FORM GEN. 160 (Rev. 6-80)

CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

DATE:

TO: Honorable Members of the Ad Hoc Committee on Downtown Stadium and Convention Center Renovation

FROM: Gerry F. Miller, Chief Legislative Analyst
Miguel A. Santana, City Administrative Officer
Phillip C. Hill, CEO & Interim General Manager, LACC

Subject: **LOS ANGELES CONVENTION CENTER AND EVENT CENTER TRANSACTION DOCUMENTS AND NEW HALL DESIGN**

SUMMARY

Transmitted for your consideration are the transaction documents to finalize the agreement between the City and the Anschutz Entertainment Group (AEG or Developer), for the upgrade and expansion of the Los Angeles Convention Center (LACC) and the construction of the Event Center (EC) on the current LACC West Hall site to house a National Football League (NFL) franchise. These agreements are consistent with the Memorandum of Understanding (MOU) with AEG approved by the Council on August 10, 2011 (CF 11-0023). With the limited exceptions as discussed further below, approval of these documents represents final approval of the "business" transaction. Planning approvals are moving through separately under a report from the Department of City Planning (DCP) and are not contained in this report.

Over the past year, our offices, with the assistance of the City Attorney, have negotiated the final terms of the business deal between the parties. Additionally, over the past year, our offices, along with the Department of Public Works, Bureau of Engineering (BOE), DCP, Cultural Affairs and other departments have negotiated and participated in the design of the LACC New Hall to replace the West Hall, streetscape improvements and pedestrian enhancements, and an Arts Program which has been approved separately by your Committee.

Each of the many documents before your committee are summarized below and attached to this report. The only document to be executed now is the Implementation Agreement (IA). All other documents will be executed at the final closing of the transaction. Once the IA is approved, an escrow will be opened. When all of the closing conditions are met, including the finalization of an NFL team lease (the provisions of which are specified in the IA), the remaining documents will be executed and escrow will be closed. Several future Council actions will be required, such as the establishment of a Mello-Roos District and authorizing the issuance of the Mello-Roos Bonds and Lease Revenue Bonds to finance the New Hall construction.

Below is a detailed discussion of the Finance Plan. It should be noted that the LACC construction cost estimates have risen significantly, however the proposed agreement includes solutions to address this difference that do not result in additional risk to the City. As you recall, we indicated in our prior report transmitting the MOU that the plan of finance was preliminary and based on AEG's construction budget estimates and the financial markets at that time.

BOE and LACC staff were charged with ensuring that the New Hall design provides equivalent functionality to the West Hall, and that the design of the Event Center allows for meeting room and floor access that would increase the size and meeting room capacity of the LACC so that it could compete for the largest conventions. Through intensive LACC programming and design activities, that charge has been accomplished.

Furthermore, improvements have been identified which may exceed the literal equivalent functionality standard, but which are essential for the LACC to operate effectively and efficiently and to ensure it remains competitive. One example is the proposed construction of a ballroom in the New Hall which doesn't exist now. It will be the largest capacity ballroom in the City and will also serve as additional meeting room and exhibit space. The LACC; the CLA's consultant, Convention Sports and Leisure (CSL); and the CAO's consultants, Peralta Garcia Solutions and Crossroads Consulting, all agree it is a vitally important improvement to attract large convention business.

In the final analysis, it has become clear that the initial cost estimates for New Hall construction were substantially understated. It is important to note that projections on interest rates used at the time the MOU was transmitted were conservative, projecting interest rates that were relatively high. As a result, based on lower interest rates in the current financial markets, it appears that the proposed structure remains sufficient to fund virtually all of the construction costs. However, the Finance Plan remains preliminary. Final costs will not be known until a construction contract is awarded and the bonds are issued. Accordingly, in order to provide a cushion for potential increases in interest rates or inflation in construction costs, the Finance Plan proposes a methodology for cost sharing between the City and the Developer so that all of the identified improvements can be constructed.

We believe that final approval of the transaction is in the best interests of the City. The City stands to reap significant benefits through the creation of significant construction and permanent jobs, a top-tier and highly competitive convention center that will substantially increase business and tourism travel to the City, and continued economic activity in the South Park and surrounding areas of the City. As required by your Committee through the establishment of the negotiating principals that the City's negotiating team adhered to, the City's General Fund is fully protected, the vast majority of the New Hall construction and improvements to the existing LACC facility are being paid for through private sources, and there is no public subsidy of any kind in the construction of the EC. It should be noted that this transaction will result in the only NFL stadium constructed in the modern era that contains absolutely no public subsidies.

This report is consistent with the City's Financial Policies.

