

TRANSMITTAL

To:

THE COUNCIL

Date:

JUN 15 2009

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



ANTONIO R. VILLARAIGOSA

Mayor

RICHARD L. BENBOW
GENERAL MANAGER

City of Los Angeles
CALIFORNIA

COMMUNITY DEVELOPMENT
DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017



ANTONIO R. VILLARAIGOSA
MAYOR

June 10, 2009

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Economic Development Division

Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Pamela Finley, Legislative Coordinator

**COMMITTEE TRANSMITTAL: REQUEST AUTHORITY TO EXECUTE \$30,000,000
LOAN AGREEMENT WITH THEATREDREAMS LA/CHI, LP TO PROVIDE FUNDING
ASSISTANCE FOR THE CAPITAL IMPROVEMENT OF THE KODAK THEATRE**

RECOMMENDATIONS:

The General Manager of Community Development Department (CDD), requests that the Mayor and City Council:

1. Authorize the General Manager of CDD, or designee, to negotiate and execute a Promissory Note to the U.S. Department of Housing and Urban Development (HUD) and the related documents (HUD Documents) to borrow up to \$30,000,000 pursuant to Section 108 Loan Guarantee program from HUD in order to provide funding assistance for the eligible costs of capital improvement of Kodak Theatre located at 6801 Hollywood Blvd. (Project);
2. Authorize the General Manager of CDD, or designee, to negotiate and execute amendments of the HUD Documents that may be necessary, relative to the intent of this transmittal, subject to approval of the City Attorney as to form and legality;
3. Authorize the General Manager of CDD, or designee, to negotiate and execute a City Loan Contract and related documents (City Loan Documents) for advancing a City Loan of up to \$30,000,000 (City Loan) to TheatreDreams LA/CHI, LP (Borrower)

for the Project to meet provisions of a certain Production and Performance Services Agreement dated November 16, 2007 (Performance Agreement) between CIM/H&H Retail, LP (H&H Retail) and Cr ation M andres Inc. (CDS), as assigned by H&H Retail and CIM/H&H Theatre, LP (H&H Theatre) to the Borrower, as per Assignment and Assumption of Production and Performance Services Agreement dated November 16, 2007 (Assignment Agreement), for the live production and performances of the Cirque Du Soleil (Cirque) shows in the Project, subject to approval of the City Attorney as to form and legality;

4. Authorize General Manager of CDD, or designee, to negotiate and execute agreements that would subordinate the City Loan to a construction or a permanent senior lender, and other amendment(s) of the City Loan Documents that relate to the intent of this transmittal, subject to approval of the City Attorney as to form and legality;
5. Authorize CDD to prepare Controller instructions, and/or make any technical adjustments that may be required and are consistent with this action subject to the approval of the City Administrative Officer (CAO) and instruct the Controller to implement these instructions;
6. Authorize the Controller to:
 - a. Establish new account E410 TheatreDreams and appropriate \$30,000,000 within Fund No. 43 F CDD Section 108 Fund; and
 - b. Expend funds upon proper demand of the General Manager of CDD or designee;
7. Find that the Project meets the National Objective and Public Benefit compliance of the Housing and Community Development Act by Special Economic Development Activities for funding capital improvements of the Project by retaining or creating not less than 858 new permanent jobs, of which 51 percent shall be made available to the low-and-moderate income persons; and is necessary and appropriate to accomplish the City's economic development activities;
8. Approve the City Loan to the Project that has already met and complied with the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA).

FISCAL IMPACT STATEMENT:

There will be no fiscal impact on the City's General Fund. The front-end program income for the Community Development Block Grant (CDBG) when the City Loan is disbursed is \$450,000. The City will be collecting a 1.5 percent spread over the LIBOR index during the variable interest rate period until conversion of the City Loan to a fixed interest rate, and thereafter, a 1.5 percent spread over the fixed interest rate index of Yield for Ten Year U.S. Treasury Notes through the loan maturity.

TARGET AREA:

The property is within the Hollywood Redevelopment Project Area of the Community Redevelopment Agency of the City of Los Angeles (CRA/LA), Los Angeles State Enterprise Zone, Hollywood Boulevard Commercial and Entertainment District, Hollywood Signage Supplemental Use District, and the Adaptive Reuse Incentive Areas Specific Plan.

PROJECT INFORMATION:

A primary tourist destination in the Hollywood neighborhood of the City of Los Angeles, the Hollywood & Highland Center (H&H Center) is an urban entertainment and live-broadcasting complex, comprised of four primary components, as follows:

- (a) Renaissance Hollywood Hotel & Spa is a four-star 285,000 square feet lodging facility, consisting of 632 rooms, including 33 luxury suites. Marriott International manages the hotel pursuant to a management agreement ending in 2027.

CIM/H&H Hotel, LP, owns the hotel.

- (b) Multi-Retail Complex – A multi-story complex, with a total of over 458,000 square feet of rentable space; leased to sixty (60) retailers, nine (9) restaurants, two (2) night clubs, a six (6) screen cinema, a facility for special events, and Lucky Strike, which is a high-tech bowling alley and lounge.

H&H Retail owns the multi-retail complex, with the lease of the land underlying the cinema portion of the multi-retail complex, pursuant to a ground lease with a private third party, maturing in January 2098.

- (c) Kodak Theatre - A performing arts center for live shows with about 3,400 seats which has housed the Governor's Ball and the Oscar ceremonies of the Academy of Motion Pictures Arts and Sciences (AMPAS). The net floor area of the Kodak Theatre, including the theatre support areas, is 157,500 square feet. The main stage area is one of the largest in the nation with 120-foot width and 75-foot depth. The naming of the Kodak Theatre is pursuant to a twenty (20) year marketing partnership with Eastman Kodak Co., one of the most significant non-sport corporate sponsorships in history. The Kodak sponsorship agreement is contractually tied to the AMPAS annual Oscar ceremonies at the Project. In regards to the live performances by Cirque in the Kodak Theatre, only 2,500 seats of a total 3,400 seats will be utilized because of the visibility constraints for nine hundred (900) seats at the upper seating levels.

H&H Retail has a long-term leasehold interest in the Kodak Theatre, pursuant to a 99-year leasehold agreement with the CRA/LA, the ownership, pursuant to a lease agreement maturing in November 2098. In 2005, H&H Retail granted all management rights for the Kodak Theatre to the Borrower for a term ending in 2038.

d) Parking Structure - A seven-story, 3,000-stall, subterranean parking facility, owned by the City and operated by City contractors hired for the primary benefit of the H&H Center.

