



Proposed Convention Center Renovation & Downtown Event Center Project

Presented to:

Ad Hoc Committee on
Downtown Stadium and
Convention Center Renovation

Wednesday, July 27, 2011

Thursday, July 28, 2011

AND

City Council

Friday, July 29, 2011



Proposed Convention Center Renovation & Downtown Event Center Project

Negotiating Principles

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NEGOTIATING PRINCIPLE #1	
Principle	Outcome
Fully Protect Existing and Future General Fund Base	<p>73% of New Hall Bonds are financed with Private Funding Sources*</p> <p>27% of New Hall Bonds are financed with Public Funding Sources*</p> <p>Guarantees cover shortfalls</p> <p>Full coverage of bond payments</p>

*Proposed, subject to change within existing parameters



Negotiating Principles – Continued

NEGOTIATING PRINCIPLE #2

Principle	Outcome
No public funding for the Event Center	No public funding is provided to the Event Center

NEGOTIATING PRINCIPLE #3

Principle	Outcome
Substantial private funding to support bonds issued to construct New Hall	73% of Bonds Financed from Private Sources Including*: (1) Fair Market Value Ground Lease Payment and (2) Special Tax Obligation

NEGOTIATING PRINCIPLE #4

Principle	Outcome
Tax Revenues Attributed to Bond Proceeds must be Net New to the Event Center	27% of Bonds Financed by Net New Taxes that are measurable and predictable Including*: (1) Possessory Interest Tax and (2) Parking Tax

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Negotiating Principles – Continued

NEGOTIATING PRINCIPLE #5

Principle	Outcome
Net New Taxes used to finance bonds subject to 50% of Net New General Fund Tax Revenues generated from Project	Approximately 49% of Net New Taxes Allocated to New Hall Bonds

NEGOTIATING PRINCIPLE #6

Principle	Outcome
Developer must provide a Guarantee securing the debt service payments and shortfalls in revenue	<p>Guarantee secures against any revenue shortfall through various phases of risk</p> <p>Includes: Letters of Credit, proposed Special Tax, Completion Guarantee, Assignment of Ancillary Agreements, Property Improvements</p>

NEGOTIATING PRINCIPLE #7

Principle	Outcome
City shall retain fee ownership of Event Center property and receive lease payments in exchange for a 55-year ground lease	<p>City retains fee ownership</p> <p>Lease does not exceed 55 years</p> <p>Ground lease payments are fair market value</p>



Negotiating Principles – Continued

NEGOTIATING PRINCIPLE #8

Principle	Outcome
Cooperate with LACC and LA Inc. to mitigate booking disruption	LACC, LA Inc. and AEG to create Macro-Booking Committee to mitigate disruption of events
New Hall shall be substantially complete prior to demolition of West Hall	West Hall closure shall occur upon completion of New Hall or as approved by City
West Hall shall not be taken out of service prior to New Hall opening without prior consent	

NEGOTIATING PRINCIPLE #9

Principle	Outcome
AEG shall complete Environmental Impact Report (EIR)	EIR shall fully analyze impacts of proposed Project
AEG shall not seek protection from litigation regarding EIR adequacy	

NEGOTIATING PRINCIPLE #10

Principle	Outcome
AEG shall implement public benefits program	AEG shall develop and implement a public benefits package



Negotiating Principles – Continued

NEGOTIATING PRINCIPLE #11

Principle	Outcome
<p>AEG to provide assurances that contracted NFL team is committed to ensure City's investment in New Hall is protected</p>	<p>AEG has agreed that no documents will be executed until NFL team lease is executed</p> <p>NFL team lease will be coterminous with New Hall Bonds</p>

NEGOTIATING PRINCIPLE #12

Principle	Outcome
<p>Event Center must include a roof designed to provide additional event and exhibit space</p> <p>Total available event space shall exceed 1 million square feet for LACC</p> <p>AEG and City shall negotiate LACC use of Event Center space</p>	<p>Proposed Event Center includes a roof</p> <p>Macro-Booking Committee shall coordinate City use of Event Center</p> <p>Event Center pricing policy shall be consistent with City policy</p> <p>Total available LACC space will exceed 1 million square feet</p>



Negotiating Principles – Continued

NEW PRINCIPLE	
Principle	Outcome
City should receive fair portion of naming rights due to City's ownership of Event Center property	<p>Not financially feasible according to independent analysis</p> <p>Low IRR of 6.7% earned by AEG indicates that it is not possible to allocate additional Event Center revenue to the City</p>



Proposed Convention Center Renovation & Downtown Event Center Project

Deal Points

Deal Points – Event Center & New Hall

Event Center

- No Public Funds will finance Event Center
- AEG will pay Fair Market Value Ground Lease Payments for 55 years
- AEG must secure a signed NFL team contract
- AEG must secure Event Center financing

New Hall

- Comparable in size and improved functionality
- Approximately \$275 million in Tax-Exempt Bonds to finance New Hall
- \$275 million = \$195 million Lease Revenue Bonds + \$80 million Mello Roos Bonds*

*Proposed, subject to change within existing parameters



Deal Points – Guarantee

- Gap Funding Agreement to guarantee shortfall in revenues to pay debt service
- Three-part Guarantee to ensure sufficiency of funds (Separate from Gap Funding Agreement)
 - Includes additional Letters of Credit
 - And other guarantees



Deal Points – Parking

- AEG will replace parking spaces lost (**2,400**):
 - West Hall garage – (1,600 spaces)
 - Cherry Street garage – (800 spaces)
- AEG will construct and operate **4,000** spaces New Parking Structures on City owned land
 - Cherry Street garage – 3,000 space garage
 - Bond Street garage – 1,000 space garage
- **1,600 Net New Parking Spaces = 4,000 – 2,400**
- AEG will make Fair Market Value Ground Lease payments for 55 years
- Parking Plan to coordinate between AEG and City events
- “Make whole” payment for lost parking revenue
- City retains revenue from new Bond Street Parking Structure when LACC events do not conflict with Staples or Event Center events



