



CITY OF ORLANDO

May 11, 2007

Honorable Buddy Dyer, Mayor
City of Orlando
400 S. Orange Avenue
Orlando, FL 32801

Re: City of Orlando Community Venues Projects, Plan of Finance

Dear Mayor Dyer:

Last September, you and Mayor Crotty signed the Letter of Understanding that solidified the shared vision of the City of Orlando and Orange County for the Community Venues. Since that time, City and County staffs have followed our mayors' leadership, working hard to complete the due diligence necessary to adopt an Interlocal Agreement.

The unprecedented collaboration between the City and County has played a critical role as we continue the process to secure Community Venues that will benefit our Central Florida region.

Outlined below, please find a status update on our cooperative efforts:

- A plan of finance for the Venues is being finalized that resolves concerns from both the City and County, and has also been reviewed by the County Comptroller.
- Negotiations have concluded with our Venue partners and the County for the development and operational agreements that establish the vital public/private partnerships. These Venue agreements will provide the flexibility necessary to allow these groups to be successful, but most importantly, protect the public investment in the Venue projects.
- City and County attorneys have met several times to discuss legal components of the Interlocal Agreement and are poised to incorporate the plan of finance into the Interlocal draft. We anticipate that this will not be a protracted negotiation because the substance of the agreement has already been negotiated as a part of the plan of finance.

Tasks that remain include: conducting public workshops and public hearings; obtaining necessary actions by the various authorities that will provide approvals for the various agreements, ordinances and plans; and, determining the potential impacts of property tax reform initiatives to be addressed in the Interlocal Agreement. We will continue to work effectively with the County, the County Comptroller and our Venue Partners to finalize these items.

Sincerely,

Rebecca W. Sutton
Chief Financial Officer

Community Venues Funding Source Descriptive Summary

Corporate, Private, Philanthropic Contributions	<p>This source of funding comes from the contributions of the Magic and donations raised by the OPAC. The Magic's cash contribution of \$50 million and the agreed-upon present value of their lease payments for the first 25 years of their lease is included in this category and will be available at the beginning of the project to fund construction. OPAC's donations are typically in the form of pledges, which are paid over several years' time. They will be guaranteed through credit instruments provided by OPAC and will be received and deposited over the period of construction of the PAC.</p>
Contributed Land	<p>Land, already owned by the City, will be provided on which the Performing Arts Center will be built. This land is listed as both a source and a use in the Sources and Uses document because we have made an effort to include both cash and in-kind contributions for the venues. <u><i>The City will retain ownership of the land and buildings for all three venues.</i></u></p>
Proceeds from Redevelopment-Sale of Land	<p>After the Performing Arts Center and the Events Center are constructed and opened, the Bob Carr Performing Arts Center and the Amway Arena as well as significant land holdings surrounding those buildings will be made available for redevelopment or reuse. Proceeds from the redevelopment or reuse are estimated through valuation of comparable properties to be conservatively worth \$90,000,000.</p>
City Covenant Bond Proceeds	<p>City Covenant Debt is general purpose City debt secured by general revenues other than Property Taxes. This debt is of high credit quality and is typically used to build police and fire facilities, parks and recreation centers and parking garages. There are two identified projects that will be funded from this revenue source. The first is a new Public Safety Fire Complex that will house the fire suppression equipment from our current Fire Station #1 as well as a number of specialized equipment. Fire department administration will be relocated to the new complex. This new complex will be built regardless of whether the venues are built. However, it is included to provide a complete picture of any cost related to the construction of the venues. Further, the new complex was part of the Mayor's public safety package funded in the 2006-2007 Budget and the debt will be paid back from non-tax revenue in the General Fund.</p> <p>The second project is a parking garage for the Event Center. The parking garage bonds will be issued under the City Covenant Credit but will be serviced from parking fees and revenues produced by the parking garage. Our parking fee for events will have both an operating and a capital component; the capital component will be dedicated to the servicing of this debt. <i>There will be no general fund revenues that could be used to fund general City services used to pay this debt.</i></p>