A portion of the site for the parking facility is leased from the Los Angeles Metropolitan Transportation Authority (MTA) pursuant to 99-year ground leases.

In addition to the rental income from the tenants, H&H Center consists of other elements that generate substantial revenue, including billboards, signage, sponsorships and licensing agreements.

Currently, a \$220,000,000 permanent loan has a first priority mortgage security interest in all properties comprising the H&H Center. The first mortgage loan is further securitized as part of a Commercial Mortgage Backed Securities (CMBS) issuance that was rated and publicly placed in the capital markets.

In 2001, H&H Center was developed as a public and private partnership by TrizecHahn Hollywood, LLC and TrizecHahn Hollywood Hotel LLC (together, TrizecHahn) at the estimated cost of \$385 million, not including the cost of the subterranean parking facility owned by the City and operated for the benefit of the H&H Center. The initial Disposition and Development Agreement (DDA) between CRA/LA and the developer of the project was as of February 1999. Pursuant to the DDA and amendments thereon, LA City and CRA/LA have made significant investments and extended numerous accommodations toward the development of the H&H Center, such as approval of zone variances and signage permits. The investments, in turn, have revitalized the intersection of Hollywood and Highland into a primary entertainment, shopping and tourist attraction in the City.

In 2008, taxable sales of the H&H Center and the LA City's one percent (1%) share from the resulting sales tax are estimated as follows:

<u>H&H Center Components</u>	<u>Taxable Sales</u>	<u>Est. City share of Sales Tax (1%)</u>
Retail Tenants	\$83,239,000	\$832,390
Entertainment Tenants	24,193,000	241,930
Carts	1,552,000	15,520
Hotel	10,106,000	101,060
Spa	65,000	650
Kodak Theatre	73,000	730
Total	\$119,228,000	\$1,192,280

In February 2004, TrizecHahn sold the multi-tenant retail, Kodak Theatre, and signage, sponsorship and licensing agreements (Ancillary Income Agreements) to H&H Retail for \$115 million and the Renaissance Hollywood Hotel to the CIM/H&H Hotel, LP for \$86 million. As part of the acquisition, new ownership agreed to pay CRA/LA the sum of \$12 million as a community improvement fee, in pre-determined annual sums, payable in quarterly installments. As of December 31, 2008, \$10.25 million of this obligation was outstanding.

As of January 1, 2008, fair market value of the multi-retail, Kodak theatre and the elements in the Ancillary Income Agreements, using income capitalization approach for

valuation was \$324.35 million, indicating a 63.6 percent appreciation in four years. As of January 1, 2008, fair market value of the Renaissance Hollywood Hotel, also using the income capitalization approach for valuation was \$176.86 million, indicating a 92.6 percent appreciation in four years.

For the one-year period, from January 1, 2007 to January 1, 2008, the value of the multi-retail and Kodak properties appreciated in value by 48.9 percent from \$217.8 million to \$324.35 million; and the Renaissance Hollywood Hotel has gained in market valuation by 42.6 percent from \$124.03 million to \$176.86 million.

The H&H Center has been subdivided horizontally and vertically. The site of the H&H Center consists of approximately nine (9) parcels, comprising 8.71 acres that are immediately adjacent to the Hollywood-Highland Metro Rail Redline Subway Station and, to the west, is bounded by the Grauman's Chinese Theatre. The H&H Center in aggregate consists of thirty-two (32) land parcels and air-right subdivisions, not including sixteen (16) subdivisions of the subterranean parking structure, as designated by the Los Angeles County Assessor Parcel Numbers summarized in Attachment E.

Before entering into the Performance Agreement, net operating income from live shows in Kodak Theatre were projected to fall well below the operating level in the past three years, as follows:

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Projected - 2009</u>
\$3,104,000	\$4,3361,000	\$4,130,000	\$2,357,000

Therefore, the Performance Agreement is imperative to reverse operating projection of Kodak from the status quo. The City Loan recommended herein is necessary to assist funding needs of the Project in regard to the eligible adaptation costs of the Kodak Theatre for production and performances by Cirque Du Soleil. The Borrower has made every effort to procure financing needs of the Project from private financial intermediaries. The frozen credit and capital markets, however, have remained not responsive, and therefore, this public assistance is being recommended.

The key and pertinent terms of the Performance Agreement are as follows:

- The Borrower is responsible to fund (i) the cost of pre-designed capital improvements of Kodak, adapting the facility for production and performances by Cirque and including a Theatre Design fee paid to CDS, with a base budget, excluding taxes, of \$16,000,000 (Capital Improvements), and (ii) the cost of acquisition and installation of certain theatrically specialized equipment (TSE), including TSE management fees, with a base budget, excluding taxes, of \$21,000,000.
- As per the Performance Agreement, the soft opening date of the Cirque show is set for August 20, 2010 (Soft Opening Date), to be followed by the gala opening night approximately 3 months thereafter. CDS is committed to a minimum of three hundred sixty eight (368) performances by the Cirque for any rolling twelve (12) months period, commencing on the Soft Opening Date.

- Term of the contract is for ten (10) consecutive years from the Soft Opening Date.
- For the Cirque to load-in and rehearse its shows in the Kodak Theatre, Borrower is committed to cause completion of the capital improvements and TSE by not later than two hundred thirty three (233) days before the Soft Opening Date.
- Average ticket price of the Cirque events shall be not less than \$110.00, excluding applicable sales taxes and ticket agency commissions, with a facilities charge of \$2.00 per ticket added to the average ticket price for refurbishment of the Theatre.

In the Performance Agreement, however calculation of Total Show Revenue and distribution to the parties thereon, facilities charge of \$2.00 per ticket is excluded.

- Please refer to Attachment I – Note A:
It contains Confidential and Proprietary Information.
- The budget for production cost of the Cirque show is agreed to at not less than \$50,500,000, 10% of which is to be funded by Borrower and the balance by CDS.
- Please refer to Attachment I – Note B:
It contains Confidential and Proprietary Information.
- The Borrower's Net Operating Income from the Cirque performances in the Kodak Theatre is shown on Attachment B. CDS retains all other income from Cirque performances. Because it contains proprietary and confidential information that is subject to a confidentiality agreement, Attachment B and the information contained in such attachment shall remain confidential.