Deal Points – Other Issues

- Compensate City for potential loss in LACC revenues during construction period
- Macro-Booking Committee to coordinate events campus-wide
- Extend Staples Center lease at fair market consideration



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Financing Structure

Financing Structure – ORIGINAL Financing Plan Proposed by AEG

- \$325 to \$350 million in Lease Revenue Bonds, General Fund obligation
- Sources of Repayment included:
 - Incremental Tax Revenues:
 - Construction sales
 - Retail sales
 - Parking
 - Business License
 - Utility
 - Transient Occupancy
 - Possessory Interest
 - Incremental Parking Revenues
 - Incremental Convention Center Operating Revenues
 - Event Center Ground Lease Payments



Financing Structure – CURRENT Financing Plan Proposed by City*

- Reduces Bond Issuance to \$275 million Tax-Exempt Bonds
- Reduces General Fund Obligation to \$195 million
- Transfers \$80 million Obligation to Developer
- Sources of Repayment:
 - Eliminates tax revenues difficult to measure
 - Eliminates Convention Center Operating Revenues
 - Eliminates Parking Revenues
 - Increases private funding source
- Proposed Term for Bonds = 34 years
(4 years of construction + 30 years of operation)
- New Hall Bonds to mature by 2046

*Proposed, subject to change within existing parameters



Financing Structure – Bonds for New Hall

\$275 Million Tax-Exempt Bonds*

Series A Lease Revenue Bonds \$195 million - General Fund Obligation	Series B Mello Roos Bonds \$80 million - Developer Obligation
<p>PRIVATE FUNDING</p> <p>(1) Event Center Ground Rent \$6.5 million/annual</p> <p>PUBLIC FUNDING</p> <p>(2) Possessory Interest Tax for Event Center and New Parking Structures \$3.8 million/annual</p> <p>(3) Parking Taxes for On-Site lots \$700,000/annual</p> <p>(4) Construction Sales Tax \$3.8 million one-time</p>	<p>PRIVATE FUNDING</p> <p>\$5 million Special Tax Payment</p> <ul style="list-style-type: none"> • \$3 million secured by LA Live Property • \$2 million secured by Staples Center Ground Lease, payment begins in 2023-24

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Financing Structure – Tax vs. Non-Tax Sources for New Hall Financing

Ground Lease & Mello Roos – New Hall	\$ 189.2 million
Net New Taxes – New Hall	\$ 85.8 million
Series A – Total Debt Service*	\$ 195.0 million
Ground Lease Payments	109.2 million (56%)
Net New Taxes	85.8 million (44%)
Series B – Total Debt Service*	\$ 80.0 million
Mello Roos Tax	80.0 million (100%)
Net New Taxes	0.0 million (0%)
Series A – Debt Service	\$195 million
Series B – Debt Service	<u>80 million</u>
Total Debt Service – New Hall	\$275 million

*Principal only; Interest payments will be determined by interest rate at time of debt issuance. Currently, interest rates projected at 5.78% for Series A and 6.41% on Series B. **When interest is applied the total non-taxes are 73% of the sources of payment and the net new taxes are 27%.**



Guarantee Structure

Period One – (Fiscal Years 2012-13 through 2015-16)

Period Two – (Fiscal Years 2016-17 through 2018-19)

Period Three – (Fiscal Years 2019-20 through 2045-46)

Guarantee Structure

Period 1 (2012-13 to 2015-16):

Begins with Issuance of the Lease Revenue Bonds
Ends after NFL team plays first home game

Components:

- \$50 million Letter of Credit
- Completion Guaranty on the Event Center and New Parking Structures
- New Parking Structures free of encumbrances
- Signed team lease
- Assume team lease and ancillary agreements

Period 2 (2016-17 to 2018-19):

Begins after NFL team's first home game at the Event Center
Ends in three years

\$28 million Letter of Credit

Period 3 (2019-20 to 2045-46):

Includes final operating years
Ends with payment in full of all Bonds

\$5 million Letter of Credit



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Economic Impact

Economic Impact – How Much Net New Tax Revenue Will City Retain?

Approximately \$210 million

Conservative estimate - assumes no Super Bowl games and NCAA Final Four events

Super Bowl games and NCAA Final Four events could increase revenues by \$68 million, increasing projected total to \$278 million



Economic Impact – Comparable Proposal if Project Self-Financed By the City

Includes building the New Hall, and instead of demolishing, make capital improvements to West Hall to create exhibition space of 1 million square feet

Bond issuance amounts to \$315 million instead of \$275 million, making it a full General Fund obligation

City forgoes new net tax revenue

Comparable Proposal (Present Value \$400 million):

Total Debt Service* over 30 years – LACC Bonds	\$(649 million)
Non-Realized Revenue from no Event Center	(<u>210 million</u>)
Total Negative Impact	\$(859 million)

- Does not include potential revenue from LACC events
- Assumes conservative revenue estimates
- Does not factor in inflation and other potential costs since not feasible for the City to self-finance a project

* Includes principal and interest



Next Steps

Next Steps

Memorandum of Understanding

- Non-Binding Agreement
- To guide development of definitive agreements
- Final agreements subject to Mayor and City Council approval

Recommendations:

- (1) Authorize CLA and CAO to execute the Proposed MOU between the City and AEG; and
- (2) Instruct CLA, with the assistance of the CAO, City Attorney, LACC and other departments to prepare and present to City Council the Definitive Agreements.



Timeline

August	2011	City Council approval of 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 a 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