REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date:	December 7, 2015	CAO File No. 0670-00008-0000 Council File No. 14-1383 Council District: 9
To:	The City Council The Mayor	
From:	Miguel A. Santana, City Administrative Officer	
Reference:	C.F. 14-1383	
Subject:	**FINANCING OPTIONS FOR THE LOS ANGELES CONVENTION CENTER EXPANSION PROJECT**	

SUMMARY

On June 30, 2015, the City Council instructed the City Administrative Officer (CAO) to report back on financing options for the Los Angeles Convention Center (LACC) Expansion Project, including a public-private partnership (P3), and report on the City's debt capacity. The Council also instructed the Bureau of Engineering (BOE) and the Los Angeles Convention and Tourism Department (CTD) to negotiate a contract with Populous for a design concept for a $470 million project with construction costs not to exceed $350 million, and report back to the Council on an implementation plan. This report addresses the financing issues for the Project, and presents three financing scenarios the City may consider through conventional municipal financing practices. However, considering the direction given to this Office with respect to P3s and alternative financing options, the Office recommends that the City wait to make a decision on a financing plan until a report is presented on those options later this month.

In the event that the Council and Mayor decide to proceed with some pre-construction activities, such as those related California Environmental Quality Act (CEQA) related processes, this report presents options to fund pre-construction expenses on a limited basis.

MANAGING DEBT CAPACITY

According to the City's Debt Management Policy, the debt capacity ceiling for the City's non-voted approved debt service ratio as a percentage of General Fund revenues is 6 percent. The 2015-16 debt capacity ratio is 4.46 percent. Although the City is safely within its debt limit at this time, the financing of a $470 million project with traditional long term financing with all the future projects currently contemplated by the City will cause the City's debt capacity ratio to exceed 6 percent and exhaust the City's ability to issue any other non-voted approved General Fund debt for capital projects, capital equipment and other obligations.

The charts below compare the City's current debt capacity from the Budget Outlook and all approved debt with one of the three LACC financing scenarios including all the financing contemplated by the City over the next few years, such as $1 billion for deferred capital equipment, $575 million for real property projects and an additional $100 million in capital needs this fiscal year, in different stages of approvals. This Office released a more detailed report on November 13, 2015, entitled *Overview of the City's Debt Capacity and Consideration of Various Financing Options for the City's Capital Equipment Replacement Program and Various Capital Projects*, on the City's debt capacity and it ongoing financing needs. Each of these three scenario charts shows the City exceeding the 6 percent limit from Fiscal Years 2018-19 to 2021-22.

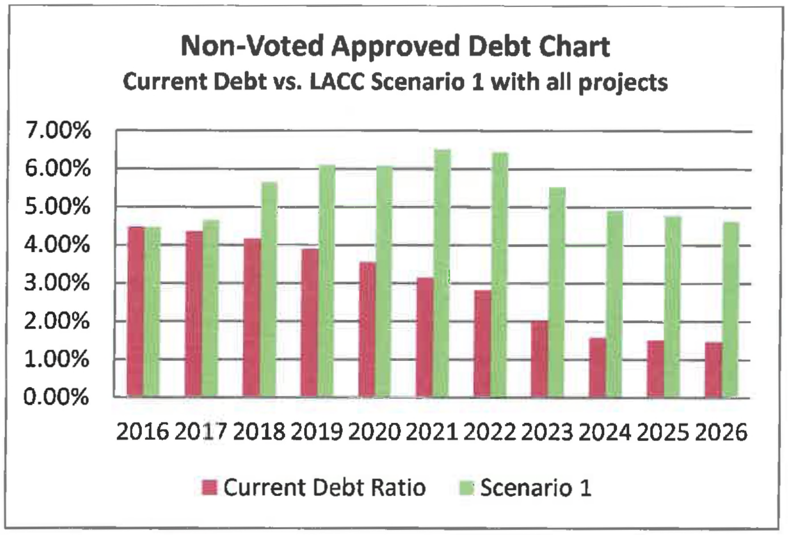
To address this problem, the CAO is examining alternative financing options, including a P3 as instructed by the Mayor and Council. On August 18, 2015, the CAO released a Request for Proposals (RFP) for Financial Consulting Services to evaluate alternative financing options including a P3 for the Proposed LACC Expansion Project. On September 25, 2015, the CAO received four responses and awarded a contract to ARUP Advisory Inc. to move forward with Phase I that will evaluate financing alternatives, including a P3 approach and other alternative financing options, and develop a recommendation as to which strategy would be the most appropriate financing structure for the LACC expansion. The CAO will report back on the appropriate course of action later this month. At this time, the CAO has no financing recommendation; however, this report provides three debt financing scenarios for illustration purposes. Additionally, a few options are presented to fund pre-construction expenses on a limited basis should the Council and Mayor which to proceed with some CEQA related activities.