Investments by the City and CRA/LA in the H&H Center

The summary of investments by the City and CRA/LA are not inclusive of all the related terms and conditions:

\$4,250,000	CDD, through CRA/LA, provided H&H Center with grant funds of the Urban Development Action Grant (UDAG) from HUD. The grant funded the development gap of the Kodak Theatre. In February 2006, the project met and exceeded job creation requirements of the UDAG.
\$80,975,000	The City issued \$80,975,000 Tax-Exempt Parking Facility Revenue Bonds (Bonds), where \$66,078,191 of proceeds funded construction of a five (5) level subterranean parking facility for the benefit of the H&H Center. The property owner is the City of Los Angeles. The Bonds are payable solely from a pledge of the parking revenues of the parking facility as deposited into the LA City's Special Parking Revenue Fund.

The balance of the Bonds proceeds were expended for the following:

- Property Acquisition Cost - \$1,833,000;

- Relocation Costs - \$3,000,000;
- Entitlement Fees - \$800,000;
- Consultant and other costs of CRA/LA - \$900,000;
- Interest Reserve and cost of issuance of the Bonds - \$8,363,809.

The Reciprocal Parking and Easement Agreement, and amendments thereof, between the City, CRA/LA, MTA, and TrizecHahn (and its successors) provides for certain sharing of operating expenses, as the Renaissance Hollywood Hotel has an exclusive right to 300 stalls for a monthly fee of \$90,000, subject to annual CPI adjustments.

It is anticipated that the use of the subterranean parking facility will increase significantly as a result of the Cirque performances, materially increasing both gross revenues and net operating income.

\$42,010,000

LA City through Municipal Improvements Corporation of Los Angeles (MICLA) issued \$43,210,000 Taxable Certificates of Participation (COPs), where \$32,292,816 of the proceeds funded the acquisition cost of the land and certain improvements of the Kodak Theatre. The Theatre land and improvements, owned by CRA/LA, are leased to the Borrower with the stated lease maturity date of March 2098.

The Debt service of the COPs is met from the General Fund through the transient occupancy tax (TOT) that is generated from the Renaissance Hollywood Hotel part of the H&H Center. The COPs financing structure provides for the City, as the ground lessee, to make semiannual lease payments to MICLA, as the ground lessor, in amounts equal to debt service of the COPs.

The balance of proceeds from COPs are expended for the following:

- Capital improvements in the vicinity of Shrine Auditorium located at 649 W. Jefferson Blvd., that is not a part of or related to the H&H Center - \$1,200,000;
- Property Acquisition Cost - \$916,000;
- Entitlement Fee - \$400,000;
- Cost Reimbursement to CRA/LA - \$400,000;
- Interest Reserve and cost of issuance of the Bonds - \$8,001,184.

TrizecHahn and its successor have guaranteed up to 74 percent of any shortfall in the TOT for meeting ongoing debt service of the COPs. Under certain conditions, after 2012, the guarantor may be released from this guaranty. The lesser than 100 percent guarantee by the developer is because of the \$1,200,000 allocation of the proceeds from COPs to the capital costs related to Shrine Auditorium as well as the related interest reserves and the cost of issuance of the COPs.

As of December 31, 2008, \$38,454,000 of the COPs is outstanding and the stated maturity of the COPs is April 1, 2029. The TOT has

been sufficient to meet the COPs debt service obligations and guarantees have not been drawn.

As per Cooperation Agreement dated February 2004 between the City and CRA/LA, 26 percent of the remaining portion of any shortfall in the TOT necessary for meeting the ongoing debt service of the COPs is payable from the tax increment revenues of other legally available funds of the Hollywood Redevelopment Project area. The obligation of the CRA/LA in regard to COPs is subordinated to its senior obligations for: (a) debt service of tax allocation bonds, (b) housing set-aside funds required by State law, and (c) pass-through payment(s) arising from agreements with the Los Angeles County, Los Angeles Unified School District (LAUSD) and Los Angeles Community College District.

\$127,235,000 Total Direct Investments by LA City

The City and CRA/LA have invested significant sums for development of the general vicinity of the H&H Center, thereby rendering indirect benefits to the economic viability of the project.

CITY LOAN - TERMS & CONDITIONS:

City Loan:	\$30,000,000.00
Borrower:	TheatreDreams LA/CHI, LP, wholly owned and managed by CIM Group affiliates.
Project:	Pursuant to the Performance Agreement as assigned to the Borrower, Borrower is contractually committed to Capital Improvements of the Project, including acquisition and installation of certain TSE, and adapting the theatre for live production and performance shows by the Cirque. In addition, the Performance Agreement requires CDS to bear the cost of certain production and performances by Cirque. Borrower will remain responsible for the maintenance of Theatre, capital improvements and supply of all spare parts, repair and maintenance for TSE. Kodak Theatre is a key component of a multi purpose complex consisting of the retail, hotel and theatre, located at 6801 Hollywood Blvd. (H&H Center).
Stated Maturity:	Twelve (12) years.

Interest Rate: Variable Interest Rate Period - For period from inception of the City Loan through conversion to a Fixed Interest Rate:

For a period that shall not exceed twenty-four (24) months from inception of the City Loan, borrowings under the City Loan would bear interest at three (3) months LIBOR plus spread of 1.5 percent, per annum, as adjusted monthly and payable on a quarterly basis.

Fixed Interest Rate Period - For period from conversion of the City Loan to a Fixed Interest Rate through the Stated Maturity:

The borrowings under the City Loan would bear interest at a fixed interest rate set at then prevailing yield of ten (10) Years U.S. Treasury Notes plus spread of 1.5 percent, per annum, payable on a quarterly basis.

Stabilized Operation: Stabilized Operations shall mean upon Net Operating Income of the Project achieving a ratio of 1.20:1.0 with respect to debt service obligation of the aggregate indebtedness of the Project.

Conversion to Fixed Interest Rate: The Conversion of the City Loan from the Variable to a Fixed Interest Rate shall occur at the latter of the following:

- a) Twenty four (24) months;
- b) The Project reaching Stabilized Operations; and
- c) A fixed rate public offering by HUD.

Amortization: For period from inception of the City Loan through conversion to a Fixed Interest Rate:

There will be no amortization of principal and the outstanding City Loan shall bear interest only.

For period from conversion of the City Loan to a Fixed Interest Rate through the Stated Maturity:

The City Loan will be subject to quarterly amortization schedule.

Collateral: Real Property: Subject to senior lenders' consent, a second deed of trust in all real assets comprising the H&H Center.