RECOMMENDATIONS

That the Council, with approval of the Mayor:

1. Certify that it has reviewed and considered the Environmental Impact Report, ENV-2011-0585-EIR (SCH No. 2011031049), including the accompanying mitigation measures, the Mitigation Monitoring and Reporting Program, and Adopt the Statement of Overriding Considerations as the environmental clearance for the proposed project and find that:

   a) The Environmental Impact Report (EIR) for the Convention and Event Center Project, which includes the Draft EIR and the Final EIR, has been completed in compliance with the California Environmental Quality Act (CEQA), Public Resources Code Section 21000 et seq., and the State and City of Los Angeles CEQA Guidelines; and

   b) The Project's EIR was presented to the City Council and City Council reviewed and considered the information contained in the EIR prior to approving the Project, as well as all other information in the record of proceedings on this matter; and

   c) The Project's EIR represents the independent judgment and analysis of the lead agency;

2. Adopt each and every Finding, the Mitigation and Monitoring and Reporting Program and the Statement of Overriding Considerations, all as set forth in the Department of City Planning Staff report re Case No. CPC-2012-0849-GPA-VZC-SP-SN-DA, prepared in connection with the September 13, 2012, City Planning Commission meeting, including any subsequent modifications thereto;

3. Approve all of the agreements attached to this report and authorize the Chief Legislative Analyst, in consultation with the City Administrative Officer, Los Angeles Convention Center and City Attorney, to make any necessary technical changes prior to their execution;

4. Authorize the Mayor and the Councilmember of the Ninth Council District, on behalf of the City, to immediately execute the Implementation Agreement, and then the remaining agreements at the close of escrow;

5. Instruct the Chief Legislative Analyst to transmit to the Council the approved executed Team Lease provided that it meets the requirements contained in the Implementation Agreement; and

6. Instruct the City Administrative Officer to prepare the necessary documents to issue Lease Revenue Bonds and Mello-Roos Bonds within the parameters of this report.

BACKGROUND

As indicated in several sections of this report, the attached transaction documents comply with all of the negotiating principles established by Council and are consistent with the MOU previously approved by Council. This report does not re-state all of the information contained in prior reports and the MOU. Our intent is to reiterate some of the key points, such as the negotiating principles and guarantee structure, and to address some material issues that have arisen since approval of the MOU. Prior reports can be found on Council File No. 11-0023 and on the City's website at http://downtownstadium.lacity.org/.

HISTORY OF THE PROPOSED PROJECT

In late 2010 and early 2011, representatives from AEG began publicly discussing their interest in attracting a National Football League (NFL) team to Los Angeles and constructing an Event Center for its use in Downtown Los Angeles at the current site of the West Hall of the Los Angeles Convention Center (LACC). A key part of the proposal was that the West Hall would be demolished and a New Hall constructed immediately adjacent to the South Hall. The intent was to replace the aging West Hall with a modern exhibition hall and meeting space in a more functional convention center facility. The Event Center and the New Hall comprise the Project.

On January 5, 2011, Motion (Perry-Garcetti-Smith, CF 11-0023) was introduced to begin consideration of the AEG proposal. Motion designated the Chief Legislative Analyst (CLA) as the lead negotiator, with the assistance of the City Administrative Officer (CAO), City Attorney, and LACC. Motion also instructed the CLA to establish an interdepartmental task force to coordinate the activities of all City departments with regard to consideration of the AEG proposal.

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, AEG sent a letter to City officials seeking to formally initiate this proposal. That letter contained the first written details from AEG concerning its proposal and provided the starting point for discussions between the City and AEG. The City negotiating team then initiated regular meetings with AEG to discuss its proposal, identify issues associated with the proposal, and determine whether the proposal would be financially viable and economically sound. These discussions were based on the following Negotiating Principles:

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 New Hall.

4. Any tax revenues used to support bonds issued to construct New 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 New 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 LACC bookings to mitigate, to the fullest extent possible, any disruption of service at the LACC.

9. The New Hall will be substantially completed prior to the demolition of the West Hall.

10. 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.

11. AEG shall complete an Environmental Impact Report (EIR) which shall fully analyze the impacts of the proposed development.

12. AEG will implement a public benefits program.

13. 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 New Hall is protected.

14. 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.

15. AEG and the City will negotiate the terms though which the City shall have access to the stadium for event and exhibit space.

On August 10, 2011, the City Council approved a Memorandum of Understanding (MOU) (Attachment A) between the parties that met all of the established Negotiating Principles. The documents before your Committee at this time memorialize the terms of the MOU in legally binding agreements. These agreements are described later in this report. In addition, Attachment

B provides a cross-tabulation of the MOU terms and the Agreements where those MOU terms are documented.