CONVENTIONAL FINANCING SCENARIOS

The CAO analyzed the cost and affordability of the three scenarios shown below to finance a $470 million project based on cost estimates and cash flows from the BOE. All three scenarios assume today's interest rates. Since bonds are required to be expended within three years of issuance by Federal IRS rules, we assume that long-term bonds would not be issued today but rather in July 2017 to be expended by 2020. The Current Debt Ratio bar represents no new projects or major equipment replacements. All three scenarios assume the $1 billion of capital equipment replacement backlog and the $1 billion of real property needs.

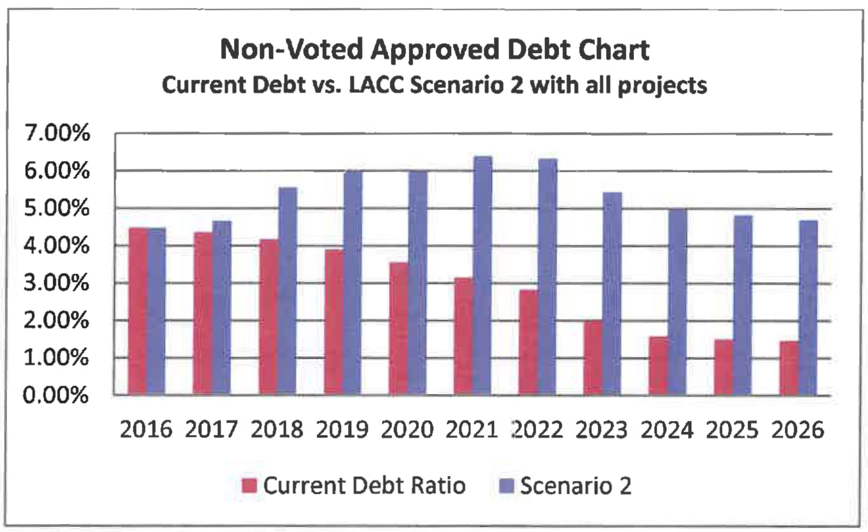
Scenario 1

Scenario 1 is a fixed-rate, taxable bond issuance in July 2017 to finance $470 million of project costs. The bonds are amortized with even debt service over 30 years, resulting in maximum debt service of approximately $32 million per year beginning in Fiscal Year 2017-18. The pre-construction costs of $38 million from January 2016 to June 2017 would be temporarily financed from the Municipal Improvement Corporation of Los Angeles (MICLA) LACC Commercial Paper (LACC CP) and paid from the $2 million budgeted in the General Fund, Capital Finance Administration Fund Budget, and then refunded as part of the $470 million in July 2017.