In case the required consent from the senior lenders of the H&H Center is not procured, alternative real property may be considered as alternative Collateral, subject to the City's discretionary approval of such alternative Collateral and the current market value appraisal of the Collateral as provided herein.

Assignment of Rents and Net Operating Income from the Project: The Borrower would assign to the City all rental and other proceeds from the Kodak Theatre, for meeting the ongoing debt service obligations of the City Loan.

The assignment excludes proceeds of (a) corporate sponsorship fees from Eastman Kodak, and (b) the fee paid by AMPAS for the use of Kodak Theatre for six (6) weeks, annually.

Up Front Fee: 1.5 percent flat, payable at closing

Appraisal: City Loan is subject to a current market value appraisal of the Real Property provided as Collateral. The ratio of the aggregate debt, including the City Loan, to the appraised market value of the Collateral shall not exceed 80 percent.

Interest Reserve: An Interest Reserve will be established by CDD withholding from the City Loan an amount equal to twenty four (24) months of the projected interest amount due under the City Loan.

Until conversion of the City Loan to a fixed interest rate, the Guarantor, as defined herein, shall replenish any and all shortfalls in the Interest Reserve.

Upon the City Loan conversion to a fixed interest rate, all unexpended sum of the Interest Reserve will be advanced to the Borrower for eligible Project costs.

Prepayment Penalty: For period from inception of the City Loan through conversion to a Fixed Interest Rate:

There is no prepayment penalty (no defeasance fee).

For period from conversion of the City Loan to a Fixed Interest Rate through the Stated Maturity:

There shall be a prepayment penalty (defeasance fee) in an amount to be determined such that if the

pre-payment amount is invested in equivalent term U.S. Treasuries, the City will be made whole, as if the City Loan was outstanding.

Guarantor:

CIM Urban Real Estate Fund, L.P. (Fund), a Delaware Limited Partnership, whose partners are as follows:

General Partner:

00.20% - CIM Urban Fund GP, LLC (CIM GP)

Limited Partners:

03.4982% - CIM Urban Fund LP, LLC (CIM LP)

59.9113% - CalPERS

36.2426% - CalSTRS

00.1479% - New Valley Corp.

CIM GP and CIM LP are 100% affiliates of CIM Group LP, the manager of the Fund.

Guaranty:

The Guarantor should provide an independent guaranty with respect to the following:

- 1) Interest Reserve replenishment, as provided in this term sheet;
- 2) Cost overrun guaranty; and
- 3) Capital improvements and rehabilitation completion guaranty;
- 4) Guaranty conversion of the City Loan from the Variable to a Fixed Interest rate, as provided herein, that would meet debt service coverage ratio of 1.20:1.0, at the Fixed Interest Rate plus the installments of principal amortization. The guaranty may result in a mandate for partial prepayment of City Loan by the Guarantor.

Non-Recourse Provision:

The City Loan is between the Borrower and the City, and CDS will not be a party to the City Loan contract.

Accordingly, the City Loan has no recourse to either CDS or CIM Group LP. Therefore, CDS' show revenues are not pledged for repayment of the City Loan.

Jobs Creation:

In conjunction with the City Loan, the Borrower shall commit to creation of not less than 858 new full-time permanent jobs (through hiring by the Borrower, CDS, the Renaissance Hotel and tenants at the H&H Center); at least 51% of which should be made available to low- and moderate-income persons.

The Borrower shall commit to work in conjunction with the City's WorkSource Centers for the purpose of procuring the jobs to be created, and new tenants of the H&H Center will be required to do the same.

Construction:

The Borrower shall commit to comply with all provisions of State of California Prevailing Wages in regard to the labor cost of construction.

Should the City Loan proceeds be expended for any part of the construction / rehabilitation costs, the Borrower shall commit to comply with all provisions of the Federal Davis Bacon Act in regard to the labor cost of construction, after the City Loan is made to the Borrower.

The Borrower will be responsible for the entire costs associated with monitoring capital improvements of the Project with respect to compliance with the State Prevailing Wages or federal Davis Bacon Act wages, and also, the requirement of Jobs Creation.

ECONOMIC VIABILITY OF THE PROJECT:

The Performance Agreement has set forth the scope of projected revenue, theatre operating expenses, show production costs, cost reimbursements and distribution of the net operating income to the Borrower and CDS. As per the Performance Agreement, CDS has guaranteed not less than 368 live Cirque performances in the Kodak Theatre annually, including both regular and matinee shows. The 368 shows are exclusive of six (6) weeks that are dedicated to the Academy Awards presentation by AMPAS, and thus leaves two (2) dark nights per week throughout the year that may be booked for non-Cirque events provided that such events do not interfere with staging of Cirque performances as per its planned schedule.

Cirque Events in Kodak

As per the Performance Agreement, CDS is budgeted for total development-related expenditures of \$52,416,000, including estimated taxes, for its performance commitments in Kodak. CDS will fund its funding commitments internally and would be reimbursed for the pre-determined portions of the said expenditures as provided hereinafter. For further detail on Borrower's share of the total development budget, please refer to Attachment A annexed hereto.

As per the Performance Agreement, the Borrower is budgeted for total development and capital expenditure of \$44,550,000, excluding taxes (\$47,710,000 including estimated taxes), plus financing costs of about \$3,450,000 to total budget of \$51.16 million including estimated taxes. The Borrower would fund \$21.16 million of the budget by direct equity investments and the City Loan of \$30 million would provide for the balance.

Debt service and repayment of the City Loan are to be made from the amounts payable to the Borrower under the provisions of the Performance Agreement, and except for the limited guaranty of the Fund, there is no recourse to CDS or the Fund. Accordingly, debt service of the City Loan would be met solely from the pledge of net cash flows available to the Borrower from the performances of both Cirque and few non-Cirque shows in the Kodak Theatre in accordance with the provisions of the Performance Agreement. CDS shall not be responsible for any payments to the City in connection with the City Loan.

Net Ticket Revenues - The Kodak Theatre (3,400 seats) may utilize only 2,500 of the lower level seats because of visibility constraints at the upper levels of the facility, making a total of 900 seats not available for the Cirque events. In reference to Attachment B, seat occupancy in the Theatre is assumed to range from 70 to 85 percent, resulting in Gross Ticket Revenues of \$79.86 million to \$96.97 million at average base ticket prices of \$110.00 per person. The Performance Agreement with CDS has set the minimum of the average ticket prices at \$110.00.