FUNDING GUARANTEE
The guarantee structure provided in the attached documents is consistent with the guarantee structure specified in the MOU. There will be a three-part guarantee to ensure sufficiency of funds to cover project bonds:

- Period 1, first four years: $50 million letter of credit, completion guaranty for the Event Center and New Parking Structures, first position for City on the New Parking Structures, a signed team lease, and assignment of team lease and other agreements to City;

- Period 2, first three years of operation: Completed Event Center, NFL team is playing, $28 million letter of credit;

- Period 3, remainder of 30-year bond term: Stability in Event Center and team operations, $5 million letter of credit.

There will be a third-party guarantee of any shortfall in revenues to pay debt service. It is expected that the NFL Franchise owner will be the third-party guarantor. If any other party is proposed to provide the guarantee, City approval will be required.

DESIGN
In previous meetings your Committee approved design elements for the New Hall. As discussed repeatedly in the past, the City's primary objective with this Project is to invest in the LACC so that it can successfully compete with other large convention centers across the country for the largest and most lucrative conventions. The proposed design accomplishes this goal. As discussed in the MOU, with the construction of the New Hall and EC, the LACC and EC combined will have in excess of one million square feet of exhibit and meeting room space, making it one of the five largest convention centers in the country. The replacement of the West Hall with the New Hall will result in contiguous exhibit hall space, a substantial operational improvement over the current design where the main exhibit halls are separated by a significant distance and connected by a narrow passageway. The design also provides for a ballroom, which does not exist now and will be the largest capacity ballroom in the City.

The design is also intended to improve connectivity to areas surrounding the LACC and EC to create a community-friendly "Campus" environment. The New Hall will result in a long tunnel along Pico Boulevard (the "Pico Passage"). Previously your Committee considered and granted conceptual approval of the design of the Pico Tunnel that results in an inviting transition between the Pico Union neighborhood to the west and the LACC/LA Live campus. Additionally, Cultural Affairs and DCP have worked with AEG to develop an Arts Program which will result in improvements to the Gilbert Lindsay Plaza and art installations that will help unify the LACC/LA Live campus with the surrounding community. The necessary final design approvals are included in the attached agreements.

FINANCE PLAN

In 2011, AEG originally presented the City with a plan to finance the New Hall and New Parking Structures through the issuance of tax-exempt bonds in the amount of $350 million. As project and design discussions progressed, the cost increased to $374 million. The debt would have been financed through Lease Revenue Bonds, making the LACC improvements an obligation of the General Fund. To reduce the General Fund obligation, the City Team proposed that AEG 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 a claim on the City's General Fund.

The proposal as it was presented in the July 25, 2011 staff report (2011 Staff Report) included a plan to finance the New Hall with approximately $275 million in tax-exempt bonds, through two issuances. The first issuance consisted of approximately $195 million in Lease Revenue Bonds (Series A) and the second issuance consisted of approximately $80 million in Mello-Roos Bonds (Series B). The proposed budget for building the New Hall was based on preliminary estimates prepared by Gensler architectural firm, hired by AEG to design and build the Event Center Project and New Parking Structures. As the design for the New Hall project has progressed and plans become final, the total amount in bond project funds is anticipated to be between $287 million and $358.4 million, with Series A bonds of between $193.6 million and $228.7 million and between $93.5 million and 109.7 million in Series B bonds which represent the high interest rate and the lower current interest rate scenarios. The lower the interest rates, the greater amount of project funds available (see Attachment C for the proposed New Hall Finance Plan).

Based on 2011 preliminary estimates, the defeasance cost associated with demolishing the West Hall will not exceed $2 million. AEG has agreed to pay for the cost of defeasing additional bonds beyond $2 million, if tax counsels finds it necessary based on the private use activity attributed to existing LACC bonds. The City has agreed that savings generated as a result of defeasing additional bonds in excess of $2 million, will be applied as a credit towards any shortfall between the debt service payments and enumerated revenue sources pursuant to the Gap Funding Agreement.

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) to mature by 2047. Analysis of the proposed bond structure has been prepared by PRAG and is attached as Attachment C.

Attachment C summarizes the amount of bonds in each series and the source of revenues that will pay for those bonds. Rent schedules are also provided in Attachment C.

Depending on interest rates at the time of sale, the Approved Final New Hall Budget could exceed the Total Bond Amount by as much as $27.6 million. The parties have agreed that, if necessary, these additional costs would be funded in the following manner:

1. The City would fund 50 percent of such costs, which would not exceed a total amount 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 to be raised by AEG; or
   b. Other sources approved by the City.