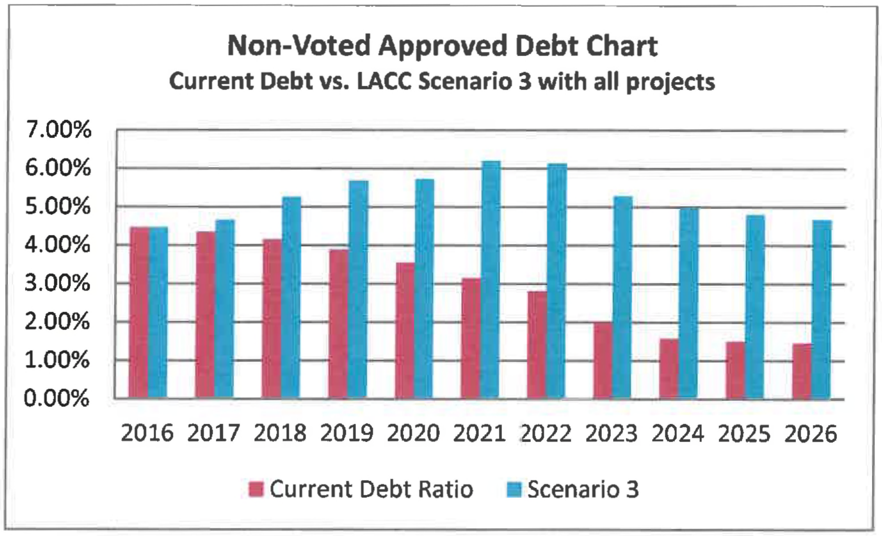
Scenario 2

Scenario 2 is similar to the first scenario but no principal is paid until after November 2022 when the LACC Series 2015A Taxable Refunding Bonds are all paid. This reduces average annual debt service to approximately $24 million until November 2022 and increases after that to approximately $36 million through Fiscal Year 2046-47.



Scenario 3

Scenario 3 is the creation of an expanded taxable CP program from $110 million to $470 million to finance all project costs from January 2016 through December 2020 for a cost of between approximately $4 million to $13 million per year, depending on the amount needed each year. Funds would be drawn down and expended as needed. Once the City's LACC Series 2015A Taxable Refunding Bonds mature in November 2022, the CP would be refunded with taxable long-term fixed rate bonds for a cost of approximately $35 million per year.



Comparison of Financing Scenarios for LACC Expansion Project

	Scenario 1 Fixed Rate Even Debt Service	Scenario 2 Fixed Rate, No Principal 5 yrs.	Scenario 3 - CP with Fixed Rate Takeout
Project Costs	$470 million	$470 million	$470 million
Annual Debt Service 1/2016 - 6/2017	$2,000,000	$2,000,000	$4,000,000
Annual Debt Service 7/2017 - 6/2023	$32,000,000	$24,000,000	$13,000,000
Annual Debt Service 6/2023 - 6/2047	$32,000,000	$36,000,000	$35,000,000
Gross Debt Service (Principal & Interest)	$956,100,000	$1,009,467,396	$899,300,000
Total Interest Cost (based on 10/27/2015 Rates)	5.40%	5.47%	5.19%

CONCLUSION

Although Scenario 3 seems to be the lowest cost of borrowing today, it is based on estimates and today's rates. If the decision is made to move forward with a conventional financing, the CAO will analyze the best financing option with rates and estimates closer to the time of issuance. At a minimum, the City should refrain from issuing all the debt as the bulk of the project costs will not occur for another two years, beginning in August 2017. Under Federal Tax Rules, the City would have to spend these funds within three years if issued today. Nevertheless, at this time, considering the direction given to this Office with respect to P3s and alternative financing options, the Office recommends that the City wait to make a decision on a financing plan until a report is presented on those options later this month.

Given the proposed schedule for the LACC expansion, CTD and BOE have expressed a great interest in moving forward with various levels project-related tasks including concept design, design support, CEQA, and project management. While this Office does not recommend moving forward with all of the tasks identified, CEQA related consultant and staff activities may be funded via the following options:

1) The Los Angeles Convention Center Commercial Paper (LACC CP) Program can be used in a limited capacity to fund costs in Fiscal Year 2015-16 in the amount of $1.5 million for the following:
   - Bureau of Engineering (BOE) contractual services for California Environmental Quality Act (CEQA) related activities - $1 million
   - BOE staffing (6 months for 4 full-time equivalent positions) - $0.5 million

   It should be noted that use of this program will incur finance costs and the debt issued will count against the City's non-voted approved debt limit.