However, average ticket price payable by the public would be \$110.00 plus \$2.00 for Facility Refurbishment, plus Sales Tax at the prevailing percentage and any Agency Commission applicable.

The VIP Hospitality Tickets will charge on average \$140.00 in addition to the average base ticket price of \$110.00 per person, for an all-in VIP average ticket price of \$250.00, plus \$2.00 for Facility Refurbishment, plus Sales Tax, per person and any Agency Commission applied. The VIPs, however, will receive extra amenities that are expected to include preferential seating locations, complimentary meals, souvenirs, and access to pre-show / post-show events, such as meeting with the star performers. The costs and expenses associated with the VIP Hospitality Tickets are projected at 58.0 percent of corresponding revenues. As a result, net additional revenues from the VIP Hospitality Tickets are projected at \$60.80 plus tax, per seat, more than the average of regular tickets.

The Net Ticket Revenues, which exclude Agency Commission for sale of tickets and credit card fees, at 5 percent and 2.5 percent of projected gross ticket revenues respectively, are projected at \$94.54 million with the Kodak Theatre occupancy of 85 percent, and \$77.86 million at an occupancy level of 70 percent.

Total Cirque Show Revenue

Total Show Revenue consists of Net Ticket Revenues, plus Merchandise Revenues assumed at an average market norm of \$4.50 per occupied seat, less credit card fees on both the tickets and merchandise sold.

Accordingly, Projected Total Show Revenues are \$97.97 million at Kodak Theatre at occupancy of 85 percent and \$80.69 million at an occupancy level of 70 percent.

Projected Operating Expenses and Net Operating Income

As per the Performance Agreement, Total Show Revenues generate Net Operating Income from the Cirque performance at a projected \$22.55 million at an occupancy level of 85 percent and \$10.92 million at an occupancy rate of 70 percent.

Priority Borrower's Revenues from Cirque Events Available for Debt Service of the City Loan

As per the Performance Agreement, Borrower is scheduled to receive its first priority rent (Borrower's Base Rent), equal to 6% of Net Ticket Revenues, after CDS receives a Box Office Participation and the return of its operating costs (Cirque Cost Return). At 70% occupancy, the Borrower's Base Rent is estimated at \$4.67 million. In addition, Borrower has control over the Refurbishment Revenues and, in case of poor operating performance, could utilize the Refurbishment Revenues to service the City Loan.

At 70 percent occupancy, the Refurbishment Revenues are estimated at \$1.29 million. At 70% occupancy, the Borrower's Base Rent and Refurbishment Revenues (together, Priority Borrower's Revenues) are estimated at \$5.96 million.

At the 70 to 85 percent projected seat occupancy levels, and projected debt service of \$3,754,621, given an assumed interest rate of 5.5% per annum and the \$30 million City Loan fully amortizing in ten (10) years, the Borrower's projected cash flows available for debt service just from Borrower's Priority Revenues (e.g., excluding additional potential income from its other income streams from Cirque events) and the corresponding debt coverage ratio(s) are projected as follows:

Seat Occupancy Assumption	85%	80%	75%	70%
Priority Borrower's Revenues (Proj.)	\$7,236,628	\$6,810,944	\$6,385,260	\$5,959,576
Debt Coverage Ratio	1.93:1.00	1.81:1.00	1.70:1.00	1.59:1.00

Non-Cirque Events in Kodak

Ticket and Rental Revenues – In addition to the Cirque events and six (6) weeks dedicated to AMPAS, Kodak Theatre is expected to have five (5) additional events at certain points through the year during the otherwise two (2) dark nights each week. The types of the non-Cirque events are expected to be film premieres, television and comedy shows or such other similar events. The Ticket and Rental Income from non-Cirque events are projected at \$275,000 annually, accounting for 37.2 percent of total non-Cirque Revenues (excluding expense recovery revenue from non-Cirque events).

Tours Revenues – The visitors scheduled for touring the Kodak Theatre are to pay, on average, a ticket price of \$10-\$12 per person, with projected tour revenues of \$450,000 annually, accounting for 60.8 percent of total non-Cirque Revenues (excluding expense recovery revenue from non-Cirque events).

Net Operating Income from the non-Cirque Events is projected at \$454,000 annually, contributing positively toward the net operating income available for debt service of the City Loan.

Projected Cash Flow from Cirque and non-Cirque Available for Debt Service of the City Loan and corresponding Debt Service Coverage Ratio(s)

Attachment B annexed hereto provides Scenarios D, E, F and G, where the fixed interest rate is assumed at 5.5%, per annum, the \$30 million City Loan amortizes fully in ten (10) years, and there is an assumed debt coverage ratio of 1.2:1.0. The projected cash flows available for debt service, at a seat occupancy range of 70 to 85 percent, support a total loan amount of \$51 million to \$75.9 million, respectively.

FINANCIAL VIABILITY OF THE GUARANTOR:

The Guarantor is a private real estate investment Fund (Fund), with tax-exempt institutional investors as its primary limited partners, and is managed by the CIM Group LP. The three founding principals of the Fund Manager are Shaul Kuba, Avi Shemesh, and Richard Ressler.

Funds Financial Structure (Balance Sheet)

Please refer to Attachment I – Note C:
It contains Confidential and Proprietary Information.

ANALYSIS OF RISKS AND MITIGATING FACTORS:

- The Project is not a socially necessary facility; neither provides for the needs of the LA City's underserved population nor contributes to the removal of slum and blight. This funding assistance is to accommodate optional wants (vs. meeting the needs for subsistence), funding capital improvement of an entertainment facility used for leisure purposes.

This economic development Project should create not less than 858 new full time permanent jobs, 51 percent of which would be made available to low and moderate-income persons, some through the CDD WorkSource Centers. The City is the capital of entertainment and motion picture industries in the U.S., where continued viability of the two industries and their attraction of tourism to the City is pertinent to the economic vitality of the Los Angeles area economy. The Project, in the heart of the Hollywood's most visible and attractive intersection, is accommodating production and performance activities of Cirque in Kodak Theatre.

Successful attraction of Cirque to LA City was made in spite of competition from a number of other metropolitan areas. In addition to the direct economic contribution, the Project is expected to further contribute indirectly by allowing for the continued viability of a number of related businesses that extend services and supplies to the operation of Kodak, H&H Center and neighboring markets in Hollywood.