As noted earlier, this 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.

Series A – Lease Revenue Bonds (between $287 Million and $358.4 Million)
Lease Revenue Bonds are used to finance construction or improvements of a municipal facility, which are secured by lease payments made by a financing authority by a municipality. In this case, the Los Angeles Convention and Exhibit Center Authority (Authority) would be the financing entity to issue the debt and make debt service payments from lease payments on the New Hall paid by the City. The Authority previously financed the existing LACC facility and uses City lease payments toward the annual debt service.

Lease Revenue Bonds are funded from the General Fund and are therefore a General Fund obligation. However, it is expected that amounts derived from all funding sources identified in Attachment C would equal or exceed the Series A debt service obligations. The annual debt service payment would be approximately $13.4 million in the first year and is proposed to escalate. The final payment scheduled for 2047 is approximately $23.2 million. The City will seek approval to issue bonds through the Convention Center Authority once the Council approves the project as stated in the IA.

A requirement of this finance plan is that AEG guarantees to cover any gap between the debt service and certain identified funding sources under a Gap Funding Agreement (Attachment G, Exhibit F). Based on the proposed estimated revenues, no gap is anticipated.

In accordance with the proposed plan of finance presented in the 2011 Staff Report, the following sources of General Fund revenues will be used for repayment of the Lease Revenue Bonds:

- Event Center Ground Lease (approximately $6.6 million/annually): The rent represents a fair market value based on a highest and best use analysis confirmed by the City's appraiser, Riggs and Riggs Inc. (Appraiser). The annual rent payment would increase each year based on a 1.75 percent escalation rate (Attachment D).

- Possessory Interest Tax (approximately $3.4 million/annually): Since City property will be leased over a long term to a private party, the County of Los Angeles will assess a possessory interest tax in-lieu of property tax. The tax would be paid by AEG on the Event Center and the New Parking Structures. AEG will finance, operate and own the parking structures that will be located on Cherry Street (LA Live Way) and Bond Street.

- Parking Tax (approximately $775,000/annually): The parking taxes will represent incremental parking taxes in addition to current levels derived from on-site parking locations owned by both the City and AEG for Event Center events. The City owned facilities would include the parking locations at the South Hall and Venice Garage, and the AEG owned facilities will include Cherry Street, Bond Street, Olympic East and Olympic West (LA Live Garages).

- Construction Sales Tax (approximately $5.5 million/one time): AEG will take the action necessary to designate the City as the point of sale for tax generated during the construction period of the New Hall, the Event Center and New Parking Structures.

- As negotiations progressed, the City agreed to add two additional sources of General Fund revenue to use as repayment of the Lease Revenue Bonds to ensure adequate funding for the bonds:

  - Parking Ground Leases for Cherry Street and Bond Street garages (approximately $1.9 million/annually): The rent is based on a value-in-use analysis prepared by the Appraiser. A value-in use analysis considers how the restricted use of the site impacts the overall value, whereas highest and best use values the site as the most probable and profitable use. Here, the parking ground lease agreements restrict the use of the two sites defined as Cherry Street and Bond Street to parking. The rental amount will escalate at a rate of 1.75 percent annually (Attachment E and Attachment F).

  - Staples Ground Rent (approximately $662,000/annually): The current Staples Ground Lease agreement between the City and the LA Arena Land Company, an affiliate of AEG pays, is anticipated to expire in Fiscal Year 2023-24. The City has agreed to make the Staples Ground Lease co-terminus to the Event Center Ground Lease, which is based on 55 year term. In consideration, AEG will pay the City ground rent based on a mutually agreed upon amount, which would escalate by 1.75 percent annually. The Appraiser has determined that the fair market value annual ground lease payment amounts to be approximately $960,000, $298,000 more than AEG's ground lease payment amount (Attachment G).

Retail sales, business license, transient occupancy and utility taxes generated by the Project will not be included as a source of repayment for the bonds, but rather will remain a source of revenue for the General Fund.

Series B – Mello-Roos Bonds (between $93.4 Million and $109.7 Million)
Under the Communities Facilities District Act, more commonly known as the Mello-Roos Law, local government agencies may levy a special tax as a means of obtaining funding for the construction and improvement of a public facility. Mello-Roos Bonds would be secured by property owned by AEG and a leasehold interest, and therefore would be a private obligation of AEG. Unlike Lease Revenue Bonds, Mello-Roos Bonds are not an obligation of the General Fund.