Community Venues Funding Source Descriptive Summary

State Sources	<p>The State has provided to cities that host the nine professional sports franchises a sales tax rebate of \$2,000,000 per year per team to pay principal and interest due on bonds issued for the purpose of building new facilities to retain these sports franchises.</p> <p>Another State source is a PECO grant that has been secured for construction through the University of Central Florida</p>
CRA Bonds	<p>The Downtown Community Redevelopment Agency (CRA) is a tax increment district, which was established under Chapter 163 of Florida Statutes. CRA dollars generated locally in the Downtown Orlando footprint (which is approximately 1,620 acres), can only be allocated for projects and services that are above and beyond standard City services such as quality of life amenities and infrastructure, job creation efforts, and economic development initiatives; CRA funds cannot be used for basic City services. Property Tax revenues in excess of a base amount of tax prior to redevelopment (Tax Increment Revenues) and an administrative fee are deposited into a trust fund to pay for debt funded from Tax Increment Revenues and for other non-debt funded projects to eliminate blight in the redevelopment district. Capacity exists within the downtown CRA to issue debt to support the Community Venues projects downtown.</p>
Tourist Development Tax (TDT) Senior (6th Cent)	<p>Tourist Development Tax is a special tax levied on the rentals of hotels, timeshares and other facilities. This tax is self assessed and remitted monthly to the County Comptroller. In June, 2006, the County resolved to levy the sixth cent of Tourist Development Tax (TDT). State Statute strictly limits the use of this penny of TDT to tourism marketing and the construction of a sports facility for a professional sports franchise.</p> <p>This penny of TDT is being split between additional tourism marketing for the region and construction costs for the new Events Center that will be the home of the Orlando Magic. The senior debt is the debt secured from the existing revenues produced by half of the sixth cent levy.</p>
TDT Subordinate (6th Cent)	<p>The subordinate debt issued on the 6th penny of the TDT is issued as a credit of lesser quality than the senior debt and is secured by the growth in the sixth cent levy. It typically carries a much higher rate of interest and issuance costs. The issuance of this debt is being supported through the assistance of the Orlando Magic who are purchasing an insurance policy for this bond issue to raise its interest rate to that of a AAA credit and to pay up to \$5,000,000 additional costs in the event the insurance must be accessed in the first five years of issuance.</p>

Community Venues Funding Source Descriptive Summary

TDT (1-4 Cents)	State Statute limits this use of the first four pennies of TDT to tourism marketing and, among other things, to build facilities that will promote tourism. The County has proposed to dedicate the growth in the TDT to the Community Venues projects. Debt will be issued on this revenue stream and will support the Performing Arts Center and the Citrus Bowl.
Interest Earnings	The City will invest idle cash in the project construction funds in investments that conform to investment restrictions in Florida Statutes for public funds as well as the City's Investment Policy. This income will be retained in the construction fund to provide additional funding for construction costs for all three venues.

Community Venues Overall Project Sources and Uses of Funds

**City of Orlando
Community Venues
Overall Project Sources and Uses of Funds**

<u>Sources of Funds</u>	<u>PAC</u>	<u>Events Center</u>	<u>Renovated Citrus Bowl</u>	<u>Total</u>
Corporate, Private, Philanthropic Contributions	\$ 96,000,000	\$ 62,000,000	\$ -	\$ 158,000,000
Contributed Land	27,000,000	-	-	27,000,000
Proceeds from Redevelopment-Sale of Land	18,000,000	62,000,000	10,000,000	90,000,000
City Covenant Bond Proceeds	14,000,000	37,000,000	-	51,000,000
State Sources	15,000,000	31,000,000	-	46,000,000
TDT Senior (6th Cent)	-	170,000,000	-	170,000,000
TDT Subordinate (6th Cent)	-	50,000,000	-	50,000,000
Event Center Completion Bonds (6th Cent)	-	50,000,000	-	50,000,000
CRA 1 Bonds	30,000,000	-	21,000,000	51,000,000
CRA 2 Bonds	109,000,000	-	-	109,000,000
TDT 1 (1-4 Cents)	-	-	82,000,000	82,000,000
TDT 2 (1-4 Cents)	130,000,000	-	58,000,000	188,000,000
Interest Earnings	11,000,000	18,000,000	4,000,000	33,000,000
Total Sources of Funds	<u>\$ 450,000,000</u>	<u>\$ 480,000,000</u>	<u>\$ 175,000,000</u>	<u>\$ 1,105,000,000</u>

<u>Uses of Funds</u>	<u>PAC</u>	<u>Events Center</u>	<u>Renovated Citrus Bowl</u>	<u>Total</u>
Gross Construction Costs	\$ 354,000,000	\$ 380,000,000	\$ 175,000,000	\$ 909,000,000
Property Contribution, Acquisition, Site Prep	30,000,000	40,000,000	-	70,000,000
Parking, Roads, and Site Improvements	41,000,000	60,000,000	-	101,000,000
Start Up Costs	25,000,000	-	-	25,000,000
Total Uses of Funds	<u>\$ 450,000,000</u>	<u>\$ 480,000,000</u>	<u>\$ 175,000,000</u>	<u>\$ 1,105,000,000</u>

Community Venues Financing – Risk Assessment

In conjunction with the development of the financing plan for the Community Venues, the City addressed several risk issues associated with the accuracy of assumptions and projections of the revenue sources that will be central to the financing of these projects.

