grant Developer additional exterior signage rights on the Event Center, the existing Convention Center and the New Parking Structures to support Event Center naming rights and sponsorship arrangements.

B. Proposed Financing Plan

- 1. Event Center Financing. Developer will be solely responsible for financing the construction of the Event Center. No City funding will be provided for such financing.
- 2. Financing of Public Improvements.
 - (a) Design and construction of both the New Hall and the New Parking Structures, together with associated financing costs will be financed with tax-exempt revenue bonds to be issued by the City or the Los Angeles Convention and Exhibition Center Authority (the "Bonds"). Based on preliminary cost estimates, gross Bond proceeds necessary for the New Hall, the New Parking Structures and financing costs are anticipated to be approximately \$325 - \$350 million.
 - (b) The Event Center site will be released from the collateral securing the existing Convention Center bonds through a defeasance and refunding of existing bonds using proceeds of the new Bonds. The Bonds will be secured by the improvements they finance (New Hall and New Parking Structures). No private credit enhancement will be provided by Developer to support such Bonds.
- 3. Sources for Repayment of City Bonds.
 - (a) The Bonds issued for construction of the New Hall and the New Parking Structures will be repaid from the following new revenue streams:
 - Rent received by City from ground lease of the Event Center site.
 - Admissions fees on tickets sold at the Event Center. Developer will agree to the imposition of an admissions fee on all ticketed events for the entire term of the ground lease. Percentage to be determined, but will be in the range of 3-5%.¹
 - Incremental parking revenue (relative to historical baseline) received by the City from the operation of the New Parking Structures and other City-owned parking structures (e.g. South Hall and Venice Street Garages) in the immediate area.

¹ If STAPLES Center ground lease is extended, additional admissions fees generated at STAPLES Center beyond current scheduled expiration of the fee would also be available to apply toward the debt service on the Bonds.

- Incremental operating revenue (relative to historical baseline) received by the City from the operation of the reconfigured Convention Center (e.g. improved operating performance attributable to the New Hall and the Event Center).
 - Incremental signage revenue received by City for Convention Center signage.
 - Incremental tax revenues received by the City arising directly or indirectly from the construction or operation of the Event Center, including without limitation, construction sales tax, retail sales tax, parking tax, business license tax, utility tax, property or possessory interest tax.
- (b) If the total of all of the above revenue streams is less than the amount of the debt service paid by the City on the Bonds in any given year, Developer will make a payment to the City necessary to fully reimburse the City for the amount of such shortfall under a new gap funding agreement similar to that currently in place for STAPLES Center. If the above revenue streams exceed the debt service paid by the City on the Bonds in any given year, the excess will be credited against any future shortfall obligations of Developer.

C. Miscellaneous

1. Transaction Structure. The proposed transaction will be modeled after the original STAPLES Center transaction, with the obligations of the parties to be set forth in an overall agreement for the transaction, such as a Development Agreement, DDA, or similar agreement. The other principal transaction documents are contemplated to consist of an Event Center Ground Lease, an REA (which may take the form of an amendment to the existing REA), a Development Services Agreement in connection with the design and construction of the New Hall and the New Parking Structures, and an Event Center Gap Funding Agreement (the "Agreements").
2. Entitlements: Approvals. Developer will obtain all entitlements (including all required environmental review and clearances) for the New Hall, the Event Center and the New Parking Structures, with the City's cooperation. Developer will conduct extensive traffic, parking and other studies to ensure that project impacts are properly analyzed and mitigated through a full Environment Impact Report. The City will cooperate with Developer to facilitate project approvals and reduce associated costs where possible. In particular, the City shall review, process and approve permits in a timely fashion, with customary arrangements for reimbursement by Developer for costs relating to dedicated City staff.
3. Event Coordination. Developer, City and STAPLES Center will agree on new terms for coordination of events and parking uses, including operating restrictions where appropriate (e.g. potential restriction on presentation of large events in the Event Center concurrently with large events in STAPLES Center or the Convention Center).
4. LA LIVE Event Deck. The construction of the New Hall and the Event Center will obviate the need for an expansion of the Convention Center over the airspace parcel currently occupied by the event deck at the Olympic West Parking Garage at LA LIVE. Accordingly, apart from the Event Center transactions, Developer may pursue alternative uses for such airspace parcel pursuant to the existing LA LIVE Specific Plan.