Between $93.4 million and 109.7 million of Mello-Roos Bonds will be issued and payable from special taxes on AEG property at LA Live and its leasehold on the Event Center. The annual debt service payment on the Mello-Roos Bonds would begin at $6 million and escalate throughout the term of the Bonds. The final payment scheduled for 2047 is approximately $14.6 million.

Make Whole Payment
According to the MOU, AEG agreed to make a one-time "Make Whole Payment" to the City if future incremental Event Center related LACC parking revenues and parking taxes amount to less than the existing parking-related revenues that will be eliminated as a result of the Project's plan to demolish existing LACC parking supply.

The CAO hired HR&A Advisors, Inc. (HRA) to analyze whether a "Make Whole Payment" would be required. HRA determined that the City will receive more incremental future parking revenue and parking tax than the parking related revenues it will lose as a result of the project, therefore no "Make Whole Payment" is necessary (Attachment H).

More specifically, HRA estimated that the combination of: (1) new ground lease revenue paid to the City for the Bond Street and LA Live Way (Cherry Street) parking structures to be owned by AEG; (2) incremental future parking revenue and parking taxes generated from Event Center events from the South Hall and Venice Parking garages, which are owned and operated by the LACC; and (3) future parking taxes that will be generated from Event Center events at private garages and lots will offset revenue lost from demolishing the West Hall and Cherry Street garages and Bond Street Lot and termination of the 2005 Parking Agreement between AEG and the City and its associated lease payment. Instead AEG will pay rent in accordance with the parking lease agreements.

Private Letter Ruling
On February 16, 2012, Nixon Peabody LLP, bond and tax counsel for the City, submitted a request for a Private Letter Ruling to the Internal Revenue Service on behalf of the City, to rule that each issue of Lease Revenue Bonds and the Mello-Roos Bonds to be issued for the proposed New Hall of the Convention Center does not satisfy the private loan financing test.

According to Section 141 of the Internal Revenue Service Code, bonds that satisfy the (1) private loan financing test or (2) the private business test are defined as private activity bonds and generally may not qualify for tax-exempt status. Nixon Peabody LLP had advised the City that certain structural elements of the proposed transaction raised critical questions as to whether any of the bond proceeds might be treated as loaned to AEG pursuant to tax law principles and thus cause the private loan test to be satisfied. On August 20, 2012, following three additional submissions of information at their request, the Internal Revenue Service issued a ruling that based on the facts presented in the request for a ruling, the private loan financing test will not be satisfied (Attachment I). Therefore, the ruling supports the City's finance plan for issuing tax-exempt bonds.

TRANSACTION DOCUMENTS

Several documents will be required to implement the full scope of the proposed Project, particularly the construction and operation of the New Hall, the Event Center, the New Parking Structures, and Gilbert Lindsay Plaza. The documents are summarized below and in Attachment J. These documents are presented entirely in Attachment G to this report. These transaction documents implement the various actions needed, the length of time that requirements and rights will be in place, rental payment terms, and various rights and responsibilities with regard to remedies, defaults, insurance, and other legal concerns.

If Council approves the proposed Project, the first document to be signed and executed is the IA. This document opens escrow in order to ensure that several specific actions be completed, such as securing an NFL Team, before the City sells bonds and the Developer can take control of the property to begin construction.

One of the requirements to close escrow is that all of the remaining documents listed below be executed. Each of these documents is attached to this report as an exhibit to the IA. It should be noted that this action would result in the full execution of the IA. The Other Agreements would be approved in substantially final form, but not fully executed until closing.

- ***Implementation Agreement (IA)***
  The IA is the foundational document for the various transactions necessary to move the Project forward. It is the first document executed and provides the roadmap for future actions. It also serves as a reference point for all other documents in this transaction.

- ***Event Center Ground Lease (EC Lease)***
  The EC Lease contains all provisions related to leasing the City property to the Developer for use as an Event Center. This document contains the term of the lease, rental rates, conditions for construction of the Event Center, actions that result from a default under the lease, and similar matters.

- ***Bond Street Parking Garage Ground Lease (BSG Lease)***
  The BSG Lease contains all provisions related to leasing the City property to the Developer for use as a parking garage. This document contains the term of the lease, rental rates, conditions for construction of the garage, actions that result from a default under the lease, and similar matters.

- ***L.A. Live Way Parking Garage Ground Lease (LALG Lease)***
  The LALG Lease contains all provisions related to leasing the City property to the Developer for use as a parking garage. This document contains the term of the lease, rental rates, conditions for construction of the garage, actions that result from a default under the lease, and similar matters.