- Have our revenue projections been done in such a manner as to address the "strength" or "fragility" of the revenue sources that will fund the Venues, and have we refrained from being speculative in our assumptions?
- Have we done an analysis to appropriately test those revenue streams under adverse circumstances and model how we would address any revenue shortfalls that might occur?
- Have we structured the debt issues in such a way to minimize or eliminate the risk that would flow through to local taxpayers?

Projections

When the City began to explore the possibilities for financing the Community Venue projects, staff initially examined the revenue stream that is the most substantial contributor, the Tourist Development Tax. First, the City engaged Strategic Advisory Group of Atlanta, a prominent financial advisory group for these types of projects, to study the projected TDT revenues. This study produced a linear regression for the TDT that shows a very modest average growth projection of 2.8%. Accordingly, the City is not counting on the excess growth projections to produce the revenue necessary to service the debt. The largest annual growth percentage in the projection is 4% early in the 30 year period, which is only 1/3 the level of growth we experienced in 2006.

The second revenue stream the City reviewed is the tax increment revenue in the Downtown Community Redevelopment Agency. It is important when we project revenues for bond issues in the CRA to be conservative in our projections because bonds we issue should be payable from revenues that are realizable, not revenues that are speculative. To estimate the revenues that we can expect from the Downtown CRA, the City retained Real Estate Research Associates (RERC), an Orlando real estate advisory firm to conduct a study of real estate values that can be used by the Orange County Property Appraiser for assessing property taxes. The study produced a conservative and achievable revenue forecast assuming our current tax provisions.

The third revenue source examined was the proceeds the City would receive on the current Centroplex site. Staff used an appraisal for the police station block whose value was estimated at \$81 per square foot. Subsequent sales have validated this as a conservative estimate for the Centroplex land.

City staff has estimated that these three revenue streams will fund 76% of the revenue necessary to support the projects. Another 14% will come from contractually obligated external donors and corporate sponsors. The other 10% will come from interest accrued on the construction fund, land contributed, a parking garage and the funding to build our new fire complex that will vacate land for the performing arts center.

Testing the Revenue Stream Under Adverse Circumstances

Once the City was satisfied with the revenue projections, staff began to build scenarios that would test the revenue stream under adverse circumstances. Additionally, staff is aggressively monitoring current Property Tax Reform initiatives and after the close of the special legislative session, will have the opportunity to address potential CRA impacts of any new legislation.

The first stress the City considered was to roll the CRA back in accordance with the originally proposed Senate Plan. Using this rollback, staff determined that there were issues that developed in the 2015-2017 time frame that were easily taken care of by a line of credit held by the CRA. When the State Legislature adopts the final Property Tax Reform plan, staff will update the analysis and provide the City Council and Board of County Commissioners with a new estimate of revenues.

The more difficult situation was that of a 9-11 scenario that would impair the Tourist Development Tax. In fact, the City took the revenue loss pattern we saw with the actual 9-11 and super-imposed this into a plan at the point that the plan was the most vulnerable. With the 9-11 event, staff saw that there would be a significant impact, but that the City's structure would prevent default and that the issue would ultimately "repair" itself in about two years, once the revenue stream recovered.

The model was developed with the joint effort of the Public Resources Advisory Group, a national consulting firm for public debt, Citigroup, one of the largest underwriters of public debt, and both City and County staff. This model has been provided to the County Comptroller who is in the process of analyzing the model and will provide the Board of County Commissioners with a full report prior to the adoption of the Interlocal Agreement between the City and the County.

Structure of the Financing

The structure used to issue the bonds is very important to protect the City's General Fund. Currently, there are no General Fund tax dollars going to build the Venue buildings. The City is using General Fund dollars other than ad valorem tax to pay for bonds that build the new fire complex, which was included as part of the 2006-2007 Public Safety funding package. The Performing Arts Center will be built on the land where old Fire Station #1 currently sits. Also, General Fund bonding capacity will be used to build a parking garage; however, parking revenues will pay the debt.

Second, the City is not issuing the bonds under the name of the City of Orlando. Instead, the bonds will be issued out of the Downtown CRA, insulating the City from this debt issue.

Finally, debt security on public debt comes from the pledging of revenue streams; this means that the City dedicates that revenue stream to pay the debt. There is no actual obligation to pay the debt from other sources. However, there is a moral obligation to hold our bondholders harmless. That is why multiple layers of reserves and insurance are provided to address these situations. For the Venue debt issues, the City will have a bond reserve equal to one year's debt service, another reserve that is equal to 1.5 times annual debt service, and an insurance policy that will prevent any other source from being required to service the debt. The insurance will step in after the other reserves are used and will temporarily fund the debt until the revenue stream recovers.

Conclusion

This financing plan has been developed with the assistance of many experts in bond finance, including bond counsel, bond advisors, insurers, underwriters and many other contributors. Our collective efforts have focused on addressing all possible financial risks and providing mitigation, as appropriate.