City of Anaheim
FINANCE DEPARTMENT

DATE: **JULY 22, 2014**

FROM: **FINANCE DEPARTMENT**

SUBJECT: **FINANCING OF THE ANAHEIM CONVENTION CENTER EXPANSION AND REFINANCING OF CERTAIN CITY CAPITAL IMPROVEMENTS**

ATTACHMENT (Y/N): YES **ITEM # 27**

RECOMMENDATION:

That the City Council, by Resolution:

1) Approve an issuance of not to exceed $300,000,000 of Anaheim Housing and Public Improvements Authority (Authority) Lease Revenue Bonds (Bonds);
2) Authorize the execution and delivery of the Site and Facility Lease by and between the City of Anaheim (City) and the Authority;
3) Authorize the execution and delivery of the Lease Agreement by and between the City and the Authority;
4) Authorize the execution and delivery of the Purchase Contract by and among the City, the Authority, and Citigroup Global Markets, Inc.;
5) Authorize the execution and delivery of the Continuing Disclosure Agreement, between the City and U.S. Bank National Association;
6) Authorize distribution of a Preliminary Official Statements and the execution and distribution of an Official Statement;
7) Authorize the execution and delivery of the Escrow Agreement by and between the City and the trustee for the 1992 Certificates;
8) Authorize the execution and delivery of the Escrow Agreement by and between the City and the trustee for the 1993 Certificates;
9) Authorize the execution and delivery of the Escrow Agreement by and between the City and the trustee for the 2002 Bonds;
10) Approve the selection of the financing team, which includes Orrick, Herrington & Sutcliffe LLP as bond counsel, Public Financial Management, Inc. as financial advisor, and Citigroup Global Markets Inc., Stifel, Nicolaus & Company, Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Wells Fargo Bank N.A. as the underwriters for the Bonds; and
11) Authorize and direct the City Manager, the City Treasurer, and the Finance Director to take any and all actions necessary to complete the transactions contemplated by the financing and ratifying any such actions previously taken.

200 S. Anaheim Blvd.
Suite #643
Anaheim, CA 92805
Tel: (714) 765-5195
Fax: (714) 765-5260
www.anaheim.net

DISCUSSION:

On September 14, 2010, the City Council, by Resolution, established the Anaheim Tourism Improvement District (ATID) for the promotion of local tourism and convention-related programs, as well as transportation improvements within the Anaheim Resort and Platinum Triangle. These local hoteliers agreed to self-assess 2% of hotel room rent within the ATID boundaries. Of the revenues collected from the ATID, 75% of the funds are dedicated to marketing, promotion, and related activities and 25% are dedicated to transit projects including the operation and maintenance of the Anaheim Rapid Connection (ARC) project. Because the City would no longer be committed to paying for the marketing and promotions of the Anaheim destination (approximately $6 million in 2010), the City committed to focus and prioritize those funds to the rapid expansion of the Anaheim Convention Center (ACC) and the addition of the Grand Plaza.

Therefore, on September 14, 2010, the City Council, by Resolution, also approved the improvement and expansion of the ACC and the related financing. The improvement and expansion were to generally consist of a new plaza area, approximately a 200,000 net square foot addition of meeting space plus support space, new and replacement parking facilities, and related remodeling, furnishings, equipment, improvements, and betterments. The first phase of the improvement and expansion of the ACC was the addition of the new, award winning Grand Plaza.

The Grand Plaza opened in January of 2013 and provides ACC attendees 100,000 square feet of outdoor function space. The new space includes 80,000 square feet of colored concrete and pavers, three signature water features, a river of lights and over 150 palm and orange trees. The Grand Plaza has already hosted numerous concerts, banquets, receptions and even yoga classes.

On March 11, 2014, the City Council and the Anaheim Public Financing Authority (APFA) approved the issuance of up to $300 million in lease revenue bonds to refinance certain completed improvements at lower rates and to provide funding for a proposed 200,000 net square foot addition of meeting space plus support space, including replacement parking facilities, and related remodeling, furnishings, equipment, improvements, and betterments, at the ACC. The City Council also approved the design build and construction management contract for the ACC expansion.

On March 25, 2014, in furtherance of those approvals, the City executed a bond purchase agreement with Citigroup Global Markets, Inc. The bond purchase agreement provided for the issuance of $265 million in lease revenue bonds to be paid over 32 years (30 years after the completion of the expansion of the ACC) at 4.5% interest.

