

Memorandum

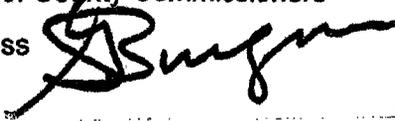
MIAMI-DADE
COUNTY

Date: March 20, 2007

Supplement No. 2
Agenda Item No. 5(A)

To: Honorable Chairman Bruno A. Barreiro and
Members, Board of County Commissioners

From: George M. Burgess
County Manager



Subject: Supplemental Report No. 2 on the PAC Loan

This memorandum addresses key issues raised during the discussion that occurred at the February 6, 2007 Board of County Commissioners meeting regarding agenda item 5N and Supplemental Report to agenda 5N relating to a Performing Arts Center Foundation loan in the amount of \$16 million. Please note that item #16 below provides an update on a positive development in regard to a reduction in the loan principal needed and as requested, summarizes other options available to the County.

1. How much funding did the private sector commit to raise for the design and construction of the Performing Arts Center project?

The original construction commitment from the private sector was to raise a total of \$42.2 million for the design and construction of the Performing Arts Center project. In 2004, upon the restructuring of the construction contracts, the private sector increased their commitment by an additional \$5 million, as well as an additional \$1.383 million for stage lifts and curved donor wall. Consequently, the total commitment of the private sector is \$48.583 million toward construction and design of the center.

2. What is the status of this private sector fundraising commitment?

To date, the Performing Arts Center Foundation has conveyed \$32.583 million in cash and credit for grants to the County for the design and construction of the facility. Attachment 1 lists the amounts and dates of these payments. In addition, the private sector contributed the property that the Center is built on and this property was valued conservatively, at the time of donation, at \$15.64 million. This is the largest public-private partnership ever accomplished for the arts in South Florida.

3. Why did the Foundation have the naming rights options for the Performing Arts Center?

In order to raise this precedent-setting amount of private sector funds, the Foundation needed to have significant benefits to offer to prospective donors. It is a nationally-proven fundraising rule that the most effective and attractive benefits to private individuals, foundations and corporations in exchange for donations are naming opportunities. Consequently, in the original agreements for the Performing Arts Center project, the Board of County Commissioners agreed that the Foundation would have the naming rights options as their principal tool to raise the private sector funds.

4. Why are Carnival Cruise Lines, the Knight Foundation and others paying their pledges to the Foundation for the remaining \$16 million over a period of 9 years?

Typically, major private sector philanthropic gifts are structured in multi-year payments. Corporations and foundations have annual budgets that are committed to a variety of community causes; in order to make larger gifts, it is often necessary for them to commit portions of future years' budgets to complete the funding of larger gifts in installments.

5. How reliable are these pledges?

The pledges are signed agreements between Carnival Cruise Lines and the Knight Foundation and the Performing Arts Center Foundation, requiring payments to be made to the Foundation upon contractually agreed upon schedules. Carnival Cruise Lines and the Knight Foundation are among the largest corporations and private philanthropic foundations, respectively, in the United States. Both are based in Miami-Dade County and have long-standing and exemplary track records for philanthropic leadership and for meeting their commitments. In addition to these two major pledges, the Foundation has contractual commitments from as many as one hundred other donors ranging from \$5,000 to \$1,000,000. Payments on these pledges span a period from 2007 through 2015.

6. What guarantee do we have that the Foundation will use these pledge payments to repay the \$16 million loan to the Banks?

The Foundation has made a commitment in writing to the County that these pledge payments will be used exclusively to repay the loan to the Banks. The County has the pledge payment schedule and will require documentation from the Foundation that each pledge payment is conveyed to the Banks on a timely basis.

7. Who are the parties to the \$16 million loan? Is the Performing Arts Center Foundation directly responsible for the repayment of the loan?

The parties to the loan are the Foundation and the Banks that are making the loan. The Foundation is responsible for making the agreed upon payments to the Banks.

8. What is the schedule of loan payments and does the schedule of the payments of the pledges match when the loan payments are due?

The Banks' loan to the Foundation was structured to be synchronized with the payments of the pledges from Carnival Cruise Lines and the Knight Foundation, as well as the other donors, - i.e., the amount of loan payment due corresponds to the amount a pledge payment received.

9. Who is paying the interest on the loan?

The Foundation will pay both the principal and interest on the loan. The actual amount of the pledges committed to this loan totals more than \$19 million - \$16 million for the principal and approximately \$3 million for the interest.