- ***Amended and Restated Master Reciprocal Easement Agreement (REA)***
  This document revises, updates, and replaces the existing Master Reciprocal Easement Agreement concerning easement rights originally related to the STAPLES project. Changes incorporate consideration of the Event Center.

- ***New Hall Agreement (NHA)***
  The NHA controls how the LACC improvements will be constructed.

- ***Gap Funding Agreement (GFA)***
  This document ensures that there is a guaranteed source of funds to pay the Lease Revenues Bonds if anticipated revenues are not sufficient to pay debt service.

- ***Security Agreement***
  This document requires the Developer to provide financial security to ensure that there will be funds to pay the Lease Revenue Bonds should designated funds for those payments are not sufficient.

- ***Signage Agreement***
  The Signage Agreement describes rights and obligations related to the placement of signage on the exterior and interior of the LACC.

- ***Gilbert Lindsay Plaza Agreement (GL Plaza Agreement)***
  This agreement describes priorities for the use of Gilbert Lindsay Plaza, as well as terms for financing improvements to the space.

- ***First Amendment to the Arena Ground Lease***
  This agreement extends the term of the Arena Ground Lease which is related to the Staples Arena.

PARTIES TO THE TRANSACTION DOCUMENT

There are several parties recognized throughout the transactional documents. The City of Los Angeles, as fee simple owner of the property, is one party. The City is represented primarily in its Proprietary Capacity, that is, in its role as property owner and landlord. Where appropriate, the documents also recognize the City's Governmental Capacity, as through legislative review and police powers.

Most of the other Parties recognized in these documents are collectively known as the Developer. These Parties include ArenaLandCo, HallCo, EventCo., ParkingCo., and L.A. Live Properties.

Each of these Parties is an affiliate of AEG and is organized as an independent, limited liability corporation (LLC). Their roles in this project are as follows:

ArenaLandCo	Representing the STAPLES Center and its rights and responsibilities on the Campus
HallCo	Responsible for construction of the New Hall
EventCo	Responsible for construction and operation of the Event Center, Farmers Field
ParkingCo	Responsible for construction and operation of the Bond Street Parking Garage and L.A. Live Way Parking Garage
L.A. Live Properties	Representing L.A. Live and its rights and responsibilities with regard to the Campus

Finally, the GFA recognizes the GFA Co-Obligor as a Party. This is a yet-to-be-determined entity that will have resources adequate to provide financial guarantees to the Lease Revenue Bonds. The Gap Funding Agreement ensures that, in a situation where funds are not adequate to meet the lease revenue bond payment, the responsible Parties will provide the funds necessary to fill the gap. Event Co was initially identified as the sole responsible Party on the GFA, but the City team determined that another entity that held substantial assets was needed to ensure that any call on the GFA could be met. The GFA Co-Obligor could be the NFL Team holding the Primary Venue Contract.

TERM OF TRANSACTION DOCUMENTS

Each of the transaction documents establishes a term during which that document is effective. The most significant term is the 55-year period for the Event Center, the operational period for the Event Center. But because it will take several years before construction is completed, an initial period has been recognized that controls various matters leading up to the opening of the Event Center.

At the same time as the Parties are working to build the New Hall and the Event Center, a separate schedule will govern the sale, allocation, and repayment of bonds. Bonds will be sold just following the close of escrow. Repayment of these bonds will start in the fourth year following sale, whether construction on the New Hall and Farmers Field has been completed or not. The first three years will be paid from capitalized interest bonds issues through LRB.

Finally, each of the documents recognizes that the facility or rights associated with that document have a specific time when they are needed. For example, the EC Lease begins upon the close of escrow, while the extended term in the First Amended Arena Ground Lease does not start until nearly twenty years from the close of escrow. Key time periods are:

Event Center Ground Lease Term

- -- Non-possessory Period begins on close of escrow
- -- Construction Term begins with close of the Non-possessory Period
- -- Primary Term of 55 years begins on close of the Construction Term

The Non-possessory Period occurs during that time when the New Hall is under construction, but the West Hall is still in operation. The Construction Term defines that period when the Event Center is under construction following construction of the New Hall. The specific length of time needed to complete construction on both facilities can only be estimated, therefore it is necessary to provide this initial period with some flexibility in time. Performance requirements have been placed in the Transaction Documents to ensure that this initial period is not unending. But it is still necessary to recognize that delays can occur in construction, or that the project can be expedited to completion before the anticipated completion.

The definitive term, then, begins with the Primary Term. It lasts exactly for 55 years and begins with completion of the Event Center or the first ticketed event, whichever is first.

