

## 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 Strategic Advisory Group of Atlanta, a prominent financial advisory group for these types of projects, was engaged 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%. Initially, the City used this projection to model the revenue and size the bond issues for the Venues. After the City and County staffs met to discuss the financing plan, the County shared their projections with the City, and the City replaced its projections with the County's when the plan of finance was finalized. The County's projections were higher in the first few years but less in the later years, resulting in a lower average increase and a more conservative estimate.

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. Recently, the City has retained RERC to update this forecast for the changes in our revenue due to Property Tax Reform. The preliminary indications are that certain properties will be added to the projected tax roll that will partially offset the impact of tax reform. Further, it appears that the initial study's modest growth factor for value increase is within the tax reform limitations on revenue growth.

The third revenue source examined was the estimated \$90 million in redevelopment proceeds the City would receive on the current Centroplex site. The City is projecting that the sale of this property will commence sometime in 2011 and will continue for several years. Prices for similar property have ranged from \$86 to over \$100 per square foot recently and our assumption is \$80 per square foot. Further, real estate consultants have said that the City can conservatively expect at least 3% appreciation annually. Finally, the City has not factored into the plan that this land which is currently tax exempt will become taxable.

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. As a part of the plan of finance, we modeled the effects of a terrorist attack similar to September 11, 2001—the worst case scenario— and determined that, with reserves, TDT will recover without accessing our insurance, spending revenues beyond those already committed, or defaulting on our debt.

The City has assessed the impact of property tax reform as well. The “super exemption” that will potentially be approved in January, along with the statutory provisions of Property Tax Reform that we are implementing this year, may result in a possible reduction in bonding capacity of up to ten million dollars (\$10,000,000). OPAC has agreed to provide additional private donations to make up the difference between the \$160 million CRA commitment and the amount of bond proceeds the CRA would be able to obtain post-tax reform of \$150 million.

### **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. Ultimately, the financing plan presents no identifiable material risk to City or County taxpayers.