- In case of a protracted recession that may deepen into a quasi-depression, the state of economy may hinder viability of the Project, with the potential to render the underlying cash flow assumptions materially unfeasible.

In reference to the Projected Pro Forma, annexed hereto as Attachment B (which is proprietary and Confidential), the City Loan to the Project remains viable under very conservative assumptions.

The fixed operating costs and expenses of Cirque shows are projected to be such that at a very conservative average occupancy of about 70 percent, the Borrower should be able to meet the projected debt coverage obligations of the City Loan with ample financial cushion.

Before the City Loan converts from an interest-only, variable rate indexed to LIBOR to a fixed rate, indexed to the U.S. Treasury Notes, the Project should demonstrate having achieved debt coverage ratio of 1.20:1.00, or otherwise, the Borrower and the Guarantor shall cause partial reduction of the City Loan by such amount for the said 1.20:1.00 coverage ratio to be met before the conversion date.

- As part of the H&H Center, operation of the Kodak Theatre is a function of the continued viability of multi-retail and hotel components of the complex. A drastic occurrence in any one component of H&H Center may adversely affect the Kodak Theatre.

Production and performance of live shows in the Kodak Theatre are materially distinct operations from the multi-retail, cinemas and hotel operations at the H&H Center. The Cirque's Performance Agreement is as firm as a contract may be and CDS is contractually committed to invest a substantial sum of capital in advance of the Cirque's production and performances in Kodak.

- Guarantor's financial capacity in terms of net worth is ample to meet the limited scope of the Guarantees in relations to the City Loan.
- The Fund is exposed to debt renewals and refinancing of a significant sum of its financial obligations in an effectively frozen credit and capital markets.

Each of the asset-based loans of the Fund is under leveraged materially, and the renewals and/or refinancing of these loans remain a feasible possibility. The Fund is among the most reputable and best capitalized real estate investment and development firms in the market.

CDBG IMPACT:

The City Loan is funded by borrowings of the City from HUD pursuant to Section 108 of the Federal Housing and Community Development Act of 1974. The borrowings of the City from HUD are up to five times the current fiscal year's entitlement of the CDBG entitlement grant provided to the City.

The City's debt payment obligation to HUD is a function of its receivables from the City loans made for economic development purposes. In case of a default by any of the City loans, there will be a mismatch of payables and receivables, and thus, there will be a necessity to meet this shortfall from the CDBG as provided by the applicable CFR and the City's promissory notes made to HUD.

In case of a default on any of the City loans, the City's remedies are subject to terms of each City loan and the underlying documentation. The remedies available to the City may include foreclosure of collateral, pursuit of guarantees and adjudication of the City's rights.

APPLICABLE CODE OF FEDERAL REGULATION (CFR):

National Objective

As per "24CFR 570.208(a)(4): Activities benefiting low-and-moderate-income persons by job creation or retention," the Project is to provide jobs to the low-moderate-income persons.

Eligible Activity

As per "24CFR 570.203(a) – Special Economic Development Activities: The proceeds from the City Loan will be used for eligible cost of capital improvements, City Loan fees issuance fees, and interest carry.

Public Benefit

As per "24CFR 570.209(a)(1)(i): Create or retain at least one full-time equivalent permanent job per \$35,000 of CDBG funds uses and 51% of jobs shall be made available to low-moderate income persons. Accordingly, the Borrower will commit and covenant to retain or provide 858 new and permanent jobs in the H&H Center.

ENVIRONMENTAL CONSIDERATIONS:

Phase-I environmental assessment of H&H Center, including Kodak Theatre, was completed on March 3, 2006 and H&H Center is in compliance with CEQA and NEPA. The scope of this Project and corresponding financial assistance by the City Loan should have no material impact on the existing Negative Mitigation Declaration. The scopes of this Project and information concerning this funding assistance have been published for the sole purpose of public comments.

NECESSARY AND APPROPRIATE STATEMENT:

The funding is deemed appropriate under federal assistance guidelines in that the Project costs have been determined to be reasonable; the City Loan amount is appropriate; the terms of the financing are reasonable; and the public benefit is adequate to meet the established guidelines. The Borrower has provided evidence and represented in writing that private financial intermediaries have refused financing of the Project and the frozen state of the national credit markets is not expected to resolve timely for the Project to receive the necessary funds timely. The City Loan accounts for about 29 percent Total Project Costs of about \$103,576,000.



RICHARD L. BENBOW
General Manager

RLB:NB:JL

Attachment A – Projected Sources & Uses of Funds

Attachment B – Projected Pro Forma (*)

Attachment C – Theatrical Specialized Equipment (TSE) Budget (*)

Attachment D – Projected Borrower Recuperation Rent & Recoupment of Show
Production Costs (*)

Attachment E – H&H Center, Assessor Parcel Numbers, Plat and Site Maps

Attachment F – Guarantor's Operating Statements (*)

Attachment G – Guarantor's Balance Sheet (*)

Attachment H – Summary of the Guarantor's Investments and Liabilities (*)

Attachment I – This attachment contain Non-public, Private and Proprietary Information
that are referenced in this transmittal and shall remain Confidential (*)

(*) Because they contain proprietary and confidential information that is subject to a confidentiality agreement, the information contained in Attachments B, C, D, F, G, H and I shall remain confidential.

CITY OF LOS ANGELES
Community Development Department
Economic Development Division