2) A General Fund appropriation in a similar amount ($1.5 million) for the same activities is an option that will save on finance costs. A potential source for this General Fund appropriation may be the Reserve Fund. Should this option be selected, the Reserve Fund appropriation should be considered a loan to be repaid once a financing plan has been established.

3) Alternatively, a General Fund appropriation may also be made as part of the Mid-Year Financial Status Report from the re-appropriation of funds made to other City projects, programs, or initiatives.

Consistent with City Council policy, increasing appropriations to BOE through any of the options above in the current fiscal year will require review from the Budget and Finance Committee. Additionally, the authorization of new and previously unbudgeted positions will require review from both the Budget and Finance Committee and the Personal and Animal Welfare Committee.

If the Mayor and Council approve moving forward with an alternative financing option, the funding for the CEQA related activities and the BOE staffing may continue in coordination with the alternative funding option's Phases 2 and 3. Additional funds will also be required for Phases 2 and 3 of the alternative funding option which will be requested at a later date.

DEBT IMPACT STATEMENT

In accordance with the City's Financial Policy, Debt Management Section, the maximum debt service payable in any given year may not exceed six percent of General Fund revenues for non-voted approved debt. As a general rule, for every 0.1 percent, approximately $26 million in project financing may be issued. Based on this rule, the CAO estimates that it can issue approximately $400 million of debt; however, this is an estimate and could change due to market conditions and future debt projects.

FINANCIAL IMPACT STATEMENT

This report is for informational purposes only. Should one of the options presented related to funding pre-construction costs be taken, the impact to the General Fund could potentially be $1.5 million.

BACKGROUND

The original LACC was completed in 1971 at its current location. By 1980, there was an increased demand for facility usage, which resulted in the need for additional space. As a result, a significant expansion of the convention facility was completed in 1993, which added a new exhibition hall, two levels of meeting room space, the concourse facility, and parking spaces. In 1999, the Staples Center was constructed by demolishing the North Hall, which eliminated 100,000 square feet of exhibit space.

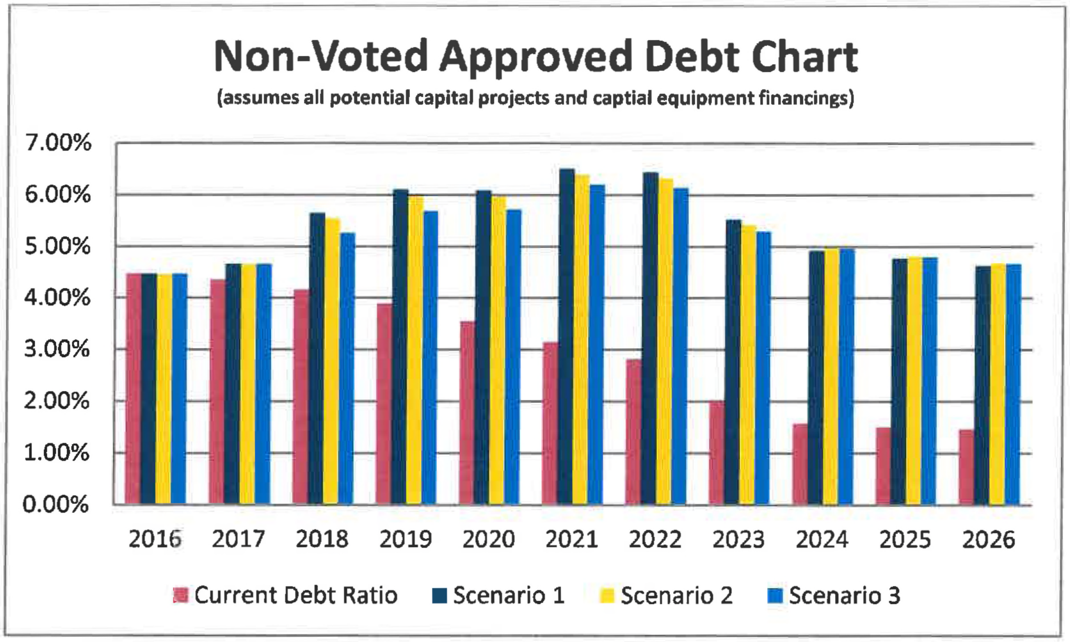
Debt was first issued in 1968 to build the Convention Center. The original facility was financed by increasing the Transit Occupancy Tax (TOT) from four to five percent. In 1985, the City approved the expansion of the facility and authorized an increase in TOT from 10 to 11 percent to finance expansion costs. The TOT was subsequently increased by an additional 1.5 percent to offset increased construction costs. The current TOT rate is 14 percent. Of this amount, a total of 3.5 percent of taxable hotel sales is allocated to offset debt service costs used to finance the construction of the previous Convention Center expansions. These increases to the TOT rate occurred prior to the passage of Proposition 218 in 1996, which requires voter approval of such tax increases going forward.