On May 12, 2014, however, litigation was filed challenging the ACC expansion financing. (Coalition of Anaheim Taxpayers for Economic Responsibility and Inland Oversight Committee v. City of Anaheim, et al., Orange County Superior Court Case No. 30-2014-00722291-CU-MC-CJC, the “CATER lawsuit.”) The plaintiffs in the CATER lawsuit claim, among other things, that the APFA does not have the legal authority to issue lease revenue bonds for the ACC project because the powers of the Redevelopment Agency’s Successor Agency are limited to “winding down” the affairs of the Redevelopment Agency, and therefore the APFA has no authority to participate in the financing of a new project, the APFA is a mere "shell" comprised of the City and itself, and any such financing must be approved by a vote of the electorate. Due to the pending CATER lawsuit, the APFA bonds were not issued, and the City has temporarily been left without funding for completion of the ACC expansion. City staff, the City Attorney's Office, outside litigation counsel, and bond counsel agree that the claims in the CATER lawsuit concerning the APFA's lack of authority to proceed with the ACC financing are without merit and the City is in the process of defending this matter.

On July 15, 2014, the City Council, by Resolution, approved a joint exercise of powers agreement by and between the City and the Anaheim Housing Authority (Housing Authority) creating a new joint powers authority, the Anaheim Housing and Public Improvements Authority (JPA). The Joint Exercise of Powers Act gives the JPA authority to issue revenue bonds to pay the costs and expenses of acquiring or constructing a wide range of public projects. The actions being contemplated today are separate and apart from the prior approvals that are the subject of the CATER lawsuit but would permit by this separate approval for financing of the ACC expansion. City staff is recommending the approval of the issuance of the bonds by the Anaheim Housing and Public Improvement Authority and the related documents for such purposes.

Anaheim Convention Center Expansion Analysis

In preparation for the 200,000 net square foot addition to the ACC, the City engaged Crossroads Consulting Services (Crossroads) to evaluate the proposed expansion. Based on research, including interviews and work sessions with key stakeholders; an analysis of market attributes, industry trends, historical operations, and competitive/comparable facilities and destinations; as well as surveys/interviews with existing and potential users, Crossroads developed an estimate of economic and fiscal benefits as well as a cost/benefit analysis. The results of the research and analysis concluded that the proposed expansion of the Anaheim Convention Center appears warranted and could serve to increase Anaheim's share of the convention/tradeshow industry as well as allow several existing users to grow. In doing so, the City would attract incremental new events and visitors who would positively impact the area economy.

It is important to note that in addition to the economic benefit estimated by Crossroads, the creation of the ATID provided a new funding source paid by local hoteliers for the marketing and promotions of the ACC. This new funding source relieved the General Fund of the necessity to pay the marketing and promotions costs, which was approximately $6 million in 2010. The General Fund's previous marketing and promotion payment was based on a formula measured against transient occupancy tax (TOT). Assuming those payments remained in place over this same period (through 2046) and that TOT conservatively grew at 3%, it is estimated that the value of the marketing and promotions funded by the ATID would be approximately $450 million, and is greater than the estimated debt service for the JPA Bonds for the ACC expansion.

Crossroads cost/benefit analysis for an expanded ACC indicates a significant return on investment over a 30-year period. The following table illustrates the results of the cost/benefit analysis and estimated value of the marketing and promotions costs provided by the ATID:

30-Year Cost Benefit Analysis for an Expanded ACC		
Category	**Range**	
Incremental new transient occupancy tax	$ 341,449,000	$ 429,225,000
Incremental new local sales and use tax	30,264,000	38,053,000
Incremental operating gain	9,030,000	9,810,000
Total incremental new revenues	380,743,000	477,088,000
Recapture of lost revenues	164,250,000	164,250,000
Total incremental new revenues and recapture of lost revenues	544,993,000	641,338,000
Lease payments	(417,674,000)	(417,674,000)
Economic benefit	127,319,000	223,664,000
Marketing and promotions provided by ATID	450,000,000	450,000,000
Total City benefit	$ 577,319,000	$ 673,664,000

Financing Plan

To ensure that the incremental new revenues would be available for General Fund programs, City Staff has put together a financing plan that keeps the General Fund's annual lease payment obligations for capital improvements where they are today (excluding the payment towards the Anaheim Resort Improvements – see Appendix A for more information). The following is a summary of the existing General Fund lease payment obligations:

Description	Total Outstanding Lease (Principal) on 7/1/14	Final Payment Date	FY 2014/15 General Fund Lease Payment Obligation
Long-term General Fund Lease Payment Obligations:			
1992 Certificates of Participation – Convention Center	$38,000,000	8/1/23	$5,432,305
1993 Certificates of Participation – Arena Land	8,880,000	11/1/19	1,762,387
2002 Certificates of Participation – Convention Center	1,290,000	8/1/23	781,063
2008 Lease Revenue Bonds – Various City Facilities	31,445,000	8/1/19	3,654,225
Total Long-term General Fund Obligations	**79,615,000**		**11,629,980**
Short-term Lease Payment Obligation:			
2010 Lease Revenue Notes – Convention Center Grand Plaza	5,185,000	12/1/14	5,232,961
Grand Total	**$84,800,000**		**$16,862,941**

The Financing Plan is targeting $17 million per year or less in lease payments. This amount is generally equal to the annual lease payment obligation of the General Fund (listed above). All of the above obligations (with the exception of the lease payment obligations for the 2008 Lease Revenue Bonds that are not eligible for refinancing) would be refinanced to take advantage of lower interest rates that are currently available. Further, the plan will not extend the term of repayment for any of the General Fund lease obligations. The end result could provide level lease payments of $17 million or less to pay the lease payments for the refinanced capital improvements of $53 million (principal) and provide construction proceeds of approximately $190 million, to be used for the ACC expansion consisting of approximately a 200,000 net square foot addition of meeting space plus support space, replacement parking facilities, and related remodeling, furnishings, equipment, improvements, and betterments.

The following is a comparison of the existing General Fund lease obligations (excluding the Anaheim Resort) before and after the refinancing:

General Fund Lease Payments for Capital Improvements
Before Refinancing

Fiscal Year Ending 6/30	1993 Arena Land Lease Payments	1992 Convention Center Lease Payments	2002 Convention Center Lease Payments	2010 Convention Center Lease Payments	2008 Refinancing Lease Payments	Total General Fund Lease Payments
2015	$ 1,762,387	$ 5,432,305	$ 781,063	$ 5,232,961	$ 3,654,225	**$ 16,862,941**
2016	1,769,838	5,943,362	76,266	-	3,617,372	**11,406,839**
2017	1,781,112	5,935,664	51,079	-	6,045,800	**13,813,655**
2018	1,800,400	5,937,025	49,599	-	6,045,900	**13,832,924**
2019	1,802,538	5,907,996	66,238	-	6,047,875	**13,824,647**
2020	1,817,200	5,861,728	91,043	-	1,996,250	**9,766,221**
2021	-	5,886,236	55,504	-	-	**5,941,740**
2022	-	958,806	62,272	-	-	**1,021,078**
2023	-	995,103	23,236	-	-	**1,018,339**
2024	-	933,532	85,740	-	-	**1,019,271**
Total	$ 10,733,475	$ 43,791,757	$ 1,342,039	$ 5,232,961	$ 27,407,422	**$ 88,507,654**

General Fund Lease Payments for Capital Improvements
After Refinancing*

Fiscal Year Ending 6/30	1993 Arena Land Lease Payments	1992 Convention Center Lease Payments	2002 Convention Center Lease Payments	2010 Convention Center Lease Payments	2008 Refinancing Lease Payments	Total General Fund Lease Payments
2015	$ 1,984,216	$ 4,982,995	$ 1,289,785	$ 5,232,961	$ 3,654,225	**$ 17,144,183**
2016	5,842,828	6,955,960	-	-	3,617,372	**16,416,160**
2017	-	10,521,897	-	-	6,045,800	**16,567,697**
2018	-	820,941	-	-	6,045,900	**6,866,841**
2019	-	858,646	-	-	6,047,875	**6,906,521**
2020	-	3,828,659	-	-	1,996,250	**5,824,909**
2021	-	1,432,548	-	-	-	**1,432,548**
2022	-	-	-	-	-	**-**
2023	-	-	-	-	-	**-**
2024	-	-	-	-	-	**-**
Total	$ 7,827,043	$ 29,401,646	$ 1,289,785	$ 5,232,961	$ 27,407,422	**$ 71,158,858**
Net Savings	**$ 2,906,432**	**$ 14,390,110**	**$ 52,254**	**$ -**	**$ -**	**$ 17,348,796**

