

# REPORT OF THE CHIEF LEGISLATIVE ANALYST

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DATE: April 14, 2011

TO: The Ad Hoc Committee on Downtown Stadium  
and Convention Center Renovation

FROM: Gerry F. Miller  Assignment No.: 11-04-0363  
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SUBJECT: AEG EVENT CENTER PROPOSAL - NEGOTIATING PRINCIPLES

## SUMMARY

On February 2, 2011, the Council instructed the Chief Legislative Analyst (CLA), with the assistance of the City Administrative Officer (CAO), City Attorney (CA), Los Angeles Convention Center (LACC), and other departments as necessary, to engage the Anschutz Entertainment Group (AEG) in formal discussions concerning AEG's proposal to build a stadium at the LACC and bring a National Football League (NFL) team to the City. We have formed a negotiating team, consisting of the above departments, and a working group to provide input on all aspects of the proposal, including Planning, Transportation, Engineering, LAPD, LAFD and Building and Safety. We also anticipate including CalTrans on traffic issues and freeway impacts. Additionally, the Controller and Office of Finance will be involved in providing advice and analysis on City tax and financial issues.

On February 9, 2011, the Council established your Committee to oversee policy issues with regard to the proposal and asked that, as its first action, your Committee adopt negotiating principles to guide the negotiations.

On February 16, 2011, the Anschutz Entertainment Group (AEG) submitted to the City a written proposal to replace the current LACC West Hall with a new hall (Pico Hall) to provide at least equivalent and better designed exhibit space, and to construct a new stadium for NFL and other events.

Included below are proposed negotiating principles for your Committee to consider, as well as a discussion of process and timing as this transaction proceeds.

## RECOMMENDATIONS:

That the Committee:

1. Adopt the negotiating principles as detailed in this report; and,

2. Instruct the Chief Legislative Analyst, City Administrative Officer, City Attorney and Los Angeles Convention Center to report back to your committee as appropriate with status updates and negotiation instructions.

## **FISCAL IMPACT**

There is no fiscal impact on the City as a result of the actions in this report. All consultant services will be funded through payments from AEG. If the transaction is ultimately approved, debt service on bonds to fund Pico Hall is estimated to be approximately \$25 million per year. The fiscal impact on the City will depend on the results of the negotiations.

## **BACKGROUND**

### Negotiation Principles:

The following are broad principles that are proposed to guide the negotiations. The negotiations will be centered on resolving the details in order to implement the principles that the Committee establishes. The overriding policy concept expressed in the proposed principles is that the City is viewing the AEG proposal as a means to leverage significant private funding to expand and renovate the LACC to make it more competitive. The construction of an NFL stadium is potentially the mechanism to achieve that goal.

1. The City's existing General Fund base will be fully protected.
2. There shall be no public money for the NFL Stadium.
3. There must be substantial private funding to support any bonds issued to construct Pico Hall.
4. Any tax revenues used to support bonds issued to construct Pico Hall shall be from demonstrated net new tax revenues generated by the development and shall not come from existing General Fund revenues.
5. The amount of demonstrated net new tax revenues to the City used to support bonds issued to construct Pico Hall shall be no more than 50% of the net new General Fund tax revenues accruing to the City from the development.
6. AEG shall fully guarantee, in a form satisfactory to the City, the debt service on the bonds used to construct the New Hall in the event that the revenues generated through numbers 3 and 5 above are insufficient to fully support the bonds.
7. The City shall retain fee ownership of the property on which the NFL stadium will be built. The property will be ground leased for a period not to exceed 55 years and the City shall receive fair compensation for the value of the ground lease.

8. AEG will work cooperatively with LACC and LA INC with regard to Convention Center bookings to mitigate, to the fullest extent possible, any disruption of service at the LACC. The New Hall will be substantially completed prior to the demolition of the West Hall. The West Hall shall not be taken out of service prior to the opening of the New Hall without the City's prior consent and such consent will be given only if scheduled events can be otherwise accommodated.
9. AEG shall complete an Environmental Impact Report (EIR) which shall fully analyze the impacts of the proposed development.
10. AEG will implement a public benefits program.
11. AEG will provide assurances to the satisfaction of the City that teams that are contracted to play in the NFL stadium are committed to the stadium for a period sufficient to ensure that the City's investment in Pico Hall is protected.
12. The NFL stadium must include a roof and be designed in such a fashion as to provide viable additional event and exhibit space for the LACC, so that the total available event space at the LACC shall exceed 1 million square feet. AEG and the City will negotiate the terms through which the City shall have access to the stadium for event and exhibit space.

#### Process and Timing:

This office issued a Request for Proposals (RFP) for a financial consultant with expertise first in stadium development and team leases, and second in convention center and event transactions. In order to avoid any conflicts of interest, all proposers were required to disclose any prior or current relationships with AEG or NFL teams. Proposals were received on April 4 and are currently being reviewed. An award is expected within the next two weeks. The consultant will be responsible for analyzing the economics of the stadium proposal, including assessing the returns that AEG can be expected to generate and the risks associated with the development. The consultant will also provide expert advice to the City on business terms to protect the City's financial interests, including guarantee provisions.

The CAO conducted an RFP process using their qualified list of financial advisors and expects to make an award shortly. This consultant will be responsible for providing advice on the structuring of any bonds issued to construct Pico Hall as well as advice on developer guarantee provisions.

The City negotiating team proposes a process commonly used in Public/Private development transactions in the City. We will negotiate a Memorandum of Understanding (MOU) with AEG which will include all of the key deal points for the transaction. The MOU will be forwarded to your committee, distributed to the Mayor's Task Force and distributed to the public for comment.

The goal is to complete negotiations on the MOU and forward it for review within 90 days. Following public hearings, should your Committee and the Council approve the MOU, we would proceed to develop the documents necessary to implement the transaction.

It is expected that a variety of documents will be required, including a Construction and Funding Agreement, Reciprocal Easement Agreements, Guarantee agreement, Special Taxing District formation documents, etc, (the "Definitive Agreements"). These documents will take some time to develop. It is expected that, should the MOU be approved, the Definitive Agreements will be completed concurrently with completion of the EIR and forwarded to your Committee and the Council for consideration, approximately 12 months from now.

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