10. What is the County's role in the loan?

Rather than make a direct loan to the Trust at a taxable interest rate (in excess of 7% annually), the Banks suggested that the loan be structured as a tax exempt financing. This would lower the annual interest significantly. Currently, the tax exempt interest rate would be 5.05%. To qualify the interest on the loan as tax exempt, notes need to be issued by a tax exempt entity such as the County acting merely as a conduit issuer (lend its tax exempt status to the transaction without any repayment obligation). In the proposed transaction, the notes will be purchased by the Banks and the sale proceeds will be lent to the Foundation. The repayment of the notes is the direct responsibility of the Foundation.

Separate from the loan but certainly related will be a guaranty from the County of the timely payment of debt service on the notes.

11. Why is it in the County's interest to help the Foundation with a lower interest rate?

The Foundation also is continuing to raise money to help with the operational costs of the Performing Arts Center. Any savings on the loan interest rate helps the Foundation provide more of the funds that it raises for the Performing Arts Center's ongoing operational needs.

12. What exposure does the County have in this arrangement?

The Banks are requiring a back-up pledge from the County in case the Foundation is late in making their payments on the loan. Without this, the Banks will not make the loan.

13. What protection does the County have if the Foundation is late, or does not make a payment?

The Foundation is depositing \$400,000 with the Banks as a reserve account and these funds will be used for late payments or non-payments, if needed. In the unlikely case that County funds would be required for a payment, the Foundation is required to reimburse the County.

14. Can the Foundation get a loan to pay the County the entire \$16 million without the County's involvement?

No. The Foundation reports that their experience has been that in order to secure a regular commercial loan, banks have required more than three times the amount of pledges for the amount to be borrowed.

15. What happens if the County does not help the Foundation get the loan?

The County has paid for the construction costs for the Performing Arts Center and consequently, there is a \$16 million gap in the County's budget. The loan will enable the Foundation to pay the County the \$16 million now and fill this gap in the budget. Without these funds from the Foundation, the County will need to find another source of revenue in its budget to account for the \$16 million.

16. Is there a better way to generate the \$16 million?

Since the loan was first introduced, the Foundation has collected \$2 million from their donors. The Foundation has indicated that they would prefer to adjust and reduce the loan to \$14 million and remit the \$2 million to the County now. The final loan amount may be reduced further up to the date of loan closing. There is not a comparable way in which the County can immediately remove the \$16 million gap from its books but there are two other options:

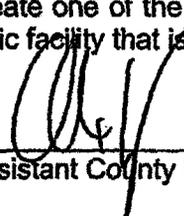
- i. A Sunshine State Loan - The County could secure a loan from the Sunshine State Financing Commission, collateralized by a budget to appropriate pledge of non ad-valorem revenues ("Sunshine Loan"). This would permit the County to immediately fill the gap in its budget. The County would use the Foundation's pledges to make the scheduled payments on the Sunshine Loan. The downside is the treatment of the Sunshine Loan as a direct County loan on our books. This would increase the County's debt load.

The County has done this previously when it obtained a \$34.2 million loan in 2006 and \$10.5 million loan in 2005 for the acceleration, furniture and fixture costs associated with the PAC project. Those loans are repaid from annually budgeted Convention Development tax revenues even though they are secured by a County budget to appropriate pledge of non ad-valorem revenues.

- ii. County to Fund the Deficiency and Hold the Receivable on its Books for the Remaining 9 Years - This is the least favorable option in that an appropriation will need to be made from the general fund to advance the \$16 million to the construction fund and record a receivable from the Foundation. The County would have to carry this receivable for nine years until it is fully paid.

Since inquiries about Performing Arts Center's operations were made during the discussion about this loan, we also want you to know that we are continuing our work with the Center's operational staff to complete a thorough analysis of the results of the first quarter of financial results for this new facility.

Of all the options, the loan between the Foundation and the Banks is the best option to provide the remaining \$16 million in funds needed for construction now. The Performing Arts Center Foundation has been the County's partner in this major public-private endeavor and has delivered more than \$32.5 million in cash to meet its obligations for the project. It is important to emphasize that the Foundation has completed its fundraising goal for construction, wants to pay the County the remaining funds and has agreed to sign loan documents to cover both principal and interest payments completely in order to generate \$16 million in cash that can be paid to the County. With this final payment, the private sector will have contributed more than 13% of the cost of this County-owned facility. Together, the public and private sectors have combined to create one of the world's most outstanding new performing arts centers – a major cultural and civic facility that is a source of pride to our community and a legacy to future generations.


Assistant County Manager