Benefit to the General Fund

As noted above, the lease payment obligations begin to be paid in full in FY 2019/20. As part of its due diligence, City staff estimated the difference between not expanding and expanding the ACC. In the “Do Nothing” scenario the City will begin to save the money that was being paid as lease payments in FY 2019. However, the Convention Center will also likely begin to lose market share of convention/meeting activity that would yield less revenues, economic benefits (in terms or spending, jobs and earnings) and tax revenues to the City. In addition, the CarPark 1 structure will need to be rebuilt irrespective of the expansion project and the City would again need to pay marketing and promotional costs (conservatively estimated at the 2010 level of $6 million annually). When comparing this “Do Nothing” scenario to the ACC expansion and the new tax revenues that would be received, it is estimated conservatively that the General Fund would instead be better off by $115 million in FY 2031 (the mid-point) and $320 million over a 30-year period, which could be used to fund neighborhood and community services and projects.

	"Do Nothing"				ACC Expansion				
Fiscal Year (FY)	**Total Net Revenues***	**Lease Payments**	**Marketing & Promotions**	**Net Available to the General Fund**	**Total Net Revenues***	**Lease Payments**	**Net Available to the General Fund**	**Annual Benefit to the General Fund**	**Cumulative Benefit to the General Fund**
2017	$ 16,402,400	$ (11,495,819)	$ (6,000,000)	$ (1,093,419)	$ 25,959,500	$ (17,000,000)	$ 8,959,500	$ 10,052,919	$ 10,052,919
2018	16,923,232	(13,562,332)	(6,000,000)	(2,639,100)	26,695,725	(17,000,000)	9,695,725	12,334,825	22,387,744
2019	17,459,212	(13,562,248)	(6,000,000)	(2,103,036)	27,453,366	(16,994,254)	10,459,113	12,562,148	34,949,892
2020	18,010,786	(13,568,417)	(6,000,000)	(1,557,631)	28,233,053	(16,455,746)	11,777,307	13,334,938	48,284,830
2021	18,578,411	(5,647,632)	(6,000,000)	6,930,779	29,035,432	(14,460,583)	14,574,848	7,644,069	55,928,899
2022	19,162,559	(2,899,556)	(6,000,000)	10,263,003	29,861,171	(14,912,000)	14,949,171	4,686,167	60,615,067
2023	19,763,715	(2,899,507)	(6,000,000)	10,864,209	30,710,956	(14,911,750)	15,799,206	4,934,998	65,550,064
2024	20,382,381	(2,899,264)	(6,000,000)	11,483,117	31,585,495	(14,910,500)	16,674,995	5,191,878	70,741,942
2025	21,019,069	(2,898,729)	(6,000,000)	12,120,340	32,485,514	(14,907,750)	17,577,764	5,457,424	76,199,367
2026	21,674,310	(2,898,778)	(6,000,000)	12,775,532	33,411,764	(14,908,000)	18,503,764	5,728,231	81,927,598
2027	22,348,650	(2,899,264)	(6,000,000)	13,449,387	34,365,015	(14,910,500)	19,454,515	6,005,129	87,932,726
2028	23,042,651	(2,899,069)	(6,000,000)	14,143,582	35,346,063	(14,909,500)	20,436,563	6,292,981	94,225,707
2029	23,756,891	(2,899,069)	(6,000,000)	14,857,822	36,355,724	(14,909,500)	21,446,224	6,588,402	100,814,110
2030	24,491,966	(2,899,118)	(6,000,000)	15,592,848	37,394,842	(14,909,750)	22,485,092	6,892,244	107,706,354
2031	25,248,488	(2,899,069)	(6,000,000)	16,349,419	38,464,282	(14,909,500)	23,554,782	7,205,364	114,911,718
2032	26,027,090	(2,898,778)	(6,000,000)	17,128,312	39,564,939	(14,908,000)	24,656,939	7,528,627	122,440,345
2033	26,828,420	(2,899,069)	(6,000,000)	17,929,351	40,697,730	(14,909,500)	25,788,230	7,858,879	130,299,224
2034	27,653,149	(2,898,778)	(6,000,000)	18,754,372	41,863,602	(14,908,000)	26,955,602	8,201,231	138,500,455
2035	28,501,966	(2,899,701)	(6,000,000)	19,602,265	43,063,530	(14,912,750)	28,150,780	8,548,516	147,048,970
2036	29,375,580	(2,899,653)	(6,000,000)	20,475,927	44,298,517	(14,912,500)	29,386,017	8,910,090	155,959,060
2037	30,274,721	(2,899,458)	(6,000,000)	21,375,263	45,569,596	(14,911,500)	30,658,096	9,282,833	165,241,893
2038	43,774,990	(2,898,924)	(6,000,000)	34,876,067	64,661,316	(14,908,750)	49,752,566	14,876,499	180,118,392
2039	45,104,712	(2,898,826)	(6,000,000)	36,205,885	66,541,305	(14,908,250)	51,633,055	15,427,170	195,545,562
2040	46,473,602	(2,898,924)	(6,000,000)	37,574,679	68,476,677	(14,908,750)	53,567,927	15,993,249	211,538,811
2041	47,882,823	(2,898,972)	(6,000,000)	38,983,851	70,469,074	(14,909,000)	55,560,074	16,576,224	228,115,034
2042	49,333,568	(2,899,701)	(6,000,000)	40,433,867	72,520,186	(14,912,750)	57,607,436	17,173,569	245,288,603
2043	50,827,070	(2,898,875)	(6,000,000)	41,928,195	74,631,752	(14,908,500)	59,723,252	17,795,057	263,083,660
2044	52,364,594	(2,899,215)	(6,000,000)	43,465,379	76,805,565	(14,910,250)	61,895,315	18,429,935	281,513,595
2045	53,947,447	(2,899,410)	(6,000,000)	45,048,037	79,043,470	(14,911,250)	64,132,220	19,084,182	300,597,778
2046	55,576,972	(2,899,167)	(6,000,000)	46,677,805	81,347,367	(14,910,000)	66,437,367	19,759,562	320,357,339
Totals	$ 922,211,427	$ (130,315,323)	$ (180,000,000)	$ 611,896,104	$ 1,386,912,526	$ (454,659,083)	$ 932,253,443	$ 320,357,339	