The following documents are tied to the Event Center Ground Lease Term structure:

- -- Implementation Agreement
- -- Event Center Ground Lease
- -- Bond Street Parking Garage Lease
- -- L.A. Live Way Parking Garage Ground Lease
- -- Staples Center Lease Amendment
- -- Gilbert Lindsay Plaza Agreement
- -- Amended and Restated Master Reciprocal Easement Agreement

Bond Repayment Term

- -- Initiated with the sale of Lease Revenue Bonds

Bonds will be sold soon after the close of escrow. This will allow for the start of construction of the New Hall. Although there are no bond payments for the first three years of construction, with payments beginning in the fourth year, there are capitalized interest payments made from bond proceeds. Once payments begin, it will take 30 years to complete repayment.

The following documents are tied to the Bond Repayment Term:

- -- Gap Funding Agreement
- -- Security Agreement
- -- Signage Agreement
- -- Certain elements in the Implementation Agreement

It is important to note that some project requirements in the documents tied to the Event Center Ground Lease term actually are concurrent with the Bond Repayment Term. For example, the IA lives for the term of the EC Lease, but the NFL team commitments in the IA are tied to the repayment of the bonds.

Two documents have unique term elements. First, the IA is effective upon execution by the Parties, pending approval by the Council and Mayor. Upon approval, escrow is opened and the parties work to complete the closing conditions. If the Parties fail to complete these conditions within two years, the IA and the Project are terminated. If the Parties successfully meet the closing conditions, the IA will then continue through the life of the Project consistent with the schedule outlined for the EC Lease, with the Non-Possessory Period and Construction Term, followed by the Primary Term of 55 years.

Second, the New Hall agreement is operative only for the period related to construction of the New Hall. This begins with the close of escrow and ends some time following the completion of construction in the New Hall.

TIMELINE NARRATIVE

Should Council and the Mayor approve the IA, which includes the ground leases and other required documents in substantial final form, escrow would open and the Developer and the City would have up to two years to finalize the finance plan, final construction drawings, and produce final, executed versions of all required documents. The Developer would also need to complete a deal with an NFL team and obtain financing for the EC and Parking Garages. None of the Other Agreements would be effective during this time, and no bonds would be sold. When all of the closing conditions have been met, the Other Agreements would be executed by the parties and escrow would close and the next phase of the project would begin.

At Close of Escrow

Once escrow closes, the City would arrange for the sale of bonds and the Developer would begin construction of the New Hall. This is the start of the Non-Possessory Period in the EC Lease, during which the Developer is now obligated for bond repayments, but does not have possession of the Event Center property. The New Hall must be completed before full possession of the Event Center property by the Developer for the purpose of demolition and construction of the EC and Parking Garages. The Developer would take possession of the parking garage parcels and would start construction of L.A. Live Way parking garage.

Most of the agreements would be executed and many would become effective at this time. The Developer would be required to provide a Letter of Credit as security for the Lease Revenue Bonds, would be able to install signage on the LACC once granted the permits to do so, would have full rights under the REA, and would be required to implement the various Community Benefits under the Development Agreement (Attachment K, Exhibit D).

At the close of escrow, the Developer could begin demolition of the Cherry Street Garage and commence construction of the L.A. Live Way Garage in its place. The Developer would also take possession of the Bond Street lot to use for construction staging. They may not construct the Bond Street Garage or demolish the West Hall until the New Hall and the L.A. Live Way Garage are completed. Rent for the parking garages would commence two years after the close of escrow. Until the Developer is ready to take possession, LACC would continue to own and operate these parking facilities.

It is anticipated that the Developer would continue finalizing construction plans for the EC during this phase. City staff would be both monitoring the construction of the New Hall and conducting review of the plans for the EC. City staff would also be monitoring compliance with mitigation measures identified in the environmental and entitlement documents. Finally, a newly created Campus Coordinating and Cooperation Policy would be activated to ensure coordination of activities at the LACC and Staples with construction, security, and parking needs.

This Non-Possessory Period is expected to last about 18 months. Provisions in the documents, however, recognize that construction of the New Hall could start later and/or last longer than expected.

At Completion of New Hall
Once the New Hall is finished, or upon the approval of the City to allow early demolition of the West Hall, the Developer would then take full possession of the EC property. This is the beginning of the Construction Term which will last until the EC opens or on its first ticketed event. Again, provisions in the documents recognize that construction of the EC could start later and/or last longer than expected. It is likely that the Bond Street Parking Garage would begin construction around this time as well, although it could start as soon as the L.A. Live Way Parking Garage is finished.

It is important to note that the initial rental payment under the EC Lease will be due approximately three years from the close of escrow. It is anticipated that this payment would occur during the construction of the Event Center. Every year thereafter, the Developer will be required to pay fixed rent on the EC property.