Attachment A

Projected Sources & Uses of Funds - Kodak Theatre

Projected Uses of Funds	Costs	Estimated Taxes ¹	Budget Incl. Taxes
Development Costs of the Borrower			
Theatre Design Fee (Paid to Cirque Du Soleil)	\$1,000,000	\$80,000	\$1,080,000
Theatre Adaptation Costs	\$16,000,000	\$1,280,000	\$17,280,000
TSE (Including TSE Management Fee) ²	\$20,000,000	\$1,600,000	\$21,600,000
Initial TSE Spare Parts	\$1,000,000	\$80,000	\$1,080,000
Retail Development ³	\$250,000	\$20,000	\$270,000
Theatre Pre-Opening Costs	\$700,000	\$56,000	\$756,000
Launch Campaign (Initial Opening Cost)	\$400,000	\$32,000	\$432,000
Premiere Gala (Initial Opening Cost)	\$100,000	\$8,000	\$108,000
Marketing "Tool Kit" (Initial Opening Cost)	\$50,000	\$4,000	\$54,000
Show Production (Creative Development)	\$450,000		\$450,000
Show Production (Production Cost)	\$4,600,000		\$4,600,000
Subtotal: Development Costs	\$44,550,000	\$3,160,000	\$47,710,000
Development Costs of the CDS			
Marketing Tool Kit	\$450,000	\$36,000	\$486,000
Creative Development	\$4,050,000	\$0	\$4,050,000
Show Production Costs	\$41,400,000	\$0	\$41,400,000
Show Pre-Opening Costs	\$1,500,000	\$120,000	\$1,620,000
Launch Campaign	\$3,600,000	\$288,000	\$3,888,000
Premiere Gala	\$900,000	\$72,000	\$972,000
	\$51,900,000	\$516,000	\$52,416,000
Financing Costs			
Front End Fee - City Loan	\$450,000		\$450,000
Interest Reserve (2 years) - City Loan	\$3,000,000		\$3,000,000
Subtotal: Financing Costs	\$3,450,000		\$3,450,000
TOTAL PROJECTED USES OF FUNDS	\$99,900,000	\$3,676,000	\$103,576,000
Projected Sources of Funds			
Borrower's Equity Investment			\$21,160,000
CDS Equity Investment			\$52,416,000
City Loan - Dispersed Pro-Rata with Equity			\$30,000,000
TOTAL PROJECTED SOURCES OF FUNDS			\$103,576,000

¹ Tax figures represent preliminary estimate of 8.0% taxes by Borrower; the Budget, as per the Performance Agreement, excludes taxes.

² TSE = Theatrical Specialized Equipment.

³ Retail Development budget is not part of the Performance Agreement, and, unlike other development costs, will not be recovered directly.

CITY OF LOS ANGELES
Community Development Department
Economic Development Division

H&H Center - Assessor Parcel Numbers

Attachment E

No.	APN	Usage	Ownership	Lot (s.f.)	Air Right (s.f.)
1	5548004034	Hotal	CIM H&H Hotel	6,752	
2	5548004042		CIM H&H Hotel	41,882	
3	5548004055		CIM H&H Hotel		39,121
4	5548004056		CIM H&H Hotel		39,121
5	5548004060		CIM H&H Hotel		67,518
6	5548004063		CIM H&H Hotel		60,548
7	5548004066		CIM H&H Hotel		67,518
	Sub-Total			48,634	273,826
1	5548004039	Kodak	CIM H&H Retail	80,150	
1	5548004037	Retail (Cinemas)	CIM H&H Retail	10,981	
2	5548004041		CIM H&H Retail	115,434	
3	5548004901		LACMTA	67,518	
4	5548004040		Chinese 6 Theatres	7,710	
5	5548004044		Chinese 6 Theatres	6,311	
6	5548004049		Chinese 6 Theatres	42,536	
7	5548004048		CIM H&H Retail		27,948
8	5548004050		CIM H&H Retail		48,351
9	5548004051		CIM H&H Retail		47,324
10	5548004052		CIM H&H Retail		14,871
11	5548004053		CIM H&H Retail		49,222
12	5548004054		CIM H&H Retail		118,483
13	5548004057		CIM H&H Retail		43,102
14	5548004058		CIM H&H Retail		134,164
15	5548004059		CIM H&H Retail		125,452
16	5548004061		CIM H&H Retail		43,995
17	5548004062		CIM H&H Retail		132,422
18	5548004064		CIM H&H Retail		43,995
19	5548004065		CIM H&H Retail		138,520
20	5548004067		CIM H&H Retail		45,302
21	5548004068		CIM H&H Retail		138,649
22	5548004045		CIM H&H Retail		67,953
23	5548004046		CIM H&H Retail		7,618
24	5548004047		CIM H&H Retail		52,717
	Sub-Total			250,490	1,280,088
1	5548004902	Parking Structure	LACMTA		24,206
2	5548004903		LACMTA		43,093
3	5548004904		L A City		131,115
4	5548004905		L A City		146,797
5	5548004906		L A City		171,190
6	5548004907		LACMTA		483
7	5548004908		LACMTA		62,726
8	5548004909		LACMTA		3,659
9	5548004910		LACMTA		592
10	5548004911		L A City		81,892
11	5548004912		L A City		14,278
12	5548004913		L A City		7,374
13	5548004914		L A City		12,240
14	5548004915		LACMTA		63,597
15	5548004916		L A City		22,115
16	5548004917		L A City		16,639
	Sub-Total				801,996
48	Grand Total			379,274	2,355,910
			Acres:	8.71	54.08