**Net revenues include total Transient Occupancy Tax (TOT) and Sales Tax attributable to the Convention Center, plus any ACC operating loss or gain, minus amounts committed to Lease Payment Measurement Revenues (LPMR - see Appendix A for more information).*

The current estimates have generally level lease payments equal to approximately $17 million each year through FY 2019, decreasing to approximately $15 in FY 2020 through FY 2046. The plan includes current interest bonds only and does not contemplate the use of capital appreciation bonds (CABs). See Appendix B for more information on the preliminary bond structure.

CONCLUSION:

The Crossroads cost/benefit analysis estimates that the Financing Plan for the expansion of the ACC and the refinancing of existing capital improvements, after providing for the extension of annual lease payments at current levels, will provide additional taxes to the General Fund available for neighborhood and community services and projects. While the analysis is based on expected results, not undertaking such expansion and refinancing will result in the City covering costs from the General Fund that are currently paid through the ATID, the costs of replacing CarPark 1 and the costs of the ACC operations not covered from revenues as a result of the loss of major conventions.

IMPACT ON BUDGET:

There is no significant immediate impact to the General Fund, as the annual lease payment obligations for capital improvements will remain where they are today. It is anticipated that in future years there will be a net benefit to the General Fund that could be used to fund neighborhood and community services and projects.

Respectfully submitted,

Deborah A. Moreno
Finance Director

Attachments:

1. Appendix A – Anaheim Resort Improvements – APFA 1997 Lease Revenue Bonds and 2007 Refunding Lease Revenue Bonds
2. Appendix B – AHPIA 2014 Lease Revenue Bonds – Preliminary Bond Structure
3. Resolution
4. Indenture of Trust
5. Lease Agreement
6. Site and Facility Lease
7. Purchase Contract
8. Continuing Disclosure Agreement
9. Preliminary Official Statement
10. Escrow Agreement (1992 Certificates)
11. Escrow Agreement (1993 Certificates)
12. Escrow Agreement (2002 Bonds)
13. Crossroads ACC Expansion Market & Economic Analysis Updated Final Report – February 2014
14. Final Supplemental Environmental Impact Report No. 2008-00340