Improvements to Gilbert Lindsay Plaza would begin at this time as well.

At Completion of Event Center
Finally, when the EC opens, or holds its first Ticketed Event, the Primary Term will start. This is the start of the 55-year lease term. The terms of all Other Agreements that are tied to the Event Center Lease term shall be co-terminus with the EC Lease. Another milestone associated with the opening of the Event Center is that the Letter of Credit requirement would shift to an amount equal to two years of debt service. This will last for three years with EC stability, at which time the Letter of Credit would be set at $5 million.

CALIFORNIA ENVIRONMENTAL QUALITY ACT
Pursuant to the California Environmental Quality Act, Public Resources Code Section 21000 et seq. ("CEQA"), the Department of City Planning of the City of Los Angeles ("City"), acting as Lead Agency, determined that preparation of an environmental impact report ("EIR"), in

accordance with CEQA Guidelines Section 15081, would be the appropriate approach for the analysis of the proposed Project proposed by L.A Convention Hall, LLC and L.A Event Center, LLC (collectively, the "Applicants").

In 2011 the California Legislature approved Senate Bill 292 (SB 292) pertaining specifically to the proposed Project. The statute added Section 21168.6.5 to the California Public Resources Code, which established specific CEQA procedures for the proposed Project. The City's CEQA process has implemented the requirements of SB 292.

A Notice of Preparation for the Draft EIR ("NOP") was circulated for a 30-day review period starting on March 17, 2011 and ending on April 18, 2011. In addition, a public scoping meeting was conducted on March 30, 2011. Appendix A of the Draft EIR includes copies of written comments submitted to the Planning Department in response to the NOP and at the public scoping meeting.

On April 5, 2012, the City released the Draft EIR for the Project for public comment. The Draft EIR was circulated for 47 calendar days, to May 21, 2012.

The lead agency received 105 written comments on the Draft EIR from public agencies, groups and individuals and responses to these comments are included in Environmental Impact Report No. ENV-2011-0585-EIR (State Clearinghouse No. 2011031049) dated August 2012 (the "Final EIR"). Responses to comments in the Final EIR include both specific responses and topical responses to issues or topics repeated in several comments.

With regard to public comments and responses to comments, and in accordance with the express requirements of SB 292, the following notice was included in the Draft EIR and the Final EIR:

> THE EIR FOR THE PROPOSED PROJECT IS SUBJECT TO SECTION 21168.6.5 OF THE PUBLIC RESOURCES CODE, WHICH PROVIDES, AMONG OTHER THINGS, THAT THE CITY OF LOS ANGELES NEED NOT CONSIDER CERTAIN COMMENTS FILED AFTER THE CLOSE OF THE PUBLIC COMMENT PERIOD FOR THE DRAFT EIR. ANY JUDICIAL ACTION CHALLENGING THE CERTIFICATION OF THE EIR OR THE APPROVAL OF THE PROJECT DESCRIBED IN THE DRAFT EIR IS SUBJECT TO THE PROCEDURES SET FORTH IN SECTION 21168.6.5 OF THE PUBLIC RESOURCES CODE AND MUST BE FILED WITH THE SECOND DISTRICT COURT OF APPEAL. A COPY OF SECTION 21168.6.5 OF THE PUBLIC RESOURCES CODE IS INCLUDED IN APPENDIX C OF THE DRAFT EIR.

The Final EIR has been completed in compliance with CEQA and SB 292, in connection with the approval by the City of the entitlements and other approvals required for development of the Project.

FISCAL IMPACT
There is no impact to the General Fund associated with this action.

Attachment A:	Memorandum of Understanding Between the City of Los Angeles and Anschutz Entertainment Group, Inc. (AEG)
Attachment B:	MOU Cross-tabulation to Transaction Documents
Attachment C:	Plan of Finance
Attachment D:	Summary Appraisal of Underlying Commercial Land and Air Rights Ground Rent Valuation for the Event Center
Attachment E:	Summary Appraisal of Underlying Commercial Land and Air Rights Ground Rent Valuation for L.A. Live Way Garage
Attachment F:	Summary Appraisal of Underlying Commercial Land and Air Rights Ground Rent Valuation for Bond Street Garage
Attachment G:	Summary Appraisal of Underlying Commercial Land and Air Rights Ground Rent Valuation for Arena
Attachment H:	Make-Whole Payment Analysis
Attachment I:	IRS Private Letter Ruling
Attachment J:	Summary of Transaction Documents
Attachment K:	Implementation Agreement and Other Agreements