On October 21, 2015, the Mayor and City Council authorized the refunding of $265.5 million of the Los Angeles Convention Center and Exhibition Authority Lease Revenue Bonds, Series 2008-A and $21.8 million of Series 1998-A (Staples) into Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds to align all the General Fund debt into one program. Current debt service on the outstanding $292.4 million Series 2015A Taxable Refunding Bonds issued on November 3, 2015 is approximately $50 million through November 2022, paid from Capital Finance Administration Fund, in the General Fund, of which the LACC portion is approximately $47 million a year. In addition, the Mayor and City Council also approved a $110 million Commercial Paper (CP) Program to provide flexibility for financing capital improvements at the LACC. The City currently has the following outstanding taxable debt on the facility as of November 2015, which refunded all prior debt service, and a LACC CP Program:

MICLA LACC Series 2015A	$292.4 million
MICLA LACC CP Program	$110 million available

DEBT AFFORDABILITY

The City's Debt Management Policy states that Non-Voted Approved Debt, such as debt service for LACC and MICLA, cannot exceed 6 percent of General Fund revenues. The current ratio of non-voted approved debt service to General Fund revenues is 4.46 percent. As a general rule, for every 0.1 percent, approximately $26 million in project financing may be issued. Based on this rule, the CAO estimates that it can issue approximately $400 million of debt for project needs in 2015-16; however, this is an estimate and could change due to market conditions and future debt projects. The 6 percent debt limit may be exceeded if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5 percent or if there is not a guaranteed revenue stream but the 6 percent ceiling will only be exceeded for one year. This project with all the other projects currently contemplated by the City would cause the City to exceed its debt capacity. Thus, the CAO is searching for other options to fund the LACC expansion project. The chart below shows the current debt capacity versus the three LACC financing scenarios including all the projects currently contemplated for financing by the City, such as $1 billion for deferred capital equipment, approximately $500 million for real property projects, and an additional $100 million in capital needs this fiscal year, in different stages of approvals.



ALTERNATIVE FINANCING OPTIONS

On August 18, 2015, the CAO released a Request for Proposal (RFP) for Financial Consulting Services to evaluate alternative financing options including a P3 for the Proposed LACC Expansion Project. On September 25, 2015, the CAO received four responses:

- ARUP Advisory Inc. with HR & A, Land Economics, Sperry Capital, MBI Media and Nossaman;
- Ernst & Young Infrastructure Advisors with Nossaman;
- Peralta Garcia Solutions with Columbia Capital Municipal Advisors, Crossroads Solutions, and Lindborg & Mazor; and,
- Project Finance Advisory Ltd. with BMO Capital Markets, Perkins & Will, Integral Group and Madrid Consulting Group.

Based on the RFP, the assignment is split into three phases:

Phase 1 is to conduct an evaluation of financing alternatives, including a P3 approach or other alternative delivery methods, and develop a recommendation as to which strategy would be the most appropriate financing structure for this project, including the financial and legal benefits of each alternative and the criteria that the City should consider;

Phase 2 is to develop the process and structure for implementing the P3 or other alternative financing and delivery methods that may include the development of the RFQ and/or RFP, assist the City in discussions and open dialogues with potential proposers to ensure all stakeholder input is considered, provide analysis and evaluation of responses submitted, and provide a written report with recommendations which includes various options for implementation, contingent on the adoption of Phase 1; and,

Phase 3 is to assist the City in procuring and selecting any additional technical, financial or legal services that may be required to implement the agreement on behalf of the City and the development of a long term financial agreement and implementation documents for this project, if approved by the Mayor and Council.

