FORM GEN. 160

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: September 13, 2012

To: Ad Hoc Committee on Downtown Stadium and Convention Center Renovation

From: Miguel A. Santana, City Administrative Officer Miguel A. Santana

Subject: **EXPLANATION OF PLAN OF FINANCE FOR NEW HALL**

This communication is to provide clarification to the financing plan of the New Hall. No changes have been made to the proposed numbers presented in the staff report issued on September 10, 2012.

In 2011, AEG presented the City with a plan to finance the New Hall and New Parking Structures through the issuance of tax-exempt Lease Revenue Bonds. To reduce the General Fund obligation, the City Team proposed a financing plan in which AEG would 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 rather than an obligation on the City's General Fund. Further, the City and AEG agreed to key negotiating principals as part of the Memorandum of Understanding. The finance plan discussed herein, adheres to those guiding principles and includes two scenarios (1) Primary Scenario, which is based on current interest rates, and the (2) Back-Up Scenario, which is based on higher interest rates.

The 2011 proposed budget for building the New Hall was based on preliminary estimates prepared by Gensler architectural firm, who was hired by AEG to design and build the Event Center Project and New Parking Structures. During the past year, the City has been working with AEG and Gensler in developing the design of the LACC and refining the estimates for construction, resulting in a Target Budget of $314.6. The Target Budget is the amount needed to construct the LACC New Hall, where as the total amount of bonds issued includes the Target Budget plus capitalized interest and the costs of issuance, as described on Page 2.

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) and would mature by 2047.

Attached is a chart that shows the proposed plan of finance.

PRIMARY SCENARIO

The first half of the chart shows the Primary Scenario for funding the New Hall. These amounts are based on current interest rates. The first column shows the following:

- An amount of $228.7 million in lease revenue bond proceeds to be used to fund the construction of the New Hall;
- An amount of $36.9 million for capitalized interest. Capitalized interest is also borrowed through the bonds and is the amount of debt service paid during the first three years of construction until the Event Center begins to generate enough revenue to pay the debt service; and,
- An amount of $2.7 million, which is the cost of issuing the bonds. This includes the costs of bond counsel, financial advisors, the underwriters, and any other legal requirements to sell the bonds.

Thus the total amount of bonds to be issued would not exceed $268.3 million. These lease revenue bonds would be obligations of the General Fund supported by new revenues generated from ground lease payments and incremental taxes, generated by the Event Center project and New Parking structures. The Gap Funding Agreement further guarantees that any short fall in revenue will be paid by the Developer. Based on the proposed revenue stream, no short fall is anticipated. This arrangement ensures that there is no impact to the General Fund.

The second column of the Primary Scenario shows the amount of Mello Roos bonds to be issued will not exceed $122.9 million, which includes the following: $109.7 million in bond proceeds, $11.9 million in capitalized interest, and $1.2 million in costs of issuance. These bonds would be obligations of AEG and would be levied as a special tax as a means to fund the construction and improvement of a public facility. Every year, AEG would pay the amount of debt service on these bonds, which are guaranteed by L.A. Live Properties and its lease on the Event Center. If the debt service is not paid, the City could foreclose on L.A. Live Properties and cancel the lease on the Event Center.

BACK-UP SCENARIO

The second half of the chart shows the same information but with higher interest rates. Although we expect interest rates to stay relatively close to today's rates, this scenario provides a solution if interest rates increase more than 100 basis points or 1 percent above current interest rates. We have determined that if this occurs, then the amount of bonds available for the construction of the New Hall, $287 million, would be less than the Target Budget of $314.6 million, a difference of $27.6 million. The Implementation Agreement states that these additional costs would be funded as follows:

1. The City would fund 50 percent of such costs, which would not exceed a total of $13.8 million; and

2. The balance of the additional costs, up to $13.8 million, would be funded through a combination of sources to be determined by AEG as follows:

a. Charitable contributions raised by AEG; or
b. Other sources approved by the City.

The additional City contribution may be needed to fund facility improvements that are above and beyond equivalency replacement to ensure creation of a world-class convention facility. Capitalized Interest and Costs of Issuance would still have to be funded in the Back Up Scenario.

CONCLUSION

The City will continue to monitor interest rates and has developed this plan to address potential fluctuations in the bond market.

Attachment

MAS:NRB:DM:09130057.docx

Total LACC New Hall Project Cost: $314.6 million

PRIMARY SCENARIO

Current Interest Rates*	Lease Revenue Bonds	Mello Roos Bonds	TOTAL
Bond Proceeds	228,678,065	109,742,020	338,420,085
Captialized Interest	36,949,276	11,933,419	48,882,695
Cost of Issuance	2,687,659	1,229,045	3,916,704
Subtotal Bonds Issued	268,315,000	122,904,484	391,219,484
TOTAL AMOUNT AVAILABLE FOR LACC	**228,678,065**	**109,742,020**	**338,420,085**

BACK UP SCENARIO

High Interest Rates*	Lease Revenue Bonds**	Mello Roos Bonds**	TOTAL
Bond Proceeds	193,571,828	93,456,772	287,028,600
Captialized Interest	40,030,068	11,938,783	51,968,851
Cost of Issuance	2,363,104	1,064,602	3,427,706
Subtotal Bonds Issued	**235,965,000**	**106,460,157**	**342,425,157**
Total Bonds Available	193,571,828	93,456,772	287,028,600
Additional AEG Funding	0	0	13,800,000
Additional City Funding	0	0	13,800,000
TOTAL AMOUNT AVAILABLE FOR LACC	**193,571,828**	**93,456,772**	**314,628,600**

* High Interest Rates are 100 basic point higher than the current rates

** Lease revenue bonds are a General Fund obligation guaranteed by the Gap Funding Agreement
Mello Roos Bonds are an obligation of AEG.