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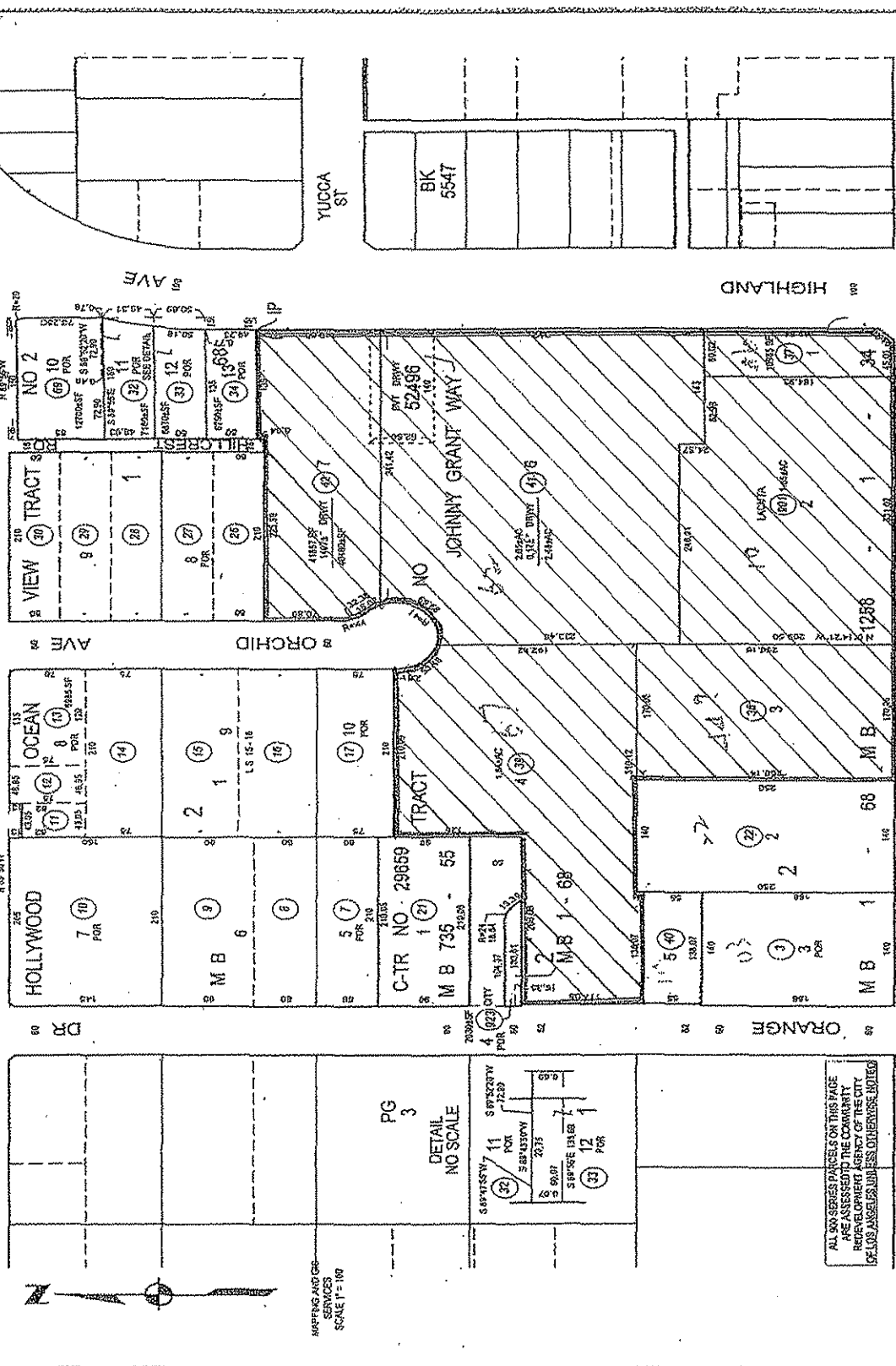
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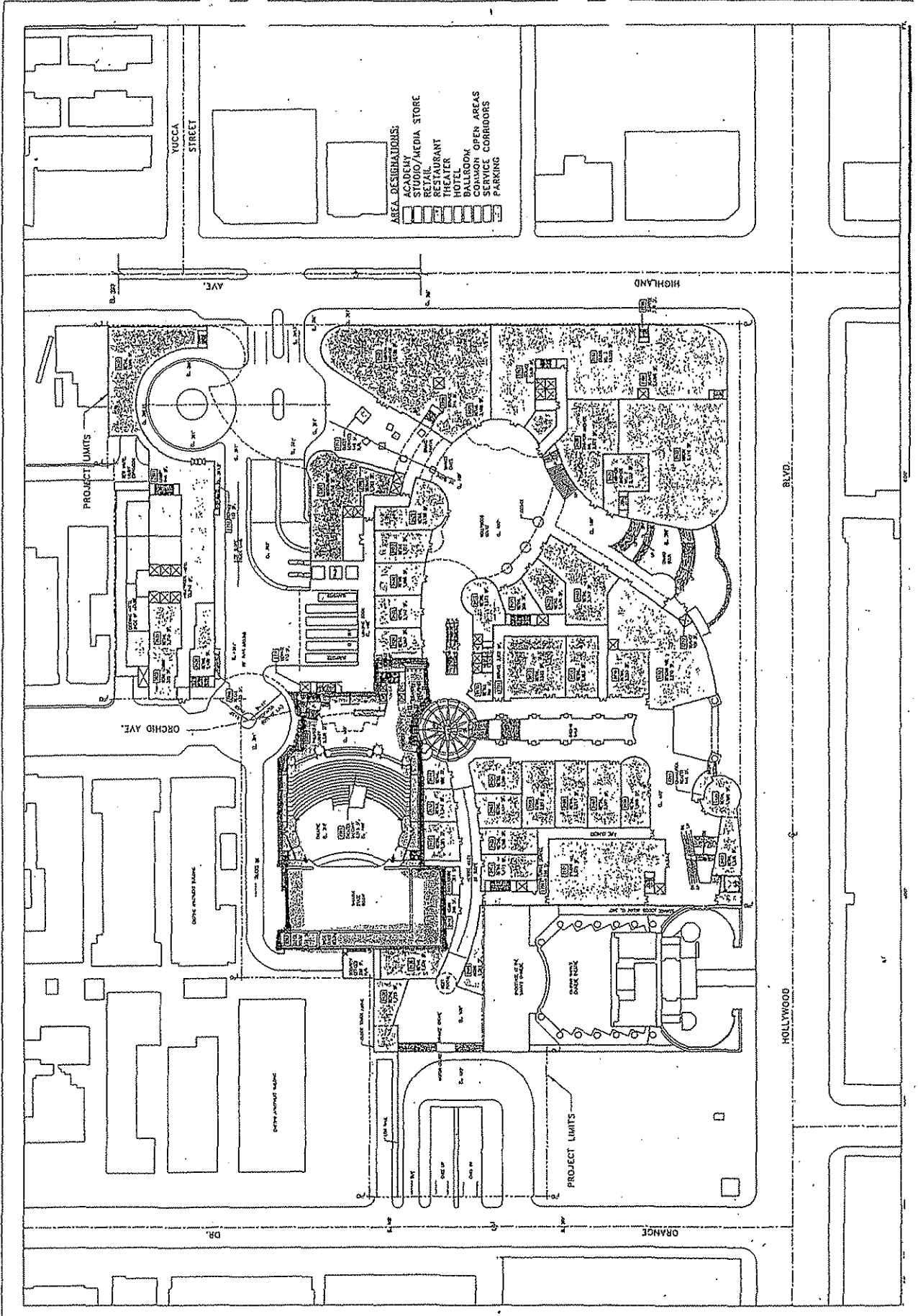
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PG 6

BLVD

FOR AIR LOTS & TRACTS OF 10
 NO MARKS, SEE SHEETS 2 THROUGH 8



YUCCA STREET

- AREA DESIGNATIONS
- ACADEMY
- STUDIO/MEDIA STORE
- RETAIL
- RESTAURANT
- THEATER
- ICE CATER
- BALLROOM
- CORAMON OPEN AREAS
- SERVICE CORRIDORS
- PARKING

HIGHLAND AVE.

HIGHLAND

HOLLYWOOD BLVD.

PROJECT LIMITS

ORCHID AVE.

DR.

PROJECT LIMITS

ORANGE