The CAO awarded a contract to ARUP Advisory Inc. to move forward with Phase 1 to evaluate financing alternatives, including a P3 approach and other alternative financing options, and develop a recommendation as to which strategy would be the most appropriate financing structure for the LACC expansion. The CAO will report back on the appropriate course of action once the report is completed later this month.

TRADITIONAL FINANCING APPROACHES

This Office analyzed three scenarios for financing the LACC expansion. These financing options discussed below assume the following:

- $470 million costs
- Commercial Paper of $38 million from January 2016 to June 2017, Long Term bond issuance after November 2022
- Payoff between 25 and 30 years
- Taxable debt
- Current Debt Ratio bar represents no new projects or major equipment replacements
- The three scenarios assume $1 billion of capital equipment replacement backlog and $1 billion of real property needs

Scenario 1 - Base Case Approach, Fixed Rate Bonds, Level Debt Service
The Base Case, or the most conservative alternative, assumes the City issues fixed-rate, taxable bonds in July 2017 to fund $470 million of project costs. The bonds are amortized with even debt service over 30 years. Using interest rates as of October 27, 2015, this scenario results in average annual debt service ranging from approximately $31.1 million to $32.1 through fiscal year 2046-47. In addition, LACC CP would finance pre-construction costs from January 2016 through June 2016 and would be paid from the $2 million budgeted in the General Fund, Capital Finance Administration Fund. The present value of debt service is approximately $470 million.

Scenario 2 – Fixed Rate Bonds, Wrapped Debt Service
Scenario 2 is similar in most respects to the first scenario in that it assumes the issuance of taxable fixed rate bonds to fund $470 million of project costs, and has a final maturity in 30 years, but in this scenario, principal repayment does not begin until after the LACC Series 2015A Taxable Refunding Bonds Center mature in November 2022. This reduces average annual debt

service to approximately $24 million till November 2022 and increases after that to approximately $36 million through Fiscal Year 2046-47. The present value of debt service to maturity is approximately $474.1 million, or about $4.2 million higher than the first scenario, as no principal is paid until after November 2022.

Scenario 3 – Commercial Paper Followed by Fixed Rate Bond Takeout
Scenario 3 is the expansion of the current LACC CP Program from $110 million to $470 million of taxable commercial paper from January 2016 through December 2020. When the LACC Series 2015A Taxable Refunding Bonds mature in November 2022, the CP would be refunded with taxable long-term fixed rate bonds with the first principal payment after November 2022 and a final maturity in Fiscal Year 2046-47. Using the 15-year average of taxable short-term rates for taxable commercial paper rates, and long-term fixed interest rates as of October 27, 2015, this scenario results in a total par amount of $472.8 million, with average annual debt service from January 2016 through June 2017 of between approximately $4 million to $13 million, and approximately $35 million from Fiscal Year 2023-24 through Fiscal Year 2046-47. The present value of all debt service to maturity is approximately $391.8 million or about $78.2 million less than the first scenario.

CONCLUSION

The three financing scenarios were presented as possible financing solutions and range between $2 million to $38 million per year for the first five years and approximately $34 million for another 20 to 25 years. After November 2022, the Series 2015A Taxable Refunding Bonds will be completely retired, freeing up approximately $50 million in General Fund appropriations.

Although Scenario 3 seems to be the lowest cost of borrowing today, it is based on estimates and today's rates. If the decision is made to move forward with a conventional financing, the CAO will analyze the best financing option with rates and estimates closer to the time of issuance. At this time, considering the direction given to this Office with respect to P3s and alternative financing options, the Office recommends that the City wait to make a decision on a financing plan until a report is presented on those options later this month.

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